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Navigating the Path to Increase FDI in South Asia: The Role of Economic Freedom

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Abstract

Scholars and policymakers have paid special attention to the link between economic freedom and FDI. This research aims to examine this relationship within the South Asian context through a panel data analysis from 2001 to 2021. A panel fixed effect model is employed to assess the influence of economic freedom on FDI and other controlling variables, such as GDP per capita, population density, inflation, government expenditure on education, and general government final consumption expenditure are also taken into consideration. The results indicate that an increase in economic freedom, GDP per capita, population density, and government consumption leads to an increase in FDI. These findings suggest that South Asian policymakers should prioritize increasing economic freedom as a means to attract more FDI. This study offers valuable insights for policymakers seeking to comprehend the factors affecting FDI and ways to increase it in their respective countries. By promoting economic freedom, a more favorable investment climate can be created, thereby attracting more FDI which may help to create jobs and improve living standards for citizens.

***Keywords*:** FDI, Economic freedom, South Asia

1. Introduction

The nexus between foreign direct investment (FDI) and economic freedom has been extensively researched and widely recognized. Economists believe that the concept of liberalization and globalization could not be fully realized without economic independence, and it is widely accepted that nations with higher levels of economic freedom attract more FDI (Foreman 2007; Othman2022; Quazi 2007; Zghidi, Sghaier, & Abida, 2016). Economic freedom encompasses several important aspects, including the security of people and their property, the right to compete, and the freedom to make personal decisions and engage in free exchange. It also includes traditional components such as private property, open markets, and unrestricted commerce. Economic freedom is considered a collection of financial options that individuals have, and is viewed as a crucial component of welfare economics (Friedman,2020; Gwartney, Lawson, & Edwards, 2002; Mitchell, 2013). A thorough understanding of economic freedom is essential to establishing a link between the two. By promoting economic freedom, policymakers can help increase the inflow of FDI, which has the potential to improve the health of the economy and standard of living for citizens (Senturk & Ali, 2021; Audi et al., 2022).

The researchers looked at what influences FDI, which is also further negotiable, particularly in the presence of economic freedom. Using time series or panel analytic frameworks, various studies have examined the link between economic liberty (openness) and FDI. These investigations, however, produced contradictory findings in terms of impact direction and importance. This study uses the panel framework to incorporate GDP per capita, population density, inflation, government consumption, and government consumption on education in the case of Asian economies in an effort to quantify the effect of economic freedom on FDI. The capital flows and international trade have fueled global economic expansion, making FDI an important basis of external finance for nations to support their economic expansion. FDI is the purchase of a majority stake in a business sector or other entity that is situated exterior of one's native nation (Hooley *et al.*,1996). Contributing in FDI allows foreign businesses to conduct regular business activities in the host country, transferring both capital and technological expertise. FDI often occur in open economies with a high likelihood of growth (Siddiqui & Iqbal, 2018; Hooley *et al.*, 1996; Bibi & Ali, 2021). The first economist to support economic freedom was Adam Smith. He argued that the fundamental components of economic freedom which results in economic prosperity are market mechanisms, little government intrusion, and protection of property rights. In order to improve policymaking and promote economic development, modern economists also advocate for economic freedom. Economic freedom and growth are strongly correlated with one another (Ali & Crain, 2002; Barro, 1997; Cole, 2003; Dawson, 1998). Globalization and economic liberty is related concepts. Globalization accelerates economic expansion (Ali, 2022; Ali, 2022).

