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ASSESSING THE IMPACT OF HUMAN CAPITAL AND POLITICAL PARTICIPATION ON FOREIGN DIRECT INVESTMENT IN SELECTED SOUTH ASIAN COUNTRIES

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Abstract
This study analyzes the importance of human capital towards FDI inflows to selected Asian Countries, Bangladesh, China, India and Pakistan. Panel data for the period 1990–2024 has been used in this study to check the role of Human capital on FDI inflows. This study has used a proxy for Human Capital as Secondary School Enrollment and used different model for FDI instrument like panel OLS, fixed effect model and random effect model. All of the results show that human capital has a significant and positive impact on FDI. Other supporting variables includes trade openness, GDP growth, polity 2 variable for political participation as an indicator of FDI, inflation, communication infrastructure and natural resources all shown as indicators of FDI as control variables. This study suggest that enhance the flow of FDI to Asia like under developed countries the Human Capital needs to be improve more rapidly in form of secondary education and many other ways (not included in this study). The researcher can contribute to this study by taking other aspects of Human Capital as well which are left unattended in this study.
Keywords: *STIRPAT, Financial factors, Climate risk Index, CO_2 Emissions, Pakistan*

1. Introduction

The study analyzed all three terms short time, long time and also find the granger causality. They used augmented Dickey- Another significant driver of development in most of the developing economies is foreign direct investment (FDI). Other countries like China, Singapore, South Korea and Malaysia have also reaped great economic advantages due to foreign investment. FDI inflows enhance the supply of capital, enhance national savings and boost human capital. This has led to the emergence of new employment opportunities, better resource distribution, competition, and lower cost of capital in these countries (Gorg & Greenaway, 2004; De Mello, 1999; Botric and Skuflic, 2009).

In Graham (1982), FDI is the taking of managerial control of a given business activity in a foreign country by a given business enterprise of a different country. The foreign capital, technological advancement, and management skills inflow into countries which are developing. This leads to the question; why are developing countries seeking FDI? This is because most developing economies such as Pakistan, India and Bangladesh have a saving-investment gap. FDI is used to fill this gap by enhancing productivity, introducing new technology, creating job opportunities, and boosting the growth of the economy (Thomas et al., 2017; Kobrin, 2005; Le and Attaullah, 2006).
Due to these advantages, the developing nations are becoming more liberal in their FDI policies in order to attract more investment. The foreign investors will rather invest in areas where they are able to minimize the expenses in transportation, availability of natural resources, and where they enjoy the support of the business environment. Human capital is regarded as one of the most

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significant determinants of FDI. The presence of higher education, talented labor force, stability in the society and good governance promotes foreign investors into a country.

Human capital does not only increase the productivity of the local firms but also increases the capacity of the local firms to learn on how foreign investors are doing and enabling them to learn to practice better management (Sanchez-Robles, 2003).

Political participation is also crucial in attracting FDI besides human capital. A nation with citizens who engage in political activities has stronger institutions, good governance, and accountability (Lee, J., 2023). These factors provide a predictable and stable environment that makes the investors less risky. Increased political participation is thus associated with enhanced political stability and economic policies thereby promoting foreign investment (Gonchar, & Greve, 2022).

This paper will explore how human capital, political participation, and FDI are related to one another in four South Asian economies of Pakistan, India, Bangladesh, and China. The panel analysis is carried out on the data between 1990 and 2024. The dependent variable is FDI inflow (Rehman, & Noman, 2021). The important independent variables are human capital (secondary school enrollment rate) and political participation. Natural resource rents, inflation, openness to trade, communication infrastructure and real GDP per capita are also considered the control variables in the study.

However, despite the numerous studies on the determinants of FDI in the developing countries, there has been little focus on human capital, and political participation, particularly in South Asia (Islam, & Beloucif, 2024). The results of the impact on FDI are frequently mixed or inconsistent since the research performed is often inconsistent. Thus, the study will seal this gap by presenting new evidence on the role of human capital and political participation in FDI inflows in the chosen South Asian countries.

