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GOVERNANCE, COMPETITIVENESS AND ECONOMIC PERFORMANCE IN ATTRACTING FOREIGN DIRECT INVESTMENT INFLOW IN SAARC AND ASEAN COUNTRIES

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Abstract: *The underlying purposes of the study are to examine global competitiveness and human development indicators as factor affecting foreign direct investment inflow using cross sectional data of 70 FDI receiving countries and implication for SAARC and ASEAN Countries. To examine the governance and economic performance affecting the growth of foreign direct investment inflow and implication for SAARC and ASEAN Countries and to suggests policy measures to improve foreign direct investment inflow in SAARC and ASEAN countries. FDI can play a vital role for the economic development of developing countries. The empirical study employing multiple regression analysis would suggest that the determinants of FDI especially the human development, global competitiveness and better business environment affects the growth of FDI. The study also would suggest that the countries do have high per capita income, domestic savings and other better domestic economic performances tend to receive more FDI. The non-economic performances of both the regions would suggest that the countries do have better governance in terms of government effectiveness, property rights and better control of corruption and political stability can attract more FDI. The countries in SAARC region needs to improve institutional effectiveness, human development and competitiveness more than the ASEAN countries to attract more FDI.*

Keywords: *Foreign Direct Investment in SAARC and ASEAN; Governance and Foreign Direct Investment; Global Competitiveness and FDI; Economic Performance and FDI; Determinants of FDI; Institutional Effectiveness and FDI; Human Development and FDI; Ease of doing business and FDI.*

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Background

Foreign direct investment has become one of the most important determinants of economic growth of developing countries. The area of this study is very important for SAARC and ASEAN as FDI shows an important factor for development as it transfers technology, generate employment, improve trade balance, improve technical knowhow of the labor, use domestic resources, filling savings investment gap, and improve managerial skills and many more that ultimately can bring economic growth and development of SAARC and ASEAN countries. The global inflows of FDI declined by 16 % to $ 1.23 trillion in 2014 mostly because of the fragility of the global economy, policy uncertainty for investors and elevated geopolitical risks. Inward FDI flows to developing economies reached at the highest level at $681 billion with a 2 per cent rise. Developing Asia are leading in taking global inflows and receives $465 billion in 2014. China has become the world's largest recipient of FDI but in manufacturing sector the share declined and increases in the services sector as they open their retail market. The low level of inflows to developed countries and declined by 28 per cent to $499 billion in 2014. Developing Asia are now investing abroad, and their investment reached a record level. Global FDI inflows are projected to grow by 11 per cent to $1.4 trillion in 2015, $1.5 trillion in 2016 and to $1.7 trillion in 2017. The APEC region, being one of the most dynamic areas of the present world economy, obviously attracted bulk world share of FDI inflow of 53% totaling $552 billion (UNCTAD ,2015). The share of FDI of ASEAN countries is 11% of the total world amounting $ 133 billion. Vietnam, Malaysia, Thailand, Indonesia, Philippines, Singapore are the main recipients of FDI in ASEAN region. Among the ASEAN Indonesia has shown a very good performance in attracting FDI in 2014 and receives US$ 22580 million. Vietnam is also performing very well in attracting FDI. The share of SAARC region is about 5% totaling $39.08 billion of the total FDI. India is the top one country among the SAARC region that has received a sizable amount of FDI in 2014 amounting US$ 34.417 billion. Recently India's performance in attracting FDI is mentionable among the SAARC countries and the position of Bangladesh is almost even for every year but for the case of Pakistan the trend tends to decrease over the period of 2009 to 2014 (UNCTAD, 2015).

