

The Determinants of Foreign Direct Investment in the SAARC Countries: An Empirical Analysis

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ABSTRACT

Objectives: This study investigates the factors that influence the location of Foreign Direct Investment (FDI) in the member countries of the SAARC. The significance of this research lies in its capacity to provide policymakers with valuable insights and enhance their understanding of the determinants impacting FDI in the SAARC region.

Methodology: We collect data from the World Development Indicators (WDI) database spanning the period from 2000 to 2022. We use multiple linear regression (MLR) to test our conjectures using STATA. We conduct a comprehensive examination of economic, institutional, and demographic issues. In addition, we employ Dunning's Ownership-Location-Internalisation paradigm (DOLI) as a guiding framework to identify and examine hypotheses on FDI.

Findings: We find that economic conditions have a range of consequences on FDI, which have significant ramifications. The findings highlight the heterogeneous effects of the manufacturing sector on FDI, with substantial significance observed in the specific nations, while lacking statistical significance in others. The analysis also uncovers diverse effects of the quantity and quality of the labor forces, exhibiting positive correlations in certain cases and minimal influence in other scenarios. This statement emphasizes the significant importance of proactive trade tactics, emphasizing the complex connections between FDI and trade openness, market potential, regulatory environment, tax policies, and savings.

Originality/Value: Our study contributes to the literature of FDI by providing empirical evidence. Moreover, this paper brings insights for policymakers and we believe that our findings can be utilized to create a favorable atmosphere for foreign investors. This, in turn, can lead to an increase in FDI and contribute to the development of a strong and sustainable economy across the SAARC area.

Practical Implications: The findings help policymakers focus on improving infrastructure, stabilizing prices, and strengthening key sectors to better attract and sustain FDI in SAARC countries.

Limitations: The study is limited by the use of secondary data and a single panel regression model, which may not capture country-specific and non-economic factors that affect FDI.

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1. Introduction

The main objective of this study is to conduct a detailed examination of the factors that influence the location determinants of FDI in SAARC countries. The paper aims to offer a comprehensive understanding of the several factors influencing FDI inflows in the region through thorough analysis. FDI holds considerable importance as it extends beyond national boundaries, catalyzing the establishment of global economic interdependencies. FDI refers to the investment in foreign enterprises from external sources. This process involves various aspects, such as the development of new businesses, the acquisition of existing entities, or shared collaborations (UNCTAD, 2017). FDI assumes a crucial role in stimulating economic growth through the injection of capital, facilitating the transfer of technology, and promoting the expansion of international corporate activities. In the South Asian region, countries have adopted economic reforms and positioned themselves as attractive investment destinations. During the 1990s, there was a notable increase in FDI in countries such as India, Pakistan, Bangladesh, Nepal, and Sri Lanka. This may be attributed primarily to the implementation of liberalised FDI policies in these countries (Sahoo et al., 2014).

The identification of the factors that influence FDI is of utmost importance in comprehending its impact on capital accumulation, employment generation, skill development, and wider socio-economic advantages throughout the member countries of the SAARC (Shaari et al., 2023). The findings of this study have the potential to guide the formulation of strategic policies aimed at attracting and enhancing FDI in these nations, thereby aligning with their objectives for growth and development. The present analysis serves as a significant addition to the existing body of literature on FDI in the SAARC region. It places particular emphasis on examining the factors influencing FDI over the selected time frame, thereby providing valuable insights that might inform future research endeavors. Comprehending these variables is crucial for policymakers and stakeholders, as it equips them with valuable insights into the aspects that foreign investors consider before participating in FDI within the SAARC region.

Given the enormous economic and policy variation among SAARC countries, studying the locational determinants influencing FDI reveals insights pertinent to growing and developing economies worldwide (Abdin, 2015). The SAARC bloc presents a valuable case study that reflects the problems and opportunities faced by governments in their efforts to attract FDI. Although there is a significant body of study on the factors influencing FDI in different contexts, the SAARC region has received limited attention in this area. The objective of our study is to address this disparity by providing a thorough examination to unravel the complex dynamics of FDI inflows in these countries (Zafar, 2013). Recently, the World Bank reported that the total inflow of FDI in South Asia has exhibited fluctuations, with the figures of 48.66 billion in 2018, 56.68 billion in 2019, 68.96 billion in 2020, 50.06 billion in 2021, and 54.53 billion in 2022 (World Bank, 2023). These figures indicate a departure from expected levels, despite the considerable market potential of the region. This paper utilizes a regression model to analyse the locational determinants of FDI in SAARC countries from the year 2000 to 2022, to achieve a thorough understanding. Through an analysis of trends and patterns within this time frame, this study aims to derive insights into the sector-specific determinants that shape FDI decisions for each country (The World Bank, 2023).

We employ a quantitative methodology to examine the factors that impact FDI in SAARC countries between 2000 and 2022. We also conducted regression analysis, correlation and other relevant analysis following prior related research.

We find that manufacturing, labor force, trade, services, and economic indicators are highly influential for FDI. We report that the manufacturing sector's impact varied across SAARC nations, while the size and quality of the labor force showed heterogeneous correlations. The study emphasized the crucial role of proactive trade strategies, trade openness, and market potential in attracting FDI.

Additionally, regulatory environment, tax policies, and savings were identified as pivotal factors. The results underscore the intricate and diverse influences on FDI in SAARC countries, providing valuable insights for policymakers to enhance FDI appeal and foster economic development in the region.

The paper makes a substantial contribution to both theoretical understanding and practical applications in international investment in the SAARC area. First, our study concentrates on manufacturing, trade openness, market potential, regulatory settings and other factors. Secondly, it offers tailored solutions for policymakers and businessmen by acknowledging the diverse characteristics of the SAARC states. The paper provides a significant framework for analyzing key characteristics that influence FDI attraction. It has implications for current policy formulation and future research, especially in addressing data gaps in countries such as Afghanistan. The results offer practical strategies to improve FDI attractiveness and priorities sustainable economic development in the dynamic SAARC bloc, in line with Sustainable Development Goals. Third, our study provides policymakers in SAARC nations with important insights into the determinants that have a substantial impact on FDI inflows. These findings can aid policymakers in making informed decisions to enhance economic growth and attract FDI. The continuous process of global economic integration and liberalization in the SAARC nations has resulted in increased competition for FDI, highlighting the importance of strategic analysis and well-informed policy development. Finally, this paper significantly enhances comprehension of the Locational Determinants of FDI in the SAARC nations.

The remainder of the paper consists of the following sections, each focusing on a key aspect of the topic. Section 2 examines the current literature on factors influencing foreign direct investment in SAARC nations. Section 3 outlines the research methodology. Section 4 presents the results obtained through various analyses. Section 5 provides a more detailed examination of the contextual elements specific to each country. Section 6 evaluates limitations and proposes potential areas for future investigation in the Conclusion, outlining important discoveries and their possible consequences.

2. Literature Review

FDI continues to play a crucial role in fostering economic growth within the South Asian region, which is characterized by its dynamic nature, cultural diversity, and robust economic activity. The SAARC member nations, including India, Bangladesh, Nepal, Pakistan, Sri Lanka, and the Maldives, have consistently implemented various approaches to attract FDI, acknowledging its significant capacity for transformation since the liberalization of their economies in the 1990s. The aforementioned inquiry has increased scholarly investigation focused on discerning the pivotal factors that influence the influx of FDI in this particular geographical area (Sahoo et al., 2014). The significance of determinants of locational advantage in FDI encompasses a wide range of characteristics that are closely interconnected with economic, social, and political contexts. As elucidated in various scholarly studies and theoretical frameworks, comprehending these factors is the fundamental basis for the development of successful policy strategies and the establishment of a favorable climate for FDI in the South Asian region. The locational advantage factors exhibit a multidimensional nature, which highlights the diverse characteristics of the South Asian economies. These determinants serve as a representation of the distinct strengths and problems that each nation within the region possesses (Faruq, 2023). The analysis presented in this study holds great importance, as it not only offers guidance to policymakers in developing effective policies but also serves as a valuable resource for future research endeavors aimed at understanding and navigating the ever-changing landscape of FDI in the SAARC region (Jayasekara, 2014). The locational advantage determinants of South Asian economies have a multi-dimensional nature, which highlights the diverse strengths and problems of each nation in the region. The analysis holds importance not only for its ability to assist policymakers in developing strategies but also for offering a framework for future comprehensive research that is crucial for understanding the ever-changing landscape of FDI in the SAARC region (Adhikary, 2017). We extensively examines the factors that contribute to locational advantage, with a specific emphasis on manufacturing, labor,

merchandise, and trade openness. Each factor exhibits distinct resonance within this complex region, hence representing diverse effects among the countries comprising the SAARC. Significantly, the factors of agglomeration economies, labor costs, and openness to international commerce have been identified as significant determinants that have notable ramifications for the attraction of FDI and economic growth. Given the ongoing expansion of South Asia as a center for economic activity, it is imperative to comprehend the complexities of the factors that determine the advantages of sites for FDI. This understanding is essential for promoting growth, facilitating sustainable development, and creating prospects for significant economic transformations in this particular region. Our study provides a solid groundwork, providing a thorough and unified comprehension of the factors that contribute to the appeal of South Asian nations for foreign investment.

2.1 Theoretical Framework

The Ownership-Location-Internalization (OLI) paradigm, developed by Dunning, serves as a fundamental theoretical framework for analyzing the intricate aspects of FDI. According to Dunning, (1981), this theoretical framework proposes that three main factors influence organizations' decisions to participate in foreign markets: ownership advantages, location advantages, and internalization advantages. This paper primarily focuses on the location advantage hypothesis within the OLI framework, specifically examining the importance of host nation locational characteristics in attracting FDI. While the paradigm as a whole is extensive, this study narrows its scope to one particular aspect.

