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Determinants of Foreign Direct Investment; Evidence From Asian Countries

by

Hassan Iftikhar Malik

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This postulation is dedicated to my parents and teachers, who are constantly a light for me in obscurity and their unflinching help, guided my unfocused words into Sound thoughts

CERTIFICATE OF APPROVAL

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Hassan Iftikhar Malik

Registration No: (MMS171004)

THESIS EXAMINING COMMITTEE

S. No.	Examiner	Name	Organization
(a)	External Examiner	Dr. Sumayya Chughtai	IIU, Islamabad
(b)	Internal Examiner	Dr. Nousheen Tariq Bhutta	CUST, Islamabad
(c)	Supervisor	Dr. Muhammad Mazhar Iqbal	CUST, Islamabad

Dr. Muhammad Mazhar Iqbal
Thesis Supervisor
May, 2021

Dr. Lakhi Muhammad
Head
Dept. of Management Sciences
May, 2021

Dr. Arshad Hassan
Dean
Faculty of Management & Social Sciences
May, 2021

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Abstract

The magnitude of investment in an economy determines its economic growth. Though there are many determinants of investments but high saving rate is its pre-requisite. Developing countries in which a vast majority of people live below poverty line, savings are very low and inadequate to finance a desirable level of investment in the economy. Therefore, policy makers in such countries attach high importance to foreign direct investment (FDI). This research tries to investigate main determinants of FDI. Previous researches identified different determinants of FDI, some of them proved to have statistically significant effect on FDI while the others had insignificant effect. Previous studies have also been mostly country specific. Kumari and Sharma (2015) picked up in their study six determinants which most frequently proved significant such as market size, inflation rate, interest rate, human capital, trade openness and infrastructure. Concluding their study, they recommended that someone may add two more variables, corruption level and labor cost, to improve the specification of their model further. This research takes up these eight variables as determinants of FDI. Data set of this research includes 28 developing countries in Asia and it is for the period of 22 years starting from 1996 and ending to 2017. After checking the stationarity of data, the model has been estimated by fixed effect model. The results show that five variables market size; interest rate; infrastructure; corruption and labor cost have expected signs and have statistically significant effect on FDI. Two variables, human capital and trade openness have insignificant effect and one variable inflation rate has a positive effect on FDI which contradicts theory. Policy implication of this research is that policy makers should exert to stabilize interest rates, develop infrastructure and control labor cost in order to create a congenial environment for FDI.

Keywords: Developing Countries, Foreign Direct Investment, Trade Openness, Infrastructure, Market Size.

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Abbreviations

FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GR	Gross Rate
HC	Human Capital
INFR	Infrastructure
IR	Interest Rate
KWH	Kilometer Wight Per Hour
LC	Labor Cost
MNC	Multinational Companies
MNEs	Multinational Enterprise
MS	Market Size
NR	Net Rate
OLS	Ordinary Least Square
TO	Trade Openness

Chapter 1

Introduction

This chapter is divided into 6 sections. Section one gives the background for this study section two talks about the research gap, section three and four consists of research question and research objectives respectively, section 5 gives the significance of this study and section six gives the scheme of the study.

1.1 Background

Investment in an economy determines its economic growth. There are many determinants of investments but the most important is the saving rate. Saving rate, in turn, is determined by the average per capita income in an economy. Developing countries in which a vast majority of people live below poverty line, savings are very low and inadequate to finance a desirable level of investment in the economy. Therefore, policy makers in such countries attach high importance to investment in home country by foreigners (FDI). This research tries to reinvestigate major components of FDI.

The advancement of financial action and the rise in remote coordinate venture (FDI) in later decades has incited an extraordinary bargain of investigate into the marvel of multinational companies. A endless sum of experimental writing on FDI catalogues a long list of determinants that attempt to clarify coordinate speculation by multinational companies in a specific area, but it is discernible that the comes about are not continuously consensual. This article gives an audit of the hypothetical approaches to and observational considers on FDI in an endeavor to single out the foremost vigorous variables for clarifying the geographic dispersion of FDI streams around the world. It moreover proposes ways for future inquire about in this range.

The investment made by either an individual, a group of individuals or a legal entity of foreign country in home country is called FDI. It may take the shape of either constructing a totally new business setup, or obtaining ownerships stake of an ongoing business by acquiring majority shares and having seats in board of directors of the company. When foreign individuals or legal authorities own 10 percent or more outstanding shares of company and a home country, it is called FDI. A 10 percent ownership allows the foreigners to control the company. It does permit effect over the firms' administration, operations and policies.

A study by United Nation Conference for Trade and Development (2014) defines FDI as an investment in home country by foreigners. FDI has many positive effects on an economy of home country. Particularly FDI is the most important funds for low income country (Xaypanya et al., 2015 and S.Takii, 2009).

For last half a century a phenomenal increase in FDI flows has been noted among Sovran countries. World development report (2014), states that FDI flows have increased further after the global recession of 2008. For example FDI increased by 9% in 2013 and its figure is closed to 1.5 trillion US dollars. Emerging economies or the main recipients of FDI flows according to estimates FDI would be close to 2 trillion US dollars by the end of 2016.

Financial turmoil's and instabilities in developing countries and political upsets have discouraged FDI a great deal (World Investment Report, 2014). Markets in the home country have to be competitive in order to attract FDI. That is, business rules must be clearly defined and practically followed by all business community.

In order to gauge competitiveness of countries world economic forum calculates an index for this purpose. This index takes into account various different factors in home country such as market size, infrastructure, openness, inflation, labor cost and corruption. It has been noted in the report that countries with high index of competitiveness particularly Asian tigers have displayed very good performance.

A impressive sum of outside coordinate ventures streams into creating and transitional economies and this has made a difference to fortify financial improvement and decrease destitution of these countries. The potential benefits of information and advancement spillovers on firms of the have nation are basic. FDI is competent to supply and invigorates financial development; increments work by making unused generation capacity and occupations; foundation improvement; venture rebuilding; and capital account alleviation by including to the stock of capital within the have nation as these should lead to linkages to the worldwide commercial center (Bevan and Estri, 2000).

Outside speculators are moreover anticipated to exchange intangible resources such as innovation and administrative aptitudes to the have nation and give a source of modern advances, forms, items, organizational innovations and administration abilities as a solid driving force to financial improvement. Nations in Asia painted a picture of victory when the Asian Tigers. This financial chance may indeed spread to Japan, China and India by implies of efficient dangers in their keeping money frameworks and budgetary markets. As distant as Asia is concerned, it is vital to get it the potential variables that can fortify and support FDI streams into a specific nation.

This ponder hence points to supply an observational evaluation of the components that essentially impact FDI streams and speculations into ASEAN nations. The examination builds on past investigate and centers on two partitioned sets of macroeconomic as well as the nation particular determinants of FDI. The experimental examination comprises of five ASEAN nations to be specific Malaysia, Indonesia, Thailand, Philippines and, Singapore from 1975- 2009. This ponder too permits speculators to pick up experiences to way better improve their understanding and knowledge as well as to supply a framework for different advertise and chance examination to help them in their speculation technique and choice. It makes a difference the arrangement creators to form certain.

Different factors affect the rate of foreign direct investment in a country. The most frequently mentioned components of foreign direct investment in the literature are, roads and other sources of transportation, market size, local investments, infrastructure, cost of capital, trade openness, lending rate, stability, deepening, turnover, research and development and interest rate. "Although it is generally accepted that foreign direct investment has a direct affect on growth rate and economic development of home country yet the concensus about main determinants of FDI does not exist Kumari and Sharma (2015) picked up in their study six determinants which most frequently proved significant such as market size, inflation rate, interest rate, human capital, trade openness and infrastructure. Concluding their study, they recommended that someone can add two more variables, corruption level and labor cost, to improve the specification of their model further.

FDI is basic factor of proficient International Economic framework to speed up financial development and development. In any case, assistances from FDI don't arise correspondingly or maybe rely on national and international venture arrangements of the distinctive regions. Although FDI has incredible attraction for both domestic and host countries, but it too arises a few costs to these regions. The benefits, which a have nation sees, depend on the co-operation of government of have nations. There are number of aspects to clarify "why outside investors make venture abroad".

Firstly, FDI mobilizes the capital from capital wealthy nations to capital scarce countries, and both the nations determine benefits from this capital stream; Furthermore, FDI empowers the outside investors to take the ownership advantage within the outside firms and place them in oligopolistic position; Thirdly, distant risk-takers tend to contribute overseas in arrange to get to to availability of cheap crude fabric and labor constrain to minimize generation taken a toll. Fourth feature is, FDI plays very important part in reinforcing the monetary standards of home and contributing nations. Fifth aspect is, political solidness in host nation or political flimsiness in domestic country, encourages the outside speculators to contribute their capital abroad.

In reality, FDI is considered as a life blood of emerging economies since it brings in needed capital, exchange of innovation, administrative aptitudes, and employment additionally upgrades efficiency of home country. In other words, outside financial specialists can access the worldwide markets and appreciate most noteworthy return from their investment. Taking after are a few benefits of FDI from home and have economies point of see: Pakistan has astoundingly alluring climate for foreign investment, particularly in horticulture, IT and media transmission, control and administrations divisions.

For the most part commodity producing division has more fascination for outside venture in Pakistan since GOP has advertised 100% equity investment in this segment but few particular divisions such as arms and bullets, tall dangerous items, dangerous matters, and security and currency printing. As of late, Pakistan has loose its investment policy and opened up nearly all the segments of the economy for outside speculation, especially FDI. Government of Pakistan (GOP) is advertising assess exceptions and many other motivating forces to outside speculators empowering them attain 100% proprietorship for venture in numerous sectors. In modern speculation arrangement, GOP has given "equal Investment Opportunities" for domestic and have countries. GOP has moreover entered an assention with 39 countries, particularly with created nations to avoid "Double Taxation" on salary produced through different sources in Pakistan.

Pakistan has gotten $5409.8 Million of add up to FDI during FY 2007 to 2008, which is 5.27% higher than FY2006 to 2007 and 53.64% higher than FY 2005 to 2006. Amid FY 2007 to 2008, FDI in product making division was reported for $903.5 million, which was fair 16.70% of the full FDI inflows in Pakistan, while during FY 2006 to 2007, FDI inflows in this division was 33% of the whole. Table 1 demonstrates that since 2004, foreign financial specialists have appeared their intrigued in Services sector and invested colossal sum in this sector, especially media transmission division (Table 1). Main components of this term paper is to look at the economic determinants of FDI in Commodity-Producing Sector of Pakistan.

For about a half century, countries with no income level have been receiving and increased flow of FDI. Still these countries have ample investment opportunities and therefore require further acceleration in FDI flows. FDI could be probably the most important factor to determine their rate of economic growth. FDI causes transfer of technology from developed countries to under developed countries and also transport managerial, packing, skills to labor force in host countries. These many fits may also be materialized if low income country FDI flows among themselves (Lipsey, 2001 and Meyer and Sinani, 2009). The obvious benefit of FDI is that it helps control unemployment rate in low income country it pushs up economic activity and thus it increases per capita income. One of the most important benefits is that it enhances communication without side word. Increasing flows of FDI are counted as a significant feature in globalization (Arita 2013 and Blomstrom 1989).

Capital streams to creating nations have developed considerably since the early 1990s, with nominated Asian and Latin American nations getting capital from created nations in a huge scale. Fundamental this flow in inflows has been a lull in financial movement within the mechanical countries, and a attendant enhancement within the financial prospects of beneficiary creating nations. The latter trend has been attributed to a few components, such as changes within the financial essentials of many developing nations, money related advertise improvement, enhancements in budgetary control approaches and banking supervision, and broad advancement programs (Bekaert et al., 2002; Blitzer, 2005; Campa and Fernandes, 2006; De Vita and Kyaw, 2008; Michayluk and Neuhauser, 2006).

The central address in this writing has been that of setting up the degree to which capital flows are a work of determinants in mechanical nations (thrust components) compared to country-specific determinants (drag components particular to beneficiary nations). Be that as it may, past considers (Bohn and Tesar, 1996; Calvo et al., 1992; Chuhan et al., 1998; De Vita and Kyaw, 2008; Fernandez-Arias, 1996; Lensink and White, 1998; Montiel and Reinhart, 1999; Taylor and Sarno, 1997; World Bank, 1997; etc.) have created blended comes about from which it is troublesome to perceive a routine shrewdness. These investigations too raise a number of methodological and estimation issues that constitute holes in the analysis of the wonder in address. Pointing to address these challenges, this think about includes to this literature in a few ways.

FDI development in economies in move is regularly measured as being propelled by the method of economic liberalization, and the disposal of passage boundaries to FDI. Move economies now assimilate more than half of worldwide FDI, 29% of which comes from trade between these countries. Outward FDI from these nations moreover have come to tall records with most of their investment coordinated to other economies in move. In other words, FDI inflows to developed nations proceeded to decay. Hence, the part of move economies not as it were as a recipient but too as a source of FDI is developing (UNCTAD; 2006, 2011).

