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Analyzing Role Of Foreign Direct Investment In Economic Development In South Asian Countries

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Abstract:

FDI, or foreign direct investment, is essential to growing the economy of emerging nations. Therefore, understanding the variables that impact FDI flows into developing nations is essential. The goal of this research was to find out what influences foreign direct investment influx into South Asian nations. This study has taken into consideration seven countries and gathered data on the relevant variables for 45 years in order to achieve its goal. A variety of panel models, including the basic pooling OLS estimation, entity fixed effect model, temporal fixed effect model, and random effect model, have been used to investigate the link between key economic variables and their overall impact on FDI inflows. The study's conclusion is that the primary driver of foreign direct investment (FDI) inflows into South Asian nations is the nation's GDP.

Key-words: *Foreign Direct Investment (FDI), Economic Development, South-Asian Countries, GDP.*

Introduction:

The 1990s and early 2000s saw the liberalization of South Asian nations. Since then, foreign investors have become interested in this region. Many South Asian nations have seen significant FDI inflows in recent years. However, as compared to Asian nations, FDI inflows are not as high in the SAARC member countries. Every SAARC member country is in the process of developing. FDI is widely regarded as an excellent instrument for economic development and expansion. Nevertheless, SAARC member nations have little luck attracting FDI. Thus, the key question facing South Asian policymakers is what exactly contributed to attracting FDI. Most people agree that the variables influencing FDI flows include national policy-oriented drivers and broad economic fundamentals focused on policy. Government incentives such as tax holiday facilities were crucial in drawing foreign direct investment (FDI), according to UNCTAD (1996). Brewer (1993) further highlighted the role that government policies play in influencing FDI flows, either directly or indirectly. Despite this, there is evidence from Contractor (1991), Caves (1996), and Villela and Barreix (2002) that suggests there is minimal impact of national and international government policies on foreign direct investment (FDI) inflows, particularly when economic fundamentals are taken into account as the determining factor. According to Nunnenkamp (2002), since the 1980s, common economic fundamentals have continued to be the primary determinants of foreign direct investment

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inflows.
Following a thorough examination of the body of research on the factors influencing foreign direct investment inflows, the current study aims to determine how economic fundamentals affect FDI flows among SAARC member nations. The primary rationale for the SAARC member countries' selection is that they are all developing nations that heavily rely on foreign direct investment (FDI) for economic growth and development. Finding out how general economic fundamentals, which are focused on economic policy, affect FDI flows in South Asian nations is the primary goal of the current study. In order to achieve its goal, the current study gathered information on foreign direct investment (FDI) and economic fundamentals for seven SAARC member nations from 1972 to 2016. This study discovered that market size (GDP) was a key factor in attracting FDI to South Asian nations using various panel estimating approaches. The author hopes that by providing firsthand knowledge of the factors influencing foreign direct investment inflows into South Asia, this study can assist policy makers in formulating appropriate strategies to draw in foreign capital.

This study uses panels with data from 1990 to 2020 to use the random effect and generalization approach of movement's models. The results of the empirical study show that, in South Asian countries, economic advancement has a considerable positive impact on renewable energy usage, while FDI has a negative impact. This paper looks at a few strategies for leveraging foreign direct investment (FDI) in the renewable energy sector to advance the financial development of this potential Asian economy. Objectives of Study: 1. Analyzing the role of foreign direct investments(FDI) economic development and job creation in south Asian countries. 1a. Foreign Direct investments and employment downfall panel evidence from south Asia economics. 1b. Foreign direct investment and its role in economic development and need of new agenda. 1c. The role of foreign Direct Investment on achieving sustainable development and empirical analysis of foreign direct investment and economic growth in south Asian countries.

Various factors impact foreign direct investment flows (FDI) (Athukorala, 2009). In general, there are two types of factors that influence FDI flows: national policy variables and overall economic policy variables. The most common factors of foreign direct investment (FDI) inflows have been noted in the literature that is currently available. These factors include market size, market expansion rate, trade liberalization, exchange rate, firm clustering effects, political stability, good governance, tax incentives, labor availability and cost, labor productivity, and infrastructure. According to Janicki and Wunnava (2004), the primary factor influencing FDI flows is market size. In a similar vein, Sahoo (2006) and Khachoo and Khan (2012) discovered evidence suggesting the primary driver of FDI inflows was market size, apart from a host of other conventional drivers. The literature currently in publication generally agrees that the most prevalent and widely used factors influencing FDI inflows are market sizes expressed in GDP. The primary goal of the current study is to determine how market size and economic fundamentals affect FDI flows in SAARC member nations. The current study is methodically looking for the answers to the following questions in order to achieve its purpose. A. What are the factors that have statistically significant impact on FDI inflows in South Asian countries? B. To what extent economic policy-oriented variables have impacted on the flows of FDI in South Asian Countries?

