Determinants of Foreign Direct Investment and its impact on Economic Growth: Evidence from South Asian Association for Regional Cooperation (SAARC) Countries

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It is argued that Foreign Direct Investment (FDI) inflows benefits the recipient countries by providing capital, technology and long term foreign exchange and bridges savings and investment gap of the recipient country. Further, FDI provides an important role in achieving economic growth in the developing countries. This paper identifies the influential factors that determine FDI inflow in the South Asian Association for Regional Cooperation (SAARC) Countries and empirically investigates the relationship between economic growth and FDI. Further, this study uses time series data from 1980 to 2018 and considered the size of the economy, economic growth, potential of the host market, economic stability, and degree of openness, income level and institutional developments in the host country to identify influential factors to determinants of FDI. Analysis reveal that countries with larger Gross Domestic Product (GDP) growth rate can successfully attract FDI and FDI on the other hand, significantly affect economic growth of a country. In addition, it was found that current account balance, financial deepening and trade openness significantly play a crucial role in determining the FDI flows into recipient countries.

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