2. Literature Review

Khan et al. (2025) also discuss the importance of human capital, as well as political stability in predicting the economic growth of Pakistan and state that sustainable development is impossible without an equally favorable change in the two parameters. Their analysis is based on the endogenous growth theory that focuses on education and skill acquisition as core-drivers of productivity and sustained economic growth. The authors underline that one of the main reasons why Pakistan has continued to face economic troubles is the poor performance in education, investment in human development as well as political instability, which have combined to detract growth potential and investor confidence. Based on time-series data and some econometric analysis, it is determined that human capital positively and statistically significantly influences the economic growth, and political instability adversely influences the economic performance by introducing uncertainty, deterring investments, and undermining policy enforcement. One of the biggest contributions of the research is that the investment in education cannot be efficient unless it is accompanied by a stable political and institutional setting since the political turbulence diminishes the efficiency of human capital development policies. The results are aligned with the literature on development that associates the economic performance with the quality of governance and human capital but the study is also valuable in that it examines the synergy between the political stability and human capital in the context of Pakistan. Although the strengths are mentioned, the study can be improved with more governance indicators that include corruption and quality of regulation and focus on the disparities in the country, at the regional level.

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Triarchi and Marangos (2024) examine the political factors of the inward foreign direct investment (FDI) and offer an extensive overview of how the political institutions and the structure of governance influence international flows of investments. The analysis holds that the economic factors like the size of the market and the cost of labour are not only used to drive the choices of FDI, but, these are highly responsive to the political factors in terms of stability of regimes, government efficiency, corruption, and democratic accountability. Based on cross-country data and econometric methods, the authors establish that political stability and good institutions are major drivers of a country increasing its attractiveness in terms of foreign investment whereas political uncertainty and weak governance scares away long-term commitments by multinational companies. The results indicate that investors are more interested in predictability and institutional reliability rather than short-term financial incentives because political instability creates risk and decreases the expected returns. Moreover, the research notes that democratic institutions, rule of law and transparency have been used as signaling mechanisms to international investors in order to show them that the risk is low and protection of their property rights is enhanced. The ability of Triarchi and Marangos (2024) to incorporate the political economy variables in the FDI analysis allows the researchers to go beyond the classical economic models and present a more realistic approach to interpreting the global investment trends. Their article confirms the increasing body of literature that political reform and institutional fortification is equally significant as economic incentives in developing countries that aim to attract inflows of foreign investment.

Och, Baerbig and Jadamba, (2017) provided a good analytical view of the elements of FDI in Mongolia. The study analyzed all three terms short time, long time and also find the granger causality. They used augmented Dickey-Fuller, Phillips-Peron test, (ARDL) model and (VECM) for estimating their study results. They obtained Annual data from 1992 to 2014 from the source World Development Bank and also their local source of Mongolian National Statistical Office. They examined the size of market and human capital both are positively related and their exist U shape relation with Foreign Direct Investment in the short-run, but reverse in the long-run. They found imports have complementary relation but exports have substitution relation with FDI in short run. Study analyzed financial development discouraged the flow of Foreign Direct Investment in short and in long runs. They did not find a significant impact of infrastructure on FDI either the short or long-run.

The article by Ibarra-Olivo et al. (2024) explores the dynamic nature of the relationship between foreign direct investment (FDI) and the development of human capital by comparing two Southeast Asian economies, which reveals the impact of the institutional context and policy orientation on developmental outcomes. The authors assume that FDI will not necessarily result in human capital improvement; instead, it will be influenced by education systems in countries, labor markets, and government policies. The study, based on comparative case study and longitudinal data, proves that one economy that was able to use FDI to improve skill of the workforce via technology transfer, training and industry-academia linkage, and the other was unable to transform the investment foreign into meaningful gains in human capital because of poor institutions and poor coordination of policies. The results underscore the fact that domestic absorptive capacity plays a critical role in changing FDI inflows into sustainable skill development. The paper will enable the literature to take a step further by refuting the belief that FDI will automatically enhance the development and also offers a conditional framework in which the advantages of foreign investment are contingent on the presence of complementary policies on the part of the state and institutional maturity. The study is especially applicable to

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help developing nations to maximize the benefits of FDI since it highlights the fact that the foreign investment strategies must be consistent with the education reform policy, and the workforce development policy.

Kouladoum (2024) explores the effects that institutional quality has on determining the influence of Chinese foreign direct investment (FDI) and human capital development on the performance of macroeconomics in the CEMAC zone, and this study adds to the existing knowledge on whether the outcomes of development in resource-dependent economies are conditional. According to the study, FDI inflows especially China do not always stimulate growth even with good institutions and good human capital policies. Through panel data analysis, the author concludes that institutional quality plays a significant moderating role in the relationship between Chinese FDI, human capital, and economic performance in which the small or even negative macroeconomic effects are felt in countries with weaker governance structures. The study indicates that FDI is more likely to be concentrated in extractive industries and those that have low spillovers in skills in situations where there is corruption, poor regulation enforcement, and political instability, hence limiting the development of human capital. On the other hand, foreign investment in nations that have superior institutional structures has a positive impact on the growth in productivity, infrastructure, and human skills. The work is important to the literature as it brings to the fore the fact that the quality of governance is not an external but rather a core process by which FDI and human capital interrelate and impact development. The results highlight that institutional reform is a requisite in the translation of foreign investment into long term economic benefits within the developing regions.