Greater economic freedom is reflected in higher rates of investment, economic growth, FDI, and investment productivity as compared to economies with less economic freedom. Economic independence has a beneficial impact on life expectancy. In the nations with greater economic independence, the standard of living has been increased with the decline rate of infant mortality rate. In those nations that are producing more economic freedom, poverty is declining and income distribution is improving (Gwartney & Lawson 2004; Arshad & Ali, 2016; Ashraf

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& Ali, 2018). Further, the two concepts of economic equality and liberty are also directly linked. Greater levels of national equality are associated with greater economic freedom (Berggren 1999). Every economy's ultimate objective is to achieve economic prosperity. FDI is measured as an input reason in determining economic expansion. Stronger FDI is revealed by more economic freedom which results in higher economic growth (Pearson *et al.,* 2012; Ali, 2022). Financial freedom and capital stock are all raising as a result of economic liberty which is significantly accelerating the process of economic acceleration (Tiwari, 2011; Shah & Ali, 2022). Asia got economic benefits significantly from economic freedom. The current study investigates how economic freedom affects FDI in South Asian nations.

More than sixty years before the phrase South Asia was created. The word "subcontinent" was replaced by this one to refer to the southern region, which includes the sub-Himalayan countries and their east- and west-bordering neighbors. It is represented geographically by the Hindu Kush, the northern region of India, and the southern Himalayas. South Asia shares geographical boundaries with Central Asia, East Asia, South-east Asia, and West Asia. To the south, the Indian Ocean is located. Based on distinctly different definitions, the present regions of Nepal, India, Sri Lanka, Bangladesh, Afghanistan, Pakistan, Maldives, and Bhutan organize the nations of South Asia in opposition. Iran, Mauritius, and Tibet are sovereign states that are incorporated into the British Indian sea region. The area is the most populous region. It is the habitation to more than twenty percent of the world's population. SAARC is involved in this which comprises of eight nations from the area and it was established in 1985 for economic cooperation.

Table 1: EFI in South Asia (Year 2021)

Country	Overall Score	Property Rights	Government Integrity	Judicial Effectiveness	Tax Burden	Government Spending	Fiscal Health	Business Freedom	Labor Freedom	Monetary Freedom	Trade Freedom	Investment Freedom	Financial Freedom
Afghanistan	53	30.3	29.1	25.7	91.1	76.1	99.9	53.9	59.9	80.8	68.6	10	10
Bangladesh	56.5	38	27.7	35.4	84	93.8	66.3	55.6	68.8	69.9	63.4	45	30
Bhutan	58.3	62.6	55	45.7	82.2	71.6	70.2	67.3	79.6	74.3	40.8	20	30
India	56.5	59.2	48.1	55.9	78.7	78.5	18	76.7	41.3	72.1	69.4	40	40
Maldives	55.2	44.1	39.5	28.2	96.5	67	35.9	77.9	71.2	77.5	59.8	35	30
Nepal	50.7	38.1	33.8	34.1	83.2	73.2	61.8	61.5	53.6	71.6	57.6	10	30
Pakistan	51.7	44.9	31.2	40.7	73.8	86	7.4	60.5	41.2	69.7	64.6	60	40
Sri Lanka	55.7	45.4	39.5	46.8	85	88.4	30.1	75.2	59.1	71.6	47	40	40

Source: The Heritage website (https://www.heritage.org/index/)

2. Literature Review

Over the years, several studies have analyzed the factors affecting FDI inflows. One of these factors is economic freedom, which refers to how freely individuals and businesses may operate in a market economy without undue restrictions from government intervention. Economic freedom is considered a significant source of FDI since it creates a conducive environment for businesses to operate and for investors to make investments. In this literature review, we analyze the impact of economic freedom on FDI using the findings of previous studies.

Dia and Ondoa (2022) studied how economic freedom helps to raise FDI inflows in 37 Sub-Saharan African nations. The researchers found a significant and favorable association between economic freedom and FDI, and they recommended increasing economic freedom to promote FDI. Data from 1995 to 2008 were utilized by Nasir and Hassan (2011) to examine the connections between FDI, economic freedom, GDP and real exchange rates in South Asian nations. They discovered a positive association between economic freedom and GDP and FDI as well as an inverse relationship between real exchange rate and FDI using a fixed effect model. The authors advocated for legislation that support investment in host nations. However, in developing countries, the relationship between economic freedom and FDI is not always straightforward. Foreman (2007) found that economic freedom had little effect on FDI in developing countries, but protecting property rights could increase FDI by reducing government interference and capital flow barriers.