The collapse of the communist framework within the late 1980s made horde venture opportunities in the Central and Eastern European (CEE) and Previous Soviet Union nations, which had vast and open showcase and generation potential for multinational businesses. These economies were industrialized, in spite of the fact that at distinctive stages, and had a generally expansive however exceedingly qualified main power. The time frame of move in these nations begun more-or-less at the same time with different acquired educate, starting conditions, salary levels, and change ways. And Foreign Direct Venture (FDI) was anticipated to be an imperative way of present day innovation and managerial information seen vital for rebuilding the nearby businesses and companies during the move.

Be that as it may, these tall desires for huge FDI inflows into these economies in move have not come genuine, and they have been reliably less than for other creating districts such as Asia and Latin America. For illustration, these economies gotten 2.1% of worldwide FDI inflows in1990 - 94 and 3.2% in 1995 – 99, and whereas Latin America gotten almost 10% and 12%, and Asia gotten approximately 20% and 16%, individually. In spite of the fact that FDI streams to move countries has been expanding since at that point with the crest of nearly 7% in 2008, they are still excessively focused in a modest bunch of Central and Eastern European and Baltic (CEEB) nations.

However, among the thirty economies in move, the locale of the Common wealth of Independent States (CIS) experienced a boom in (FDI) in later a long time as it were. The size of capital inflows takes after the FDI that transferred into CEE nations within the late 1990s, which subsidized to a main development within the efficiency of neighborhood businesses and administrations there. Thus, the reason of this proposal work are to supply a brief diagram of distinctive theoretical and experimental ponders to clarify the associations between the hypothesis of FDI and the methods functional to economies in move, in conjunction with hypothetical beginnings of transition-specific variables (2); and to expound an econometric show of FDI components to distinguish components that influence the victory and disappointment in pulling in FDI for the move economies of CIS.

The work is prepared as takes after. Within the following chapter, we audit the hypothetical system on the elements of FDI. Chapter III depicts key realities around FDI inflows to these economies, and we examine the estimation strategy and the factors utilized to look at the determinants of FDI in chapter IV, together with the econometric comes about. The final chapter accomplishes and plans suggestions for furthermore investigations.

According to previous studies, such as Demirhan and Masca (2008) and Bagli; Adhikary, (2014); Rodriguez and Pallas, (2008) and Quazi, (2007); Seetanah and Rojid, (2011) and Ang, (2008) and Liu et al., (2014) and Hoang; Goujon, (2014) were aimed to classify the key explanatory variables of FDI. They consider a number of variables, Out of which have shown positive sign in some study and negative sign in some others such as trade barriers, oppennes, salary, trade balancing and interbank rate. However they could not come up with consensus list Chakrabarti (2001).

According to the past investigations the inflation rate, market size, interest rate, innovative work, foundation, conversion scale, labor cost and corruption have both positive just as negative in relation with foreign direct investment. Prior to contributing, unfamiliar financial specialists decide measures based on which it is chosen whether a host nation ought to be put resources into.

These standards may incorporate different factors, for example, accessibility of normal assets, proper geological area, promising business sector size, stable social and political situation, low conveyance and work costs, and good government and monetary approaches (charge systems, mechanical strategy, spending strategy, and so forth.). Being an imperative monetary choice that it is, financial specialists look for exact determinants to choose whether interests in another nation ought to be made. Determinants of FDI have been perceived with different prospective that include neo classical and endogenous growth theories, international trade theory, product life cycle theories and institutional theory. However in this research eclectic theory, flying geese theory and proximity theory discussed in detail each of these theories explain FDI flows across borders. In the eclectic theory that was propounded by Dunning (1998). FDI moves to a firm in a country which has following three factors. 1st the firm must have edge over other firms in processing its tangible and intangible assets such as brand, label, packaging and patents. 2nd the firm must be located at such a place where foreigners can access it easily in order to get factor inputs and send manufacturing products. 3rd it must be efficient in the sense that all stakeholders work as a team. Dunning also shares that 1st and 3rd of this point are firm specific explanatory variables of FDI the 2nd point that is location is country specific factor that is equally important for FDI from foreign investors. To sum up this (eclectic) theory suggests that benefits arising from three characteristics or three features may change over time. It may further contribute to attract FDI inflows.

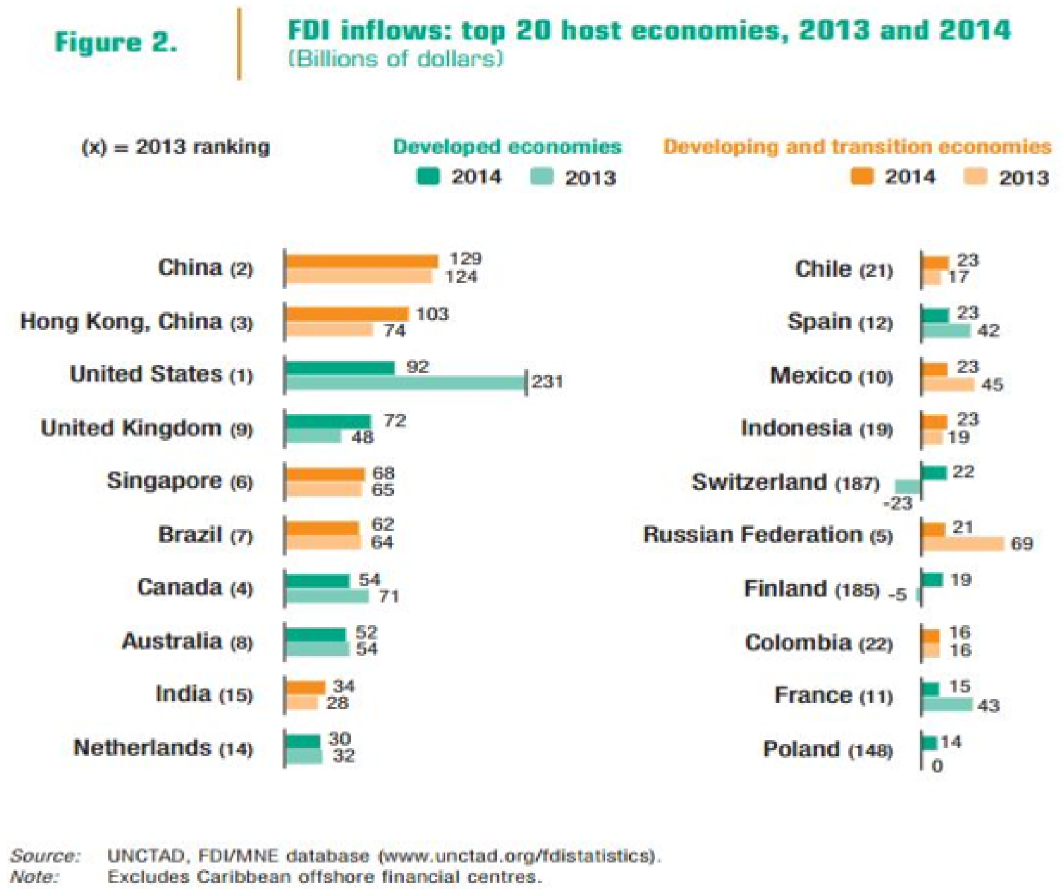
The flying geese theory that is also known as the "factor proportions hypothesis" basically focuses on export led growth by FDI. Foreignors compare factor prices in two countries and compare trade openness (Lee, 2007; Asian Development Bank, 1999). According to this theory when competition increases in their home country the they move their production plans and operations to low wage country around them in order to keep their profits increasing. This shifting of production to achieve the benefits of low cost labor gives them edge in exports in the international market. It also help the country in which they move their FDI to improve their balance of trade. So this process of shifting from high cost to low cost countries continues to remain competitive in export market (Njong, 2008).

A study by Asian development bank concluded that since wages were relatively lower in Korea, Hong Kong, Singapore and Taiwan as compared to Japan and European countries, therefore they huge sums of FDI moved from Japan and Europe to these countries. Probably these were FDI flows or FDI funds which accelerated their economic growth and moved them from low income to high income countries. Consequently FDI moved more to china then these countries. Now these countries are source of FDI flows to south Asian countries (Asian Development Bank, 1999).

The third model that is the proximity model also called tariff jumping investment strategies. It states that foreign firms give prime importance to tariff rates. A country that has low tariff rates and has less restriction on capital mobility, they move their funds to such a country. Brainard, (1997) concluded that high tariff rates, high transportation cost, trade restrictions and the distance between recipient and home country are the major factors for the determination of FDI flows.

According to this model a significant increase in China's trade balance is basically due to the firms which heavily receive FDI. These firm almost contribute two third of China's exports (Xing, 2006). Figure III tells us about the countries with whom the data has been collected.

FIGURE 1.1: Show The Top 20 Fdi Recipient Economies During 2013 and 2014



1.2 Research Gap

Previous researches identified different determinants of FDI, some of them proved to have statistically significant effect on FDI while the others had insignificant affect. Kumari and Sharma (2015) picked up in their study six significant determinants market size, inflation rate, interest rate, human capital, trade openness and infrastructure to test their model. Concluding their study, they recommended that someone can add two more variables, corruption level and labor cost, for better understanding FDI. This research takes up these six variables which Kumari and Sharma (2015) tested in their model namely (market size, inflation rate, interest rate, human capital, trade openness, infrastructure) and also included the two variables (corruption rate, labor cost) which they expected to explain FDI to a great extent. Also in previous studies, mostly data of one or two or few countries have been used. Therefore, it may not be advisable to generalize the results of such studies. To take care of this problem, data set of this research includes 28 developing countries in Asia and its span ranges from 1996 and to 2017. It will become a big data set, 616 observations. Hence results of this study may be safe to generalize as in this study the data set is large. Figure III tells us about the countries with whom the data has been collected.

TABLE 1.1: Figure III

No	**Name of the Country**		
1	Armenia	15	Korea
2	Azerbaijan	16	Kuwait
3	Bahrain	17	Kyrgys Republic
4	Bangladesh	18	Malaysia
5	Combodia	19	Maldives
6	China	20	Mynamar
7	Cyprus	21	Nepal
8	Georgia	22	Oman
9	India	23	Pakistan
10	Iraq	24	Philippine
11	Iran	25	Srilanka
12	Israel	26	Tajikistan
13	Japan	27	Thailand
14	Jordan	28	Vietnam

1.3 Research Questions

- Whether determinants of FDI found significant in previous studies namely market size, inflation, interest rate, human capital, trade openness and infrastructure are also significant for Asian countries?

- Whether determinants suggested by Kumari and Sharma (2015) but not tested by them namely corruption and labor cost affect FDI in Asian countries?

1.4 Research Objectives

- To investigate whether determinants found significant in other studies namely market size, inflation, interest rate, human capital, trade openness and infrastructure also affect FDI in Asian countries.
- To examine the impact of determinants identified as important variables by Kumari and Sharma (2015) but not tested by them namely corruption and labor cost on FDI in Asian countries.
- To draw policy implications, if any.

1.5 Significance of the Study

A significant number of studies have been done to explain the influence of various factors on investment in home country by foreigners but this study will extend previous studies and add more variables such as corruption and labor cost etc. Basically this study will contribute existing literature by adding more variables in it.

Inclusion of these suggested variables is most likely to make a significant improvement in the result of this study. Therefore policy implication of this study may become significant for managers and general public. Looking into the result of this study, decision makers would better to grasp the main explanatory variable of FDI. Policy maker may think of developing the market size, develop human capital and infrastructure, control inflation and corruption along with labor cost.

The basic argument of this paper is that the explanatory variables FDI are country specific and may not be generalized for every country and conclusion drawn from main country should not be generalized in other countries. This paper is important for future foreign direct investment policy and implications, the government should give resources towards variable that have been classified and sectors that are not opened to foreign direct investment should be opened.

1.6 Scheme of the Study

This research has included six chapters. Chapter one is the introduction of this research. Chapter two presents the relevant literature review on the subject matter of FDI. Chapter three explains the model, population and the sample for the study and estimation methodology of the model. Chapter four gives the results and their discussion. Chapter five contains the conclusion of the research and policy recommendations.

Chapter 2

Literature Review

This chapter includes the hypothesis, we have eight hypotheses in this study and each and every one of them is listed down in this chapter.

FDI assumes an imperative part in any nation's economy and there are numerous examinations which clarify the significant determinants of FDI. Kumari and Sharma (2015) recommended that future investigations may include a few factors in their examinations to build the adequacy of the outcome. One may find that Dunning's (1981, 1988) mixed hypothesis may be the one which can clarify the expected reasons of FDI streams (Khadaroo and Seetanah, 2011; Sawkut et al., 2009).

Dunning's (1981, 1988) mixed hypothesis gives an adaptable and well known system where it is contended that FDI is controlled by three arrangements of focal points; (I) possession favorable circumstances (brand name, creation method, pioneering abilities, comes back to scale), (ii) area preferences (presence of crude materials, low wages, uncommon duties or levies), and (iii) disguise focal points (preferences through self-creation as conflicting to bringing through an suggestion game plan, for example, approving or a joint endeavor). Financial Survey of Europe, ESE, (2001) demonstrates that FDI streams rely generally upon monetary basics, for example, the level of macroeconomic and political soundness and development possibilities.