Literature Review:

Multifaceted factors influence FDI inflows (Athukorala, 2009). Readers can infer from this remark that there is no exhaustive list of FDI drivers and that FDI is influenced by a variety of factors. The most well-known factors influencing FDI inflows are generally observed from the

literature on the subject. These factors include market size, potential growth, trade openness, exchange rate volatility, firm clustering effects, political stability, institutional factors, taxes, trade restrictions, trade effects, labor cost, productivity, and infrastructure. A study on 24 major developing nations that receive FDI and 12 MENA countries was done by Mohamed and Sidiropoulos (2010). Using panel data, the researchers have attempted to identify the factors that influence FDI. Results of the study indicated that the main factors influencing FDI inflows into MENA nations are the size of the host economy, the size of the government, natural resource availability, and institutional variables. In order to draw in more FDI, writers have also recommended that MENA nations lower trade barriers and enhance their financial systems. Using data from 1970 to 1999, Addison and Heshmati (2003) have carried out study on 110 countries to determine the factors influencing FDI inflows. The study found that democracy and ICT had a considerable favorable impact on FDI inflows using a fixed and random effect model. Furthermore, aiding in democratization has a positive externality that influences overseas investors. The authors suggest that in order to increase FDI inflows, the "low ICT equilibrium trap" be broken. In addition to this, secondary research on both Asian and African nations revealed factors that affected the growth or downward trend of FDI inflows. FDI inflows are frequently determined by political and macroeconomic factors, growth and infrastructure development trends, government performance, regulatory environments, investment promotion strategies, and trade relationship conditions (Dupasquier and Osakwe, 2005). The experts recommend that nations focus on preserving and strengthening their relationships with current investors. Additionally, it is crucial that they provide incentives in order to draw in overseas investment. It's important to take advantage of FDI prospects in order to achieve sustainable growth and development, as the worldwide market is extremely competitive, particularly in developing nations (Dupasquier and Osakwe, 2005). 8. Asiedu (2002) expounded on how the factors influencing foreign direct investment (FDI) have differed among sub-Saharan African (SSA) nations in contrast to other regions. This study has attempted to determine the cause of the decline in FDI inflows into Sub-Saharan Africa. They discovered that while having no effect on SSA, infrastructure development and higher returns on capital encourage FDI to non-SSA nations. Trade openness has an impact on both SSA and non-SSA nations, albeit it is less pronounced in SSA. 9. Another factor that influences the decline in FDI inflows into SSA is geographic location. The main factors influencing foreign direct investment (FDI) are also return on investment, political risk, openness of the host nation, inflation rate, GDP growth rate, government consumption to GDP ratio, taxes and tariffs, and labor costs (Asiedu, 2002). Many scholars found that the exchange rate is another important determinant of FDI inflows, along with trade openness. Evidence of an increase in FDI influx following an exchange rate depreciation was shown by Blonigen (2005). Additionally, Sekkat, K. (2012) concurred that depreciation of the exchange rate had a significant impact on FDI inflows. Aside from that, Sekkat, K. (2012) contended that institutions, trade openness, and well-developed infrastructure all affected FDI inflows. After reviewing the extensive literature on foreign direct investment (FDI) inflows, the current study looks into how economic factors affect FDI in South Asian nations. Few research, as far as the author is aware, have examined the economic factors influencing foreign direct investment inflows into South Asian nations. By employing several panel data models to empirically examine the impact of economic variables on FDI influx, this research work may add to the body of literature already in existence. This study's sample consisted of seven South Asian nations in order to give an accurate approximation.

Sources and Methodology:

In order to describe and critically assess the reasons why all five South Asian countries India, Pakistan, Sri Lanka, and Nepal have been consistently implementing economic reform policy

measures that emphasize the market economy and animal at integrating their economies with the rest of the world, this study used a qualitative methodology. In fact, in recent years, the South Asian region has experienced the greatest rate of growth worldwide. Various data sources, such as the official FDI website, are gathered. A portion of the data included in the analysis came from FDI policy statements that were made in official capacities. In fact, in recent years, the South Asian region has had some of the strongest global growth. With a more liberalized approach to the FDI policy framework in recent years, South Asian countries have experienced a significant transformation in their FDI environment. It is undeniable that South Asia has emerged as a major investment destination.

Trends: It is possible to draw the conclusion that there has been a favorable shift in FDI policy, with a greater focus on bilateral trade agreements and offering incentives for foreign investment in all SA countries. In SA, manufacturing and services account for the majority of foreign direct investment.

Impact: An examination of FDI inflows to various sectors reveals that, while it is concentrated in a small number of export-oriented businesses in Bangladesh and Sri Lanka, FDI is mostly focused on the local markets in India and Pakistan.The findings of the FDI impact on growth demonstrate that FDI significantly and favorably affects growth in four SA nations.