Muslija (2018) examined the nexus between economic freedom and FDI in 34 OECD countries by annual panel data from 1997 to 2016. The ARDL model, the random effect, and the linear dynamic panel (GMM) approaches were used to observe the nexus between the variables in the short and long runs. Economic freedom and FDI were shown to be directly associated, although the ARDL model only showed a substantial and long-term positive association. The study's premise was that greater economic freedom, particularly in regard to trade and investment

helps to boost FDI. Azman-Saini et al., (2010) looked into the nexus between FDI, economic growth, and economic freedom in 85 nations between 1976 and 2004. The GMM technique of estimating was utilised in the study, which showed that FDI had no direct impact on economic growth. The study did find, however, that economic freedom increased economic gains. In a different study, panel data was used by Saini et al., (2010) to analyze the linkages between economic freedom, FDI and economic development by utilizing GMM estimation in the context of 85 chosen nations. The study discovered that while FDI had a negative impact on economic growth, it had a favorable impact on economic freedom.

Table 2: Literature Review Summary

Authors	Countries	Time Period	Method and Techniques	Findings
Nasir and Hassan (2011)	South Asian economies	1995-2008	Fixed effect model	Positive linkage between economic freedom and FDI
Foreman (2007)	Developing countries	1990-1998	Panel data analysis	Economic freedom did not have significant effects on FDI
Kasimov *et al.*, (2020)	Common wealth independent states	1998-2017	2SLSRE and FGLS	Government size and open market had positive effect on FDI
Muslija (2018)	Thirty-four OECD countries.	1997-2016	Random effect and GMM	Positive linkage among economic freedom and FDI.
Azman-Saini *et al.*, (2010)	Eighty-five countries	1976-2004	GMM	FDI had not affected the economic growth.
Bengoa and Robles (2003)	Eighteen Latin American	1970-1999	Fixed effect model	Economic freedom had positive linkage with FDI
Chaib and Siham (2014)	Algeria	1995-2011	Johansen co integration test and VECM	Positive linkage between institutional quality (EIQ) and FDI
Economou (2019)	Four South European countries	1990-2017	Random effect model	Economic freedom had positive impact on FDI
Zghidi *et al.*, (2016)	Four countries of North African	1980-2013	GMM	Positive connection between FDI and economic growth
Ansari and Sensarma (2022)	BRICS-ASEAN Economies	1995-2020	Two stages least squares	Positive linkage among economic freedom, economic growth and FDI
Dkhili and Dhiab (2018)	Gulf Cooperation Council countries	1995-2017	MLS and DOLS	Positive relationship between economic freedom and FDI
Levina (2011)	52 developing countries	1995-2009	Fixed Effects and GMM	Economic freedom, and FDI were positively linked
Badri and Sheshgelani (2017)	Selected ten developing countries	2001-2013	Panel data method.	Economic freedom increases FDI
Sayari *et al.*, (2018)	Thirty European countries	1997-2014	Pedroni and KAO panel co integration	Positive relationship among economic freedom and FDI
Othman (2022)	14 Arab countries	1996-2019	GMM	Monetary and financial freedom had positive relation with FDI

Source: Author's creation by doing literature review

In Europe, Economou (2019) discovered that economic freedom has a positive impact on FDI in Greece, Italy, Portugal, and Spain. Additionally, the positive relationship between FDI and capital, market size, and other key indicators of economic freedom provided these countries with some solace. Sambharya and Rasheed (2015) evaluated the impacts of various economic sub-components on FDI in 95 countries during 1995-200. The study found that lower levels of government interference, strong property rights, and higher levels of economic freedom were positively related to FDI. The study suggested that countries should focus on creating an environment with lower levels of government intervention, which would result in greater levels of FDI inflows. Sayari *et al*., (2018) used Pedroni and KAO panel co integration to look at the long-term association among the economic freedom

and FDI for 30 economies in Eastern, Central and Western Europe between the years of 1997 and 2014. According to the study, there is a physically powerful and favorable association connecting the economic freedom, FDI and the GDP value-added component for a chosen group of nations.

