Inflow of Foreign Direct Investment to the region of South Asia, determinants of the FDI inflows in the regions and its impact on economies of the Region

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Abstract

Not only have the developing counties focused on Foreign Direct Investment but developed countries also have focused on FDI since it has many good in finding capital for economic development. FDI provides in accessing new technologies, management techniques, finance and market for the production and movement of goods and services and employment opportunities for young generation of the host countries. South Asian Region which is one of big markets in the world has focused on attracting FDIs. This paper studies the correlation between the FDI Inflows to and the GDP of the Region and found that the positive strong relationship between the two variables. That is, Pearson Correlation between the two variable is 0.961 with the p value is 0.000 which is less than 0.01. Likewise, coefficient of the variable of FDI inflows is revealed as 49.151 and the coefficient of the consent value is revealed as 45.353. So, a regression line or the line of best fit is formed as Y= 45.353 + 49.151*X to indicate the relationship between the GDP and the FDI inflows to the region where Y denotes as Dependent variable of GDP of the region and X denotes as Independent variable of FDI Inflows to the region

The policy makers of each Country representing this region shall focus on attracting more and more FDIs to the region for economic growth of member countries. In addition, the policy maker of the countries in the region can follow the best practices followed in other countries of the region in attracting foreign direct investment, especially important factors such as establishing Special Economic Zone, Industrial cluster with liberal incentives, Investor facilitation services, B2B investment portal, Liberal & Transparent policy for FDI, Opening Most of the sectors to FDI under automatic route, Continuous investment in developing Infrastructures, Searching possibilities for new free trade agreements to enlarge the market size further in attracting investors and FDI policy for providing ease of doing business and attract investments

Keywords: FDI, GDP, South Asian Region, Ease of Doing Business

- **Introduction**

The South Asia region includes Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka. India's population and economy are the largest among these countries. India accounts for 75% of the region's population and economy. With an estimated population of 1.891 billion, South Asia accounts for a quarter of the world's population and is the most populous and densely populated geographical region in the world. In order to develop the economy among the countries in the region, an organization of economic companies was established in 1985 called "South Asian Regional Companies Association (SAARC)". (Chauhan, C.P.S., 2008). In addition, the South Asian Free Trade Area Agreement (SAFTA) aims to further complement the regional economic integration program by promoting preferential trade, which started with the establishment of SAPTA. All countries have completed their respective Trade Liberalization Programs (TLPs) under SAFTA phases 1 and 2, reducing tariffs to 0-5% on all products except those on the relevant sensitive list.

Not only developing countries but also developed countries seek FDI as an important means of economic growth or economic development. Foreign Direct Investment is defined as "Foreign Direct Investment (FDI) is the purchase of shares in a company by an investor located outside the country". By 2020, China will rank first in attracting foreign direct investment, and the United States will rank second in attracting foreign direct investment (Puaschunder, J., 2022).

Factors that attract FDI vary across time and country. Co-determinants such as economic liberalization, economic market size, modern infrastructure, educated and cheap labor, and availability of modern technology are the basis for many countries to attract FDI. With the development of SAFTA, the market size of the economy has increased, so foreign investors have also set their sights on smaller countries in the region such as Sri Lanka, Maldives and Nepal. invest. At the beginning of this century, many countries in this region pursued a closed economic policy and faced many difficulties in economic development. Governments in these countries face difficulties in finding funds for capital investment due to a lack of domestic savings. Later, realizing the importance of FDI, some countries in the region opened up their economies to attract FDI. Sri Lanka was the first South Asian country to liberalize its economy and start attracting foreign direct investment in 1978. More foreign investment flows into India because India has a huge market and its economic policies are more investor-friendly than other countries. in this area (Zhang, K. M., & Wen, Z. G. 2008).