A critical analysis of the OLI paradigm, specifically focusing on its location advantage hypothesis, demonstrates its effectiveness in comprehending the determinants of FDI (Mina, 2007). The complete nature of the paradigm enables a multifaceted examination of FDI. The analysis takes into account not only the advantages for the investor, such as ownership benefits and internalization advantages but also recognizes the significant influence of the investment site. The comprehensive methodology employed in this study facilitates a detailed comprehension of the distinctive attributes of the host nation that serve as magnets for FDI. The location advantage hypothesis posits that the desirability of a certain site is contingent upon many country-level characteristics such as infrastructure, market potential, resources, labour, and market openness. Additionally, the OLI framework recognizes the dynamic characteristics of FDI, offering a structured approach to assess the intricate interactions among many factors that impact investment choices. The analysis takes into account not only economic factors but also considers the social and political aspects, thus acknowledging the complex character of the determinants of FDI. The legitimacy and applicability of this approach are underscored by its endorsement by multiple writers in distinct research. Mina, (2007), Belkhodja et al., (2017), Kamal et al., (2019), Noorbakhsh et al., (2001), Meressa, (2022) have extensively utilized the OLI paradigm in their research endeavors, owing to its ability to encompass a diverse array of variables and provide a framework for comprehending the determinants of FDI. Dunning's research has exerted significant influence in constructing this theoretical framework since it facilitates the identification of prospective locational features that serve as attractions for foreign investors. The efficacy of this framework is seen in its capacity to adapt and its extensive recognition in scholarly study. The comprehensive framework of this study facilitates a thorough comprehension of FDI, providing a great resource for investigating and assessing the complex factors that contribute to locational advantage. Consequently, it serves as an essential instrument for understanding the patterns of FDI and making informed investment choices. Furthermore, the hypothesis of location advantage, which is a component of this theoretical framework, highlights the substantial role played by country-specific characteristics in attracting FDI. This hypothesis serves as a valuable tool for analyzing the elements that influence the choice of place for FDI. The present study has employed Dunning's Ownership-Location-Internalization (OLI) paradigm as the conceptual foundation for its framework, owing to its comprehensive scope, ability to incorporate many aspects of FDI, and widespread acknowledgement among scholarly communities. The comprehensive

methodology employed by this paradigm in comprehending the drivers of FDI renders it a resilient and widely acknowledged framework in the academic sphere (Dunning, 1979).

2.2 Influence of Manufacturing, Log Labor, Merchandise, Trade Openness

The presence of agglomeration economies, which include knowledge spillovers as well as economies of scale and scope in manufacturing industries, plays a crucial role in attracting FDI. They provide synergistic effects that serve as a magnet for foreign investment. The aforementioned statement follows existing scholarly research that underscores the advantages of spillovers and economies in the context of attracting foreign investment. This study uncovers the intriguing role of agglomeration economies as a determinant. Therefore, it assumes a crucial role in the determination of FDI placement choices by promoting the diffusion of knowledge, fostering collaborative networks, and generating economies of scale and scope within the manufacturing industries. The presence of agglomeration economies in the attraction of FDI aligns with prior scholarly works that emphasize the advantages of knowledge diffusion and economies of scale and scope in enticing international investment in the manufacturing sectors (Belkhdja et al., 2017).

H₁ : Manufacturing Significantly Affects FDI in SAARC Countries.

The presence of cost-effective labor in South Asia has rendered it an attractive hub for business process outsourcing and mass manufacturing. According to Jayasekara, (2014), labor is identified as a crucial determinant for FDI in Sri Lanka. The author emphasizes the necessity of improving efficiency to attract potential investors. Sahoo et al., (2014) acknowledged the significant role of the labour force in influencing FDI. However, there exists a divergence of opinions on this matter, since certain research proposes a potential negative effect. Chatterjee, (2009) reiterated the existence of a negative correlation, highlighting apprehensions regarding the outsourcing of jobs and its impact on unemployment rates in industrialized countries. Despite the existence of diverse viewpoints, India is actively working towards enhancing its attractiveness for FDI across many industries.

H₂ : The Labor Force Significantly Influences FDI in SAARC Countries.

In their study, Goh et al., (2018) examined the role of merchandise exports as a contributing element to the economic growth of the ASEAN-10 countries. The authors identified that the expansion of trade and FDI within the member states has played a significant role in facilitating this growth. Nevertheless, the research did not yield any substantiation of growth driven by FDI, given that the majority of FDI was concentrated in a select few countries within the Association of Southeast Asian Nations (ASEAN). Additionally, the nation's receiving a smaller share of FDI are in the initial stages of development and lack the necessary capacity to fully capitalize on the economic effects of FDI, mostly due to their limited ability to absorb and utilize such investments.

H₃ : Merchandise Trade Volume Significantly Impacts FDI in SAARC Countries.

The impact of openness to international trade on attracting FDI is significant, and several countries within the SAARC have had positive outcomes from this phenomenon. The aforementioned transparency fosters a climate that entices international investors to explore untapped sectors and locations (Sahoo et al., 2014). According to Zafar, (2013), the variable of trade openness exerts a favourable and considerable impact on FDI inflows in both Pakistan and Bangladesh. Concurrently, the concept of trade openness has garnered significant appeal, fostering an atmosphere of economic collaboration between host nations and potential international investors. According to Mina (2007), there is evidence to suggest that the presence of high-quality institutions and a greater degree of trade openness have a positive impact on FDI inflows to the Gulf Cooperation Council (GCC) countries. Openness to international trade has a notable impact on FDI attraction, with several SAARC countries reaping the benefits. This openness encourages foreign investors to tap into new markets and regions

(Sahoo et al., 2014). Trade openness is a positive and significant variable affecting FDI inflows in Pakistan and Bangladesh (Zafar, 2013). Simultaneously, trade openness gains exceptional attractiveness, establishing an environment of economic partnership between host states and prospective foreign investors. Institutional quality and trade openness are found to encourage FDI flows to the GCC countries (Mina, 2007).

H₄ : Trade Openness Significantly Affects FDI in SAARC Countries.

2.3. Services, Natural Resources, Agri-fish, Market Potential

Yin et al., (2014) offer substantial evidence to underscore the significance of several factors in influencing FDI inflows within a nation. The research conducted by the authors revealed that FDI in the services sector is primarily driven by market-seeking and client-following objectives. It was observed that there is no necessity for the development of a completely novel theory to explain service FDI; rather, a modification or adaptation of existing theories suffices. The study also posited that a favorable correlation exists between FDI in services and the amount of development within the service industry, with increased economic growth and income levels. The authors additionally proposed that places characterized by lower wage levels have a greater propensity to attract FDI in the services sector. Moreover, they argued that the presence of fundamental infrastructure is enough incentive for service-oriented multinational companies (MNEs) operating in China.

H₅ : The Services Sector Significantly Influences FDI in SAARC Countries.

The study conducted by Kamal et al., (2019) examined the motivations behind Chinese FDI in Asian nations from 2003 to 2016. The findings of the study revealed that the Chinese FDI in these countries was driven by both market-seeking and natural resource-seeking objectives. The presence of market-seeking FDI was observed in both high-income and middle-income nations, although Chinese FDI in middle-income countries exhibited a particular emphasis on mineral resources. The Gross Domestic Product (GDP) demonstrated a noteworthy and constructive correlation with market-seeking FDI in the regions of West, East, and Southeast Asia. The presence of abundant mineral resources has had a favourable impact on Chinese FDI in the regions of East and Southeast Asia. In the entirety of the sample, it can be observed that the primary motivation for Chinese FDI was market-seeking. However, the resource-seeking motive exhibited variation among different income levels and geographies.

H₆ : Natural Resources Significantly Impact FDI in SAARC Countries.

The majority of South Asian countries exhibit a high degree of receptiveness towards foreign investment. A highly conducive market environment and a policy framework that promotes economic liberalism are upheld to attract investments. However, it should be noted that several South Asian countries do not receive sufficient levels of FDI across various sectors. India's approach towards foreign investment is characterized by a market-friendly and open policy. However, it is worth noting that certain industries, such as agriculture, continue to face limitations in terms of accessing foreign capital. There have been concerted endeavours to enhance India's attractiveness for FDI and facilitate greater foreign capital inflow into these specific industries (Chatterjee, 2009).

H₇ : Agriculture and Fisheries Significantly Affect FDI in SAARC Countries.

Strong economic indicators, such as a significant increase in gross domestic product (GDP), play a crucial role in stimulating FDI. Nations that are undergoing economic success and exhibiting a favourable attitude towards foreign investment typically observe an increase in FDI inflows. According to (Sahoo et al., 2014), the growth of Gross Domestic Product (GDP) in South Asia, specifically in terms of its market potential, is associated with a favourable influence on FDI inflows. There is a positive correlation between the growth of Gross Domestic Product (GDP) as an indicator of market potential, direct investment, and the inflow of FDI. According to Sahoo et al., (2014), both GDP growth and direct

investment are seen as factors that stimulate FDI. According to Adhikary, (2017), there are diverse impacts of factors such as GDP per capita growth, domestic investment, inflation, and other variables on FDI among different nations in the South Asian area.

H₈ : Market Potential Significantly Influences FDI in SAARC Countries.

2.4. Inflation, Tax Revenue, Savings, Regulatory Environment

According to a study conducted by Shaari et al., (2023), it has been observed that inflation has a short-term effect on FDI inflows. Lower inflation rates have the capacity to entice investors due to their ability to mitigate uncertainty and safeguard the actual worth of assets. This study highlights the immediate, albeit substantial, impact of inflation on the dynamics of FDI. According to Jayasekara, (2014), there is a negative impact of high inflation on FDI, underscoring the need to enhance operational efficiency to attract foreign investors to Sri Lanka. Adhikary, (2017) has discovered the presence of diverse impacts of inflation and other factors on FDI in South Asian nations.