Tiwari (2011) examined how FDI, foreign assistance and economic development are related in the context of Asian countries. The estimate produced by using yearly time series data from 1918 to 2007 that have been aggregated. The domestic capital stock, financial independence and fiscal flexibility were considered all important factors in economic growth. Additionally, it was shown that foreign aid, FDI inflow, and a lack of corruption all had a bad impact on economic growth. Othman's (2022) investigation into the function of economic freedom and its impact on FDI in the context of Arab countries utilized data from 14 nations spanning from 1996 to 2019. Employing the GMM framework, the inquiry revealed that in the Arab region, FDI was negatively correlated with other indices of economic freedom. However, monetary and financial freedom were found to be positively and significantly associated with FDI.

Kasimov *et al.,* (2020) utilized panel data to analyze the empirical relationship between economic freedom, natural resources, sea access, and FDI. They considered the years 1998 to 2017. The inquiry took place in twelve sovereign commonwealth states. The estimate was calculated using PCSEs and the RALS techniques. The study looked into the relationship between increased government volume and economic freedom. Additionally, it examined the effects of free markets on FDI. Bengoa and Robles (2003) investigated the linkage between economic growth, FDI, and economic freedom using panel data from 18 countries in Latin America spanning the years 1970 to 1999. According to the study, FDI and economic independence are related. Additionally, it was shown that FDI and national economic development had a favorable relationship. Caetano and Celerio (2009) investigated the connection between economic freedom and FDI. The MENA and EU instances in this study were taken into consideration. According to the research findings, economic freedom and FDI were favorably connected in the case of MENA countries and EU countries. Badri and Sheshgelani (2017) considered the connection between economic freedom and FDI for 10 chosen developing nations between the years 2001 and 2013 by using the panel data approach. The study identified a correlation between economic freedom and FDI that was equally favorable and substantial. Additionally, it was shown that financial development, gross capital creation, and economic openness were all favorably related to FDI.

Overall, these studies provide evidence that economic freedom is positively associated with FDI inflows. Additionally, factors such as financial development, property rights, economic openness, free markets, and sea access also play significant roles in attracting FDI. The link between FDI and economic freedom, however, is not straightforward and can be influenced by a variety of factors, including domestic capital stock, foreign aid, corruption, and government interference.

3. Theoretical Background

This study sought to ascertain how FDI and economic liberty interacted in the presence of GDP per capita, population density, inflation, final consumption spending by the general government, and government spending on education.

An investment into a company or subsidiary that is based on another nation is mentioned to as a foreign entity's FDI. The development of a new company in a foreign market or the purchases of a long-term share in a foreign corporation are both involved. FDI manifests itself in a number of ways, including stock investments, mergers & acquisitions, and Greenfield projects.FDI is viewed as a source of funding, knowledge transfer, and access to global markets that may aid in raising economic prosperity and development in recipient nations. Nguyen (2020) demonstrated that FDI affects economic growth in a favorable and statistically significant way, especially in emerging nations.

The linkage between FDI and economic freedom has been extensively investigated in academic literature. According to studies, countries with better economic freedom characterized by low tax rates, less governmental regulation, and strong property rights tend to attract more FDI than countries with lower economic freedom. This is because investors think these countries provide a better business environment and more productive prospects. Both institutional quality and economic freedom are positively correlated with FDI however, Ansari & Sensarma (2022) and Chen and Jiang (2022) founded that the impact of economic freedom is vast.