Determinants: To attain greater prosperity, South Asian nations must enhance their exports, infrastructure, and investment, in addition to drawing in more foreign capital. Additional foreign direct investment (FDI) boosts export growth through positive spillovers for South Asian nations. In general, South Asian nations must continue their current growth trajectory in order to enhance market size, develop policies for more effective use of their large labor pool, upgrade infrastructure, and pursue more liberal trade practices in order to draw in more foreign direct investment.

Theoretical Framework:

Fast Variables: Fast variables are those whose values are affected by external factors. More precisely, fast variables are typically more responsive to changes in their environment and change more quickly under any given state. Sensitive, fast variables might be regarded as independent variables.

Slow Variables: Slow variables are those that are not immediately impacted by changes in the external environment. Importantly, the slow variable is affected by changes in the surrounding conditions and changes slowly under any condition. Slow variables are frequently regarded as the dependent variable since they are less sensitive.
By using FDI inflows as the slow variable and GDP, secondary education, lending interest rates, official exchange rates, inflation, GDP deflator, foreign debt stocks, etc. as the fast variables, the current study has attempted to achieve its goal.

FDI as Slow Variable: Since FDI inflow is the study's focus, it is regarded as the slow and dependent variable, influenced gradually by the fast variables this research examines, such as GDP, inflation, exchange rate, and so forth.

GDP as Fast Variable: The GDP is regarded as a fast variable in this study. This is taken into account because rising GDPs are typically accompanied by rising FDI inflows into a nation.

Secondary Education as Fast Variable: The quantity of secondary school graduates is

regarded as the fast variable since it represents the availability of trained labor. The availability of skilled labor in greater quantities draws foreign direct investment (FDI) into a nation.

Lending Interest Rate as Fast Variable: The bank interest rate is known as the lending interest rate. The private sector is typically offered short- and medium-term financing by banks and other financial institutions in exchange for an interest rate. A high loan interest rate drives up the cost of capital and quickly diverts FDI investors.

Official Exchange Rate as Fast Variable; The term "official exchange rate" refers to the rate set by the government of a country or, alternatively, to the rate set by law in a market for approved exchange rates. Foreign investors are frequently diverted when a native country's currency appreciates, and vice versa.

Inflation as Fast Variable: The GDP implicit deflator's yearly growth rate, which displays the ratio of price changes across an economy, is typically used to calculate inflation. An economy's rising inflation rate naturally deters foreign investors from making rash investments.

External Debt Stocks as Fast Variable: Any obligation owing by non-residents that can be repaid with cash, goods, or services is referred to as total external debt. The total amount of external debt includes short-term debt, use of IMF financing, and long-term debt that is public, publicly guaranteed, and private non-guaranteed. All debt with an initial maturity of one year or less is considered short-term debt, as is interest on long-term debt that is past due. Current U.S. dollars are used for data. Changes in a nation's external debt stock have an impact on foreign direct investment inflows as well.

Economic Policy: The package of measures often adopted by a nation's government to oversee its economy is known as its economic policy. It covers the mechanisms for determining tax rates, government spending plans, the money supply, interest rates, and the labor market's national ownership of an economy. A country's economic policy is important for attracting foreign direct investment. Macroeconomic stability policies, trade policies, industrial policies, regulatory policies, policies aimed at fostering economic growth and development, policies addressing the redistribution of income, wealth, and property, antitrust laws, etc. are all included in economic policy. Trade policy, exchange rate policy, capital count transaction policy connected to FDI, corporate tax rates, national FDI policy, and international FDI policy are important economic policies that aid in attracting FDI to an economy.

National FDI policy: The government FDI policy of the host nation, also referred to as the national FDI policy of an economy, is crucial to attracting FDI. Tax holidays and non-fiscal incentives are two examples of national FDI policies that are utilized to draw in FDI. For example, when a tax break is provided, foreign investors are more willing to make large investments in the host nation. Thus, it may be concluded that national FDI policy is unquestionably a rapid variable rather than a slow variable.

International FDI policy: International FDI policies of significance typically include bilateral investment treaties and regional investment agreements. It is argued that these two policies are instruments of global FDI policy that influence FDI inflows. The quantity of investments in both host and investor countries is undoubtedly increased if a mutual investment agreement has been inked. Another name for international FDI policy is a quick variable that promotes FDI inflows.

Policy Related Variables that Influencing Tangible and Intangible Infrastructure:
Below is an explanation of the policy variables that affect both tangible and intangible infrastructure in a delayed effect pattern.

Expecting FDI inflows: Lower tax and tariff rates indicate a relaxation of FDI prohibitions. A nation can anticipate more FDI inflows in such a scenario. The FDI influx is impacted, for example, when the host nation's economic policy or national FDI policy changes in a positive way, such a tax rate reduction. An important portion of a business's expenses is tax. The receiving nation's tax stability certificate guarantees a stable tax rate and a safe investment environment. Engaging in such activities enhances a nation's potential to attract foreign direct investment. It is reasonable to anticipate a higher level of FDI influx if an agreement has been made regarding FDI inflow and outflow between the host and recipient countries.