ESE states additionally that FDI will in general move to the nations in which a decent framework and legitimate framework, a gifted work power and the changed unfamiliar division are accessible. The area, market size and regular blessings are viewed as significant too in ESE (2001) in deciding the size of FDI of host nation. The potential impulse(s) and response(s) of Foreign Direct Investment (FDI) in an economy have been consistently extraordinary enthusiasm to scientists. Neoclassical Growth Model considers FDI to have recently momentary impact on development rate though the New Growth Theory assesses FDI endogenously in the model and views it as having long haul sway on development rate through innovation and overflow impact (Hsiao and Hsiao, 2006; Jayachandran and Seilan, 2010).

Other than its transitory and constant impacts, the favorable circumstances and disservices of FDI have been another continuous discussion in FDI writing (Acharyya, 2009; De Mello, 1997, 1999; Fan, 2002; Lim, 2001). FDI is essential capital streams, among other capital sources since it has impressively more productivity (less difference) than those of elective capital streams. This allure of FDI particularly shows up in creating nations in 1980s and 1990s (Acharyya, 2009; Oztürk, 2007; Oztürk and Kalyoncu, 2007). Basu et al. (2003) underscore since quite a while ago run positive effect of FDI on monetary development through capital amassing and expertise moves.

Chowdhury and Mavrotas (2005) express that FDI is a significant wellspring of capital, makes new position openings, and that it builds productivity of innovation move and overflow by supplementing homegrown private venture. Then again, FDI can fall apart the equalization of installments and lower the capacity of public intensity (Oztürk and Kalyoncu, 2007) and may swarm out homegrown capital (Carkovic and Levine, 2005). One can expand the rundown of original FDI works in which potential FDI impacts in an economy are inspected. Other than the writing of impacts of FDI on macroeconomic factors, one may consider likewise the writing of determinants of FDI streams (i.e., in Banga, 2003; Cheng and Kwan, 2000; Khadaroo and Seetanah, 2011; Sawkut et al., 2009; Sekkat and Varoudakis, 2004; Shaukat and Guo, 2005; Srinivasan, 2004). Subsequent to contemplating the paper of Kumari and Sharma (2015), we came to realize that this work likewise have a few restrictions as, absence of information on key determinants, for example, work cost, swapping scale, defilement, characteristic sources and political hazard might be considered as impediments along these lines, further controlling factors, for example, conversion standard, debasement, work cost and political hazard could make huge improvement to this examination.

The investigation of Singhania and Gupta (2015), likewise have a few impediments as there econometric model clarifies just 63% variety in outside direct venture and the equalization 37% is as yet unexplained.

The investigation of Monica and Akshay Gupta (2015) demonstrates just 63% variety in FDI inflows to India, it was likewise discovered that all full scale monetary factors taken just GDP, Inflation rate and logical research are huge and that FDI approach changes amid year 1995 to 1997 have significantly influenced FDI inflow to India."

Appeared that there's continuously a positive and measurably noteworthy relationship between GDP and FDI inflows for all three European districts which comprise of Baden-Wurttemberg, Catalunya and Lombardia. Concurring to Kolstad and Villanger (2008), a better sum of FDI would be pulled in and encouraged in the benefit segment with higher Net Household Item (GDP) per capita. In a distinctive viewpoint, Xing (2006) stated that factors such as rising GDP might not clarify short-term variances of FDI inflows, in specific the downturn of FDI. The ponder shown that the genuine development of each division too contributed to the surge of outward Japanese FDI into China. (Artige and Nicolini 2006).

A ponder by Russ (2007) on the endogeneity of the trade rate as a determinant of FDI had shown that the fluctuation of the trade rate would show an affect towards the choice by multinational companies (MNC) to enter a specific advertise. Artige and Nicolini (2006) considered the euro-effect on FDI for three European countries and concluded that trade rate (euro money) is an critical measure to draw in remote financial specialists to these regions.

Erdal and Tatoglu (2002) claimed that the precariousness of trade rates have a negative relationship with FDI inflows. Their think about explored the case of Turkey whereby a profoundly unstable money would discourage foreign ventures. Agreeing to Artige and Nicolini (2006), there's moreover a relationship between FDI and export performance which shows that FDI can contribute to a drop or rise in trade execution. This might clarify the implication in terms of competitiveness of remote speculators to favor certain goals.

Their is additionally a relationship between FDI and export performance which demonstrates that FDI can contribute to a drop or rise in send out execution. This might clarify the implication in terms of competitiveness of remote speculators to favor certain goals. Their consider recommended that openness to trade is one of the most determinants related with FDI inflows. In addition, Mina (2007) found that the impact of exchange openness is positive and statistically critical in clarifying changes in FDI within the Gulf Cooperation Committee (GCC) countries. Erdal and Tatoglu (2002) too expressed that degree of openness incorporates a significant relationship with FDI inflows in have nations.

Observational thinks about have appeared blended comes about for the impacts of expansion rate on FDI inflows. Marial and Ngie (2009) expressed that Malaysia had reliably kept up a feasible financial development from 1980s until 1990s along with moo swelling rate. The impacts of moo swelling rate had brought about within the economy experiencing a period of broad broadening, supporting fast financial development as well as moo unemployment rate. Kiat (2008) also established that expansion incorporates a negative effect on FDI Inflow in South Africa. The investigate clarified that there's sufficient prove to demonstrate that a diminish in inflation rate seem result a rise in FDI influx in a created advertise.

The comes about of a ponder by moo swelling rates advance and fortify FDI into the region. The negative linkage between these two factors captures the critical part of macroeconomic conditions in a particular locale. The advantage of contributing would drop within the occasion of rising swelling rate because it dissolves purchasing power of customers within the have nation. Most observational ponders have found that expansion rate features a negative influence on FDI Inflows in a specific nation. It infers that the part of government to ad lib the macroeconomic stabilizing arrangements is vital in arrange to draw in and fortify more FDI inflows. In spite of most of the studies which found swelling to be noteworthy, Kolstad and Villanger (2008) concluded that expansion has no significant affiliation with FDI within the administrations industry. Experimental thinks about have found that there's a solid relationship between GDP and FDI inflows. The causality between both factors runs in both heading, where FDI has been pulled in by the gigantic showcase potential that a country has got to offer, and has at the same time contributed to GDP development through different channels.

Artige and Nicolini (2006) found that advertise estimate is considered as one of the important determinant of FDI and the only determinant that encompasses a positive and critical affect towards FDI inflows. Kolstad and Villanger (2008) found that different measures of advertise estimate are found to be altogether related to FDI inflows within the back industry.

Agreeing to Erdal and Tatoglu (2002), the measure of residential advertise is emphatically related to FDI inflows in the have nation. As advertise estimate increments, the number of clients and openings for remote financial specialists will increase. The consider by Ali and Guo (2005) expressed that China's expansive advertise and tall development rates are significant and significant variables in invigorating FDI into the nation. Their consider concluded that these two determinants are key points that impact remote investor's venture choice. Concurring to Chidlow et al. (2009), showcase measure is tested to be related to FDI inflows in Poland. It demonstrated that FDI inflows are affected by market-seeking foreign investors to set up their trade or speculations out of the parent nation.

The world is quickly moving towards an financial framework based on nonstop accessibility of information and media transmission innovation as one of the imperative vehicles of exchanging data. A think about by Gholami, Lee and Heshmati (2003) found that later progresses in media transmission industry are critical in permitting data trade to create as a profitable product. Nations that are prepared with these telecommunication innovations and frameworks have been quickly moved into post-industrial, development oriented information-based economy. Their ponder too concluded that the quick extension of world FDI is come about from several components counting specialized advance in media transmission administrations and major money realignment. Experimental ponders moreover appear that nations with more created foundation have a propensity to attract FDI. This makes a difference to clarify the concentration of FDI zones with broad tall innovation framework to external markets. Emphatically critical in clarifying the moving in FDI. A demonstrate by Cassidy and Andreosso-O'Callagan (2006) summarized that inland conduits (framework advancement) are noteworthy in explaining FDI inflows and is emphatically related to Japanese coordinate venture stock. Transportation framework is related to the nature of generation, which needs the accessibility of satisfactory streets, railroads, ports and other facilities for the reason of operational productivity.

This foundation permits speculators to diminish their setup costs for modern neighborhood foundation (Kang and Lee, 2007). Erdal and Tatoglu (2002) recommended that outside speculators prefer to contribute in a nation with set up foundation. Their ponder shown that foundation advancement is positively critical in clarifying the development of FDI. A well created transportation framework reduces production costs by lessening the costs of bringing in components and apparatus and trading yields.

Concurring to Mina (2007), regulation quality moreover emphatically impacted FDI inflows, as expected, reflecting the significance of this determinant in drawing in FDI streams to the GCC nations. Cassidy and AndreossoO'Callagan (2006) concluded that organization quality demonstrated to be noteworthy and positive related to FDI. Their study proposed that tall quality instruction is an amazingly critical determinant of internal FDI which tertiary educated laborers give encourage motivations to find in particular territories in China.

Chidlow et al. (2009) claimed that the level of information is factually noteworthy but the connection is negative in clarifying the development of FDI inflows in Poland. Their consider evaluated the number of remote investors for whom knowledge-seeking is an vital thought process for setting up their commerce. Kolstad and Villanger (2008) found prove of a relationship between organization quality and FDI in transport industry. This implies that the quality of information in a nation invigorate FDI development and is factually critical in clarifying the changes in FDI for the transport industry. From the viewpoint of the remote speculator, the fetched of labor has been highlighted by Cassidy and Andreosso-O'Callagan (2006) as a by and large imperative determinant of FDI. Their ponder demonstrated that incongruities in the taken a toll of labor between and inside nations are clear in showcase economies. Chidlow et al. (2009) suggested that moo input costs and labor efficiency are emphatically noteworthy in clarifying the

FDI inflows in Poland. The study found that the North-West zone, in differentiate to other districts is more appealing to outside speculators with low input costs as well as the accessibility of labor and assets that are considered to be vital determinants of FDI inflows in Poland. Bitzenis et al. (2009) examine that labor showcase process tend to be one of the essential boundaries of FDI entrance within the source of Greece.

Future research headings incorporate a board information investigation over a wide scope of nations to recognize huge determinants of FDI. Likewise, factors like regular asset force and market coordination may likewise swing up to be noteworthy determinants of FDI (Abdullah Alam, and Syed Zulfiqar Ali Shah, 2013).

Saini and Singhania (2018) said that the goal of FDI is constrained to 20 nations in present paper. The marker of institutional condition in particular monetary opportunity list utilized in paper has gotten some analysis in counts.

In the wake of considering the paper of Duanmu and Guney, (2012) we have discovered that this examination has added to our comprehension of locational determinants of China's and India's FDI, yet one ought to recognize a few confinements. To start with, our outcomes may experience the ill effects of little example inclination. Future work can include more nations from Africa and Western Europe to adjust the example organization. This will make the factual examination progressively powerful and dependable.

Besides, as institutional condition is a mind boggling idea to examine, it is alluring to break down this factor into various parts to have a better examination of its effect on FDI choices. Thirdly, our exploration has produced some fairly irregular outcomes, for example, the effect of English talking on India's FDI, and the effect of GDP development. These indorse further observational examination with better information inclusion. Concurring to the investigate comes about, directed on FDI, there's not one hypothesis of FDI, hence a extend of diverse hypothetical suspicions, methods, and frameworks; in addition, sub-theories of FDI are not commonly elite, and every them needs determinants of the others, and is imperfect on the off chance that taken independently (Blonigen, 2006; Faeth, 2009).

Expansion of the conventional FDI hypothesis to economies in move got to be both fundamental and possible due to modern, unexpected showcase situations there, and the sincerity of the FDI theory. And as distant as internal FDI is disturbed, the most distinction between move economies and financially progressed nations comprises in levels of financial liberalization, less-established market teach, unsteady financial and political circumstances and subsequently a tall level of ambiguity, illustrating a potential hazard for trade, which plays an imperative part in risk management for MNCs doing commerce in provisional economies. In the other words, the openness of FDI hypothesis gives adaptability to the FDI demonstrate, and in this way, can be expanded by further regressors. Subsequently, when modeling FDI components for move economies, we finalize our intermediaries into two bunches, specifically, the 'traditional' FDI factors drawn from theory, and transition-particular factors.

Underneath we offer a brief diagram of diverse hypothetical and observational ponders to clarify the linkage among the hypothesis of FDI and the techniques linked to economies in transition, along with hypothetical beginnings of transition-specific factors.

Neoclassical Hypotheses. Neoclassical worldwide exchange and capital advertise hypotheses assume perfectly competitive markets, as a result of which worldwide specialization leads to gains from universal exchange. Agreeing to this approach, the shortage and generally tall taken a toll of labor in created nations make them exchange generation offices to less created, labor-intensive nations (Caves, 1996; Cantwell, 2000).