3.1. Economic Freedom Index

The progress of a nation is greatly influenced by the economic freedom. It is an important tool and instrument to promote economic harmony and makes major contributions to our understanding of human behavior. Economic freedom has been measured using the Heritage Foundation's Index of Economic Freedom. Dawson (1998) and Holden & Vos (2018) already used the economic freedom index for analysis. It was estimated and explored by various researchers that economic freedom had positive impact on FDI (Ansari & Sensarma, 2022; Economou, 2019). Ten separate broad components (policy parameters) make up the Index of Economic Freedom, which is divided into four key components:

3.1.1. Rule of Law

Two key elements make up the rule of law: the primary is the absence of corruption, and the second is the protection of property rights as a key policy indicator.

3.1.2. Regulatory Efficiency

Money freedom, labor liberty, and business liberty are the three indicators that make up the concept of regulatory efficiency.

3.1.3. Limited Government

This category is broken down into two major categories. Indexes for fiscal freedom and government spending are part of limited government.

3.1.4. Open Markets

The three guiding principles of an open market are financial freedom, investment freedom, and trade freedom.

3.2. Gross Domestic Product Per Capita

The GDP per capita is determined by dividing the economy's total gross value which includes all resident producers' contributions as well as any product taxes (fewer subsidies) by the mid-year population. Utilizing GDP information in local currency at constant prices, growth is calculated. The studies have shown a positive association between FDI and GDP per capita, albeit the intensity of the link might vary depending on the economic conditions and features of the host nation. Hakizimana (2015) suggested that GDP per capita and FDI both have positive and statistically note worthy relationship. Other studies have also investigated effect of FDI and GDP on environment (Abbas *et al.,* 2022).

3.3. Population Density

The sum figure of inhabitants, or the figure of people divided by the size of area, determines the population density. The association between FDI and population density is a topic of interest among economists and policymakers. Kim and Lee (2022) suggested that population density has a positive and statistically important consequences on FDI inflows.

3.4. Inflation

The pace at which prices increase over a set time period is referred to as inflation. Two broad measurements that are used to define inflation are the growth in living cost or increase in overall prices. The relationship between FDI and inflation is an area of debate among economists. Studies have discovered a generally negative correlation between FDI and inflation, while others have found no correlation or even a positive correlation. According to a study by Alfaro *et al,*. (2004) and Demirhan & Masca (2016) inflation has a detrimental impact on FDI inflows in developing nations. In transition economies, FDI and inflation did not significantly correlate, according to a study by Mihaljek and Kreb (2002). In other research, the association between FDI and inflation is even positive. For instance, a research by Borensztein *et al.,* (1998) discovered that FDI may cause a rise in demand, which may raise prices and contribute to inflation in the host nation. In conclusion, there are several factors that affect the complex link between FDI and inflation which is further debatable.

3.5. Government Consumption Expenditure

The total final consumer spending of the general government includes all current government outlays on goods and services.FDI and government consumption expenditure have a complicated relationship that is prejudiced by various variables, including economic growth, institutional quality, and economic growth stage. According to a study by Sousa and Leal (2010), government consumption spending has a favorable impact on FDI in emerging nations. However, excessive government spending on consumption may result in macroeconomic imbalances, such as high levels of public debt and inflation, which can make a nation less appealing to foreign investors (Ali, 2022; Arshad & Ali, 2016). Large government consumer spending can also discourage private investment and restrict the resources available for private sector growth, lowering the possibility for FDI by Sousa and Leal (2010).

3.6. Government Expenditure on Education

Total government spending on education is computed by taking the GDP, dividing it by the total government spending across all levels of education, and multiplying the result by 100. The role of education is very important for economy (Iqbal *et al.,* 2022). World Bank projections provide the foundation for aggregate data. The relationship between FDI and government expenditure on education is widely recognized as positive. Investment in education can improve the quality of the workforce, increase the pool of skilled labor, and enhance the overall business environment, making the country more attractive to foreign investors. The government expenditure on education has an affirmative and significant effect on FDI by Odhiambo (2010).

4. Data Sources and Methodology

The empirical results always depend upon data set and data sources. This part of study comprises data source and methodology which have been deployed to estimate empirical results.