Governance, competitiveness and economic performance in attracting FDI inflow in SAARC and ASEAN countries will be the main focusing point of this paper. The underlying objectives of the study are to examine global competitiveness and human development indicators as factor affecting foreign direct investment inflow using cross sectional data of 70 FDI receiving countries and implication for SAARC and ASEAN Countries and to examine the governance and economic performance affecting the growth of foreign direct investment inflow and implication for SAARC and ASEAN Countries and to suggests policy measures to improve foreign direct investment inflow in SAARC and ASEAN countries. The research questions of the study are how has global competitiveness and human development factors affected foreign direct investment inflow of 70 FDI receiving countries? To what extent has governance and economic performances affecting foreign direct investment inflow of 70 FDI receiving countries? What are the implications of the findings for SAARC and ASEAN

countries? The study will concentrate on assessment of the global competitiveness and human development indicators with governance and economic performance as determinants of foreign direct investment (FDI) inflow in 70 FDI receiving countries and implication for SAARC and ASEAN countries especially in the context of governance and institutional effectiveness.

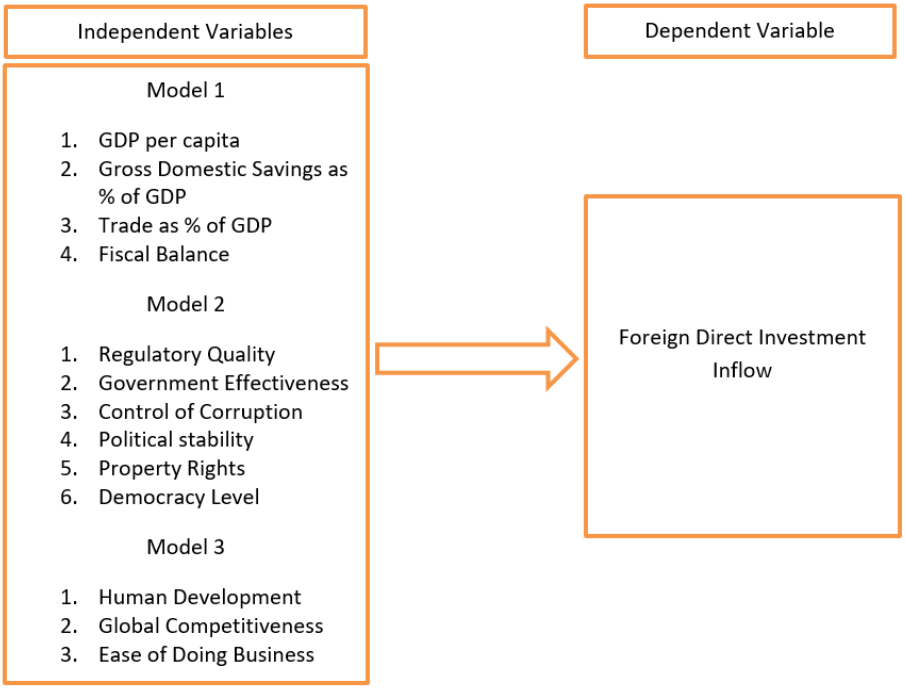
Literature Review and Theoretical Aspects and Conceptual framework

Ohno, K. (2005) defined FDI as an international financial flow with the intention of controlling or participating in the management of an enterprise in a foreign country. Urata (1994) found that neither product differentiation nor technological superiority were the important determinants of Japanese FDI in East Asian economies but that trade in terms of export dependence and import penetration were positively associated with FDI. Cassidy, J. F. (1994) noted that with regard to locational determinants of FDI in China based on the literature, one can say that market size, cost of capital, political stability, levels of illiteracy, exports from foreign invested enterprises in China, township and village enterprise growth rates, wages, exchange rates, economic integration, and cultural differences have been found to be determinants of FDI in China. John H. Dunning (1994) mentioned that there are four main types of FDI as follows 1) natural resource-seeking, 2) market seeking, 3) Efficiency seeking and 4) Strategic (created) asset seeking. Demirhan, E., & Masca, M. (2008) in their paper found that political risk has not been an important factor in attracting FDI in the mentioned period. When the host countries present high returns, firms may ignore political risk. As long as the foreign company is confident of being able to operate profitably without excessive risk to its capital and personnel, it may continue to invest.