3. Data & Methodology

The Data has been taken from World development indication, United Nations Educational, Scientific, and Cultural Organization (UNESCO) Institute for Statistics, polity –IV country report from center for systematic peace, Kof index & international telecommunication union database. The data has been used for the period 1990-2024.

Table 1: Description of Variables

Variable Name	Symbol	Definition
Foreign Direct Investment	FDI	FDI in percentage of GDP
Human Capital	SE	secondary school enrolment percentage gross
Political Participation	PO_2	Totally in democratic environment to totally democratic and freedom
Trade openness	TO	Ratio of trade to GDP
Inflation	In	Consumer price index
Communications infrastructure	CI	the number of mainline telephones per 100 of population
Natural resources	R	using total natural resource rent as percentage of GDP
GDP	IPC	GDP Per Capita

Source: WDI, UNESCO, KOF index and international telecommunication union database and center for systematic peace

The role of human capital to attracting the foreign direct investment to selected South Asia countries (Pakistan, China, India and Bangladesh) is examined by estimating the various version of the following model. This model is representing in implicit form as follows.

FDI in flow = f (HK, PO2, Z)

$$\text{FDI}_{it} = \alpha_i + PO2_{it}\beta + Z_{it}\gamma + \mu_t + \varepsilon_{it}$$

$t = 1, \ldots\ldots, T$

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Whereas, FDI= Foreign direct investment, HK= Human capital, PO2= Polity and Z = Vector of control variable

Foreign Direct Investment inflow % of GDP = b_o +b_1 Total natural resources rent % of GDP +b_2 Inflation GDP deflator (annual %) +b_3 Trade openness KOF index +b_4 Communication Infrastructure +b_5 GDP per capita (Real) + b_6 School enrollment secondary (%gross) + b_7 PolityII

4. Results

4.1 Resuls of Panel OLS

A panel data is a set of time series data which is used for different cross sections. Panel data is one of the most important techniques that are frequently used in applied econometrics. The panel data in econometrics and statistic refers to that data which is bi dimensional and it measures the observations over the time period.

FDI =bo+b_1 R+b_2 In +b_3 TO+b_4 CI+b_5 IPC+b_6 SE+ b7 PO_2+e_{it}

The above model representing the panel OLS Model here FDI represent the dependent variable as Foreign direct investment percentage of GDP, R represents the total natural resources rent % of GDP, In represents the inflation GDP deflator (anuual%) , TO represent trade openness , CI represent communication infrastructure , SE represents human capital as school enrollment secondary (% gross), IPC represent gross domestic product per capita, PO_2 represents Polity-II and e_{it} represent error term or residual .

Results of panel OLS showing in table 2 that total natural resources rent a percentage of Gros domestic product, inflation, trade openness, human capital as school enrollment secondary (% gross) coefficient has a positive sign. The coefficent of total natural resources is estimated as 0.72489 with p- value 0 .415 which is not significant for the south Asian Countries as the eploration of these resources isnot efficient, as the big economies take the primary resources and provideback the final good from the very resoucres provided by these south asian countries, furthermore the inter regional issues on water like resources between India and Pakistan has become the hurdle specifically in the power sector of both the countries.

Table 2: Panel OLS Estimation

FDI to GDP	Coefficients	SE	Z	P>|z|	[95% Confidence	Interval]
R	.072489	.889566	0.81	0.415	-.1018626	.2468407
IN	.0541976	.0357924	1.51	0.13	-.059543	.1243494
PO_2	-0.06102	.263173	-2.32	0.020**	-.1126095	-.0094474
TO	.133406	.0314847	4.24	0.00**	.0716972	.1951149
CI	-0.028196	.0329019	0.86	0.391	-.0926824	.0362904
SE	.0370529	.2660155	2.39	0.017**	.0066213	.0674845
IPC	-0.699143	.4257406	-3.99	0.000**	-2.53358	-.8647845
Cons	4.634593	1.578779	2.94	0.003	1.540243	7.728944