Not expecting FDI Inflows: The recipient country should anticipate a decrease in FDI inflows when the host country's government modifies its general economic policy, national FDI policy, or international FDI policy. This results in no benefit or little profit for the host country. For instance, a receiving country may see a decrease in FDI inflow if the government of the host nation raises the tax rate on FDI outflow. The national FDI policy of the host nation is thus in the same predicament. The recipient country can anticipate low or fewer FDI inflows if modifications are made to the global FDI policy, which results in no profit or reduced return on FDI for the host nation.

Variables that Attract FDI Inflows According to "Theory": FDI is influenced by a variety of factors. Market size, trade openness, labor force participation, labor costs, labor productivity, political risks, infrastructure, economic growth rate, tax rate, tax holiday provisions, inflation, recipient country's total reserve, human capital, tariff policy, and trade liberalization are the most frequent factors influencing foreign direct investment (FDI).24 The following variables are taken into consideration as representing distinct components in this article. GDP serves as a growth indicator, secondary education gauges skilled labor supply, lending interest rates gauges cost of capital, official exchange rates gauge real exchange rates, GDP deflator gauges inflation rates, and external debt stock gauges recipient nation's financial health.

GDP: It has long been debatable to what extent GDP growth attracts foreign direct investment. Lunn (1980), Schneider and Frey (1985), and Culem (1988) have all found in the literature that GDP growth significantly increases FDI inflows. Market size, which is often gauged by GDP or GDP per capita, is one of the most important FDI-influencing criteria, according to Artige and Nicolini (2005).

Secondary Education: The development of a nation's elementary, secondary, and university education systems may aid in luring foreign direct investment. Goldsbrough (1979), Saunders (1982), and Flamm (1984) assert that a nation's educational system guarantees the availability of skilled labor, which promotes foreign direct investment inflows. Thus, it follows that an improvement in a nation's secondary education system, in particular, may lead to a rise in the need for skilled workers. Because of this, the output rate may be higher and foreign investors may be more inclined to make investments.

Lending Interest Rate: The interest rate is a key factor in luring FDI. It is a reciprocal rate,

meaning that anyone who borrows must pay back the loan and anyone who saves gains. Foreign investors are drawn to invest more in an economy when interest rates decrease because they believe they will receive a higher return. Lower interest rates encourage foreign investors to increase their investments in recipient nations (ODI, 1997 and Shamsuddin, 1994).

Exchange rate: The exchange rate is a major factor in luring FDI. Exchange rates and FDI have a negative relationship. In the literature, some studies discovered a strong correlation between foreign direct investment (FDI) and currency rates, while others did not. This outcome is not unexpected because foreign direct investment (FDI) inflows can also affect recipient country appreciation or depreciation through increased demand for local currency in the home country, and recipient country appreciation or depreciation can also affect FDI inflows.

GDP Deflator: Similar to the exchange rate, the GDP deflator is a significant factor that may draw foreign direct investment. It gauges the final goods and service prices of an economy that are produced locally. It calculates the rate of inflation or deflation in relation to a base year's particular price. This study uses the GDP deflator as a stand-in for inflation to examine how it affects foreign direct investment inflow. The rate of sales tax rises in tandem with the rate of inflation. As a result, it deters international businesses from investing. As a result, FDI influx declines.

External Debt Stock: Debt stock contributes to FDI as well. The country's FDI influx is significantly influenced by higher stock returns.

Environment: FDI is expected to be higher in nations with conducive business environments for investment (such as ease of doing business) than in others. In a similar vein, nations that facilitate a simple and secure return of investment to the investor's home nation likewise draw foreign direct investment.

Trade Openness: FDI inflows are more likely to occur in nations with free markets. The rationale is that the recipient country's markets become more liberalized for trade the more open they are, which attracts investors.

Costs of Labor: The amount of FDI inflow is significantly impacted by labor costs. One of the key factors influencing foreign direct investment inflows is thought to be the significance of inexpensive labor in the production process. Studies conducted across the literature have demonstrated that FDI is drawn to low wages.

Understanding the dynamic interplay between fast and slow variables is crucial in assessing the determinants of FDI in flows by recognizing FDI as a slow variable influenced by a variety of fast variables such as GDP, secondary education , lending interest rates, official exchange rate, inflation and external debt stocks, policy makers can craft strategies that create an attractive environment for foreign investment national and international FDOI policies alongside a stable economic framework significantly impact FDI inflows.