Institutions make up the constraints and incentive systems of a society that structure human interactions, and thus they provide rules and enforcement mechanisms that constrain actors and limit their best-choice options to generally predictable outcomes (North, D. C. 1990). Blonigen, B. A. (2005) mentioned that the quality of institutions is likely an important determinant of FDI activity, particularly for less-developed countries for a variety of reasons. First, poor legal protection of assets increases the chance of expropriation of a firm's assets making investment less likely. Poor quality of institutions necessary for well-functioning markets (and/or corruption) increases the cost of doing business and, thus, should also diminish FDI activity. And finally, to the extent that poor institutions lead to poor infrastructure (i.e., public goods), expected profitability falls, as does FDI into a market. Singh, H., & Jun, K. W. (1995) found political stability, business conditions, and manufacturing exports are more important for host countries with higher FDI than those with lower FDI. Chakrabarti, A. (2001) was found that market size holds the largest and most significant place in such studies. Asiedu, E. (2005) and Morisset, J. (2000) both found significance in the role of the country's market size and natural resource endowment. Harms, P., & Ursprung, H. W. (2002) examine whether multinational corporations seek civil and politically repressed countries in which to invest, thus boosting FDI to such countries and found a negative and significant relationship between the dependent variable and political repression.

Böckem, S., & Tuschke, A. (2010) studied on the economic and the institutional perspectives highlight important aspects of a firm's FDI decision. Under the economic perspective, firms that optimize independently are attracted by the economic rents a country's market offers, and several firms may follow the same allures. From the institutional perspective, the same mimetic FDI decisions might be caused by the firm's striving for legitimacy within its organizational field. The economically oriented FDI research addresses the economic rationale of foreign investments, and the institutional perspective helps to explain the extent to which these FDI decisions are influenced by the firm's striving for legitimacy and its quest for mitigating the uncertainty associated with investments in foreign markets. Buracom, P. (2014) in his recent study found that FDI is more likely to flow to countries with appropriate institutional environment. Effective government and better rule of law and property rights protection can reduce investment risk and cost of doing business. These institutional factors, therefore, tend to promote the inflows of FDI.

Figure 1. Conceptual Framework of the determinants of FDI



To sum up, it is realistic to mention that beyond the domestic economic performances some scholar studied on non-economic performances especially the effect of institutions and governances on the inflows of FDI and found them as determinants of growth of FDI. This study is an attempt to use the concept of economic growth theory

to conceptualization and building framework for the determinants of FDI. The theory behind the empirical study is the classical and new classical growth theory, endogenous growth theory, Sen's Development as Freedom theory and more importantly the new institutionalism theory of growth. The conceptual framework has been developed based on literature review and theory.

Methodology and Data Collection

The study is based on empirical findings using secondary cross-sectional data of 70 FDI receiving countries. Multiple regression analysis has been used for global competiveness, human development indicators, governance and economic performance of 70 FDI receiving countries as the explaining factors for growth of foreign direct investment inflow and implications for SAARC and ASEAN countries. The cross-sectional data have been collected from World Bank, World Investment Report UNCTAD, World Economic Forum, IMF, Economist Intelligence Unit, Property Rights Alliance, World Fact book Central Intelligence Agency and UNDP.

Empirical Test of the Relationship of FDI and the Global Competitiveness, Human Development, Governance and Domestic Economic Performance

In this section, there are three empirical testable models have been developed for the determinants of growth of FDI in 70 FDI receiving countries. The empirical model of growth of FDI has been developed based on theory and conceptual framework. The first model is conceptualized as FDI as a function of domestic economic performance based on classical and new classical theory and the second model of explaining the factors of growth of FDI as a function of governance based on new institutionalism theory of growth. The final model of the factors affecting the growth of FDI is a function of global competiveness, ease of doing business and human development indices based on endogenous growth theory, Sen.'s development as freedom, new Institutionalism theory and Classical growth theory (Comparative advantage). The dependent and independent variables of the three models have been developed and defined as explained in the table 1.

The Model Specification

Three empirical models have been developed for the study as follows:

Model 1

$$LogFDI_{it}=b_0+b_1GDPPC_{it}+b_2Savings_{it}+b_3FBalance_{it}+b_4Trade_{it}+\varepsilon_{it}$$

Where LogFDI is the average foreign direct investment inflow in country i at the end of time t (during 2009-2014 in logged million dollars), GDPPC is the per capita GDP,

Savings is the gross domestic savings, FBalance is the fiscal balance, Trade is the trade (export plus import) as % of GDP and ε_{it} is the error terms.