4.1. Data Sources

In this study panel data analysis has been deployed to estimate the impacts of economic freedom index, GDP per capita, population density, inflation, general government final consumption expenditure and government expenditure on education, on FDI in case of eight countries of South Asia (Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, Sri Lanka). Data was composed from various annual reports of Economic Freedom Index given by Heritage Foundation and World Development Indicator, World Bank for the period 2001 to 2021.

4.2. Methodology

Various functional forms have been used to check the relationship among economic freedom, gross domestic product per capita, population density, inflation, government consumption, government expenditure on education and FDI. The most appropriate functional form with interested variables was specified as:

$$FDI_{it} = \beta_1 + \beta_2 EFI_{it} + \beta_3 \ln GDP_{it} + \beta_4 POP_{it} + \beta_5 INF_{it} + \beta_6 \ln GC_{it} + \beta_7 \ln EDU_{it} + \delta_i + \varepsilon_{it}$$

where βs are the intercept and slope coefficients of explanatory variables, δ_i is cross-section fixed effect and ε_{ti} is usual error term. The description of all other variables is reported in Table 3.

Table 3: Detail of the variables used by this study

Variable	Description	Measurement	Source
FDI	Foreign direct investment	net inflows (% of GDP)	WDI
EFI	Economic Freedom Index	Index	Heritage Foundation
lnGDP	GDP per capita	constant 2015 US$	WDI
POP	Population density	populace per sq. km of land area	WDI
INF	Inflation	Consumer prices (annual %)	WDI
lnGC	General government final consumption expenditure	(% of GDP)	WDI
lnEDU	Government expenditure on education	total (% of GDP)	WDI

Source: Author's creation

4.3. Method of Estimation

4.3.1. Hausman Specification Test

The primary goal of a researcher after gathering data is to choose an appropriate estimating strategy so that the research question may be satisfactorily addressed. To choose the best panel data estimate technique, this study used the Hausman specification test. The empirical outcome of the Hausman test recommended a fixed effect model.

4.3.2. Fixed Effects Model

A fixed effects model has set model parameters rather than random values. It differs from a model with random effects in which some or all of the parameters are random variables. An analysis using fixed group means is known as a fixed effects model. Since the data may be categorized based on a number of observable characteristics, group means might be treated as random or fixed effects for each classification. The mean of each group is a fixed variable that is group-specific under the model we chose (fixed effect model).

5. Results and Interpretation

The descriptive statistics of variables and results of Hausman test are reported in Table 4 and Table 5 respectively. The Hausman measurement test is deployed to determine the best panel data estimation method. This test establishes the statistical significance of the variation between the coefficient estimates generated using the fixed effect technique and the random effect method. The null hypothesis describes that although random effect estimates are accurate and dependable, fixed effect estimates are ineffective. Wald test is a kind of Hausman test. It is frequently reported in χ^2form with *k*-1 degrees of freedom. Here, *k* denotes the model's regressor count. The Hausman test determines whether we should estimate our panel data using a fixed effect model or a random effect model.

Table 4: Descriptive Statistics of South-Asian Countries

Variable	Mean	Std. Dev.	Min	Max
FDI	1.849	2.83	-.676	17.138
EFI	52.662	9.466	10.5	69.7
lnGDP	7.345	.879	5.15	9.23
POP	469.646	465.379	15.167	1801.807
INF	6.1	4.597	-18.109	26.419
lnGC1	2.277	.435	-.337	3.12
lnEDU1	1.205	.359	.282	2.027

Source: Author's creation

Table 5: Hausman Specification Test

	Coef.
Chi^2 test value	13.174
Prob. Value	0.04

Source: Author's estimation

It is observed that the p-value of the Hausman test is less than 5%, the random effect model's null hypothesis cannot be accepted. It indicates that the alternative hypothesis of utilizing a fixed effect model is accepted by this investigation.