Three common ways for international companies to invest in host countries, such as cross-border mergers and acquisitions, have become ways to quickly enter new markets and customers, while greenfield investment means that investment companies establish new operating facilities. Expanding its existing facilities abroad, International Project Finance offers a cross-border approach to capital-intensive investments through legally and financially independent project companies (SPVs). Experience over the past few decades has shown that international project finance is used for many investment projects. PF can be used both in the real economic sector and in large financial projects. This is evidenced by the rapid development of EU countries, China, the United States, Saudi Arabia and many other successful global players. Direct investment is a very important tool for the development of the region as countries in the region face many problems in generating domestic investment due to weak domestic savings in the region. FDI can not only replace inward investment, but also provide employment opportunities for its youth.

Over the past few decades, foreign direct investment (FDI) has received a lot of attention from both developed and developing countries because of its growth-enhancing component. In the 1990s, due to globalization, foreign direct investment became more and more important all over the world. Therefore, FDI has attracted the attention and research of economists and policy makers. Over the past three decades, foreign direct investment has increased five-fold as a share of global GDP (Ahsanuddin Haider et al., 2021).

SAARC countries regularly implement friendly economic policies that are friendly to foreign investors to attract foreign investors to invest in these countries, for example, focusing on investing in infrastructure, attracting new technologies introduced from abroad, increasing educated labor, etc. Corporations, create more free trade zones, allow reinvestment of retained earnings, tax breaks and exemptions for new investors, increase capital allowances, expand market size due to free trade agreements with other countries, etc.

Foreign investors are concerned about economic and political changes in host countries and may decide to delay or redirect investments when uncertainty increases (Sangyup Choi et al., 2022)

India

India's size and economy is the largest in terms of not only regional members and elected government with some active economic policies from time to time but also in terms of opening up most of the business to attract foreign direct investment and investment India will be the second largest foreign country in the world by 2021 Direct Investment Recipient Country. India is currently ranked in the top 100 for Ease of Doing Business (EoDB). This is the main objective of India's FDI deregulation. Total direct investment flows increased by 65.3%, or from $266.21 billion in 2007-2014 to $440.01 billion in 2014-2021. According to the United Nations Conference on Trade and Development (UNCTAD), foreign direct investment inflows to India fell by 26% in 221. The main industries open to foreign businessmen, especially computer software and hardware (24.60%), service industry (finance, banking, insurance, outsourcing, scientific research, express delivery, testing and analysis, etc.) (12.13%), automobile industry (12.13%). 11.89%, trade (7.72%) and construction (infrastructure) activities (5.52%).

India's FDI capital inflow estimated at $52.34 billion in 2022, up from $51.34 billion in 2021 but down from $64.68 billion recorded in 2020, not enough. The Indian government is still undertaking major structural reforms to attract foreign direct investment. Foreign direct investment in India is the most influential source of funding, especially for emerging industries. FDI helps to tap the huge potential and harness it to achieve the desired level of development in the country (Gola, Dharwal and Agarwal, 2013). In recent years, the global economy including developed countries and other developing countries has been facing a changing trend of FDI (Indra Giri and Priya Chetty, 2016). FDI inflows to India have been rising steadily over the past 15 years, while India's economy has grown over the same period.
Measures taken by the government over the past eight years have paid off, with steady growth and record foreign direct investment inflows into the country. The government continually reviews its foreign direct investment policy and makes significant changes from time to time. Ensure that India remains an attractive and investor-friendly destination.

Pakistan
The FDI inflow into Pakistan during 2020-21 is about USD 1,847.4 million and the country's total population in 2021 is about 212 million. Pakistan has opened up more industries to foreign investors to attract more investments. Oil and gas, financial services, textiles, trade, construction, power chemicals, transportation and communications are the major industries offering more opportunities for foreign investors. Special economic zones and Pakistan B2B investment portals are considered to be important determinants of attracting foreign investors in Pakistan. The policy aims to provide a comprehensive framework to create a favorable business environment for attracting foreign direct investment. The policy trends in Pakistan are consistent with liberalization, deregulation, privatization and facilitation being its most important cornerstones.
The Special Economic Zones Act was enacted to address global competitiveness challenges to attract foreign direct investment to reduce the cost of doing business in Pakistan.