Source: authors own estimation

OLS Estimates(***) representing significant at 0.01 , (**) representing significant at 0.05 level and (*) representing significant at less than 0.1

. Inflation in these country though remain very high during the past years but it has remain insignificant at 5 % level and positive to these countries to attract the FDI, as increasing prices contributing positively in reducing unemployment by increasing the opportunities to work as producers get more benefits from the increasing prices. Increasing prices attracts FDI as foreign investor seek high price area to target there investment. Its coefficient is .054 which shows 1 unit increase in inflation (CPI) will increase the FDI by 0.05. The coefficient of polity variable values

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to -0.06102 with a highly significant P-value of 0.02 i.e; significant at 5% level, shows that one unit increase the Polity grading (towards more democratic), decrease the FDI inflow by 0.06 units. Finding of results shows that Trade openness has a positive and highly significant at 0 perent level, impact to attract the foreign direct investment with a coefficient valued to 0.133. It has found that foreign trade has a significant and positive impact on small economies. Communication infrastructure has an insignificant and negative sign. The communication infrastructure has negative but insignificant results. Human capital as school enrollment secondary (% gross) P>|z| value is less than 0.05 that is 0.017 show the significant and positive impact to attract the foreign direct investment with the value of the coefficient .0370 represents that one unit increase in human capital as school enrollment secondary (% gross) will increase the FDI by .0370 unit. It has been found that Investment in human capital (as secondary school enrollment percentage gross) is growth promoted. The coefficient of GDP growth is negative and signifcant which shows that FDI is more demanding towards low incom countries in which opportunities are still available to be allocated and resources are un explored.

4.2 Resuls of Panel Fix Effect

Results of panel Fixed effect model are shown in table 3. The coefficent of total natural resources is estimated as -2.35 which is not significant for the south Asian Countries as the eploration of these resources is not efficient, as the big economies take the primary resources and provideback the final good from the very resoucres provided by these south asian countries, furthermore the inter regional issues on water like resources between India and Pakistan has become the hurdle specifically in the power sector of both the countries. Inflation in these country though remain very high during the past years but it has remain insignificant at 5 % level and positive to these countries to attract the FDI, as increasing prices contributing positively in reducing unemployment by increasing the opportunities to work as producers get more benefits from the increasing prices. Increasing prices attracts FDI as foreign investor seek high price area to target there investment. Its coefficient is .02 which shows 1 unit increase in inflation (CPI) will increase the FDI by 0.05.

Table 3: Estimation Of Fixed Effects Model

FDI to GDP	**Coefficients**	**SE**	**t**	**P>|t|**	**[95% CI]**	
R	-.235597	.1292734	-1.82	0.078	-.4989183	.0277243
IN	.0268843	.0395689	0.68	0.502	-.0537148	.1074834
TO	.1505641	.0344733	4.37	0.000**	.0803442	.220784
CI	-.052458	.0386369	-1.36	0.184	-.1311588	.0262427
IPC	-.6257886	.7339652	-0.85	0.400	-2.120827	.8692495
PO_2	-.0112594	.0294704	-0.38	0.705	-.0712886	.0487697
SE	.0369934	.0158959	2.33	0.026**	.0046144	.0693724
Cons	-2.540893	3.790509	-0.67	0.507	-10.26191	5.180122

Source: calculated by author

(***) representing significasnt at 0.01 , (**) representing significant at 0.05 level and (*) representing significant at less than 0.1

The coefficient of polity variable values to -0.0112 with a highly significant P-value of0.705 insignificant at 5% level, shows that one unit increase the Polity grading (towards more democratic), decrease the FDI inflow by 0.01 units. Finding of results shows that Trade

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openness has a positive and highly significant at 0 perent level, impact to attract the foreign direct investment with a coefficient valued to 0.15. It has found that foreign trade has a significant and positive impact on small economies. Communication infrastructure has an insignificant and negative sign. The communication infrastructure has negative but insignificant results. Human capital as school enrollment secondary (% gross) P>|z| value is less than 0.05 that is 0.026 show the significant and positive impact to attract the foreign direct investment with the value of the coefficient .037 represents that one unit increase in human capital as school enrollment secondary (% gross) will increase the FDI by .0370 unit. It has been found that Investment in human capital (as secondary school enrollment percentage gross) is growth promoted. The coefficient of GDP growth is negative and signifcant which shows that FDI is more demanding towards low incom countries in which opportunities are still available to be allocated and resources are un explored