Direct and Indirect Policies that Attracts FDI:

DirectPolicies: Industrial policies that are favorable and provide financial incentives. An effective administrative framework that lessens the red tape issue. The creation of export processing zones. Make sure there are adequate infrastructures. The availability of both semi-

skilled and skilled labor. Measures to ensure that macroeconomic indices are continuously improved. Prospects for privatization as well as public-private partnerships. Creation of a financial market that operates flawlessly. Ensuring the concurrent implementation of trade, export promotion, and labor market policies. Research institutes' relationships with other businesses facilitating research and development.

Indirect Policies: Bilateral, regional, and international treaties, such as the WTO and BITs. Make efforts to lessen political instability and danger. Making sure that natural resources are used properly. Establish connections between nations based on racial, linguistic, and historical relationships. Lowering the corruption rate. Assistance in creating strong labor laws, labor ministries, and labor organizations

Macro-Economic Reforms/Performance of South Asian Countries: Up until the late 1960s, the majority of developing economies including those in East Asia adopted closed macroeconomic policies that promoted self-reliance and indigenous initiatives through import substitution industrialization. The state was given a leading role in the development process at the same time. Large public sectors and import substitution tactics led to rent-seeking behavior and competitive production processes (Bhagwati and Srinivasan, 1975). Export-tec industrialization and liberalization was therefore promoted in order to increase the productivity and competitiveness of the production process. Most South Asian nations began opening up their economies in the early 1980s, following the theory of export-oriented growth (Bhagwati and Srinivasan, 1978; Kruger, 1975) and the example of East Asian nations that saw greater economic growth and exports from the early 1970s to the mid-1990s. The economies of South Asia are currently reaping the rewards of economic reforms, especially those pertaining to trade and investment. After enduring slow growth rates in the 1970s and 1980s, these nations started reform programs and opened up their economies. The macroeconomic results and economic changes implemented in South Asian nations over the past 20 years are briefly explained in the section that follows. South Asian Economic Reforms

India: Although economic changes had begun in the early 1980s, a thorough liberalization and privatization process began in July 1991 against the backdrop of the economy's balance of payments and foreign exchange liquidity crises. Since then, several initiatives have been made to connect the Indian economy with the global economy, such as the elimination of quantitative limits, the lowering of tariffs, and the flexibility of currency rates. With an emphasis on lowering the fiscal deficit, enhancing infrastructure, revising labor laws8, and motivating the states to actively participate in accelerating the pace of reforms, India began its second wave of reforms in 2002. India increased the limits on foreign direct investment (FDI) in numerous key industries, such as banking, insurance, and telecommunications. Civil aviation Bangladesh In the 1980s and the first part of the 1990s, significant reforms were carried out as part of structural adjustment programs sponsored by the World Bank and the IMF. In 1980, 38 the World Bank provided structural and sectoral adjustment loans (SALs and SECLs) to kick off the initiatives. In 1986, the IMF established a three-year structural adjustment facility (SAF), during which time significant reform programs were implemented in the areas of trade, industry, and agriculture policy, as well as in the areas of privatization and public enterprise reform, fiscal policy reform, and financial sector reform. Furthermore, the 1990s saw a surge in the implementation of these reforms.

Pakistan: Even though a number of changes had been implemented before 2001, the economic reform program officially began that year when Pakistan signed a three-year agreement with the IMF as part of the Poverty Reduction and Growth Facility (PRGF) program. Seven program reviews have been successfully completed since its approval, and talks for the eighth review

are set for April 2006. The government's committed execution of sensible financial policies and structural changes, including as tax reform, financial sector reform, investment policies like FDI policy, and enterprise reform, has been essential to reviving growth. These measures have improved efficiency, decreased distortions, and decreased uncertainty about how economic policy would develop going forward.

Sri Lanka: Out of all the economies in South Asia, Sri Lanka was the first to open up to the outside world in 1977, and it continues to be one of the most outwardly oriented economies in the area. " Since the beginning of the economic reforms, there has been a noticeable change from a relatively closed economy that prioritized import substitution programs to an economy that is focused on exports and has a liberalized market. A number of significant reforms were implemented in the following areas: (i) Deregulation of the currency rate system and trade policy, (ii) Export promotion and investment incentives. (iii) Streamlining of government spending.

Nepal: In response to shifts in donor development aid strategies, Nepal implemented a new economic policy framework in the middle of the 1980s. Over the past ten years, it has implemented a number of economic reform initiatives, including trade, fiscal, and foreign direct investment (FDI) policies. All import quantitative limits have been eliminated. Customs fees have been significantly lowered and rationalized. Additionally, changes have been implemented regarding foreign exchange. But the business community's aspirations and the reform process have been halted by political unrest.