Bangladesh
In 2020-21, FDI inflows into the country were estimated at around USD 1.51 billion, but in 2019, FDI inflows into the country stood at USD 2.65 billion. Asia. Government agencies in Bangladesh often claim to be friendly and interested in promoting investment. They have pursued various accommodative policies, implemented a series of policy reforms and incentives aimed at promoting the playing field for foreign direct investment, as well as investment summits, roadblocks to promote investment. They have held various advertising campaigns such as exhibitions etc. Government rhetoric, however, often does not reflect the realities on the ground. Foreign investors often evaluate a country based on the ease of doing business and the general economic environment

Sri Lanka
Foreign direct investment (FDI) inflows to Sri Lanka have fallen to US$548 million in 2020, down from US$793 million in 2019 and US$1.6 billion in 2018. From time to time, the government offers favorable

conditions to attract selected foreign investors. Investments in infrastructure development and greater incentives for new investors to introduce new technologies are key factors in attracting FDI into the country. The empirical results show that during the period 1975-2012, Sri Lanka's GDP growth rate, inflation rate, infrastructure quality, credit interest rate, labor force, exchange rate and corporate income tax are important determinants that directly affect direct investment. The main characteristic of the variables that are determinants of direct investment is that they are directly related to the production costs of investors (S. D. Jayasekara, 2014). Investors also see opportunities in franchising, retail and services, and light manufacturing.

Bhutan

The share of FDI in Bhutan's GDP remains relatively low compared to other developing countries. According to UNCTAD's World Investment Report 2022, FDI inflows recovered in 2018, reaching $7 million. However, they were reduced to $3 million in 2019, 2020 and $2 million in 2021, partly due to the global economic crisis caused by the Covid-19 pandemic. Despite the recent increase in FDI inflows, Bhutan remains the least attractive country in Asia for FDI due to its small size.

The Bhutanese government has been one of the most aggressive in South Asia in pursuing reforms, creating public information and credit registration systems, and simplifying the procedures needed to start a business. In 2015, the government eased foreign direct investment rules, and foreign investors can now buy land and invest in Bhutan with a minimum 10% stake. Up to 100% ownership is allowed in selected sectors, and the pharmaceutical sector is now open to foreign direct investment. A measure has been introduced to facilitate the exchange of local currencies into foreign currencies. However, in addition to cultural and environmental issues, geography has hindered the region's development: the country is vast and mountainous inland, making infrastructure difficult and costly. In addition, the development of direct investment is severely constrained by imperfect regulatory systems and policies in areas such as industrial licensing, trade, labor and finance. Lack of skilled labor is also an obstacle to development. In addition, the Bhutanese government intends to continue to restrict direct investment in certain sectors to avoid competition with local traders.

Maldives

According to data released by the Maldives Monetary Authority (MMA), 2020 recorded $348.3 million in direct investments, up from 956 in 2019. Well under $2 million. This indicates that new investment by foreign investors in the tourism industry has decreased. Nonetheless, the Maldives has attracted a total of US$4.3 billion in foreign direct investment over the past decade, more than any of the Small Island Developing States (SIDS) including Mauritius (US$398 million) and well above the average of US$423. Ten thousand. Fiji ($358 million) and Seychelles ($159 million). The Maldives government has taken many initiatives to improve Maldives' ranking in the index, including the introduction of an online e-commerce portal for business registration. A national single window has also been established to standardize customs and international trade procedures, thereby reducing delays and lowering the cost of quality clearance. (Ahmed Munawar, 2021).

Nepal

Total direct investment flows rose 1.2% to $19.9 billion in 2020/21. Foreign investment repatriation (investment repatriation) in 2020/21 was Rs 396.7 crore or 2.0% of total direct investment.