Table 6: Estimated Results from Fixed Effect Model

FDI2	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
EFI	0.061	0.02	2.21	0.02	0.00	0.11	**
lnGDP	0.914	0.24	3.71	0.00	0.42	1.402	***
POP	0.003	0.00	8.07	0.00	0.00	0.00	***
INF	-0.021	0.03	-0.57	0.56	-0.09	0.05	
lnGC	1.872	0.43	4.34	0.00	1.02	2.72	***
lnEDU	0.398	0.44	0.89	0.37	-0.49	1.28	
Constant	-14.44	2.11	-6.82	0.00	-18.62	-10.26	***
R-squared	0.602						
F-test	37.245	Prob > F	0.000				

Source: Author's estimation, *** p<0.01, ** p<0.05, * p<0.1

Based on the estimates presented in Table 6, the results of this study align with prior research (Badri & Sheshgelani, 2017; Levina, 2011; Sajid & Ali, 2018) and reveal a robust and favorable association between economic freedom and FDI. The evidence suggests that a rise in economic freedom within South Asian economies corresponds to an increase in FDI inflows.

Further, the empirical estimations showed that GDP per capita is positively associated to FDI in the region. This finding is in line with earlier studies (Alshamsi *et al.*, 2015; Iqbal *et al.*, 2014; Senturk & Ali, 2022). It means with an increase in GDP per capita there will be rise in FDI. Population density has a positive linkage with FDI. This finding is similar to earlier investigations (Al-Lafi *et al.*, 2022; Lee& Kim 2022; Audi et al., 2021). It represents that with an increase in population density in South Asia, the FDI increases. Govt. consumption expenditure is found to be positively related to FDI in South Asia which is in line with earlier studies (Li & Liu, 2019; Shahid & Ali, 2015). It means the FDI of South Asian economies are rising with an increase in govt. consumption expenditure. Inflation is found to be negatively related to FDI, this finding is similar to earlier studies (Demirhan & Masca, 2016; Siddiqi et al., 2014) but coefficient of inflation in this study is insignificant. The govt. expenditure on education is positively related to FDI which means with an increase in Govt. education expenditure, the FDI in south Asian economies rises, however its coefficient is statistically insignificant.

The value of R-squared is 0.602 and F-test is significant and its value is 37.245. According to the R-squared value, the independent variables employed in this study account for 60% variations in FDI in South Asian nations. This indicates that the variables chosen for this study were well-chosen. The fitted model's overall significance is shown to be good by the F-test statistic result. The findings show that the quality of the fitted model is validated by both R-square and F-test statistics. In other words, the econometric model that was fitted to examine FDI in South Asia fits adequately.

Overall, the empirical estimations showed that economic freedom, GDP per capita, population density, government consumption expenditure, and government expenditure on education are positively associated with FDI in South Asian countries. In contrast, inflation was found to have a negative relationship with FDI.

6. Conclusion and Recommendations

The goal of the current study was to investigate how FDI in the South Asian region is impacted by economic freedom. The period under examination spanned from 2001 to 2021, during which the influence of several factors such as population density, GDP per capita, inflation, government spending on education, and government consumption was also evaluated. The relationship between these variables was examined using the panel data estimation fixed effect model. The findings confirm that economic freedom and FDI in the South Asia have a strong and direct relationship. Further, increased population density, government spending on education, per capita GDP, and government consumption all have a favorable effect on FDI inflows. In contrast, it was discovered that inflation had a detrimental impact on FDI inflows. In conclusion, this study provides insights into the nexus between FDI and economic freedom in the region. The findings suggest that promoting economic freedom can play a crucial role in increasing FDI. Policymakers in the region are advised to prioritize creating an environment that fosters economic freedom and mitigates the negative impact of inflation on FDI. This can be achieved through various measures such as reducing barriers to entry, promoting competition, improving the

business climate, providing tax incentives, enhancing the legal system, improving education and human capital, and encouraging innovation.

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