Subsequently, there's as it were one way of capital streams: from progressed nations to capital-scarce countries. Be that as it may, within the setting of move, it was profoundly disapproved due to nonattendance of culminate inexpensive publicize and basic market educate and apparatuses. In other words, the suspicion of capital development from carefully created nations to the capital-scarce nations was exceptionally vital for thoughtful motivations of FDI in move fundings (McDougall, 1960; Kemp, 1964). Monopolistic Advantage Hypothesis. Coase (1937), who presented the concept of transaction costs to clarify the nature and limits of the organization of the firm, started the dialog of the proficient assignment of resources to scattered areas, and clarified universal exercises of companies as their endeavor to diminish exchange costs.

Reliable with Coase, Hymer (1960) advertised an elective, a microeconomic examination of MNCs founded on mechanical organization hypothesis, which links MNCs' thought processes for FDI as to spread their action overseas and exchange middle of the road items such as information and technology over the world. Really, he was the primary to recognize the MNC as a trading entity for universal generation instead of worldwide exchange in a flawed advertise. Moreover, his theory highpoints such imperative components for move economies as item distinction, administrative mastery, modern innovation or licenses, government mediation, information asymmetry, culture contrasts and trade morals (Caves, 1971).

On the foundation of theory of comparative benefits of figure blessings, which recommends that differences in blessings and beginning conditions between nations clarify the geographical structure of internal FDI, Vernon (1966) presented the hypothesis of universal item life cycle. Moreover, his demonstrate rearranges FDI as a substitute for exchange, and cannot clarify the investment workings of move nations in progressed economies.

Future research bearings incorporate a board information examination over a wide scope of nations to distinguish huge determinants of FDI. Likewise, factors like common asset force and market coordination may likewise swing up to be critical determinants of FDI (Abdullah alam and Syed zulifiqar ali shah, 2013).

In the wake of considering the paper of Angelo, Eunni and Fouto 2018 we have discovered that while factors, for example, swelling and trade rates may be progressively essential for littler, less steady markets, on account of bigger developing markets, for example, Brazil, global firms may be less worried about transient changes and increasingly guided by inside market development that manages more noteworthy chances to accomplish economies of scale and extension.

The eclectic paradigm, as evolved by (Dunning; 1988, 1995) gives an applied edge work that can be utilized to clarify FDI. The worldview states that a nation's penchant to pull in internal FDI is a joined capacity of three wide factors. First is the presence of proprietorship preferences as encapsulated in an association's assets and capacities; second, the host nation's area explicit points of interest, comprising of substantial and elusive assets that serve to make an appealing business condition; and third, the authoritative structures by which firms join their possession favorable circumstances with area points of interest to keep up and improve their serious positions.

Dunning (1993) contends that these three joined favorable circumstances inspire firms to contribute abroad. In this paper, our emphasis is on the spot explicit favorable circumstances, as we concluded that organizations endeavoring to take part in FDI may have possession and disguise points of interest, hence delivering the decision of area basic. Area favorable circumstances are nation explicit elements that may impact a company's market potential and market hazard.

Kiymaz (2009) noticed that in settling on an FDI choice the speculator should ensure that the venture is bound for a market where danger is relatively lower corresponding to comparable ventures somewhere else. Both the market potential and market danger can be evaluated utilizing different macroeconomic components including total national output, financing cost, capital market pointers, conversion standard and expansion (Boateng et al., 2014; Kiymaz, 2009). Hawawini and Schill (1994) recommend that interior impacts are firmly partnered to a company's benefits, abilities and upper hands, nonetheless, analysts, for example, Nachum and Rolle (1999) and Tolentino (2010) contend that outer or natural elements are likewise significant to a company's upper hand in that they give FDI ought to be coordinated to a nation in which the contributing firm would have the option to profit by another market that gives a good monetary condition, decreases cost and danger and upgrades its upper hand. (Boateng. et al 2015).

Tremendous ponders have been conducted by eminent researchers to point out the significance of FDI. Therefore, the survey of few critical ponders is thus explained. Yousaf et al. (2008) carried out inquire about by annual time arrangement information for the period of 1973 to 2004. GDP deflator, genuine GDP, volume of sends out and imports, unit esteem of trades and unit esteem of imports and FDI as a rate of GDP are utilized as imperative components for influencing FDI. D1 is utilized as sham variable, 1 for military run the show and for popular government. They found that short and long run positive affiliation exists between real demand of consequence within the case of import model and FDI, whereas, within the case of trade demonstrate, they concluded that brief run negative relationship exists between FDI and genuine sends out, but positive in long run.

Demirhan and Masca (2008) utilized the cross-sectional information of 38 developing nations for the period of 2000 to 2004 to examine the determinants of FDI in creating countries. They utilized econometric show and found that per capita income, development rate, presence of fundamental phone lines, and exchange openness have critical positive affect on FDI inflows. So also, swelling rate and assess rate also significantly pull in FDI, with negative sign. On the other hand, they analyzed that hazard and labor taken a toll is insignificant to FDI inflows in creating nations.

Surge et al. (2008) conducted a think about on 'Determinants of FDI inflows into Rwanda" by utilizing time arrangement data covering the period of 1971 to 2003. They concluded that growth rate and exchange openness are found statistically significant with positive sign, which draws in foreign investors. So also, trade rate is additionally found statistically noteworthy with negative sign, whereas, inflation rate was found measurably inconsequential, but with negative sign in this ponder. Kolstad and Villanger (2008) caried out think about to explore the determinants of Foreign Coordinate Venture in Benefit industry, utilizing 57 countries businesses FDI information for the period of 1989 to 2000. Comes about demonstrate that showcase measure is noteworthy to service FDI, but exchange openness is statistically insignificant to FDI inflows. This think about too demonstrates that FDI in fabricating division and FDI in back and transport segments are unequivocally related.

Khondoker (2007) conducted a consider to distinguish the factors, which decide the FDI inflows to developing countries additionally to examine the relationship between FDI and financial development. This consider utilized board information of 60 low-income nations for the period of 2003, 2004 and 2005. Comes about show that creating nations can attract more FDI in the event that they have tall GDP and development rate, investment inviting arrangements and well established communication framework. Campos and Kinoshita (2003) study's utilized 25 transition economies for the period of 1990 to 1998. They concluded that in these nations, FDI is influenced by advertise estimate, economy clusters, moo labor taken a toll and availability of common assets. Comes about moreover uncover that sound institutions, exchange openness and moo degree of restrictions to FDI inflows are exceedingly critical. Holland et al. (2000) pointed out that advertise measure and development planned are the vital determinants of FDI.

Moosa and Cardack (2006) inspected "The Determinants of FDI". They utilized cross-sectional information in this ponder and connected extraordinary bound investigation of 136 countries for the period of 1998 to 2000. The variables used in this consider were genuine GDP, development rate of GDP (CGD), trade as a rate of GDP (EXP), telephone lines (TEL), commercial vitality utilize (ENG), domestic gross settled capital arrangement.

(Burrow), understudies in tertiary education as a rate of add up to populace (TER) and country chance (CRK). They investigated that nations having large economies, tall degree of exchange openness and low country chance can pull in metal FDI. They too found that real GDP, development rate, vitality utilization, household gross fixed capital arrangement etc. inconsequential boost up FDI inflows. Shah and Ahmed (2004) conducted a research by utilizing time arrangement information for the period of 1961 to 2000. They found that long term affiliation have been existing between FDI streams and components counting political stability, market estimate, capital cost and expenditure in Pakitsan.

Yamori (1998); Moshiran (1997) discoveries appear that market measure is critical to fund FDI with positive sign. They utilized GNP/capita and riches as a intermediary for market size. Essentially, Mill operator and Parkhe (1998) consider also support the comes about of Yamori consider, but within the banking setor. They found that nations having expansive bank stores can draw in gigantic FDI. Yamori (1998) too pointed out in his ponder that negative relationship exists between market development and fund FDI. In any case, Yamori and Moshiran too found in their ponder that FDI in manufacturing division and FDI in administrations segment are positively related. As indicated by (Chakrabarti, 2001), MS has been most generally used, huge indicator of foreign direct investment streams in the long term. Highlighting the importance of MS as the basics of inside progressions of FDI has a long convention in the writing on FDI. The market size theory, proposed by Balassa (1966) and later created by Scaperlanda and Mauer (1969), upholds the possibility that "an enormous market is important for productive use of assets and misuse of economies of scale: as the market-size develops to some basic worth, FDI will begin to increment from that point with its further extension" (Chakrabarti, 2001, p. 96).

By researching the determinants of US unfamiliar direct interest in the European Economic Community in the period 1958-1968, Scaperlanda and Mauer (1969) reached the resolution that the size and development of the market of the host nation assume a noteworthy function in the choice on the area of unfamiliar direct speculation. The market size theory asserts that, because of economies of scale, FDI won't be taken in any nation, on the off chance that it doesn't meet the market prerequisites as far as size which is vital for the powerful usage of creation innovation.

In spite of the fact that it is commonly acknowledged that FDI imparts a positive relationship to financial turn of events, but there is no conversation with regards to that, who are the most important of foreign direct investment flows. Earlier investigations analyzing the connection between foreign direct investment flows and its explainers have given blended outcomes. Noteworthy number of studies (KhachooandKhan, 2012; Asiedu,2002; Anyanwu, 2011; Azam and Lukman, 2010; Borensztein et al., 1998; Cuyvers et al., 2011).

In the previous research, they attempted the distinguisher and give us the clear picture of various important factors of foreign direct investment, to tell the influence of these key factors in relation with foreign ddirect investment inflows in various nations utilizing time arrangement, cross-segment & board information Rodriguez and Pallas (2008) and Quazi (2007). According to Schneider & Frey (1985), the most noteworthy factor of foreign direct investment announced in current writing are MS, transparency, framework, degree of profitability, genuine work cost, human capital (HC), agglomeration, conversion scale, political danger, government motivating forces, and so on. MS of the (host) nation has been viewed as the most critical factors of foreign direct investment. Market size is typically estimated regarding GDP, GDP per capita, all out populace, and so on. Further, market size is ordinarily accepted to speak to effective use of assets and economies of scale. Huge set of observational writing that reports a hodgepodge of factors in foreign direct investment. Notwithstanding, because of differing selections of nations, timespans and technique applied, the current exact confirmations are excessively rearranged.

Table 1 sums up the connection among FDI and its informative factors dependent on existing explores. Regarding the past experimental examinations, eight most significant factors of foreign direct investment flows are talked about further in the accompanying areas. The key determinants of foreign direct investment are loan fee, market size, human capital, exchange receptiveness, work cost, debasement, framework and expansion.

At the point when an unfamiliar speculator constructs creation limit in a given nation, the inflow of capital will increment as the interest develops. The part of interest development depends on the connection between the aggregate (total) request and the capital important to fulfill the need. The speculation of development surmises the presence of a positive connection between capital inflows and the development pace of GDP of the host nation. By applying straightforward relapse, Scaperlanda and Mauer demonstrated that the inflow of US direct venture, estimated based on yearly changes in the worth situation of the European Economic Community, is as per the speculation about the size of the market.

The market size speculation, as an informative variable of internal unfamiliar direct venture streams, is upheld by various experimental examinations on the determinants of internal unfamiliar direct speculation streams, in both created and creating nations, which take GDP per capita as an intermediary for market size. Among the soonest research, the investigation by Bandera and White (1968) is underscored. They utilized pooled information on the United States producing unfamiliar direct interest in seven European economies over the period 1958-1962, and firmly upheld the theorized reliance of the degree of unfamiliar direct speculation fair and square of public salary and the host nation. Schmitz and Bieri (1972) and Lunn (1980) likewise found a factually critical impact of market size in deciding internal progressions of the US unfamiliar direct interest in the EEC, while Kravis and Lipsey (1982) confirmed that the host nation's market size affected the area choice by the US multinationals during the 1960s. By applying econometric examination of information on the US producing interest in 24 nations in the period 1954-1975, Nigh (1985) found that the host nation GDP per capita was a significant factor in deciding the inflows of unfamiliar direct venture. The market size speculation was affirmed in the investigation of reciprocal progressions of direct venture among 6 industrialized nations over the period 1969-1982 (Culem 1998). Endogenous development hypothesis demonstrates that nations with bigger business sectors become quicker on account of the advantages of economies of scale. FDI will in general stream into nations that have alluring business sectors, either as a result of their populaces or on account of the size of their GDPs.

H1: There is a positive relationship between market size and FDI.

The inflation rate reflects financial steadiness, the nearness of interior monetary strain and the capacity of the legislature and national bank to adjust the public spending plan. High expansion diminishes the genuine estimation of profit in nearby money for internal contributing firms (Buckley et al., 2007). Then again, low expansion signals inside public monetary dependability and empowers internal FDI. For instance, Coskun (2001) inspected the FDI inflows into Turkey and found that a lower expansion rate would in general draw in unfamiliar financial specialists and increment FDI inflows into Turkey. In the Norwegian setting, the swelling rate, which floated at around 14% in the mid 1980s, has been switched. The expansion rate in Norway has brought down to 2–3% during 1992–2001. It will be fascinating to inspect whether high expansion during the 1980s may have been an obstacle for FDI inflows and whether the inversion of swelling rates during the 1990s may have added to the expansion in FDI inflows during 1992–2008.Inflation gives a sign of monetary soundness.