In recent decades, Nepal has initiated institutional and legal reforms to facilitate FDI to fill resource gaps in capital formation. Encourage the gradual liberalization of direct investment inflows into various sectors by creating an investment-friendly environment and prioritizing reforms related to foreign investment. Some of them are a) Foreign Investment Policy 2015 b) Foreign Investment and Technology Transfer Act (FITTA) 2019 c) Public-Private Partnerships and Investments Act 2019 d) Industrial Enterprises Act 2020 e) Institutional Reform etc. f) Foreign Investment in Rastra Bank, Nepal and Foreign Credit Management Act, 2021.

Afghanistan
Afghanistan foreign direct investment for 2021 was US $ 0.02 billion, a 58.83% increase from 2020 was US $ 0.01 billion, a 44.58% decline from 2019, foreign direct investment for 2019 was US $ 0.02 billion, a 80.4% decline from 2018 and it for 2018 was US $ 0.12 billion, a 131.6% increase from 2017.
The relation of FDI with a few FDI determinants including total debt service, total external debt, gross domestic production and gross fixed capital formation contain a strong positive result on economic growth in Afghanistan; at the same time as the relation of FDI with Inflation contain a negative effect (Wani and Noor Rahman, 2017).

Objective of the Study
Much literature finds a positive relationship between FDI flows and host country economic growth, and in some literature, infrastructure development, market size, tax incentives, favorable determinants of free trade, such as the establishment of regions, free trade agreements and host countries have identified other nation. Most countries have observed the repatriation of retained earnings by foreign investors, the relaxation of economic policies, etc. to attract FDI. Few surveys or studies have been done in the field of FDI in the South Asia region, so I was led to consider FDI, FDI in the region. I was motivated to do research on the attractive factors of FDI, foreign investment and its contribution to GDP. Influence. Data on GDP and FDI flows are available due to FDI inflows to the region from 2006 to 2020.

Significant of the Study
Some member states in the region face many challenges in attracting FDI, although democratically elected governments sometimes pay direct attention to investment flows.
The permanent lockdowns imposed by these countries due to COVID-19 in the region have worsened the situation for foreign investors, forcing them to withdraw many investments from some of the relatively small countries in the region. The findings of this study may provide policymakers in some countries in the region, including Sri Lanka, with some favorable approaches that have been successfully used in large economies in member countries such as India to attract near-term FDI, or Useful for comparing mechanisms.

Methodology
This study aims to analyze linear relationship and the correlation between FDI inflows to the member countries of the Region and the GDP of the Region. For this analyzing, secondary data of FDI Inflows to the Region and the GDP of the Region from year 2006 to 2020 were collected from each Central Bank of the member Country of the Region. The collected data were put into SPSS tool for descriptive and correlation and the regression analysis. In addition, determinants used in region for attracting foreign direct investments were tabled and discussed how the factors contributed in attracting the FDI in the Region.

Results and Discussion
The paper studies the correlation between inflows of FDI and GDP of the South Asian region. Descriptive statistics of this study reveal that mean of inflows of the region is 5.3763 billion dollars and the mean of GDP of the region from year 2006 to 2020 is 655.71 trillion dollars.

Table 01- FDI inflows and GDP statistics

Descriptive Statistics	Mean	Std. Deviation	N
FDI inflows	5.3763	12.81601	120
Gross Domestic Product	309.6028	655.70626	120

On further analyzing of the relationship between inflows of FDI to the region and the GDP of the region from year 2006 to 2020, the correlation shows that **0.961** Pearson correlation between FDI and the GDP of the region. It means that strong positive correlation between two variables in such a way if FDI inflows increase to the region then the GDP of the region also will increase as r= .961* and p value < 0.01).