Model 2

$$LogFDI_{it}=b_0+b_1\text{RQ}_{it}+b_2\text{GE}_{it}+b_3\text{COC}_{it}+b_4\text{PolStab}_{it}+b_5IPRI_{it}+b_6DI_{it}+\varepsilon_{it}$$

Where RQ is the regulatory quality, GE is the government effectiveness, COC is the control of corruption, PolStab is the political stability and absence of violence, IPIR is the property rights, DL is the democracy level and ε_{it} is the error terms.

Model 3

$$LogFDI_{it}=b_0+b1HDI_{it}+b2GCP_{it}+b3EODB_{it}+\varepsilon_{it}$$

Where HDI is the human development indices, GCP is the global competitiveness, EODB is the ease of doing business and ε_{it} is the error terms.

In the econometric regression analysis, the log of average value of FDI have been used as dependent variable and other indicators as determinants of FDI have been selected specially the non-economic variables of the 70 FDI receiving countries based on the availability of all the required data from different sources.

Econometric Regression Results

Results of Model 1

It is found from the empirical multiple regression analysis and indicated in table-2 the first model has found two independent variables have a significant positive relationship as the determinants of FDI inflows in the selected 70 FDI receiving countries. The R square of the regression shows that it has 44% explanatory influence of the variance of dependent variable can be accounted for by the predictor variables. GDP per capita have significant positive impact on FDI inflows statistically significant at 0.01 level and the beta coefficient is 0.524. It is believed that per capita GDP as a proxy for market size of a country and the result implies that the foreign investor positively reacts to decide investment in a country of big market size. Gross domestic savings have significant positive effect on FDI inflows and statistically significant at 0.01 level and the beta coefficient is 0.372. It is assumed that savings is the country's capacity to invest and generate income and higher consumption and investors positively consider the gross domestic savings during investment in country. Other two variables fiscal balance and trade as % of GDP from the model was found no statistically significant effect on FDI inflows.

Results of Model 2

The second model was found four independent variables have significant impact on FDI. The R square of the regression shows that it has 54% explanatory influence of the variance of dependent variable can be accounted for by the explanatory variables. Government Effectiveness has very positive impact on FDI inflows as determinant and statistically significant at 0.01 level and the beta coefficient is 0.992. It shows that foreign investors are highly aware of investment decision as the government effectiveness confirms the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation. Multinational responses positively as the government effectiveness increase (index value moves from -2.5 to 2.5) that favors the investment climate to invest more. Control of Corruption have a significant negative correlation with FDI and statistically significant at 0.01 level and the beta coefficient is -0.621. The investors are concern of ability to stop corruption of the country as a decision factor for investment in country and investors responses negatively when the index value moves towards 2.5 to -2.5. Political stability and absence of violence was found negative statistically significant association with FDI and significant at 0.05 level and the beta coefficient is -0.340. It confirms that political instability is a major concern as a determining factor of the growth of FDI. Higher the negative value of political stability index lowers the chance of alluring FDI in a country. As political stability decrease (index value will increase towards 2.5 to -2.5, higher the negative value less the political stability) the investment climate becomes less favorable to the investors. Property rights indicators was found statistically positive significant effect on FDI and significant at 0.05 level and the beta coefficient is 0.602. The foreign investors response positively with well improved physical and intellectual property rights and their protection for economic well-being. No statistically significant association was found among the level of democracy, regulatory quality and the growth of FDI. The model two remarkably supportive to the new institutionalism theory for explaining as determinants of foreign direct investment inflows.