The higher is the rate of inflation the higher will be the foreign direct investment flows. Speculators incline toward nation's, more reliable and bigger inflows of FDI since the advantage of putting would fall in case of increasing swelling rate (Asiedu, 2002). Yol and Teng (2009) have discovered that the low expansion rate in Malaysia has made the economy go through a time of wide broadening encountering maintainable quick monetary development just as accomplishing low joblessness rate that makes Malaysia an alluring objective for unfamiliar financial specialists. Nonetheless, unbridled inflation rate shows macroeconomic precariousness, and subsequently represses FDI (Buckley et al., 2007). Accordingly, a moderate however stable swelling rate is vital for the development of both new segments and FDI. Since there is no agreement on the attractive pace of expansion for specific nations, and as South Asian economies will in general have higher paces of swelling (Boateng., et al 2015). Pace of expansion is a critical factor in impacting the inflow of unfamiliar speculation. A high pace of expansion connotes financial precariousness related with wrong government strategies, particularly the financial monetary strategy blend (Macpherson, 2013).

Khan and Mitra (2014) think that high paces of expansion contort the financial exercises, prompting lesser inflow of capital. A low and stable swelling rate goes about as an indication of inside financial solidness. This is on the grounds that it lessens vulnerability and lifts the certainty of individuals and organizations for settling on venture choices. Then again high expansion rate implies the failure of the national bank to set fitting financial strategies. A high expansion rate likewise impacts capital conservation of unfamiliar venture. It influences productivity as more exorbitant costs can prompt expanded expenses and lower benefits. Along these lines, stable swelling rate is alluring to pull in unfamiliar capital (Aijaz, Siddiqui, and Aumeboonsuke, 2014).

H2: There is a negative relationship between inflation and FDI.

Interest rate is the measure of cash charged by a bank to a borrower. It is frequently communicated as a level of the chief sum. Also, loan costs are communicated regarding yearly rates. Singhania (2011) contends that loan fee is the measure of cash a financial specialist harvests from a venture. Direct unfamiliar speculators ordinarily overview economies with low loan fees since they will empower them to get better yields from the ventures. Therefore, loan fees straightforwardly sway on unfamiliar direct speculation. Generally, loan fees are higher during swelling, when there is more appeal for credit in the economy, when the economy is encountering tight cash gracefully and because of expanded compulsory stores for banks. Nonetheless, expanded financing costs adversely influence business exercises. This is on the grounds that credit gets costly to procure. During seasons of high financing costs, securities exchange speculators procure more significant yields for their venture particularly from recently gave securities and offer exchanging (KIPLAGAT, 2016). Agiomirgianakis (2003) characterized FDI as capital inflow into a nation because of venture from worldwide business substances. The monetary hypothesis which clarifies how capital moves in the worldwide economy demand that capital will in general stream to nations that have a better yield on speculation when contrasted with nations with higher loan fees (Pholphirul, 2002). Therefore, speculation is high in nations that offer better venture returns just as security as lower loan fees and a superior business condition.

Capital thusly will in general move from nations with low rate come back to nations with high pace of return. Singhania (2011) contends that loan costs are typically acclimated to reflect changes in expansion. Accordingly, loan costs are basic determinants of unfamiliar direct speculation. Singhania (2011) characterizes loan fee as the expense of getting capital and furthermore a proportion of rate of profitability. Customarily, financial specialists will look for minimal effort credit sources or lower loan costs and put it in economies that are promising better yields.

The point of the flow research was to examine the connection between unfamiliar direct venture and loan costs in Kenya. Relapse examination will be utilized to investigate how economies contend in pulling in speculation from FDI with loan fee as the primary variable. Thusly, the investigation will help in deciding if a negative or positive relationship exists between unfamiliar direct venture and loan fees of an economy. As indicated by (chingarandeAnne, 2011) set up that FDI is primarily impacted by hazard factors, work expenses and GDP in Zimbabwe.

For the most part, a low IR draws in unfamiliar speculators in the host nation while a high IR debilitates unfamiliar financial specialists from putting resources into creating nations. Existing exploration on the connection among IR and FDI inflow has given blended outcomes (Singhania and Gupta, 2011; Cuyversetal et al., 2011).Therefore, we likewise assume that there exists a positive just as a negative relationship between genuine IR and FDI inflows in creating nations.

H3: There is a negative relationship between interest rate and FDI.

The estimation of human capital is resolved seeing the practical, socially and financial settings of civilization. They resolved how specific characteristics in an individual might be compensated. 3 center factors of human capital (instruction, wellbeing and business) help in increasing more noteworthy pace of profits on interests in HC. Interest in HC assists with creating talented and created mentors, bosses and representatives (Globerman and Shapiro, 2002). It has been discovered that HC supports FDI inflow while an absence of it disheartens FDI in creating nations (Tsen, 2005).

Nonetheless, Root and Ahmed (1978) and Schneider and Frey (1985) revealed that in creating nations, training didn't influence FDI inflow. Zejan (1994), Blomström, Kokkoan and Zejan (2000) and Blomström and Kokko (2003) have emphasized the way that FDI inflows manage the cost of complex collaborations with human capital, whereby the once generally foreseen innovation and human capital overflow impacts are neither programmed nor instantaneous.2 Furthermore, the relationship is probably going to be non-direct and bi-causal. Innovation serious FDI may just be pulled in to a nation offering an enormous supply of gifted specialists. Nonetheless, the micro establishments of such associations are fairly restricted (Markusen and Trofimenko, 2009). Moreover, evaluations of progress in human capital in the host nation are generally a correlation of the levels in the pre-and post-FDI systems instead of the pace of progress. In this specific situation, the collaboration among FDI and human capital coming full circle in more significant levels of development has been seriously examined in Mallick and Moore (2008).

Without a doubt, the connection among FDI and human capital is very perplexing and can possibly create vagueness for nations that have fluctuating degrees of debasement. Accordingly, a broad writing has just investigated the connection among defilement and monetary development (Mironov, 2005; Mo, 2001; Mauro, 1995 to specify a couple). For example, in a second best world with contortions brought about by sick working establishments, debasement can remunerate terrible administration and pull in more FDI (Shleifer and Vishny, 1993; Bardhan, 1999; Kaufmann and Wei, 1999; Aidt, 2003; Meon and Sekkat, 2005; Bellos and Subasat, 2012, etc.).3 However, it is very notable that defilement lessens effectiveness by creating more prominent lease looking for conduct and misallocating ability. Speculation endures because of higher exchange expenses and vulnerability (Acemoglu and Verdier, 1998; Murphy and Vishny, 1993; Murphy, Sleifer and Vishny, 1991).

H4: There is a positive relationship between human capital and FDI.

Openness helps FDI inflow. This is on the grounds that worldwide endeavors want to put resources into business sectors that report less severe exchange obstructions. It is accepted that exacting exchange hindrances increment the exchange costs. Furthermore, the volume of exchange a nation is significant as a large portion of the FDI is trade situated, which requires the import of integral, halfway, and capital products. In this manner, higher volume of exchange recommends a higher presentation of exchange (Sahoo, 2006). The examination by Aw and Tang (2010) has revealed a comparable contention that exchange progression impacts the host nation's economy as liberal approaches help draw in more FDIs.

Openness of an economy is a key factor that decides the degree of import and fare connections a country will have with another (Asiedu and Lien, 2004). Receptiveness is significant for sends out, yet additionally imports the same number of speculators requires middle of the road inputs imported from different nations. It is commonly acknowledged that more noteworthy receptiveness in exchange gives new speculation openings and fortifies the connection among homegrown and worldwide business sectors (Tintin, 2013). Numerous observational investigations (Tintin, 2013; Asiedu and Lien, 2004) think about the proportion of exchange (send out + import)/GDP is regularly utilized as an intermediary of exchange transparency. We additionally anticipate a positive connection between exchange transparency and FDI inflow.

H5: There is a positive relationship between trade openness and FDI.

Host nations with great foundation draw in more FDI inflows. As per Tsen (2005), great foundation is one of the fundamental needs for unfamiliar speculators as it connotes productive business activities in the host nation (Kinoshita and Campos, 2003). Sahoo and Dash (2009) estimated framework by different intermediaries like per capita power utilization (kWh); per capital vitality use (Kg of oil comparable); phone line (both fixed and mobiles) per 1,000 of populace; rail thickness per 1,000 of populace; air transport, cargo (million tons for every kilometer); cleared street as percent of the all out street; phone lines were considered as an intermediary by Kinoshita and Campos (2003) for the proportion of the foundation. Interestingly, a few investigations either found no proof to help the getting hand speculation or discovered outcomes that help the assistance theory. For instance, utilizing two distinctive records of debasement for a cross-segment of 52 creating nations, Akcay (2001) found no proof to help the speculation that defilement fundamentally influences FDI.

Caetano and Caleiro (2005) contemplated FDI inflows to 97 nations and reasoned that defilement fundamentally diminished FDI in high-debasement nations; however the effect is frail in low-debasement nations. Cuervo-Cazurra (2006) reasoned that financial specialists from generally more degenerate home nations are bound to put resources into have nations that are likewise degenerate. Houston (2007) found that defilement decreased financial development in nations with solid lawful and administrative establishments, yet the inverse was found in nations with feeble organizations.

They contended that accessibility of phone lines spoke to the connection among home and host nations. They expected that accessibility of phone lines would have a positive connection with FDI inflow. As indicated by Singhania and Gupta (2011), electric force utilization (kWh) is considered as an intermediary of foundation. Interest in power ventures is imperative to pull in FDI inflows in creating nations since it is an essential instrument for monetary development.

H6: There is a positive relationship between Infrastructure and FDI.

In conventional monetary course readings, corruption was not a fundamental subject, yet lately it has developed in significance in financial hypothesis. There were two creators who stirred the enthusiasm for the subject. Rose Ackerman in 1978 distributed a paper on defilement and from that point forward has introduced a few bits of business related to the subject. North (1990 and 1991) composed of the significance of organizations in financial execution the motivation behind this paper is measure the impact of defilement in Foreign Direct Investment.

Different investigations have conveyed "debasement" as a proportion of political danger and determined its resulting sway on FDI. Corruption is characterized by Getz and Volkema (2001) as the maltreatment of open jobs and assets for private advantage or the abuse of open office for non-official finishes. Corruption disincentive affects venture since it builds the danger and vulnerability experienced by possible speculators (Getz and Volkema 2001), along these lines, debilitating financial specialists to make further interests in such political unsafe economies. Another hindrance or disincentive for unfamiliar speculators to put resources into have nations can be forced by defilement as distortionary impacts (monies paid for pay off being wastefully distributed) (Goudie and Stasavage 1997). As indicated by Quazi et al., (2014) study dissects the effect of Corruption on FDI inflows in 53 nations in Africa over the 1995–2012 periods. Utilizing the dynamic System Generalized Method of Moments demonstrating structure (Arellano-Bover/Blundell-Bond straight unique board), this examination discovers uphold for the assistance speculation, i.e., debasement encourages FDI inflows in Africa. Almost certainly, the general administrative condition in Africa is frail, which clarifies the setting where the assistance theory can be approved. Furthermore, this investigation finds that previous degrees of FDI, market size, government viability, framework, and financial opportunity additionally influence FDI essentially. These outcomes further our insight into the FDI elements in Africa, which policymakers should discover accommodating in formulating supportive of FDI procedures.

Robertson and Watson (2004) study the effect of corruption on changes in levels of FDI from a key viewpoint. They joined key choices which chiefs of global organizations (MNCs) need to receive within the sight of political dangers. Also, they presented the way of life of vulnerability evasion and manliness; manliness alluding to manly estimations of self-assuredness, forcefulness, and realism that lead to significant levels of debasement, which will in general be more social (Hofstede 1997).

The investigation utilized the Corruption Perceptions Index (CPI) for 1999 and 2000, while vulnerability evasion and manliness measures were taken from Hofstede (1997) social measurement scores. Utilizing a basic OLS progressive relapse examination with control factors, for example, GNP per capita, GNP and utilization, consequences of the investigation show that the more fast the pace of progress in FDI, the higher is the degree of corruption. Furthermore, the way of life qualities of vulnerability evasion and manliness and furthermore connected with more elevated levels of apparent corruption. Focusing on a similar issue, Habib and Zurawicki (2002) inspected the effect of corruption on FDI for 89 nations over the 1996-1998 periods. The examination showed a negative effect of corruption on

FDI. Also, the investigation found a negative impact because of the distinction in corruption power between the host and home nations.