Table 02- Correlations of FDI inflows and GDP statistics

Correlations

		FDI inflows	Gross Domestic Product
FDI inflows	Pearson Correlation	1	.961**
	Sig. (2-tailed)		.000
	N	120	120
Gross Domestic Product	Pearson Correlation	.961**	1
	Sig. (2-tailed)	.000	
	N	120	120

**. Correlation is significant at the 0.01 level (2-tailed).

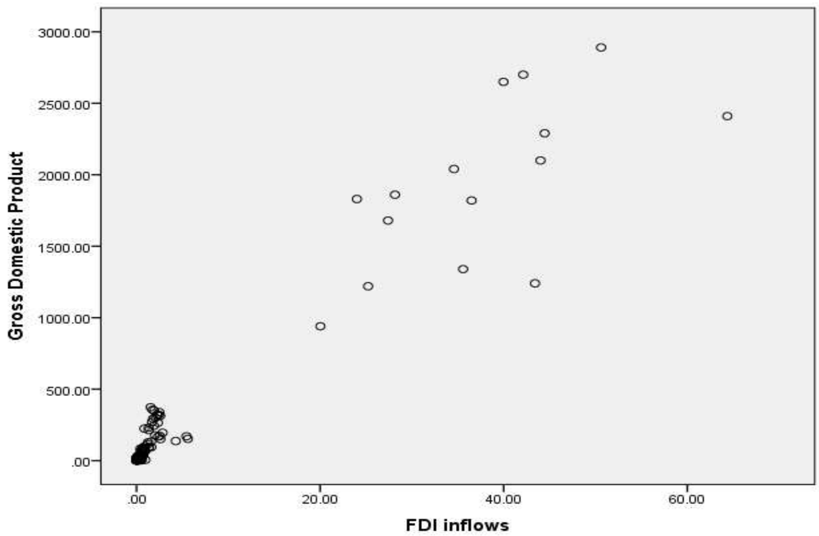

Figure 01- FDI inflows Vs GDP statistics

The scatter diagram drawn for the two variable such as FDI inflows to the region as independent variable and

GDP of the Region as dependent variable reveals that there is positive relationship between the two variables. That is, most of the data are laying on the line of best fit. When increases of FDI Inflows to the region, the GDP of the region also increases.

Likewise, coefficient of the variable of FDI inflows is revealed as 49.151 and the coefficient of the consent value is revealed as 45.353. So, a regression line or the line of best fit is formed as Y= 45.353 + 49.151*X to indicate the relationship between the GDP and the FDI inflows to the region where Y denotes as Dependent variable of GDP of the region and X denotes as Independent variable of FDI Inflows to the region

Table 03- Coefficient of FDI inflows and GDP statistics

	Unstandardized Coefficients		Standardized Coefficients		
Model	B	Std. Error	Beta	t	Sig.
(Constant)	45.353	18.111		2.504	.014
FDI inflows	49.151	1.308	0.961	37.584	.000

a. Dependent Variable: Gross Domestic Product

Conclusion & Recommendations

This paper analyses the relationship between FDI inflows to and the GDP of the South Asian Region. It reveals that there is positive relationship between FDI inflows and GDP of the region and FDI inflows makes positive impact on GDP of the region as a whole. The policy makers of each Country representing this region shall focus on best practices followed in other countries of the region in attracting Foreign Direct Investment, especially important factors such as establishing Special Economic Zone, Industrial cluster with liberal incentives, Investor facilitation services, B2B investment portal, Liberal & Transparent policy for FDI, Opening Most of the sectors to FDI under automatic route, Continuous investment in developing Infrastructures, Searching possibilities for new free trade agreements to enlarge the market size further in attracting investors and FDI policy for providing ease of doing business and attract investments.

Limitations

This paper analyses with only two variables such as FDI inflows and GDP of the region but the impact on GDP has depended on many factors such as Interest Rate, Inflation, Unemployment, Infrastructure facilities and Standard of Living of the people and etc in the region. That is, this paper should have been analyzed how FDI inflows along with other macro-economic variables impacted on GDP of the region. So, the study is limited only with Foreign Direct Investment Inflows.

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