Macro-Economic Performance of South Asia Countries: It is clear that all five of the South Asian nations—India, Pakistan, Bangladesh, Sri Lanka, and Nepal—have continuously adopted economic reform programs that prioritize the market economy and global economic integration. As a result, all of the nations in the area—aside from Pakistan—have seen faster economic growth in the 1990s, thanks to more liberal macroeconomic policies that prioritize export growth. India's average growth rate11 grew from 5.6% in 1980–1990 to 5.92 percent in 1991–2002 (see Table-1 in Appendix-B12). The GDP growth rates of Nepal, Bangladesh, and Sri Lanka were similarly higher in the 1990s than they were in the 1980s. While the service sector in India experienced significant growth between 1991 and 2002 while the agricultural sector improved just little, Bangladesh, Sri Lanka, and Nepal experienced faster growth in both the industrial and service sectors. However, due to internal strife, political unrest, social unrest, and a disrupted business environment, Pakistan's GDP growth rate decreased significantly in the 1990s compared to the 1980s. In the 1990s, Pakistan's per capita income growth also slowed, whereas it increased in Bangladesh, India, Nepal, and Sri Lanka. With the exception of Pakistan, all of these nations had improvements in other significant macro indices such as gross domestic savings and gross domestic capital formation. Export and import growth have significantly improved in many nations after economic changes, especially trade liberalization implemented in the 1990s 39. Additionally, during the post-reform period, India, Bangladesh, Sri Lanka, and Nepal have made significant progress in the external sector, as seen by improvements in their capital accounts, current account balances, foreign exchange reserves, and total balance of payments. Both in the internal and foreign sectors, the majority of the macro indicators have improved, with the exception of the budget deficit. In fact, in recent years, one of the world's fastest expanding regions has been South Asia. According to the aforementioned data, South Asian nations have had stronger export growth in the 1990s than in the 1980s, with the exception of Pakistan. Pakistan has maintained a steady increase in exports in absolute value even though it was unable to quicken the growth of its exports during the 1990s. With the exception of Pakistan, every nation has had faster economic development in the 1990s. with more liberal macroeconomic policies that prioritize export development.

Analysis:

FDI Policies In South Asia: Early on after gaining independence, South Asian nations had rather restrictive regimes; only in the past ten years have they opened up and created FDI policy frameworks that are favorable to international investment. FDI was first permitted under strict guidelines and on mutually beneficial terms, with domestic companies holding the bulk of the shareholding. But in the 1990s, all five of these south Asian nations made a concerted effort to boost foreign direct investment (FDI) by altering their macroeconomic policies in addition to their trade and FDI strategies. Table 1 provides an overview of South Asian FDI policy frameworks at the conclusion of this section. This section aims to provide a concise overview of the foreign direct investment (FDI) policies of the five South Asian nations through an analysis of historical policies and future prospects for FDI into the region.

FDI Policy in India:

Development of India's FDI policy: Since 1948, the government's stance on FDI has gradually shifted. India was always open to international investment since it lacked many resources, particularly capital resources. The government's stance on foreign exchange was further liberalized as a result of the 1957–1958 foreign exchange crisis (See Kumar, 2003 for more). Nonetheless, when indigenous industries grew in the late 1960s, the government began to regulate FDI further. Following the enactment of the Foreign Exchange Regulation Act (FERA) in 1973, foreign businesses conducting business in India were required to register under Indian corporate law, with a maximum ownership stake of forty percent. The industrial policy resolutions of the 1980s liberalized the attitude toward foreign direct investment. However, a number of policy initiatives were launched in 1991 to liberalize the country's FDI environment through the New Industrial and New Economic Policies. India now boasts one of the most alluring FDI policies in South Asia as a result. India's FDI policy framework and incentives: An atmosphere that was favorable to foreign investment in India was established by the first and second generation of reforms. The Department of Industrial Policy & Promotion's Secretariat for Industrial Assistance (SIA) notifies changes in sectoral policy or sectoral equity caps through Press Notes '3, and the Foreign Direct Investment (FDI) policy is evaluated on a regular basis. Under the Foreign Exchange Management Act (FEMA), the Reserve Bank of India (RBI) also notifies the FDI policy. Only a few industries prohibit foreign direct investment (FDI) in industrial licensing. Policies and practices pertaining to industrial licensing have also occasionally been liberalized. With the following exceptions, all industrial endeavors are exempt from requiring an industrial license in order to manufacture: (i) Industries retained under compulsory licensing. (ii) Manufactured goods designated for the small-scale market. (iii) When there are locational restrictions imposed on the suggested location.

FDI in SEZs/EOUs/IndustrialParks/EHTP/STP: For the purposes of trade, duties, and tariffs, Special Economic Zones (SEZs) are precisely defined duty-free zones that are treated as foreign territory. Under the automatic method, FDI up to 100% is allowed for the creation of SEZs. Subject to sectoral policies, proposals not covered by the automatic establishment of 100% Export Oriented Units (EOUs). Under the automatic method, up to 100% FDI is allowed for the development of Industrial Parks. Under the automatic method, proposals for FDI/NRI (Non-Resident Indian) investment in EHTP Units may be approved, subject to the requirements set forth by the government. In a similar vein, government-specified guidelines must be satisfied in order for bids for FDI/NRI investment in Software Technology Park (STP) units to be approved through the automated method.