The outcomes recommend that unfamiliar financial specialists for the most part stay away from corruption due to moral commitments and furthermore the operational shortcomings that emerge because of defilement. All the more significantly, unfamiliar speculators stay away from defilement since it very well may be hard to oversee, and is dangerous and exorbitant simultaneously. Wei (2000) investigated information on FDI in the mid-1990s from 12 source nations and 45 host nations. Defilement uncovered to have a noteworthy and negative impact on FDI. Mauro (1995) likewise discovered defilement to negatively affect venture, in this manner bringing about decreased financial development. Indeed, papers, for example, Campos and Nugent (2002) call attention to that the negative effect of political danger on monetary development is currently viewed as 'adapted reality'. They express that political precariousness expands vulnerability in the monetary condition, accordingly disturbing creation and lessening capital venture, which, thus, influences financial development. In any case, studies, for example, Nye (1979), found that debasement positively affects financial development and advancement while Hines (1995) inferred a non-huge relationship. Subsequently, it tends to be found that the connection between political danger (by means of defilement) and monetary development is as yet vague. Subsequently, the current examination means to investigate the political danger files and gain proficiency with the particular pointer's effect on FDI.

The FDI writing involves blended experimental proof about the effect of defilement on FDI. A few examinations have discovered outcomes that loan assurance to the snatching hand theory, for example defilement blocks FDI inflows. Wei (2000a) broke down various kinds of two-sided capital streams from 14 home nations to 53 host nations and inferred that debasement diminished FDI more than different sorts of capital streams. Utilizing information on reciprocal FDI streams from 12 home nations to 45 host nations, Wei (2000b) likewise found that debasement acted like an assessment and diminished FDI. Habib and Zurawicki (2002) examined two-sided FDI streams from 7 home nations to 89 host nations and inferred that unfamiliar financial specialists are by and large defilement disinclined, as they see debasement as shameless and wasteful. Zhao et al. (2003) considered board information from 40 created and creating nations and found that defilement fundamentally diminished FDI inflows across geographic areas and monetary orders. Utilizing information from 54 nations, Ketkar et al. (2005) found that a 1-point improvement in the debasement file can raise FDI by as much as 0.5% of GDP.

H7: There is a negative relationship between corruption and FDI.

The unmistakable function of Multinational Enterprises (MNEs) in the worldwide and host nation work markets has prompted expanded conversation of the suggestions on work market pointers, particularly compensation. One strand of the writing centers around work costs as a venture thought process of MNEs. One of the fundamental thought processes behind the unfamiliar direct speculation (FDI) is the pursuit by firms for lower creation costs (Eckel 2003).

One contention is that this thought process prompts the progression of FDI from high-compensation to low-wage nations (OECD 1993; Feenstra and Hanson 1996 and 1997; Lemoine 1998 and Eckel 2003). While a few investigations discover proof supporting the cost-chasing intentions of FDI (see Wei (2000), Campos and Kinoshita (2003), and Janicki and Wunnava (2004), among others), a few examinations find either no powerful connection between work cost and FDI (see Dunning (1993) and Chakrabarti (2001), among others) or even a positive relationship (see Wheeler and Mody (1992), Schneider and Frey (1985), and Vijayakumar et al. (2010), among others).

What is important for our conversation is that there is huge enthusiasm for understanding the connection among FDI and work costs. The entirety of the current investigations thinks about the static relationship between work expenses and FDI where one of these factors is thought to be exogenous. In this paper, we try to add to the conversation by giving exact proof of the dynamic association between work cost and MNEs, instead of on one of the elements of this cooperation. All things considered, one of the observational inquiries presented in this paper is which measurement of this dynamic association overwhelms: the commitment of MNEs in keeping the wages low, or MNEs' longing to put resources into nations with effectively low wages (Bayraktar and Sayek, 2017).

H8: There is a negative relationship between labor cost and FDI.

Summary of this chapter, literature review, is given in table I and table II

TABLE 2.1: Summary of Literature Review

Author	Year	Explanatory variables	Findings/Results
Rehman et al.,	2019	Infrastructure	infrastructure is vital to attract FDI
Kok and Ersoy	2018	Market size and infrastructure	Both variables have significant positive impact on the FDI.
Dutta et al.,	2017	Corruption and Human capital	Increase in human capital also increases FDI.
Kumari and Sharma	2015	MS, TO, IR, HC and infrastructure	All these variables have positive significant relation to FDI
Quazi et al.,	2014	Market size, infrastructure	Both variables have positive and significant impact on FDI.
Alam, Shah	2013	Market size, infrastructure	Both determinant have significant impact on FDI
Duanmu and Guney	2012	Corruption, trade Openness, Interest rate, Inflation rate	Positive and significant impact on FDI
Seetanah, Rojid	2011	Trade openness, Market size	Positive significant impact on FDI
Na and Lightfoot	2010	Infrastructure and Trade openness	FDI has significant relationship with both determinants.
Cheng and Kwan	2000	Infrastructure and policy designation	FDI has significant relationship with both determinants.
Yusop and Choong	2002	GNP	Positive significant impact on FDI

Garibaldi, Mora, Sahay and Zettelmeyer	1999	MS, ER, TO, NR and Bureaucracy	Positive significant impact on FDI
Ismail and Yussof	1999	Market size and trade openness	FDI has significant relationship with both determinants.
Campos and Kinoshita	2003	Market size, natural resources and trade openness	Positive significant impact on FDI
Nonnenberg and Mendonça 2004	2004	Level of schooling, TO, GR and stock market performance	Positive significant impact on FDI
Sahoo	2006	Market size, labor force growth, infrastructure index and trade openness	Positive significant impact on FDI
Moosa and Çardak	2006	Exports as a percentage of GDP Telephone lines per 1000 of the population and Country risk	FDI has significant relationship with both determinants.
Choong and Lim	2007	Market size, skilled labor and liberalization	Positive significant impact on FDI
Cevis and Camurdan	2007	IR growth and trade openness previous period FDI	FDI has significant relationship with both determinants.
Vijayakumar, Sridharan and Rao	2010	Market size, infrastructure, gross capital formation	Positive and significant impact on FDI

Camurdan and Cevis	2009	Trade openness	Positive and significant impact on FDI
Lipsey and Sjoholm	2010	GDP and Per capital growth	FDI has significant relationship with both determinants.
Ranjan and Agrawal	2011	Market size, trade openness, infrastructure facilities, macroeconomic stability and growth prospects	Positive and significant impact on FDI
Kirchner	2012	Economic growth and productivity growth.	FDI has significant relationship with both determinants.
Jadhav	2012	MS, TO, rule of law and voice, accountability	Positive and significant impact on FDI
Dua and Garg	2015	Home country return, home country output, INFR and credit worthiness	Positive and significant impact on FDI
Xaypanya et.al	2015	ASEAN3:	Positive and significant impact on FDI

Chapter 3

Research Methodology

This chapter has three main sections. Section one describes the model of this research. Section two talks about the population, sample size, data period and data sources. Section three explains the estimation techniques that we have used in this research.

3.1 The Model

The model for this research has been framed keeping in view the result of previous study. FDI inflow is the dependent variable. There are six explanatory variable such as market size (MS), inflation (INFL), interest rate (IR), human capital (HC), trade openness (TO), infrastructure (INFR) as included by (Kumari and Sharma, 2015). In addition to that two variables such as corruption (CRP) and labor cost (LC) which were recommended in a recent study have also been included in the study as independent variable. Our theoretical model is given in equation (3.1) and econometric model in equation (3.2) as given bellow.
FDI= f (MS, INFL, IR, HC, TO, INFR, CRP, LC).........(1)

FDI$_{it}$ $= \beta_0 + \beta_1 MS_{it} + \beta_2 INEL_{it} + \beta_3 IR_{it} + \beta_4 HC_{it} + \beta_5 TO_{it} + \beta_6 INFR_{it} + \beta_7 CRP_{it} + \beta_8 LC_{it} + \mu$ (3.1)

In these models:

FDI stands for foreign direct investment.

MS stands for market size.

INFL stands for inflation.

IR stands for interest rate.
HC stands for human capital.
TO stands for trade openness.
INFR stands for infrastructure.
CRP stands for corruption.
LC stands for labor cost.
β_o stands for the constant of equation (2).
β_o to $\beta_8$represent coefficients of independent variables respectively.
Subscript i, represents country and it varies from 1 to 28.
Subscript t, represents year of data and it varies from 1996 to 2017.

In this figure, the straight line shows the work done in previous studies while the dote lines show the result calculated by us as advised in the previous studies. That is our contribution in the study.

3.2 Population, Sample Size, Data Period and Data Sources

The population of the study consists of 47 developing countries from the whole of Asia. However due to the lack of required data for this study for 19 countries, the remaining 28 countries have been selected.

The data period for this study is 1996 to 2017 and data has been sourced mainly from World Bank indicator (2017) and world governance indicator (2018).

3.3 Construction of Variables

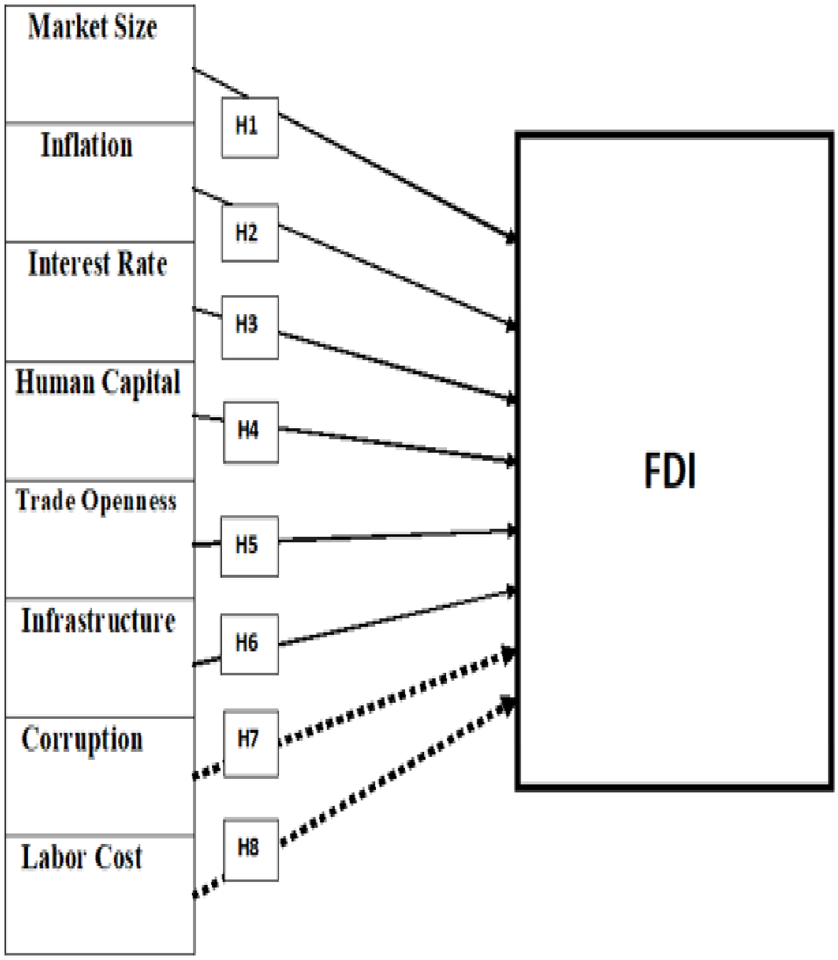


FIGURE 3.1: Research Model

Dependent Variable FDI

Investment in the home country by foreigners is made for the purpose of profit in another country either by individuals or by a legal entity or an incorporated firm. FDI is the dependent variable in our model. Data for FDI flowing into each country is given in US dollars.

3.3.1 Independent Variables

3.3.2 Market Size

MS may be measured by the number of individuals in a country, or by the GDP of a country or by the geographic area of a country. Population of a country represents the potential buyer. A country GDP represents its purchasing power and the level of infrastructure development in a country. The geographic area indicates the operating scale in a country. However for the purposes of this study we have taken GDP in US dollars as a measure of the market size of each respective country.

Foreign investors prefer a larger market size because it increases their profit. The larger is the market, the more will be customer and the higher will be the firms profit. So therefore they decide FDI or investment in a home country. According to Cuyvers (2000), the size of market shows the level of development of host country and living standard of its people. Therefore the large size of market is expected to have positive impact on FDI.

3.3.3 Inflation

Inflation means the annual increase in the overall price level in the country caused by an imbalance between the quantity of money and transaction needs. Inflation is taken as annual percentage increase of consumer price index. In this study has used secondary data and data is obtained from the World Bank websites. It means that inflation is one of the main determinants of FDI. By reading the literature we expect a negative sign for inflation as suggested by (Kalirajan and Singh, 2010; Schneider and Frey, 1985). At the same time (Buckley et al., 2007) appoint that high inflation indicates monetary indiscipline that causes instability of macro economy. It causes a negative impact on FDI. Keeping in view both of these view points, the expected sign of mild inflation on FDI should be positive but the expected sign of high inflation on FDI should be negative.