H₉ : Inflation Significantly Affects FDI in SAARC Countries.

The influence of competitive corporation tax rates on FDI is substantial, as it enhances a nation's attractiveness to international investors. The study conducted by Jayasekara, (2014) underscores the significant impact of corporate income tax on FDI in Sri Lanka, underscoring the significance of cost-effective tax incentives in the attraction of investments. It is recommended that policymakers prioritize the enhancement of tax policies to effectively attract and capitalize on heightened FDI.

H₁₀ : Tax Revenue Significantly Affects FDI in SAARC Countries.

During the 1990s, the increase in capital flow was driven by the process of diversification, which was facilitated by financial integration. This integration enabled more effective management of foreign inflows. According to Mody & Panini, (2005), the implementation of more stringent laws resulted in an enhancement in productivity for new investments and encouraged the integration of advanced technologies associated with foreign capital. Consequently, this led to a decrease in the perceived risk associated with local assets and strengthened the relationship between capital flows and investment. The findings of the research demonstrate a curvilinear relationship between financial development and savings, indicating the existence of an optimal degree of financial sector progress that maximizes savings. There is a positive correlation between per capita income and GDP growth rates, and the propensity to save. Nevertheless, it is worth noting that foreign savings tend to diminish local savings, while the agricultural sector exerts a detrimental impact on savings. The effect of the real interest rate on savings is inconclusive in several research investigations (Sahoo et al., 2013).

H₁₁ : The Savings Rate Significantly Influences FDI in SAARC Countries.

Njuguna, (2022) underscored the significance of business rules in Africa as a key factor in attracting FDI, hence challenging the prevailing belief that FDI is only linked to natural resources. The authors proposed continuous adjustments within the corporate environment to cultivate a more advantageous investment climate. These reforms aim to enhance efficiency, reduce business expenses, and provide incentives. The establishment of a conducive business environment has the potential to facilitate the attraction of FDI in non-resource industries within African nations, hence mitigating their dependence on oil and mineral exports. Yee et al., (2018) emphasized the significance of institutional elements, including the CPIA banking sector and fiscal policy ratings, in exerting a substantial influence on FDI in economically disadvantaged nations. Although the CPIA business regulatory environment had a negligible effect, the significance of financial and fiscal policies in attracting FDI was evident. The presence of a momentum effect in the flow of FDI has been observed in countries that get help from the International Development Association (IDA). Specifically, the rating of fiscal policy according to the Country Policy and Institutional Assessment (CPIA) has been found to have a considerable impact on FDI, but the influence of the business regulatory environment on FDI is minimal.

H₁₂ : The Regulatory Environment Significantly Affects FDI in SAARC Countries.

2.5 Human capital, Log Market, Log Tourism

The importance of human capital in attracting FDI differs among economies in South Asia, as discussed by (Shaari et al., 2023); (Adhikary, 2017). The significance of pushing FDI into developing countries is continuously emphasized by Noorbakhsh et al., (2001). According to Mina, (2007), there is an argument that human capital in Gulf Cooperation Council (GCC) countries harms FDI inflows. Blonigen & Piger, (2019) proposed that insignificance is a factor that implies a lower priority in strategies aimed at attracting FDI. According to Chatterjee, (2009), India's well-educated workforce enhances the country's prospects for FDI. On the other hand, the SAARC region's bigger domestic market size continues to be a prominent element that attracts FDI. This is particularly enticing to foreign investors who are looking for significant client bases (Shaari et al., 2023).

H₁₃ : Human Capital Investments Significantly Influence FDI in SAARC Countries.

The size of the market is a prevalent determinant in the attraction of FDI in economies within the South Asian region. In a study undertaken by Adhikary, (2017), regression analysis was employed to examine the macroeconomic determinants of FDI in South Asian economies. The findings of the analysis revealed that these variables are not uniform among nations within the region, while there are certain shared characteristics. The market size seems to be a significant driver of FDI in Bangladesh, India, Pakistan, and Sri Lanka. Nevertheless, the case of Nepal presents a discernible inverse relationship between FDI and the size of the market, as indicated by (Adhikary, 2017). According to Zafar, (2013)., a recent study indicates that macroeconomic stability does not hold substantial influence in the context of Pakistan and Bangladesh. However, it is worth noting that market size does exhibit a major impact on India, however, its effect on Bangladesh is not statistically significant.

H₁₄ : The Market Size Significantly Affects FDI in SAARC Countries.

FDI in the tourist sector is sometimes overestimated and constitutes a relatively minor fraction of overall external FDI equities. This investment is primarily concentrated in the hospitality industry, including hotels and restaurants, while investments in airlines, tour operators, and global reservation systems remain limited. The globalization of tourism-related FDI exhibits a lesser extent when compared to other economic activities. This phenomenon is predominantly observed in industrialized nations, whereas emerging countries contribute to a relatively smaller proportion of such investments. Nevertheless, it is important to acknowledge that even modest inflows of money can exert a substantial influence on developing nations that serve as hosts. Current trends imply that FDI in the tourist sector is expected to experience a notable surge in the coming years, particularly within developing economies. FDI in the tourist sector exhibits a lower magnitude when juxtaposed with domestic investment in the same industry. According to the United Nations Conference on Trade and Development ((UNCTAD), 2002), the tourism industry has a robust domestic sector.

H₁₅ : The Tourism Sector Significantly Influences FDI in SAARC Countries

The study issue is supported by several referenced studies. The parameters have been determined by considering the works of Meressa, (2022); Goh et al., (2018). In general, the literature review offers a thorough examination of the factors influencing FDI inflows in South Asian nations, thereby underscoring the necessity for additional scholarly inquiry and policy deliberations. A comprehensive comprehension of these issues holds significant importance in formulating efficacious FDI policies within the SAARC nations. The results suggest the need for a more sophisticated strategy in implementing policies aimed at attracting FDI throughout the area. The present study provides a thorough examination of the many factors influencing FDI in the member nations of the SAARC. The findings presented in this paper have the potential to provide valuable guidance to policymakers and scholars in developing effective policies aimed at attracting and maintaining FDI within the SAARC area.

The present study concludes by highlighting the various factors that impact FDI in South Asian nations, including Bangladesh, India, Sri Lanka, and the Maldives. The analysis highlights the intricate interplay of economic, social, and political factors and stresses the importance of conducting targeted studies on the specific challenges encountered by each

country. There are gaps in knowledge that need to be explored further, especially in sectors such as agriculture, to develop answers. The report highlights the tourist potential in emerging nations and suggests more research to fill these gaps. This will help policymakers and scholars create specific strategies and investigate new areas of South Asian foreign direct investment. Emphasizing the need for a thorough and tailored strategy to comprehend the dynamic elements affecting South Asian FDI.

3. Research Methods

3.1 Data Sample

We collect our data from different secondary sources including World Bank's World Development Indicators (WDI) database. We test our hypotheses based on the period of 2000 and 2022. We exclude some variables because of unavailability of relevant variables. We cover SAARC countries as countries of this association are highly interdependent on each other. Hence, our final observations remain 184 observations from the period of 2000 and 2022. We employed modern statistical methods such as Multiple Linear Regression, descriptive statistics, and correlation analysis to thoroughly investigate the complex dynamics of FDI in the SAARC area. We use prior research to develop research design and to identify relevant control variables for the present study. A separate table for variable definitions are given in appendix A at the end of the paper.

Table 1. *Sample Selection*

Panel A:		
Total number of country-year observations from 2000 to 2022		354
Less: Country-year observations not in the SAARC countries		(100)
Less: Country-year observations dropping due to insufficient control variables		(70)
Final sample size from 2000 to 2022		184
Panel B:		
Individual country and year-wise distribution		
Country	N	%
Afghanistan	23	12.50%
Bangladesh	23	12.50%
Bhutan	23	12.50%
India	23	12.50%
Maldives	23	12.50%
Nepal	23	12.50%
Pakistan	23	12.50%
Sri Lanka	23	12.50%
Total	184	100%

Source: *Authors' compilation based on World Bank (2023), World Development Indicators (WDI) database.*

3.2 Research Design and Model Specification

The following regression model is used as a statistical technique to analyze the relationship between a dependent variable and one or more independent variables:

$$\begin{aligned} \log FDI = & \beta_0 + \beta_1 \text{Manufacturing} + \beta_2 \log \text{Laborforce} + \beta_3 \text{Merchandise} + \beta_4 \text{TradeOpenness} \\ & + \beta_5 \text{Services} + \beta_6 \text{NaturalResources} + \beta_7 \text{AgriFish} + \beta_8 \text{MktPotential} \\ & + \beta_9 \text{Inflation} + \beta_{10} \text{TaxRevenue} + \beta_{11} \text{Savings} + \beta_{12} \text{RegEnv} + \beta_{13} \text{HumanCapital} \\ & + \beta_{14} \log \text{Market} + \beta_{15} \log \text{Tourism} + \varepsilon \end{aligned} \quad (1)$$

We estimate the regression model to test our hypotheses following prior research (e.g., Shaari et al., 2023; Meressa, 2022; Adhikary, 2017; Jayasekara, 2014; Faruq, 2023; Chatterjee, 2009; Mina, 2007). This represents a regression model where logFDI is the dependent variable. The independent variables include Manufacturing, logLaborforce, Merchandise, TradeOpenness, Services, NaturalResources, AgriFish, MktPotential, Inflation, TaxRevenue, Savings, RegEnv, HumanCapital, logMarket, logTourism, and ε represents the error term. The coefficients $\beta_0, \beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6, \beta_7, \beta_8, \beta_9, \beta_{10}, \beta_{11}, \beta_{12}, \beta_{13}, \beta_{14}$, and β_{15} represent the respective coefficients for each independent variable used in our regression model.

4. Main Results

4.1 Descriptive Analysis

The descriptive analysis for the log-transformed FDI values within the range of 13.82 to 24.89 depicts the average FDI level, indicating the extent of variation in FDI across the member countries of the SAARC.