4.3 Resuls of Panel Random Effect

Results of Random effect model showing in table 4 that total natural resources rent a percentage of Gros domestic product, inflation, trade openness, human capital as school enrollment secondary (% gross) coefficient has a positive sign. The coefficent of total natural resources is estimated as 0.72489 with p- value .415 which is not significant for the south Asian Countries as the eploration of these resources isnot efficient, as the big economies take the primary resources and provideback the final good from the very resoucres provided by these south asian countries, furthermore the inter regional issues on water like resources between India and Pakistan has become the hurdle specifically in the power sector of both the countries. Inflation in these country though remain very high during the past years but it has remain insignificant at 5 % level and positive to these countries to attract the FDI, as increasing prices contributing positively in reducing unemployment by increasing the opportunities to work as producers get more benefits from the increasing prices. Increasing prices attracts FDI as foreign investor seek high price area to target there investment. Its coefficient is .054 which shows 1 unit increase in inflation (CPI) will increase the FDI by 0.05. The coefficient of polity variable values to -0.06102 with a highly significant P-value of 0.02 i.e; significant at 5% level, shows that one unit increase the Polity grading (towards more democratic), decrease the FDI inflow by 0.06 units. Finding of results shows that Trade openness has a positive and highly significant at 0 perent level, impact to attract the foreign direct investment with a coefficient valued to 0.133. It has found that foreign trade has a significant and positive impact on small economies. Most of the time, the sub-region faces trade deficit but the contribution of trade to growth is positive and significant at 1% level.

Table 4: Estimations of Random effect model

FDI to GDP	**Coefficients**	**SE**	**t**	**P>|t|**	**[95% Confidence**	**Interval]**
R	.072489	.0889566	0.81	0.415	-.1018626	.2468407
IN	.0541976	.0357924	1.51	0.130	-.0159543	.1243494
TO	0.133406	.0314847	4.24	0.000**	.0716972	.1951149
CI	-.028196	.0329019	-0.86	0.391	-.0926824	.0362904
IPC	-1.699143	.4257406	-3.99	0.000**	-2.53358	.8647072
PO_2	-.0610285	.0263173	-2.32	0.020**	-.1126095	-.0094474
SE	.0370529	.0155266	2.39	0.017**	.0066213	.0674845

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Cons	4.634593	1.578779	2.94	0.003	1.540243	7.728944

Authors Calculation
(***) representing significant at 0.01, (**) representing significant at 0.05 level and (*) representing significant at less than 0.1

Trade openness benefits small economies than large economies because small economies cannot affect the world supply and hence world price (Jui et al., 2024). Communication infrastructure has an insignificant and negative sign (Rehman et al., 2024). The communication infrastructure has negative but insignificant results. Human capital as school enrollment secondary (% gross) P>|z| value is less than 0.05 that is 0.017 show the significant and positive impact to attract the foreign direct investment with the value of the coefficient .0370 represents that one unit increase in human capital as school enrollment secondary (% gross) will increase the FDI by .0370 unit (Khan et al., 2024). It has been found that Investment in human capital (as secondary school enrollment percentage gross) is growth promoted . The coefficient of GDP growth is negative and signifcant which shows that FDI is more demanding towards low incom countries in which opportunities are still available to be allocated and resources are un explored.

4.4 HAUSMAN TEST

This test is based on null hypotheses.

- Ho: difference in coefficient is not systematic
- H1: difference in coefficient is systematic

If probability value > chi^2 is less than 0.05 then we conclude that we should use fixed effect model at 5 % .it means we conclude at 5% level this statement of the hypothesis (difference in coefficient not systematic) is wrong. We reject H0 and use fixed effect model. If probability value > chi2 value is greater than 0.05. It means we accept Ho: difference in coefficient not systematic. We will use random effect model.In Hausman test results of fixed effect coefficient representing the same value as in fixed effect model, but the random coefficient values by Hausman test are representing different coefficient values which estimated from random effect model. So, by accepting H0: null hypothesis difference in coefficient is not systematic. The results suggests that random effect model is better than fixed effect model on the basis of Housman test because the Prob >chi2 value 0.4690 in Housemen test is greater than 0.005.