Policy regarding intellectual property rights: India is a signatory to the agreement that created the World Trade Organization (WTO) and ended the Uruguay Round of GATT negotiations. The Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS), which establishes minimal requirements for the defense and upholding of intellectual property rights, is included in this agreement.

FDI Policies of Pakistan: Evolution of Pakistan's FDI Policy: In 1984, the Industrial Policy Statement was announced, marking the beginning of the country's liberalization of FDI by providing equal opportunities to the public and private sectors. Foreign private investment was welcomed in sectors that required advanced technology, managerial and technical know-how, and marketing experience, and it took the form of joint equity involvement with local investors. In 1976, the Foreign Private Investment Act (Promotion and Protection Act) established a sufficient legal framework for foreign investment. The Act additionally ensured the appreciation of agreements on the avoidance of double taxation, as well as the remittance of capital and profit. But towards the close of the 1980s, Pakistan started to genuinely liberalize its FDI rules and open up its economy. A variety of regulatory actions were made to enhance the business environment generally and draw foreign direct investment (FDI) specifically, as part of a new industrial strategy package that was implemented in 1989 and acknowledged the role and significance of the private sector. Attached to the PM's secretariat, the Board of Investment (BOl) was established to facilitate FDI and offer investment services. BOI is a "one window facility" that supports the development of new business sectors. Pakistan has signed bilateral agreements on the promotion and protection of investment with 46 nations in order to enable international investment. Pakistan's framework for FDI policy: The Pakistani government unveiled the New Investment Policy in November 1997, which featured significant legislative changes aimed at luring foreign direct investment (FDI), which had previously only been allowed in the manufacturing industry.

Incentives for FDI, tax incentives/tariffs, exchange control, and technical fees in Pakistan: Foreign investors have been offered tax breaks and favorable tariffs since 1997. Royalties, capital gains, dividends, technical and franchise fees, and profits may all be remitted. The Foreign Investment (Promotion and Protection) Act of 1976, the Protection of Economic Reforms Act of 1992, and the Foreign Currency Accounts (Protection) Ordinance 42, 2001 all provide complete protection for foreign investments. In the manufacturing sector, imports of plants, machines, and equipment that are not produced locally are subject to a five percent customs duty, whereas imports of raw materials used in export production are subject to a zero percent duty. It costs nothing to import raw materials, subcomponents, and parts for the production of factories that make sugar, cement, electricity, chemicals, fertilizers, oil, and gas, among other products. In each of these instances, there is no sales tax. About 35% of company income is subject to tax. The Pakistani government has agreements in place with 52 nations, including wealthy nations, to prevent double taxation. Capital, capital gains, dividends, and profits may all be fully repatriated. All foreign investors that invest in industries that are accessible to foreign investment have access to a facility for contracting foreign private loans, which do not include any government guarantee, for the cost of the plant and machinery needed to start up the project. Payment of royalties and technical service fees to the manufacturing sector is unrestricted.

FDI in Sri Lanka: The evolution of foreign direct investment (FDI) policy in Sri Lanka can be divided into two main phases. The public sector ruled the nation's resources and constituted the dominant entity throughout the first phase, which lasted from 1948 to 1977. Naturally, the second notable phase is the post-1977 era, during which Sri Lanka initiated its economic reform that favored development focused on exports and led by the private sector, including a larger

role for foreign direct investment.

Entry and establishment of FDI: While foreign direct investment (FDI) is allowed in the majority of industries, Sri Lanka, like most of its surrounding countries in South Asia, including India, has a large list of areas where FDI is strictly prohibited or where foreign investors are only allowed to own a minority stake in a company. Comparative research across Asian nations reveals that Sri Lanka has a relatively small list of prohibited activities. That being said, there are a few sectors that are exclusively open to Sri Lankans, including lending money, pawn broking, retail trade investment, personal services other than those related to the tourism industry exported, coastal fishing, student education, and the awarding of degrees from local educational institutions. Nonetheless, there are regulated sectors where foreign investment is limited to 40% and BOl clearance is necessary, such as primary commodity cultivation and processing, mining, forestry-related enterprises, education, etc. There are a few instances where performance standards apply to FDI incentives and admission.

Labor laws and regulations: Sri Lanka has very tight labor laws that make it difficult for international businesses to venture there. The majority of legislation are favorable to employees, and in the event of a layoff, the decisions and compensation package are primarily favorable to the employee. In addition, Sri Lanka has politically significant and industrially active trade unions, just as other South Asian nations like India. The Termination of Employment of Workmen (Special Provisions) Act (TEWA) of 1971 is another severe restrictive labor regulation in Sri Lanka that prohibits employers from terminating workers other than for grave disciplinary offenses.