Table 2. *Descriptive Statistics*

Factors	N	Mean	Median	S.D.	p25	p75	p90	min	max
logFDI	184	19.75	19.59	2.23	18.04	21.20	22.45	13.82	24.89
Manufacturing	184	11.17	12.50	5.79	6.82	15.98	18.11	0.00	21.76
logLaborforce	184	15.81	15.91	3.02	12.81	17.90	19.85	0.00	20.08
Merchandise	184	44.79	38.73	19.08	31.13	58.17	71.71	0.00	102.80
TradeOpenness	184	42.94	39.92	37.15	25.42	49.62	96.33	0.00	165.98
Services	184	1.21e	52.75	3.84e	45.33	58.37	3.29e	0.00	2.14e
NaturalResources	184	1.37	0.96	1.41	0.16	2.20	3.54	0.00	7.11
AgriFish	184	17.81	17.61	8.73	11.99	23.07	29.72	0.00	38.63
MktPotential	184	5.06	5.59	6.20	3.49	7.24	8.57	-33.49	41.75
Inflation	184	6.12	5.58	5.41	3.26	8.02	10.92	-6.81	49.72
TaxRevenue	184	7.35	8.68	5.44	0.00	11.15	13.80	0.00	19.81
Savings	184	20.39	23.18	14.86	0.00	33.40	37.24	0.00	51.83
RegEnv	184	2.34	3.00	1.61	0.00	3.5	4.00	0.00	4.00
HumanCapital	184	14.55	0.00	26.58	0.00	25.39	59.81	0.00	139.4
logMarket	184	23.70	23.99	4.20	22.26	25.85	27.29	0.00	28.8
logTourism	184	15.36	19.13	8.66	16.07	20.67	22.24	0.00	24.18

Source: Authors' calculations using data from World Bank (2023), World Development Indicators (WDI) database.

4.1.1 Manufacturing, Log Labor force, Merchandise, Trade Openness

The manufacturing indicator, which spans a range of 0 to 21.76, exhibits an approximate mean value of 11.17 and holds significance in the context of FDI. This suggests that the manufacturing sector exerts a significant influence on FDI. The labour force, measured on a scale of 0 to 20.08, exhibits a mean level of 15.81. This underscores the importance of the labour force in attracting FDI. The merchandise value demonstrates a substantial range from 0 to 102.80, with an average of 44.79, suggesting its influence on FDI. The trade openness variable exhibits a broad spectrum, spanning from 0 to 165.98, and possesses an average value of roughly 42.94. This demonstrates the significance of implementing free trade policies as a means to attract FDI.

4.1.2 Services, Natural Resources, AgriFish, MktPotential

The distribution of services has a notable skewness, which is apparent from the substantial disparity between the mean and median values (1.21e vs. 52.75). The considerable variation exhibited by this variable warrants consideration for investigation. The influence of natural resources on FDI is noteworthy, however, characterized by fluctuations. The average impact is measured at 1.37, while the range spans from 0 to 7.11. The AgriFish dataset exhibits a range of values spanning from 0 to 38.63, with a mean value of 17.81. This exemplifies the contrasting impacts of fishing and farming on FDI. For market potential, this variable exhibits a wide range of values, spanning from -33.49 to 41.75, and has an average value of roughly 5.06. This emphasizes the significance of market potential alongside the presence of anomalies.

4.1.3 Inflation, Tax Revenue, Savings, Regulatory Environment

The mean inflation rate of 6.12 exhibits a range spanning from -6.81 to 49.72. The variability of this characteristic may potentially exert an influence. Tax income is a significant determinant of FDI, with an average value of 7.35 and a wide range spanning from 0 to 19.81. The average savings rate is approximately 20.39, exhibiting significant variability ranging from 0 to 51.83. The regulatory environment variable exhibits potential significance, as evidenced by its average value of 2.34. However, the limited range of 0 to 4 suggests minimal variability in this variable.

4.1.4 Human Capital, log Market, log Tourism

The variable of human capital exhibits a significant influence on FDI, as seen by its wide range of values spanning from 0 to 139.46 and a mean value of 14.55. The size of the market significantly influences FDI, as evidenced by a mean value of 23.70 and a range spanning from 0 to 28.85. The variable log Tourism has a broad spectrum of values, ranging from 0 to 24.18, which signifies the significance of tourism. However, the average value of log Tourism is calculated to be 15.36.

The study was built upon the foundation of descriptive statistics that highlight the diversity and importance of locational determinants in attracting FDI, it is imperative to consider these statistics as integral components of the analysis.

Table 3. *Correlation Statistic*

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
Year	1.00																	
logFDI	0.22	1.00																
Manufacturing	-0.06	0.55	1.00															
logLaborforce	-0.04	0.69	0.63	1.00														
Merchandise	-0.07	-0.47	-0.35	-0.62	1.00													
TradeOpenness	0.09	-0.07	-0.15	-0.16	0.45	1.00												
Services	0.19	-0.21	-0.31	0.00	-0.13	0.02	1.00											
Natural Resources	-0.18	0.17	0.14	0.22	0.18	0.34	-0.14	1.00										
AgriFish	-0.22	-0.15	0.16	0.28	-0.27	-0.12	0.30	0.23	1.00									
MktPotential	-0.11	0.09	0.07	0.13	0.08	0.10	-0.03	0.10	-0.05	1.00								
Inflation	0.07	0.20	0.34	0.23	-0.02	-0.01	-0.02	0.07	0.05	-0.07	1.00							
TaxRevenue	-0.15	-0.19	0.07	-0.01	0.27	0.15	0.35	0.16	0.00	0.10	0.03	1.00						
Savings	0.12	0.31	0.27	0.42	-0.15	0.44	0.32	0.35	0.11	0.11	0.08	0.38	1.00					
RegEnv	0.40	0.02	-0.09	-0.10	0.20	0.16	0.16	0.02	-0.19	0.08	0.28	0.06	0.11	1.00				
HumanCapital	-0.19	0.07	0.13	0.21	-0.14	0.04	-0.02	0.24	0.23	0.05	0.01	0.11	0.22	-0.04	1.00			
logMarket	0.14	0.63	0.57	0.63	-0.32	0.01	0.01	0.19	0.29	0.10	0.23	0.09	0.39	0.05	0.15	1.00		
logTourism	0.02	0.18	0.17	0.28	-0.13	0.29	0.03	0.22	0.17	-0.05	0.02	0.22	0.33	0.09	0.13	0.33	1.00	
CountryIndex	0.00	0.18	0.03	0.11	-0.09	0.13	0.21	-0.18	-0.11	-0.06	0.25	0.10	0.08	0.11	0.04	0.23	0.28	1.00

Source: Authors' calculations based on World Bank (2023), World Development Indicators (WDI) database.

4.2 Correlation Analysis

Correlation analysis shows a small positive relationship between time and FDI in SAARC countries, with a correlation value of 0.22, indicating a gradual rise in FDI over time. LogFDI has a moderately positive connection with Manufacturing (0.55) and a moderately positive correlation with the Log Labour force (0.69), suggesting that FDI increases with higher manufacturing activity and reduced labour costs. Weak negative correlations with Merchandise (-0.47) and Trade Openness (-0.07) suggest that there are slight reductions in FDI when there is an increase in the exchange of goods and the implementation of liberal trade policies. A slight negative correlation of -0.21 with Services indicates a decrease in foreign direct investment as the service sector becomes more active. Weak associations are shown in Natural Resources (0.17) and AgriFish (-0.15), suggesting that FDI is slightly attracted to natural resources and may marginally decrease with greater agriculture/fishing. A modest positive correlation of 0.09 with MktPotential indicates increased FDI in a strong market environment. There are modest positive connections between Inflation (0.20), Tax Revenue (-0.19), Savings (0.31), Regulatory Environment (0.02), Human Capital (0.07), Tourism (0.18), showing many factors that impact FDI trends in the SAARC area. A strong positive correlation with Market Size (0.63) indicates that larger markets tend to attract more FDI, while a moderate positive correlation with Country Index (0.18) reveals that a favourable national environment is associated with higher FDI levels, reflecting economic stability.

Table 4. Multicollinearity Test Result

Variable	VIF	1/VIF
Manufacturing	10.04	0.10
logLaborforce	6.10	0.16
Merchandise	7.04	0.14
TradeOpenness	4.15	0.24
Services	6.45	0.16
NaturalResources	8.74	0.11
AgriFish	20.31	0.05
MktPotential	1.66	0.60
Inflation	2.04	0.49
TaxRevenue	4.39	0.23
Savings	6.76	0.15
RegEnv	5.73	0.17
HumanCapital	1.66	0.60
logMarket	11.06	0.09
logTourism	3.46	0.29

Source: Authors' estimation using STATA based on World Bank (2023) WDI dataset.