3.3.4 Interest Rate

The percentage of principle charged by the lender to the borrower for the use of money is known as interest rate. In our study the interest rate adjusted for inflation is used as a proxy according to Cuyvers et al., (2011). According to them low interest rate attracts FDI and high interest rate discourage FDI inflows in low income countries. In this study the secondary data is used which is accessed from World Bank websites. Data for each country has been used in US Dollars. Keeping in view the mixed result of (Singhania and Gupta, 2011 and Cuyvers et al., 2011), It is expected that coefficient of interest rate may either be positive or negative.

3.3.5 Human Capital

Human capital, roughly speaking means year of schooling, level of knowledge, years of experience and skill fullness of a worker. Business firms, which are keen to increase their human capital, keep in view the above mentioned factors of candidates. According to Lucass (1990), the foreigners are even more interested to have productive human capital, therefore they care of these determinants of human capital. The data used in this study is secondary and is accessed from the World Bank websites. Data for each country has been used in US Dollars. Therefore a positive coefficient is expected for human capital.

3.3.6 Trade Openness

Each country goes through the process of trade just to full their own needs. Tariffs and taxes are imposed by the countries on different transactions include in export and import. Economies trade openness is measure by taking the sum of its exports and imports as did by Asiedu and Lien (2004). Data for each country has been used in US Dollars. Since trade opens up the venues of imports and exports, therefore positive sign is expected for the coefficient is expected for trade openness.

$$TO = \frac{Value\ of\ export + Value\ of\ import}{GDP}$$

3.3.7 Infrastructure

If a country has a good infrastructure then it must attract more FDI inflows in a country and I can also add the rate at which the economic development is taking place. Inferior infrastructure push's up transportation cost in the economy for the movement of goods and services within and outside a country. As a result it discourages FDI in the home country. It means good infrastructure is a pre requisite to be a recipient country for FDI. A greater efficiency can be achieved in extending infrastructure facilities.

3.3.8 Corruption

Corruption means an unethical and dishonest attitude of government officials and other officers on key post. Corruption also includes bribery, exchange of undue gifts, discrimination, settlement of transaction under the table, manipulation of elections and merits, money laundering and earning money through illegal means. It may affect intensity of investment in home country and may also discourage FDI.

TABLE 3.1: Explanatory Variables and Their Expected Signs

Variable Name	**Proxy**	**Symbol**	**Expected Sign**
Market size	GDP	MS	+
Inflation	Annual percentage increase of consumer price index	INFL	-
Interest rate	Real interest rate = lending rate	IR	+/-
Human Capital	Enrolment of secondary school	HC	+
Trade openness	$TO = \frac{Value\ of\ export + Value\ of\ import}{GDP}$	TO	+
Infrastructure	Electricity kwph	INFR	+
Corruption	Corruption index	CRP	+/-
Labor cost	Average of all wages paid to employees	LC	-

3.3.9 Labor Cost

The labor cost refers to the average wage rate that an average employee receives from his/her job or work. This study has used secondary data and data is obtained from the World Bank websites. The higher is the labor cost, the greater will be the wage bill of any form in the country. Saglam and Boke (2017) found that there is a positive and significant relationship between labor cost and foreign direct investment. Probably the reason could be that the proportion of local labor cost in those firms having significant component of FDI might be very low.

Table IV shows the name of variables along with the proxy that are used for that specific variable and the symbol of that variable along with its expected sign.

3.4 Estimation Techniques

In this study balance data has been used. It includes both time series as well as cross section data. Its quality is better than cross sectional data and time series data. There are less chances of multicolenarity in random data and it gives higher degree of freedom to estimate key meters. Estimation of panel data gives reliable results provided that data of each variable is stationary.

If it is stationary, then there are 3 methods for estimation such as pooled ordinarily squared method (OLS), fixed effect method (FEM) and random effect model (REM). If both constant and slope coefficients are expected to be same for each cross section, then pooled OLS is preferred (Vijayakumar et al., 2010). If constant for each cross section are expected to be different but slopes constant to be same, then FEM is preferred. However if the constants are same for some cross sections and different for other cross section, then REM is preferred.

3.4.1 Stationarity Test

Since our data is balanced panel data for which there are three methods of estimation; one is pooled OLS, the other is fixed effect model and the third one is random effect model. To check which one of these three methods is more appropriate, first we check the stationary of data. If the data is stationary at level, then we can apply any one of these three methods. Then we run the redundant fixed effects and Hausman test. We tried to check the stationarity of the data as if it is not significant then we can move to ARDL method, but we found that our data is balanced panel data so we can move to choose between the three models that are given in the theory.

3.4.2 Likelihood Ratio Test

If the data is found stationary, then we apply the redundant variable test also known as likelihood ratio. Its result helps us to decide whether the fixed effect model will be appropriate or the pooled OLS is appropriate.

We will create two hypotheses, the first one will be that pooled OLS is appropriate and the other one will be that fixed effect model is appropriate. To check which of the model is appropriate we will see the significance. If the values are significant then the null hypothesis will be rejected or if the value is insignificant, then the null hypothesis will be accepted.

3.4.3 Hausman Test

It is used to check weather fixed effect model is more appropriate or random effect model is more appropriate to estimate the parameter from panel data. Its null hypothesis is set in such a way that if it is accepted then it means the random effect model is more appropriate. If the alternatives hypothesis accepted then it means the fixed effect model is more appropriate.

Chapter 4

Results and Discussion

This chapter has 5 sections. Section one discusses descriptive statistics and correlation matrix. Section two gives the results of stationary test.

Section three shows the result of redundant variable test. Section four presents the result of Haussman test. Section five shows the result of FEM.

4.1 Descriptive Statistics

Descriptive analysis first gives descriptive statistics and they show the behavior and characteristics of the data for both dependent and independent variables. This table 4.1 includes mean, median, maximum, minimum and standard deviation for aggregate data.

All-time series and cross sectional data is enclosed by the average value which is also known as mean value. Standard deviation represents the deviation of the data from mean. Highest value of the data is shown by the maximum and lowest value of the data is presented as the minimum.

The value of standard deviation for human capital is 1.0% which indicates that how far observations are from the sample average. The highest return of human capital during the period is 5.2% whereas minimum value is 2.8% that shows the minimum return for a specific time period. As discussed in the methodology in chapter 3, there are nine variables in the model. Descriptive statistics are given in table 4.1.

Table 4.1: Descriptive Statistics

	FDI	MS	INFL	IR	HC	TO	INFR	CRP	LC
Mean	20.858	27.953	1.418	2.323	4.506	4.225	7.085	3.334	3.874
Median	21.130	28.426	1.424	2.362	4.557	4.411	7.380	3.629	3.952
Maximum	26.396	36.472	4.044	4.156	5.226	5.395	9.425	4.537	4.580
Minimum	13.810	21.119	-2.812	-0.006	2.844	-1.787	2.997	-0.755	2.318
Std. Dev.	2.100	4.134	1.007	0.577	0.228	1.035	1.415	1.016	0.509

Table: 4.1 includes the mean value which tells about the average return in some countries. Mean value of Market size is 27.9% which shows the average value of each variable or average return of a variable. Standard deviation shows the deviation from the sample with respect to each variable.

During the period at average risk 4.1%. The value of standard deviation for market size is 4.1% it indicates that how far observations are from the sample average. The highest return of market size during the period is 36.4% whereas minimum value is 21.1% that shows the minimum return for a specific time period. The mid value of market size is 28.4 the middle value of each variable from highest to the lowest.

Mean value of inflation is 1.41% which shows the average value of each variable or average return of a variable. The value of standard deviation for market size is 1.0% which indicates that how far observations are from the sample average.

The highest return of inflation during the period is 4.0% whereas minimum value is -2.8% that shows the minimum return for a specific time period. Median value of inflation is 1.4. Median value indicates the middle value of each variable from highest to the lowest.

Mean value of interest rate is 2.3% which shows the average value of each variable or average return of a variable. The value of standard deviation for interest rate is 1.0% which indicates that how far observations are from the sample average. The highest return of interest rate during the period is 4.1% whereas minimum value is -0.0% that shows the minimum return for a specific time period. Median value of interest rate is 2.3. Median value indicates the middle value of each variable from highest to the lowest.

Mean value of human capital is 4.5% which shows the average value of each variable or average return of a variable. The value of standard deviation for human capital is 1.0% which indicates that how far observations are from the sample average. The highest return of human capital during the period is 5.2% whereas minimum value is 2.8% that shows the minimum return for a specific time period. Median value of human capital is 4.5. Median value indicates the middle value of each variable from highest to the lowest. Mean value of trade openness is 4.2% which shows the average value of each variable or average return of a variable. The value

of standard deviation for trade openness is 1.0% which indicates that how far observations are from the sample average. The highest return of trade openness during the period is 5.3% whereas minimum value is -1.7% that shows the minimum return for a specific time period. Median value of trade openness is 4.4. Median value indicates the middle value of each variable from highest to the lowest.
Mean value of infrastructure is 7.0% which shows the average value of each variable or average return of a variable. The value of standard deviation for infrastructure is 1.4% which indicates that how far observations are from the sample average. The highest return of infrastructure during the period is 9.4% whereas minimum value is 2.9% that shows the minimum return for a specific time period. Median value of infrastructure is 7.3. Median value indicates the middle value of each variable from highest to the lowest.
Mean value of corruption is 3.3% which shows the average value of each variable or average return of a variable. The value of standard deviation for corruption is 1.0% which indicates that how far observations are from the sample average.
The highest return of corruption during the period is 4.5% whereas minimum value is -0.7% that shows the minimum return for a specific time period. Median value of corruption is 3.6. Median value indicates the middle value of each variable from highest to the lowest. Mean value of labour cost is 3.8% which shows the average value of each variable or average return of a variable.
The value of standard deviation for labour cost is 0.5% which indicates that how far observations are from the sample average. The highest return of labour cost during the period is 4.5% whereas minimum value is 2.3% that shows the minimum return for a specific time period. Median value of labour cost is 3.9. Median value indicates the middle value of each variable from highest to the lowest.

4.2 Correlation

Correlation coefficient between every pair of variable is reported in table 4.12. It shows that whether it has positive or negative relationship between different variables. The value of correlation coefficient is within the range of -1 to +1. High value of coefficient shows the strong relationship between the between the two variables.

In case of perfect relationship between variables, the value of correlation coefficient will be 1 and in case of no relationship between the variables the value of coefficient of correlation will be 0. For every pair of variables, direction of the relationship among variables is provided by the coefficient sign.

An increase or decrease in the variables in the similar direction shows that correlation coefficient is positive. On the other hand if one variable is increasing and the other is decreasing or they are moving in the opposite direction then there is a negative correlation coefficient.

Table 4.2: Correlation Analysis

	FDI	**MS**	**INFL**	**IR**	**HC**	**TO**	**INFR**	**CRP**	**LC**
FDI	1								
MS	0.490	1							
INFL	-0.163	0.063	1						
IR	-0.411	-0.243	0.486	1					
HC	0.161	-0.126	-0.164	-0.126	1				
TO	0.006	-0.288	-0.217	-0.126	0.268	1			
INFR	0.090	-0.407	-0.198	-0.013	0.255	0.439	1		
CRP	0.283	-0.022	-0.443	-0.459	0.414	0.529	0.214	1	
LC	0.082	-0.295	-0.381	-0.353	0.395	0.359	0.420	0.445	1

It can be seen from column 1 FDI is positively correlated with market size, human capital, trade openness, infrastructure, corruption and labor cost while it is negatively correlated with inflation and interest rate. Market size is positively correlated with inflation while it is negatively correlated with interest rate, human capital, trade openness, infrastructure, corruption and labor cost. Inflation is positively correlated with interest rate while it is negatively correlated with human capital, trade openness, infrastructure, corruption and labor cost. Interest rate is not positively correlated with any one while it is negatively correlated with human capital, trade openness, infrastructure, corruption and labor cost.

Human capital is positively correlated with infrastructure, corruption and labor cost while it is not negatively correlated with any of them. Trade openness is positively correlated with infrastructure, corruption and labor cost while it is not negatively correlated with any of them. Corruption is positively correlated with labor cost while it is not negatively correlated with any of them.

It is noteworthy that all correlation coefficients for every pair of independent variables or bellow then 0.9 which indicates that there is no possibility of multi-collinearity among any pair of independent variables. It is therefore expected that results of our estimated equation will be robust.

4.2.1 Results of Stationarity Test

Although there are many tests to check stationarity of data, but PP Fisher Chi-Square test and Levin, Lin & Chu test are most commonly used. Out of these two, tests we have preferred PP Fisher Chi-Square test over Levin, Lin & Chu test because the PP method take the variables separately and gives the result with summing up all the variables separately while the LLC takes all the variables as a whole and give the results.

TABLE 4.3: Results of Stationarity Test

Variable	**Method**	**Prob. (level)**
Corruption	PP	0.0004
FDI	PP	0
Human capital	PP	0
Inflation	PP	0
Infrastructure	PP	0.0773
Interest rate	Pp	0
Labor cost	PP	0.026
Market size	PP	0.0619
Trade openness	PP	0

According to this table all the variable are found stationary at 10 % level of significance, so we can now move on to fixed effect or random effect model, depending upon the results of likelihood ratio test and fixed effect test. In table 4.2 we found that the data of corruption is stationary at level $p < 0.01$.