5. Conclusion And Recommendation

The results of this study provide strong and comprehensive evidence about the determinants of FDI inflows in selected South Asian economies, highlighting the central role of human capital, trade openness, and political conditions in shaping investment behavior. Using panel data for Bangladesh, China, India, and Pakistan and applying different econometric techniques including Pooled OLS, the Fixed Effects model, and the Random Effects model. the Hausman test affirmed the fact that the Random Effects model gives out the most efficient and unbiased estimates since the regressors and the error terms were not correlated. Analysis It is found that the level of human capital, as indicated by the secondary school enrollment percentage gross, has a positive but statistically significant influence on FDI inflows in all estimated models. This implies that foreign investors are more interested in economies with high level of education, skilled and productive labor force that assures efficiency in operations, low training expenses and long sustainability of investment projects. The positive effect of one unit higher level of secondary school enrollment is a significant increase in FDI and this is a positive confirmation that the investment in education directly drives the openness and integration of economies globally. The beneficial role of human capital also concurs another past empirical research like the one by who

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underscored that investment in secondary education is one of the primary drivers of economic growth and influx of foreign investment. The research also concludes that the trade openness is a determining factor in determining the FDI inflows in the region. The coefficient of trade openness is positive, and at the level of 1% it is very significant and indicates that liberal trade regimes, lower tariff and non-tariff barriers and more integrated with the outside markets provides a more favorable and predictable environment to foreign investors. This outcome reinforces the propositions of classical trade models like the Heckscher Ohlin model that opportune trade arrangements are better to small economies as they are unable to manipulate world prices and hence advantage themselves through the growth of market access. Participation in trade assists in building confidence among the international investors due to the ease of supply chains, decreasing the expenses of importing and exporting goods, and making the situation in the market more predictable. However, on the contrary, the coefficient of total natural resource rents is not significant and positive, which emphasizes the structural weakness of the utilization of natural wealth in the South Asian countries. The fact that this variable is not very important implies that despite the region having a lot of natural resources, they are not being efficiently mined, processed and controlled to produce value added products (Kanwal et al.,2024). The raw materials are rather sent out to larger economies that transform them into the final product thus denying the South Asian countries full benefits of the resources that they are endowed with. Furthermore, geopolitics tensions like the extended water and hydropower conflict between India and Pakistan also lower the possibilities of natural resources to positively impact the foreign investment because the political uncertainty and the conflict over common resources poses risks to investors. The inflation, which is historically high in the region has a negligible, though positive impact on FDI. This finding suggests that gradual price growth might not deter investment rather, growing prices could be a sign of the growing economic activity and increased chances of profitability of companies. In economies where the producers are enjoying rising prices, the employment opportunities could widen and hence enhancing economic activity and confidence by investors. Nevertheless, the positive sign still needs to be taken with grain salt since long-term high inflation levels are bound to damage the investment environment eventually. Political conditions are measured using Polity-2 index, which is highly significant with negative impact on inflows of FDI. The one-unit rise in the score of polity, which is a movement of institutions towards a more democratic form, decreases FDI by 0.06 units. This paradoxical result implies that the shift towards more political openness can be linked to the instability, inconsistency of its policy and governmental difficulties that decrease the investor confidence (Sadeghi et al., 2020). The effect of a shift in political systems normally creates uncertainty and foreign investors normally seek to invest in a predictable and stable political environment which may always lack in the case of developing economies as democratic institutions are still establishing themselves. Communication infrastructure has responded negatively and immaterially, which means that despite the fact that digital connectivity is on an upward trend, the infrastructure has not reached a competitive level, which can make a significant change in foreign investment decision. Lastly, the research mentions that there is a negative and significant association of GDP growth and FDI. This implies that the foreign investors can be attracted to other economies with lower growth rates or less-developed markets where unexploited opportunities are present and the profit margins can be greater. Investors are also inclined to find new markets or those that have low incomes and their resources are not utilized properly and their returns can be good.

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Moreover, the region needs to modernize the digital and communication infrastructure by widening the broadband access, boosting ICT investment, and enhancing digital governance. Improving the political stability and quality governance is also essential because the negative coefficient of the polity variable indicates that there is the necessity of predictable, clear, and consistent political environments. To mitigate political risks to investors, the governments ought to concentrate on continuity in policies, minimize red tape, law and order, and enhance democratic institutions. Lastly, given that the GDP growth has a detrimental effect on FDI, the South Asian countries need to identify and encourage underdeveloped areas with high investment potential and direct FDI towards renewable energy, manufacturing, agriculture value chains, and technology sectors. With such actions, South Asian economies can develop a more resilient, enticing and competitive investment climate to foreign investors and guarantees a sustainable economic growth in the long term through human capital and globalization.

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