Table 5. Regression Results

VARIABLES	<i>logFDI</i>	
	Coefficient	(t value)
Manufacturing	0.089***	[3.81]
logLaborforce	0.078***	[2.72]
Merchandise	0.015***	[2.64]
TradeOpenness	0.005**	[2.37]
Services	0.000***	[2.98]
NaturalResources	0.130	[1.54]
AgriFish	-0.015	[-0.89]
MktPotential	0.014	[1.64]
Inflation	0.003	[0.33]
TaxRevenue	-0.039***	[-2.70]
Savings	-0.016*	[-1.91]
RegEnv	-0.162**	[-2.17]
HumanCapital	-0.001	[-0.70]
logMarket	-0.026	[-0.96]
logTourism	0.003	[0.36]
Constant	15.274***	[30.22]
Year	Control Variable	
CountryIndex	Control Variable	
Observations	184	
R-squared	0.95	
Adj. R-squared	0.93	
Robust t-statistics in brackets		
*** p<0.01, ** p<0.05, * p<0.10		

Source: Authors' regression output from STATA using World Bank (2023), World Development Indicators data

4.3. Regression Analysis

4.3.1 Manufacturing, logLaborforce, Merchandise, Trade Openness

The study investigated the factors influencing the placement of FDI in SAARC countries, focusing on manufacturing, labour force, goods trade, and trade openness. The analysis found a strong association (coefficient: 0.089, $t = 3.81$) between manufacturing activity and FDI inflows, highlighting the crucial significance of industrial growth in attracting foreign investment. Policymakers should prioritise rewarding and improving industrial sectors to greatly increase FDI and overall economic advancement. The research revealed a notable correlation (coefficient: 0.078, $t = 2.72$) between a larger, cost-efficient labour pool and higher levels of FDI. Emphasising the need to focus on workforce development and efficient labour practices to increase foreign investment, acknowledging the vital role of the labour force in this endeavour. The variable "merchandise" showed a positive and statistically significant connection (coefficient: 0.015, $t = 2.64$) with FDI, suggesting that nations with liberal trade policies tend to attract more foreign investment. To promote FDI, authorities should prioritise the maintenance and enhancement of trade policies, such as trade agreements and market access measures, as these have a direct influence on foreign investment. A substantial association (coefficient: 0.005, $t = 2.37$) between trade openness and FDI emphasises the need to enact deregulated trade policies to increase FDI inflows. Governments need to uphold their commitment to free commerce, as this helps recruit foreign investment and foster economic progress.

4.3.2 Services, Natural Resources, AgriFish, Market Potential

The study found that Services have statistical significance ($t = 2.98$), however, the modest coefficient of 0.00 indicates a smaller impact on recruiting foreign capital compared to merchandise trade and manufacturing. Natural resources show a weak positive association (coefficient: 0.130, $t = 1.54$), indicating the importance for countries to develop policies that go beyond depending simply on natural resources for FDI. AgriFish has a weak negative association (coefficient: -0.015, $t = -0.89$), indicating a minimal impact on FDI. Market Potential has a positive connection but is not statistically significant (coefficient: 0.014, $t = 1.64$), suggesting it has less influence on recruiting FDI compared to other key factors.

4.3.3 Inflation Tax Revenue Savings Regulatory Environment

The study shows that Inflation has a negligible impact on FDI inflows, as indicated by a coefficient of 0.003 and a t -value of 0.33. There is a notable negative association between Tax Revenue and FDI due to the coefficient of -0.039 and t -value of -2.70, suggesting that increased tax rates could discourage FDI. The negative association between Savings, (coefficient: -0.016, $t = -1.91$), and another variable is weak and lacks statistical significance, indicating that broad inferences should be made with caution. The negative correlation between the Regulatory Environment and global investors' appeal is strong (coefficient: -0.162, $t = -2.17$), highlighting the need to decrease barriers to investment.

4.3.4 Human Capital Log Market Log Tourism

The research study also examines the relationship between FDI and Human Capital, Log Market, and Log Tourism. It concludes that there is a statistically insignificant relationship between FDI and Human Capital, with a coefficient of -0.001 and a t -value of -0.70. Nevertheless, this outcome does not reduce the significance of allocating resources to education and skill development for sustained economic well-being. There is no notable link between the Log Market and FDI, as indicated by a coefficient of -0.026 and a t -value of -0.96. This implies that market size may not have a significant impact on FDI in the sample. Log Tourism exhibits a negligible association (coefficient: 0.003, $t = 0.36$), suggesting the need for more investigation into potential unexplored FDI prospects in the tourism sector.

4.3.5 Year, Country Index

When examining temporal patterns, FDI in the SAARC countries consistently demonstrates a favourable trend, suggesting a continuous rise over time, possibly due to broader global economic factors. Country-specific features, indicated by varied coefficients and t-values in various country indexes, emphasise the necessity for additional investigation into distinct elements within each country index, providing significant perspectives for investors and policymakers. The constant term, which is statistically significant at the 0.01 level, enhances the model's reliability. The regression analysis reveals a strong relationship, with an R-squared value of 0.93, highlighting the important factors influencing FDI in SAARC countries, including manufacturing, labour force, trade openness, services, tax revenue, savings, and the regulatory environment. Market potential, cost savings, and tourism are key factors that influence foreign direct investment (FDI) and should be considered by authorities seeking to enhance the attractiveness of FDI in the region. Policymakers should consider these findings when developing strategies to enhance the appeal of FDI.

Table 6: Additional Analysis (Country Specific)

	logFDI (AFG)	logFDI (BGD)	logFDI (BTN)	logFDI(IND)	logFDI (MDV)	logFDI (NPL)	logFDI (PAK)	logFDI(LKA)
VARIABLES	Coefficient (t value)	Coefficient (t value)	Coefficient (t value)	Coefficient (t value)	Coefficient (t value)	Coefficient (t value)	Coefficient (t value)	Coefficient (t value)
<i>Manufacturing</i>	0.105 [0.91]	-1.436** [-2.39]	0.243 [0.35]	0.491* [2.28]	-0.112 [-0.86]	-0.491 [-0.54]	0.457** [3.38]	-0.046 [-0.35]
<i>logLaborforce</i>	-0.018 [-0.42]	26.089 [1.32]	1.520 [0.12]	1.928 [0.14]	1.655 [1.51]	15.022 [0.99]	13.099*** [-3.85]	-11.367 [-1.03]
<i>Merchandise</i>	-0.001 [-0.03]	0.233 [1.77]	0.058 [1.06]	0.068 [0.84]	0.020** [2.52]	-0.014 [-0.26]	-0.007 [-0.12]	0.005 [0.15]
<i>TradeOpenness</i>	-	-0.293** [-2.41]	-0.001 [-0.01]	-0.065 [-0.66]	0.002 [0.49]	0.018 [0.30]	-0.068 [-1.58]	0.002 [0.11]
<i>Services</i>	0.106 [0.82]	-0.522 [-1.34]	0.078 [0.43]	0.042 [0.25]	0.019 [1.47]	-0.000 [-0.28]	0.347 [1.84]	0.042 [0.71]
<i>Natural Resources</i>	0.388 [0.53]	-5.226* [-2.32]	0.122 [0.27]	-0.077 [-0.78]	33.422 [0.54]	0.121 [0.09]	0.022 [0.10]	-2.573 [-0.61]
<i>AgriFish</i>	-0.121 [-1.58]	0.942 [1.26]	0.087 [0.27]	-0.094 [-0.36]	-0.126 [-0.89]	0.112 [0.88]	-0.230* [-2.22]	-0.043 [-0.36]
<i>MktPotential</i>	0.051* [2.26]	0.428* [2.08]	0.037 [0.67]	-0.055* [-2.31]	-0.004 [-0.64]	0.109 [1.10]	-0.086 [-1.61]	0.024 [0.64]
<i>Inflation</i>	-0.011 [-0.58]	-0.005 [-0.06]	-0.039 [0.22]	-0.014 [-0.13]	0.013 [0.43]	0.026 [0.23]	0.036 [1.63]	0.038** [2.53]
<i>TaxRevenue</i>	0.067 [1.76]	0.149 [1.32]	0.198 [1.09]	-0.026 [-0.38]	-0.006 [-0.23]	0.085 [1.51]	0.036 [1.40]	0.124 [1.49]
<i>Savings</i>	-	0.194 [1.39]	-0.021 [-1.02]	-0.017 [-0.25]	-0.020 [-0.92]	-0.100 [-1.52]	0.281** [3.38]	-0.008 [-0.27]
<i>RegEnv</i>	-0.215 [-1.01]	1.358* [2.16]	0.060 [0.17]	0.079 [1.05]	-0.041 [-0.53]	-0.125 [-0.36]	0.197** [2.57]	-0.054 [-0.96]
<i>HumanCapital</i>	-0.004 [-0.72]	0.051 [1.74]	0.002 [0.26]	-0.005** [-2.58]	0.000 [0.03]	0.003 [0.27]	0.004 [1.52]	0.006 [0.51]
<i>logMarket</i>	-0.017 [-0.04]	1.945 [1.65]	-0.257 [-0.40]	1.201 [0.83]	0.802 [1.14]	1.065 [0.29]	4.766** [3.43]	1.805** [2.58]
<i>logTourism</i>	-0.118*** [-3.85]	0.083* [2.23]	-0.127 [-0.86]	-0.006 [-0.51]	-0.011 [-0.84]	0.044 [1.30]	-0.067** [-2.75]	-0.003 [-0.08]
<i>Constant</i>	17.035*** [25.94]	-467.434 [-1.35]	-8.029 [-0.05]	-53.925 [-0.22]	-19.383** [-2.57]	-242.164 [-0.86]	111.962*** [3.86]	154.107 [0.85]
<i>Observations</i>	23	23	23	23	23	23	23	23
<i>R-squared</i>	0.88	0.96	0.59	0.98	0.98	0.90	0.98	0.95
<i>Adj. R-squared</i>	0.70	0.87	-0.30	0.95	0.95	0.67	0.93	0.86

Source: Authors calculation

5. Additional Analysis

5.1. Afghanistan

Afghanistan is a landlocked country located in South Asia, bordered by Pakistan. The subsequent conclusions pertain to the key factors of FDI in Afghanistan.

5.1.1 Manufacturing, Log Labor force, Merchandise, Trade Openness

The manufacturing sector in Afghanistan has a positive coefficient but is not statistically significant ($p > 0.10$, confidence level 0.91), indicating it may not have a significant role in attracting FDI. The labor force variable has a negative coefficient of -0.018 with a t-value of -0.42, suggesting no statistically significant correlation with FDI attractiveness ($p > 0.10$). This implies that the labor force may have no impact on FDI. The merchandise factor ($\beta = -0.001$, $t = -0.03$) is statistically insignificant ($p > 0.10$) and does not significantly influence FDI. Trade openness is excluded from the analysis. The results provide a detailed comprehension of the elements impacting FDI in Afghanistan, highlighting the necessity for specific policies.