FDI in Bangladesh:

Evolution of the FDI policy in Bangladesh: Bangladesh liberalized its FDI policy framework and announced a number of initiatives in the late 1980s and early 1990s. Since 1996, new sectors have been opened up for foreign investment, including the telecommunications industry. Bangladesh has made significant improvements to its investment and regulatory environment in recent years, including the liberalization of the industrial policy, the removal of performance requirements, and the approval of fully foreign-owned joint ventures. FDI policy framework: All industrial activities in Bangladesh that are not on the list of reserved industries, such as the manufacturing of weapons and ammunition, plantations that produce forest products and use machinery to extract them within their boundaries, the production of nuclear energy, and the printing and minting of new currency notes, are open to foreign direct investment. **Concessionary duty on imported capital machinery:** On imported capital machinery and parts for first installation, an import duty of five percent ad valorem is due. Capital machinery and parts are exempt from import duties for industries that are solely focused on exports. Imports of locally produced goods are subject to greater duties and taxes than imports of raw materials used in their manufacture. Labor Laws: Employees have the right to choose Collective Bargaining Agents (CBAs) to represent them in negotiations with management over demands. If thirty percent of workers approve, a trade union may be established. Every labor union must have a registration. There are 47 labor laws that address a variety of topics, including pay, labor disputes, and working conditions. As long as they make up no more than 15% of all workers, foreign nationals are permitted to work. Overall, Bangladesh has made significant progress toward liberalizing and reforming all of its economic policies, including FDl. With cheap labor costs and almost no barriers to entry and exit for international investors, Bangladesh is quickly becoming into one of the most desirable locations for FDI in the South Asian area.

Nepal:

Evolution of the FDI policy: With the passage of the Investment and Industrial Enterprise Act of 1987, Nepal established a distinct foreign investment strategy in the 1980s. With the exception of defense-related industries, Nepal started to promote medium- and large-scale private foreign investment in every economic sector as part of its outward-oriented strategy. There were restrictions on the amount of foreign equity held, and joint ventures were the recommended investment vehicle. For medium-sized businesses, up to 50% foreign ownership was permitted. Foreign ownership was permitted up to 100% in big industries that exported over 90% of their total output. The maximum was set at 80 percent foreign equity in other significant industries.

Framework and incentives for FDI: The majority of sectors now accept 100 percent equity from international investors or joint ventures with Nepalese investors.25 Manufacturing, energy-related businesses, tourism, industries based on mineral resources, agro-based industries, and services have all been made available to international investment. Certain businesses, such as real estate, cottage (or craft) industries, national security, and personal services typically provided by independent contractors, are off limits to investment.

Investment incentives: The Nepali government offers a number of advantages to businesses that are established with an eye on exporting goods. These consist of a relaxation of taxation on particular industries, an exemption from income tax on export income, and an exemption on interest income generated abroad by foreign investors.

Labor law: From the perspective of an investor, the labor law is rather onerous. It often impedes corporate flexibility by today's commercial norms. Regarding layoffs, pay, promotions, and other matters, there are labor regulations that safeguard workers.

Conclusion

It is widely acknowledged that Foreign Direct Investment (FDI) has been instrumental in improving the economic conditions of emerging nations. As a result, developing country policymakers are very curious to learn about the variables that significantly affect FDI flows. In actuality, a wide range of factors either directly or indirectly affect FDI flows. Therefore, the goal of this study was to determine how certain macroeconomic factors affected foreign direct investment in SAARC member nations. Determining the impact of economic factors on foreign direct investment inflows into South Asian nations is the main goal of the current research. For the years 1972 to 2016, a panel of seven South Asian nations—Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka—was examined in this study. In order to determine the impact of economic policy-oriented factors on foreign direct investment, the author used basic panel pooling OLS estimation, entity fixed effect estimation, fixed effect estimation with time effect, and random effect estimation in the analysis. The findings imply that the primary driver of FDI inflows into South Asian nations is the nation's GDP. It has been discovered that a few other factors taken into account for the study, including secondary education, lending interest rates, official exchange rates, inflation, and external debt stocks, have little effect on the amount of foreign direct investment that flows into SAARC member nations. This indicates that GDP appears to be the primary driver of foreign direct investment inflows into South Asian nations, with other factors having little to no effect. In light of this, policymakers in the SAARC member nations have increased foreign direct investment (FDI) as a powerful instrument for economic growth and development. As previously stated, there are no exhaustive lists of all the variables influencing FDI inflows. To be more precise, FDI

inflows are influenced by a plethora of economic and non-economic factors. However, the author of this study solely looked at the economic factors influencing FDI flows into South Asian nations. It was seen by the author as a limitation of the current investigation.

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