FDI, human capital and inflation also found stationary at level $p< 0.01$. Dataset for infrastructure is found stationary at level $p <0.1$. Stationary test shows that interest rate and trade openness also have stationary data set at level $p < 0.01$. Data set for market size, as shown in the table 4.2 is found stationary at level $p < 0.1$.

It is concluded that data set for all the variables fond significant at different level. So, we consider panel data is stationary and it can be used for panel regression.

4.3 Redundant Variable Test

If the probability value is significant then the null hypothesis will be rejected. Now we will apply the redundant fixed effects test to check and see either the pooled OLS method would be applied or the fixed effect method.

Table 4.4: Results of Redundant Variable Test

Effects Test	**Statistic**	**d.f.**	**Prob.**
Cross-section F	53.831	-27,486	0.000
Cross-section Chi-square	722.425	27	0.000

As the results suggests that the fixed effect model will be applied to this study, as the value is significant so the null hypothesis will be rejected, which was that the PLS is appropriate. So now we can move on to apply the Housman test to check and see whether the fixed effect model is appropriate or random effect model is appropriate.

4.3.1 Hausman Test

We will apply one more method to check and see whether the fixed effect method or random effect method is appropriate in our study. To check between the fixed effect model and the random effect model we will apply the Hausman test.

If the value of probability is lower than 0.01, the result would be significant so the null hypothesis would be rejected. Housman test is shown in table:

TABLE 4.5: Results of Hausman test

Test Summary	**Calculated Chi-Square**	**Chi-Sq. Degree of freedom**	**Probability**
Cross-section random	84.704108	8	0.0000

Here, the value of probability is 0.0000, which is lower than 0.05 so the result are significant at one % level. It means that the H0 is rejected. So according to this result, the fixed effect model is most appropriate for the panel data collected for this research.

4.4 Results of Fixed Effect Model

Equation (2) in chapter three has been estimated through FEM as the data was found stationary and results of redundant variable test and Hausman test supported FEM model. In this equation FDI is dependent variable and there are eight independent variables, market size, inflation, interest rate, human capital trade openness, infrastructure, corruption, and labor cost. The results of this equation are given in table 4.5.

Table 4.6: Results of Fixed Effect Model

Variable	**Coefficient**	**Std.Error**	**t-Statistic**	**Probability**
C	-36.306	2.478	-14.648	0.000
MS	1.863	0.106	17.49	0.000
INFL	0.2195	0.039	5.517	0.000
IR	0.217	0.107	2.0195	0.044
HC	-0.196	0.179	-1.09	0.276
TO	-0.01	0.077	-0.14	0.888
INFR	0.444	0.1165	3.813	0.000
CRP	0.142	0.072	1.969	0.049
LC	0.403	0.154	2.618	0.009
R-squared	0.916			
Adjusted R-squared	0.909			
F-statistic	151.446			
Prob.(F-statistic)	0.000			

As can be seen from the bottom half of the table that the values of R square and adjusted R square are 0.916 and 0.909 respectively. These are sufficiently high. It means that 91% variation in FDI has been explained by the explanatory variables. Also F statistics has come out 151.446 that is statistically significant at 1% level. It shows goodness of fit for our model

The coefficient of market size is 1.863. It is statistically significant at 1% level of significance. It confirms the underlying theory that the higher is market size in host country, the more will be FDI flowing into that country. This result of the study matches with the results of many earlier studies (Cuyvers, 2000). It means that 1% increase in market size causes .01863 million dollars increase in FDI.

The coefficient of Inflation is 0.2195. It means that a percentage point increase in inflation causes an increase in FDI by .2195 million dollars, this indicates that inflation in the home country Pakistan has not been very high. That's why it has been congenial for an FDI. It is also statistically significant at 1% level of significance but the sign of inflation is unexpected. As mentioned in previous studies such as (Boating et al., 2015).

Its sign is positive. As discussed in construction of variables, a higher inflation rate indicates monetary mismanagement in the country. Therefore a high inflation rate is expected to discourage FDI. However, this opposite sign can be defended presuming that inflation rate has been mild and not very high. It is actually high or hyperinflation that confuses market signals, domestic investment and FDI.

The coefficient of interest rate is 0.217. It means that a percentage point increase in interest rate causes a decrease in FDI by .217 million dollars, this indicates. It is statistically significant at 5% level of significance. Its sign has come out as expected. It indicates that an increase in interest rate in home country encourage FDI in the home country. Probably the reason is that high interest rate discourages domestic investment and thus makes room for FDI. In other words FDI proves as a substitute of domestic investment (Boateng et al., 2015).

The coefficient of human capital is -1.96 but it is strongly insignificant as the P-value is .888 which is greater then 0.1. It means that 1% increase in oppennes causes a decrease in FDI by 1.96 million dollars. It is statistically insignificant. Moreover, its sign is unexpected. It means that main consideration of foreign investors has not been the human capital of host country. One reason could be that the proxy, school years, does not truly represent the human capital. It might be the technical education, life expectancy, average daily calorie intake and health facilities which may better represent human capital (Tsen, 2005).

The coefficient of trade openness is -0.01 but it is insignificant as the P-value is .275 which is greater then 0.1.. It is also statistically insignificant. Moreover, its sign is unexpected. The possible reason could be that the component of imports might be dominant in trade balance of selected developing countries. Foreign investors probably look at the exports potential of home country rather than the sum of exports and imports. It mean that higher imports are trade deficit of home country indicate expected depreciation of local currency that has discouraged FDI in these countries (Asiedu and Lien, 2004).

The coefficient of infrastructure is 0.444. It means that 1% increase in infrastructure causes an increase in FDI by 0.44 million dollars. It is statistically significant at 1% level of significance. Its sign has come out as expected. It verifies the underlying theory that the better is infrastructure of home country which indicate the level of development in home country, the more inclined are foreign investor to invest or increase FDI in home country (Kahouli and Maktouf, 2015).

The coefficient of corruption is 0.142. It is statistically significant at 5% level of significance. Its sign has come out as expected. . It means that 1% increase in corruption causes an increase in FDI by 0.142 million dollars. As pointed out in the methodology that increase in the corruption index decrease in the corruption level. Misappropriation of power, by home officials definitely encourages foreigners to invest or increase FDI in home country. Foreign investors prefer transparent and corruption free environment to move their investment or FDI in home country (Tsen, 2005).

The coefficient of labor cost is 0.403. It means that 1% increase in labor cost causes an increase in FDI by 0.403 million dollars. It is statistically significant at 1% level of significance. Its sign has come out as un-expected. Labor cost is one of the major costs of any production. Therefore the higher is the average labor cost the less inclined are foreigners to invest or increase FDI in the home country. However if the proportion of local employment is very small in the total employment of those companies which have major proportion of FDI, then positive coefficient can be justified as done by Saglam and Boke (2017).

To sum up out of eight explanatory variables, six variables are statistically significant, four of them such as market size, inflation, infrastructure and labor cost are significant at 1% level of significance and two variables such as interest rate and corruption are significant at 5% level of significance. Out of these significant variables, only one variable, inflation, has the opposite sign. Two variables, human capital and trade openness, has been found insignificant statistically significance.

Chapter 5

Conclusion

This chapter has two sections. Section one gives the main findings of this research and section two draws some policy implications based on the analysis of this research.

5.1 Main Findings

The main objective of this research has been to investigate main determinants of foreign direct investment (FDI). On the basis of careful reading of the existing literature on the topic, in total, eight explanatory variables, market size, inflation rate, interest rate, human capital, trade openness, infrastructure, corruption and labor cost have been selected in the model. To avoid country-specific biases in the results, annual data from 28 developing Asian countries has been collected for a period of 22 years ranging from 1996 to 2017. Staionarity of this balanced panel data has been checked and the data has been found stationary. The results of redundant variables test and Haussman test have indicated that FE model is more appropriate for estimation of our panel data.

The results show that five variables; market size, interest rate, infrastructure, corruption and labor cost have expected signs and have statistically significant effect on FDI. It means that foreign investors prefer a big market size while deciding to move their investment in a host country. A high interest rate in host country discourages domestic investment and makes room for FDI. That is, the higher is interest rate in home country, the more FDI is expected to flow in home country. A better infrastructure that indicates the level of development of host country attracts more FDI from foreign investors. Corruption is arguably a main obstacle in the way of FDI. The data has proven this fact. The lower is corruption level or the higher is corruption index in host country, the more is FDI. The higher average labor cost discourages FDI. Labor cost being very high in developed countries and being a major part of total cost of production attracts foreign investors probably the most to move their investment or increase FDI in host country.

Two variables, human capital and trade openness have insignificant effect. The probable reason for contradictory results could be poor proxy of human capital used in this research. Human capital is a comprehensive term. It should have been measured by some index based not only on years of educations but also on technical education and training, average daily calorie intake and health facilities. Having no access to data of such a comprehensive measure of human capital, we had to do with years of schooling. Similarly, the reason for insignificance of trade openness could be its poor proxy that is sum of exports and imports as a percentage of GDP. Probably foreign investors are more interested in export potential of host country that indicates virtual extension in market size of host country.

Inflation rate has a statistically significant positive sign whereas the theory predicts a negative sign. The possible reason could be that inflation should have been divided into two categories, high or hyperinflation and low or creeping inflation. The theory predicts a negative sign presuming that inflation is hyper. This type of inflation confuses market signals and thus discourages investment. However, if there is a low or mild inflation, it encourages business activity.

5.2 Policy Implications

In order to encourage FDI in home country, following policy implications are evident from the results of regression analysis:

- Market size is the biggest variable in terms of value, therefore proper steps should be taken by the government to focus on GDP growth rate; it would attract FDI automatically.

- Since the coefficient of infrastructure is positive, therefore policy makers should pay special attention to develop infrastructure of home country in order to attract FDI.

- According to our results control of corruption encourages FDI. Therefore policy makers should devise such policies and frame such rules and regulation which make the home country free from corruption.

- Policy makers should take special measures to keep the average labor cost stable. That is, control any strikes and unrest among local workers that certainly raise the average labor cost.

- Regulating authorities should take some serious steps towards the human capital as it will increase the foreign direct investment in a country.

- Policy makers should always have a watch on interest rate and labor cost as it can fluctuate, the economy as well as foreign direct investment, if proper procedures have not been adopted by the policy makers.

- Policy makers should always keep in their mind, all the key determinants of foreign direct investment.

- Policy makers should put uncommon accentuation on the accompanying issues. Right off the bat, it is critical to decide the expected advantages of FDI linkages with the neighborhood economy. In this way, the legislature of each nation should dispatch arrangements and give assets to exercises that will help the FDI inflows. Also, the linkages among homegrown and unfamiliar firms ought to be energized.

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Appendix-A

Table 5.1: Results of Random Effect Model

Dependent Variable: FDI				
Variable	**Coefficient**	**Std.Error**	**t-Statistic**	**Prob.**
C	-9.761812	2.073164	-4.708655	0
MS	0.603181	0.057899	10.4178	0
INFL	0.229488	0.04761	4.820155	0
LR	-0.178201	0.127781	-1.394588	0.1637
HC	0.352221	0.281092	1.253046	0.2108
TO	-0.069569	0.09467	-0.734852	0.4628
INFR	0.940356	0.117678	7.990913	0
CRP	0.28122	0.090748	3.098927	0.002
LC	1.236836	0.224523	5.508733	0
R-squared	0.414275	Mean dependent var		2.692531
Adjusted R-squared	0.405141	S.D. dependent var		1.164195
S.E. of regression	0.87545	Sum squared resid		393.1697
F-statistic	45.35464	Durbin-Watson stat		0.807916
Prob(F-statistic)	0			
R-squared	0.079951	Mean dependent var		20.85809
Sum squared resid	2115.155	Durbin-Watson stat		0.150177

Table 5.2: Results of PLS

Dependent Variable: FDI				
Variable	**Coefficient**	**Std.Error**	**t-Statistic**	**Prob.**
C	8.042909	1.759866	4.570183	0
MS	0.272338	0.020329	13.39625	0
INFL	0.061767	0.084646	0.729708	0.4659
LR	-0.828561	0.159744	-5.186816	0
HC	0.902645	0.350155	2.577844	0.0102
TO	-0.200973	0.088124	-2.28058	0.023
INFR	0.460142	0.060617	7.591022	0
CRP	0.34351	0.100051	3.433342	0.0006
LC	-0.150765	0.181823	-0.829185	0.4074
R-squared	0.439151	Mean dependent var		20.85809
Adjusted R-squared	0.430404	S.D. dependent var		2.100616
S.E. of regression	1.585368	Akaike info criterion		3.776601
Sum squared resid	1289.37	Schwarz criterion		3.850009
Log likelihood	-976.6929	Hannan-Quinn criter.		3.805353
F-statistic	50.2105	Durbin-Watson stat		0.267035
Prob(F-statistic)	0			