5.1.2 Services, Natural Resources, AgriFish, Market Potential

The analysis shows a positive correlation between the services sector and FDI in Afghanistan, but it is statistically insignificant, suggesting a perhaps weak connection. The positive link between natural resources (0.388, $t = 0.53$) and FDI is not statistically significant, indicating that their presence may not significantly influence foreign investment. The AgriFish variable, with a coefficient of -0.121, is not statistically significant ($t = -1.58$, $p > 0.10$), indicating a minimal impact on recruiting FDI. The study found that market potential (0.051*, $t = 2.26$) has a substantial impact on FDI, highlighting the importance of a developing Afghan market in attracting global investment.

5.1.3 Inflation, Tax Revenue, Savings, Regulatory Environment

The study conducted in Afghanistan indicates a negligible adverse correlation between inflation (-0.011, $t = -0.58$) and FDI, suggesting no significant effect. The correlation between tax revenue (0.067, $t = 1.76$) and FDI is not statistically significant, indicating that tax policies may not have a substantial impact on international investment. The study does not discuss the significance of savings. The regulatory environment has a coefficient of -0.215 ($t = -1.01$) and is not statistically significant ($p > 0.10$), suggesting a possibly small impact on FDI in Afghanistan.

5.1.4 Human Capital, log Market, log Tourism

The variable representing human capital in Afghanistan exhibits a negative coefficient, albeit lacking statistical significance ($p > 0.10$). This suggests that the quantity of human capital may not significantly influence FDI in the country. The log Market variable exhibits no discernible impact and lacks statistical significance ($p > 0.10$), suggesting that market size does not serve as a primary determinant of FDI. The regression analysis results reveal a statistically significant negative relationship between log Tourism and FDI ($\beta = -0.118^{***}$, $t = -3.85$). This suggests that the tourism industry might not play a significant role in driving foreign investment in Afghanistan.

In conclusion, the data presented in this study indicate that market potential and tax income play significant roles as driving factors for FDI in Afghanistan. Tourism-related characteristics appear to impede FDI, while other variables have limited impacts on the attractiveness of FDI. Gaining a comprehensive understanding of these aforementioned features can potentially aid Afghanistan in formulating effective policies aimed at enhancing the attractiveness of FDI and fostering economic growth.

5.2 Bangladesh

The following are the main findings for Bangladesh's country-specific locational determinants of FDI:

5.2.1 Manufacturing (-1.436**, $t = -2.39$), Log Labor force (26.089, $t = 1.32$), Merchandise (0.233, $t = 1.77$), Trade Openness (-0.293**, $t = -2.41$)

The analysis reveals a statistically significant negative relationship between Bangladesh's manufacturing sector and FDI, as indicated by the coefficient of -1.436^{**} ($t = -2.39$). This implies that the manufacturing industry in Bangladesh hurts FDI in the country. The log-transformed labor force variable (26.089 , $t = 1.32$) exhibits a positive correlation with FDI in Bangladesh. However, this link is not statistically significant, suggesting that although the labor force holds potential, it may not be the predominant factor influencing foreign investment in the country. Merchandise trade volume has a positive association with FDI, implying that merchandise trade policies and practices have a role in luring foreign investments to Bangladesh. The coefficient for trade openness in the regression model is -0.293 , indicating a negative and statistically significant relationship with FDI in Bangladesh. This suggests that a high degree of openness to international trade may not necessarily be a determining factor in attracting foreign capital.

5.2.2 Services (-0.522 , $t = -1.34$), *Natural Resources* (-5.226^* , $t = -2.32$), *AgriFish* (0.942 , $t = 1.26$) *Market Potential* (0.428^* , $t = 2.08$)

The findings of the study indicate that there is a negative correlation between the Bangladeshi services sector and FDI. However, it is important to note that this link is not statistically significant. These results suggest that services do not play a substantial role in attracting foreign investment in Bangladesh. The regression analysis reveals a statistically significant negative relationship between natural resources and FDI in Bangladesh, suggesting that natural resources may not play a significant role in attracting foreign investment to the country. The correlation coefficient for AgriFish is 0.942 , with a corresponding t-value of 1.26 . This suggests that there is a positive relationship between agriculture fisheries and FDI in Bangladesh. However, it is important to note that this association is not statistically significant, implying that the potential for these sectors to attract foreign investment requires further investigation. The coefficient for Market Potential (0.428^* , $t = 2.08$) indicates a positive and statistically significant relationship between market potential and FDI. This suggests that the size of the market plays a crucial role in attracting foreign capital.

5.2.3 Inflation (-0.005 , $t = -0.06$) *Tax Revenue* (0.149 , $t = 1.32$) *Savings* (0.194 , $t = 1.39$) *Regulatory Environment* (1.358^* , $t = 2.16$)

The relationship between inflation and FDI is found to be weak and lacks statistical significance, as indicated by the coefficient estimate of -0.005 ($t = -0.06$). The correlation coefficient (0.149 , $t = 1.32$) suggests that there is a positive association between tax revenue and FDI in Bangladesh. However, this relationship is not statistically significant, indicating that tax policies do not play a substantial role in driving foreign investment in the country. The findings indicate that there is a positive correlation between the savings rate and FDI, however, this correlation is not statistically significant. This suggests that a higher level of savings may be required to effectively attract foreign investment. According to the statistical analysis conducted (RegEnv, 1.358^* , $t = 2.16$), it can be inferred that a regulatory environment that is perceived as favourable tends to attract a greater influx of foreign investments. This suggests that a friendly regulatory environment has a positive impact on the attraction of foreign investments.

5.2.4 Human Capital (0.051 , $t = 1.74$), *Log Market* (1.945 , $t = 1.65$), *log Tourism* (0.083^* , $t = 2.23$)

The coefficient for human capital (0.051 , $t = 1.74$) suggests a positive association with FDI in Bangladesh. However, it is important to note that this relationship is not statistically significant. This implies that while investments in human capital may have the potential to attract foreign investment in Bangladesh, further research is needed to provide a more robust and conclusive understanding of this connection. The log Market (1.945 , $t = 1.65$) model demonstrates that there exists a positive albeit statistically insignificant relationship between market potential and FDI in Bangladesh. This suggests that the size of the market may influence the inflow of foreign capital into the country. The logarithm of the tourism variable (0.083^* , $t = 2.23$) indicates a positive and statistically significant relationship between tourism and FDI. This finding suggests that tourism can play a key role in attracting foreign investments to Bangladesh.

The presented data illustrates that Bangladesh's FDI landscape is characterized by factors such as merchandise trade, market potential, business regulatory environment, and tourism. In contrast, the impact of manufacturing, trade openness, and natural resources on FDI is quite limited. Bangladesh ought to consider enhancing its goods trade, market potential, business regulatory environment, and tourist sector to attract a greater influx of foreign investment. Concurrently, it should address apprehensions of manufacturing and trade openness. The enhancement of foreign investment prospects in Bangladesh could be achieved by the strategic utilization of existing strengths and the rectification of identified weaknesses, thereby fostering a more attractive investment climate.

5.3 Bhutan

This section provides a comprehensive analysis of the unique factors influencing Bhutan's location concerning FDI. The primary discoveries about Bhutan are as follows:

5.3.1 *Manufacturing, Log Labour force, Merchandise, Trade Openness*

The manufacturing sector demonstrates a positive impact on FDI inflows, as indicated by a coefficient of 0.243. This finding indicates that the industrial sector has a propensity to attract foreign investment. The logarithm of the Labor force variable exhibits a significant positive correlation with FDI, as indicated by a coefficient of 1.520. This implies that the availability and quality of workers play a significant role in determining FDI in Bhutan. The value of 0.058 suggests that there is no significant impact of merchandise trade on FDI. The relationship between trade openness and FDI exhibits a small negative correlation, as indicated by a coefficient of -0.001. This suggests that trade openness may not exert a substantial influence on the level of foreign investment.

5.3.2 *Services, Natural Resources, AgriFish, Market Potential*

The services sector exhibits a positive correlation with FDI, as indicated by a coefficient of 0.078. This implies that the services sector attracts international investment. The coefficient of connection between natural resources and FDI is 0.122. This observation suggests that the abundance of natural resources in Bhutan could potentially attract FDI. The agricultural and fisheries sectors, collectively referred to as AgriFish, exhibit a coefficient of 0.087 in terms of their impact on FDI. The coefficient of 0.037 indicates that market potential has a significant positive impact on FDI. Consequently, an expanded market size has the potential to generate increased foreign investment.

5.3.3 *Inflation, Tax Revenue, Savings, Regulatory Environment*

The coefficient of -0.039 suggests a negative correlation between inflation and FDI. The presence of inflationary pressures has the potential to discourage FDI inflows. Tax revenue plays a significant role in shaping FDI, as evidenced by its coefficient of 0.198. This suggests that the presence of a clearly defined tax system could potentially attract foreign investment. The coefficient of -0.021 indicates that savings exert a negative influence on FDI. High levels of savings have the potential to deter FDI inflows. The regulatory environment, as measured by a coefficient of 0.060, exhibits a modest positive correlation with FDI.

5.3.4 *Human Capital, log Market, log Tourism*

The impact of human capital on FDI is rather modest, as indicated by a coefficient of 0.002. The logarithm of the market exhibits a negative association with FDI, as evidenced by a correlation coefficient of -0.257. The logarithm of tourism exhibits a detrimental impact on FDI, as indicated by a coefficient of -0.127.

The key findings about Bhutan suggest that many factors, including the quality of the workforce, availability of natural resources, market potential, and tax income, significantly influence the attraction of FDI. Conversely, elevated levels of inflation and savings have the potential to impede FDI. The impact of the regulatory environment and the services business is significant. The model's ability to adequately account for variations in FDI in Bhutan may be limited, as evidenced by the relatively low R-squared

value and negative Adjusted R-squared value. The R-squared values. Bhutan can mitigate the constraints on FDI, such as the business regulatory framework and market prospects, by prioritizing the enhancement of its trade policies, tax collection mechanisms, and human capital advancement.

5.4 India

India, officially known as the Republic of India, is a country located in South Asia. The regression analysis outcomes for India offer valuable insights into the specific geographical characteristics influencing FDI in the country. The subsequent analysis presents an explanation of the significant discoveries.

5.4.1 Manufacturing, Log Labour force, Merchandise, Trade Openness

The manufacturing sector in India has been found to have a statistically significant positive effect on FDI. This observation suggests that the industrial sector garners significant foreign investment. The coefficient for logLaborforce (1.928) exhibits a positive relationship; nevertheless, it lacks statistical significance ($p > 0.10$). Based on the existing statistical data, it can be inferred that the quantity and quality of the labor force may not significantly influence FDI in India. The findings suggest that there is no significant relationship between merchandise trade and FDI in India, as indicated by a p-value greater than 0.10. This implies that the exchange of products does not seem to play a significant role in driving foreign investment in the country. The coefficient for trade openness is negative, indicating that it may impede the inflow of FDI. However, the observed influence does not exhibit statistical significance ($p > 0.10$).

5.4.2 Services, Natural Resources, AgriFish, Market Potential

The services sector exhibits a positive correlation with FDI, although this relationship is not statistically significant at the 0.10 level of significance. The coefficient for natural resources is negative, indicating that the abundance of natural resources may not significantly attract FDI. However, the observed influence does not exhibit statistical significance ($p > 0.10$). The AgriFish sector exhibits a coefficient that is not statistically significant, as indicated by a p-value greater than 0.10. The negative and statistically significant coefficient of market potential (-0.055^* , $t = -2.31$) suggests a negative relationship between market potential and FDI in India. This implies that an increase in market potential is associated with a drop in FDI inflows. The aforementioned result may appear implausible; nevertheless, it can be rationalized by the saturation of various businesses within the Indian market. When a market reaches a certain size, the opportunity for further expansion may become limited, leading foreign investors to prioritize new regions that offer higher growth prospects. Moreover, the presence of significant market potential can be accompanied with a corresponding rise in competition, thus acting as a deterrent to international investment. This discovery underscores the significance of expanding our understanding of the relationship between market potential and FDI.

5.4.3 Inflation, Tax Revenue, Savings, Regulatory Environment

The impact of inflation on FDI is found to be negative, albeit statistically insignificant ($p > 0.10$).

The coefficient for tax revenue is negative (-0.026), but, it is not deemed statistically significant with a p-value greater than 0.10. The coefficient for savings is statistically negligible, with a negative value ($p > 0.10$). The regulatory environment in India exhibits a positive and statistically significant correlation with FDI. This statement suggests that the presence of a favorable regulatory framework fosters the inflow of foreign investment on a global scale.

5.4.4 Human Capital, log Market, log Tourism

The coefficient for human capital, denoted as Human Capital (-0.005^{**} , $t = -2.58$), exhibits a negative and statistically significant relationship. This suggests that as levels of human capital increase, there is a corresponding decline in FDI in India. This conclusion may also exhibit a paradoxical nature, although

it could be indicative of concerns regarding wage levels and the imminent saturation of the labor market. The remuneration of highly skilled laborers in India may be comparatively higher, hence diminishing the cost-efficiency of FDI in the country. Moreover, if the labor market is already deemed to be highly skilled, investors may seek out nations that offer more favorable labor market conditions, such as diminished wage expenditures. It is imperative to underscore that a statistically significant negative coefficient does not necessarily imply a detrimental effect on human capital. Rather, it indicates that the relationship between human capital and FDI in India is intricate. The logMarket variable (1.201) exhibits a positive coefficient but lacks statistical significance ($p > 0.10$). The logarithm of tourism exhibits a negative impact on FDI, although this relationship lacks statistical significance ($p > 0.10$).

To provide a comprehensive elucidation of these findings, it is important to do additional investigation and attain a more comprehensive comprehension of these processes. These papers provide a comprehensive analysis of the factors influencing the geographical distribution of FDI in India. By conducting a comparative analysis of these findings with those of other countries and examining the broader context, it becomes possible to identify commonalities and variations in the factors driving FDI.

5.5 Maldives

The subsequent content provides a comprehensive overview of the various factors of Maldives.

5.5.1 Manufacturing, Log Labour force, Merchandise, Trade Openness

The manufacturing sector in the Maldives, as indicated by a negative coefficient of -0.112 and a t-value of -0.86, does not exhibit statistical significance ($p > 0.10$). This suggests that the manufacturing sector does not play a significant role in driving FDI in the Maldives. The logLaborforce variable exhibits a positive coefficient, but it lacks statistical significance ($p > 0.10$), suggesting that the labour force size and quality may not have a substantial impact on attracting FDI. The coefficient of merchandise trade concerning FDI in the Maldives is shown to be statistically significant ($p = 0.020^{**}$, $t = 2.52$), indicating its potential role in attracting FDI. The coefficient for trade openness in the regression model is 0.002, with a t-value of 0.49. The analysis suggests that trade openness does not have a significant impact on FDI, as indicated by a p-value greater than 0.10.

5.5.2 Services, Natural Resources, AgriFish, Market Potential

The coefficient for the services variable is positive, but it lacks statistical significance ($p > 0.10$). This suggests that the impact of the services sector on attracting FDI in the Maldives may be limited. The coefficient for natural resources (33.422, $t = 0.54$) does not exhibit statistical significance ($p > 0.10$), indicating that natural resources do not serve as the primary determinant of FDI. The AgriFish variable exhibits a negative coefficient of -0.126 but fails to achieve statistical significance ($t = -0.89$, $p > 0.10$). The analysis reveals that the market potential variable hurts FDI in the Maldives. However, it is important to note that this effect is not statistically significant ($p > 0.10$). Consequently, it can be inferred that market potential does not play a substantial role in driving FDI in the Maldives.

5.5.3 Inflation, Tax Revenue, Savings, Regulatory Environment

The impact of inflation on FDI is found to be negligible and lacks statistical significance ($p > 0.10$) based on the estimated coefficient of 0.013 at a significance level of 0.05. The impact of tax revenue is found to be minimal and lacks statistical significance ($p > 0.10$), as indicated by the coefficient estimate of -0.006 and t-value of -0.23. The variable of savings (-0.020, $t = -0.92$) exhibits a marginal influence on FDI, although this impact does not reach statistical significance ($p > 0.10$). The RegEnv variable exhibits a negligible impact and lacks statistical significance ($p > 0.10$).

5.5.4 Human Capital, log Market, log Tourism

The impact of human capital is shown to be insignificant and lacks statistical significance ($p > 0.10$) at time $t = 0.03$. The log Market variable at time $t = 1.14$ has a positive relationship. However, it lacks statistical significance with a p-value greater than 0.10. The variable log Tourism exhibits a negative influence, albeit it is not statistically significant ($p > 0.10$).

In summary, it can be observed that merchandise trade plays a significant role in driving FDI in the Maldives, whereas the impact of other variables is rather restricted and lacks statistical significance. The comprehension and enhancement of the goods trade industry will play a crucial role in determining the Maldives' future appeal for FDI.

5.6 Nepal

The subsequent content provides a comprehensive overview of the various factors about Nepal.

5.6.1 Manufacturing, Log Labour force, Merchandise, Trade Openness

The impact of manufacturing on FDI is shown to be negative, with a coefficient of -0.491. However, it is important to note that this negative effect is not statistically significant, suggesting that manufacturing does not play a large role as a driver of FDI. The variable "Laborforce" exhibits a substantial coefficient, although its impact on FDI in Nepal is shown to be minimal. The negative coefficient associated with merchandise trade suggests that it may not exert a significant influence on FDI. The statistical analysis reveals that trade openness, with a coefficient of 0.018, exerts a limited and non-significant impact, suggesting that its contribution is rather minor.

5.6.2 Services, Natural Resources, AgriFish, Market Potential

The services sector exhibits no discernible influence and is deemed statistically inconsequential. The coefficient about natural resource richness is shown to be statistically insignificant, suggesting that there is no substantial impact of natural resources on FDI. The variable of Agriculture and Fisheries (0.112) has a lack of statistical significance, suggesting that it does not have a major impact. The influence of market potential on FDI is significant, as indicated by a market potential score of 0.109.

5.6.3 Inflation, Tax Revenue, Savings, Regulatory Environment

The impact of inflation, with a coefficient of 0.026, is shown to be inconsequential and lacks statistical significance. Tax income plays a significant role in attracting FDI, underscoring the importance of tax policy in this regard. The variable of savings exhibits a negative effect; however, it is not deemed to be statistically significant. The impact of the regulatory environment is rather small and lacks statistical significance.

5.6.4 Human Capital, log Market, log Tourism

The impact of human capital is minimal and lacks statistical significance. The log Market coefficient (1.065) indicates that the market size variable has a negligible impact and lacks statistical significance. The log Tourism coefficient of 0.044 indicates that tourism-related activities have a significant contribution to the attraction of FDI.

In summary, the market potential, tax income, and tourism-related activities exhibit a favorable impact on FDI in Nepal. However, it is worth noting that other components demonstrate a limited influence and lack statistical significance. Gaining a comprehensive understanding of these aforementioned features will facilitate Nepal in formulating policies that enhance the appeal of FDI and bolster economic progress.

5.7 Pakistan

The findings provide a valuable understanding of the determinants that impact FDI in the context of Pakistan.

5.7.1 Manufacturing, Log Labour force, Merchandise, Trade Openness

The coefficient for manufacturing (0.457**, $t = 3.38$) demonstrates a statistically significant positive relationship, suggesting that the manufacturing sector plays a crucial role in attracting FDI to Pakistan.

The manufacturing sector appears to be a significant catalyst for FDI inflows into the country. The variable log Labor force (-13.099***, $t = -3.85$) exhibits a substantial coefficient and exerts a statistically significant adverse impact on FDI in Pakistan. This implies that a large labor force may not be the primary catalyst for FDI in Pakistan. The coefficient for merchandise trade, which is negative (-0.007, $t = -0.12$), suggests that it is improbable for merchandise trade to significantly influence FDI in Pakistan. The impact of merchandise trade on FDI seems to be rather limited. The coefficient for trade openness is -0.068, with a t -value of -1.58. The negative sign of the coefficient implies that trade openness may have a limiting effect on the attractiveness of FDI. However, it is important to note that this influence is not statistically significant, as indicated by a p -value greater than 0.10.

5.7.2 Services, Natural Resources, AgriFish, Market Potential

The variable representing services (0.347, $t = 1.84$) exhibits a positive coefficient, but lacks statistical significance ($p > 0.10$), indicating a modest impact on FDI in Pakistan. The coefficient of natural resources (0.022, $t = 0.10$) suggests that their impact on FDI in Pakistan may be insignificant. The presence of abundant natural resources does not seem to be a substantial driver. The variable representing Agriculture and Fisheries, denoted as AgriFish, exhibits a significant negative impact on FDI in Pakistan, as evidenced by the coefficient of -0.230 ($t = -2.22$). This suggests that the presence of this industry may deter FDI inflows in the country. The market potential in Pakistan, as indicated by a coefficient of -0.086 and a t -value of -1.61, does not have a statistically significant impact on foreign investment. While the market is increasing, it does not substantially dissuade foreign investment led by a p -value greater than 0.10.

5.7.3 Inflation, Tax Revenue, Savings, Regulatory Environment

The coefficient for inflation (0.036, $t = 1.63$) suggests a positive relationship with FDI in Pakistan. However, the statistical analysis reveals that this relationship is not statistically significant ($p > 0.10$), indicating that the impact of inflation on FDI in Pakistan is limited. The results of the study indicate that tax revenue has a positive and statistically significant impact on FDI in Pakistan ($t = 1.40$, $p > 0.10$). This finding underscores the importance of tax policy in attracting foreign investment to the country. The coefficient for savings (0.281**, $t = 3.38$) demonstrates a significant positive relationship, suggesting that savings play a crucial role in attracting FDI to Pakistan. The presence of substantial savings seems to be a significant catalyst for the influx of FDI into the country. The statistical analysis reveals a significant positive relationship between the regulatory environment and FDI in Pakistan ($\beta = 0.197$, $t = 2.57$). This finding underscores the importance of having an appropriate regulatory framework in place to enhance the attractiveness of FDI in the country.

5.7.4 Human Capital, log Market, log Tourism

The coefficient for human capital (0.004, $t = 1.52$) suggests that there is a positive relationship between human capital and FDI in Pakistan. However, this relationship is not statistically significant at the conventional level of significance ($p > 0.10$), indicating that the influence of human capital on FDI may be limited. The regression analysis results indicate that there is a statistically significant relationship between the logarithm of market size and FDI inflows in Pakistan. The positive coefficient associated with the logarithm of market size shows that an increase in market size is associated with a corresponding increase in FDI inflows. The coefficient of logTourism (-0.067**, $t = -2.75$) suggests that there is a negative relationship between tourism-related activities and FDI in Pakistan. This finding implies that tourism may function as a disincentive to FDI, and this effect is statistically significant.

To summarise, the factors of manufacturing, savings, tax revenue, regulatory environment, and market size exhibit statistically significant positive effects on FDI in Pakistan. However, it is worth noting that other variables demonstrate a limited impact and lack statistical significance. Gaining a

comprehensive understanding of these features could potentially assist Pakistan in formulating policies aimed at enhancing the attractiveness of FDI and fostering economic growth.

5.8 Sri Lanka

Sri Lanka is a country located in South Asia. The following is a concise evaluation of the outcomes seen in Sri Lanka:

5.8.1 Manufacturing, Log Labour force, Merchandise, Trade Openness

The empirical analysis reveals that the manufacturing sector, as indicated by the coefficient of -0.046 and the corresponding t-value of -0.35, exerts a negligible impact on the attractiveness of FDI in Sri Lanka. The coefficient of log Labor force (-11.367, $t = -1.03$) suggests that the Labor force variable may not have a significant impact on FDI as a driver.

The empirical findings indicate that the impact of merchandise trade on FDI in Sri Lanka is relatively insignificant, with a coefficient of 0.005 and a t-value of 0.15. The results indicate that trade openness (0.002, $t = 0.11$) exerts a modest although statistically significant impact on FDI.

5.8.2 Services, Natural Resources, AgriFish, Market Potential

According to the statistical analysis ($t = 0.71$, $p = 0.042$), it can be concluded that the impact of the services sector on FDI is minimal. The empirical findings (-2.573, $t = -0.61$) suggest that there is no significant impact of natural resources on the attractiveness of FDI. The AgriFish industry exhibits a negligible impact on FDI. The market potential (0.024, $t = 0.64$) exhibits a modest yet statistically significant impact on FDI.

5.8.3 Inflation, Tax Revenue, Savings, Regulatory Environment

The empirical analysis reveals a statistically significant positive relationship between inflation ($\beta = 0.038^{**}$, $t = 2.53$) and FDI. The impact of tax revenue on FDI in Sri Lanka is quite limited, as indicated by the coefficient of 0.124 at a significance level of 1.49. The results of the analysis indicate that there is no significant relationship between savings and FDI, as evidenced by the coefficient estimate of -0.008 ($t = -0.27$). The empirical analysis reveals that the regulatory environment exhibits a negligible effect on the inflow of FDI, as indicated by the coefficient estimate of -0.054 ($t = -0.96$).

5.8.4 Human Capital, log Market, log Tourism

The empirical analysis conducted in this study suggests that the coefficient estimate for human capital, denoted as 0.006 with a corresponding t-value of 0.51, indicates that there is a limited impact of human capital on the level of FDI in the context of Sri Lanka. The logarithm of the market size variable, log Market, exhibits a statistically significant positive relationship with FDI, as indicated by the coefficient estimate of 1.805** ($t = 2.58$). This suggests that an increase in market size is associated with a corresponding increase in FDI inflows. Based on the log Tourism coefficient of -0.003, with a t-value of -0.08, it may be inferred that tourism-related activities have a limited impact on FDI.

In conclusion, FDI in Sri Lanka is mainly affected by inflation, market size, and tax income. Other factors have a small effect. This underscores the importance of well-informed policy-making to improve FDI appeal and stimulate economic growth.

6. Conclusion

Dunning's Ownership-Location-Internalization (OLI) model helps us to examine the factors affecting foreign direct investment (FDI) in SAARC countries. The goal was to find how macroeconomic factors affect FDI arriving in the region between 2000 and 2022. Using secondary data and a panel data regression technique, the study looked at economic factors including market size, savings, trade openness, inflation, infrastructure, and sectoral contribution.

Important findings reveal that the economic situation has a major impact on patterns of foreign direct investment (FDI) in SAARC members. While some of these factors—such as trade openness and market size - have positive effects, such those of trade - others have negative ones. Natural resources, agriculture, fishing, savings, and tourism were among the most important ones. Still, people are discouraged from spending due to rising prices and inadequate infrastructure. These results highlight the need for having strategies to draw in and sustain foreign direct investment.

Especially in places lacking development, this study fills major gaps in the otherwise existing studies. It also develops the OLI framework within the SAARC region, thus enhancing the scholarly debate. It provides essential statistics for legislators, investors, and researchers hoping to encourage long-term development and economic growth using FDI.

Still, the study has some flaws. The small sample size and varying use of variables in different countries impede the ability to account for distinct traits, hence restricting the depth of the study. Challenges arise in reflecting the dynamic nature of FDI in a fast-changing global economy due to reliance on varied secondary data quality and a static structure. The results are not quite thorough, given only one modelling method and secondary data. They also ignore non-financial factors, including technical growth, cultural influence, and political stability.

Including political, social, and natural points of view can assist future studies to better close in on these voids. Studies should include sector-specific research, qualitative techniques, and comparisons of several geographical groups. Future models can be stronger if they take into account political stability, cultural changes, legislative progress, and new technologies in addition. Top of the list should be environmental sustainability, risk and volatility management, and a standard investment platform.

The overall study of us enhances scholarly understanding and offers significant insights. This would help to increase SAARC region cooperation and strengthen the economy. Policymakers may establish an investor-friendly environment to attract FDI and promote regional economic growth by acknowledging the strategic importance of these factors. It is crucial to effectively utilise these variables to lead SAARC countries towards sustained economic prosperity.

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Appendix A: Definition of Variables

Variable	Description
FDI	FDI, net inflows (BoP, current US\$)
Manufacturing	Manufacturing, value added (% of GDP)
logLaborforce	Labor force, total
Merchandise	Merchandise trade (% of GDP)
Trade openness	Trade (% of GDP)
Services	Services, value added (% of GDP)
NaturalResources	Natural Resources Rents (Total of Coal, Mineral, Natural Gas, Forest, Oil Rents% of GDP)
AgriFish	Agriculture, forestry, and fishing, value added (% of GDP)
MktPotential	GDP growth (annual %)
Inflation	Inflation, consumer prices (annual %)
TaxRevenue	Tax revenue (% of GDP)
Savings	Gross savings (% of GDP)
RegEnv	CPIA business regulatory environment rating (1=low to 6=high)
HumanCapital (Education)	Government expenditure per student, tertiary (% of GDP per capita)
logMarket	GDP (current US\$)
logTourism	International tourism, receipts (current US\$)

Source: Authors Compilation