Results of Model 3

In the third model three independent variables including global competitiveness, human development and ease of doing business have found statistically positive significant association as determinant of FDI inflows. The R square of the regression shows that it has 58% explanatory influence of the variance of dependent variable can be accounted for by the independent variables. The beta coefficient of human development index, global competitiveness index and ease of doing business are 0.481, 0.654 and 0.408 respectively. This means all of the three variables have a remarkable influence on the growth of dependent variable FDI inflows and statistically significant at 0.01 levels. The Human Development Index (HDI) coefficients tells the country who have good indicators of human development like long and healthy life, knowledgeable and have a decent standard of living and capabilities of the people tends to have positive effect in alluring foreign direct investment. The regression result also gives us the message if a country tends to have a good set of institutions, policies, and

factors that determine the high level of productivity of a country and ultimately economic growth can attract more foreign investment. The regression coefficient of ease of doing business implies that the country tends to have good regulatory environment that is conducive to business operation does have significant effect for explaining the growth of FDI inflows. The regression result of model three fully supportive to the endogenous growth theory, Sen's development as freedom theory, new institutionalism theory and classical growth theory.

Table 1. Dependent and Independent Variables for the determinants of FDI

Variable and expected sign	Measurement	Data Source	Supporting Theory
Dependent Variable			
FDI (LogFDI) n.a	Foreign Direct Investment in logged million US$	World Investment Report, UNCTAD	
Model 1 Independent Variable-Domestic Economic Performance			
GDP per capita (GDPPC) +	Annual growth rate of gross domestic product	The World Bank, World Development Indicators 2015	Classical growth theory (Comparative advantage) New Classical Growth theory (Solow)
Gross Domestic Savings (Savings) +	Gross domestic savings as % of GDP	The World Bank, World Development Indicators 2015 and IMF	
Fiscal balance (FBalance) +	Average fiscal balance as % of GDP	The World Bank, World Development Indicators 2015 and IMF	
Trade (Export+Import) (Trade) +	Export plus import as % of GDP	The World Bank, World Development Indicators 2015 and IMF	
Model -2 Independent Variables- Governance indicators			
Regulatory Quality (RG) +	Regulatory Quality captures perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development. Index ranging from approximately -2.5 to 2.5.	The World Bank, Worldwide Governance Indicators 2015	New Institutionalism
Government Effectiveness (GE) +	Government Effectiveness captures perceptions of the quality of public services, the quality of the civil service and the degree of its	The World Bank, Worldwide Governance Indicators 2015	New Institutionalism

Variable and expected sign	Measurement	Data Source	Supporting Theory
	independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies. Index ranging from approximately -2.5 to 2.5.		
Control of Corruption (COC) -	Control of Corruption captures perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests. Index ranging from -2.5 to 2.5.	The World Bank, Worldwide Governance Indicators 2015	New Institutionalism
Political stability (PolStab) -	Political Stability and Absence of Violence/Terrorism measures perceptions of the likelihood of political instability and/or politically-motivated violence, including terrorism. Index ranging from -2.5 to 2.5.	The World Bank, Worldwide Governance Indicators 2015	New Institutionalism
International Property Rights (IRPI) +	The Index scores based on three factors: the state of their legal and political environment, physical property rights, and intellectual property rights. It measures the significance of both physical and intellectual property rights and their protection for economic well-being.	The International Property Rights Index 2015, Property Rights Alliance	New Institutionalism
Democracy Level (DL) +	The Democracy Index is based on five categories: electoral process and pluralism; civil liberties; the functioning of government; political participation; and political culture. (on a scale of 0 to 10).	Economist Intelligence Unit-Democracy Index-2015	New Institutionalism

Variable and expected sign	Measurement	Data Source	Supporting Theory
Model-3 Independent Variables-Human Capability and Productivity of Economy			
Human Development (HDI) +	The Human Development Index (HDI) is a summary measure of average achievement in key dimensions of human development: a long and healthy life, being knowledgeable and have a decent standard of living and emphasizes people and their capabilities.	Human Development Index-2015, UNDP	Endogenous growth theory Sen's Development as Freedom New Institutionalism theory Classical growth theory (Comparative advantage)
Global Competitiveness (GCP) +	Global Competitiveness score of World Economic Forum that is defined as the set of institutions, policies, and factors that determine the level of productivity of a country and ultimately economic growth.	World Economic Forum-The Global Competiveness Report 2015	
Ease of Doing Business (EODB) +	Ease of doing business ranks economies from 1 to 189, with first place being the best. A high ranking (a low numerical rank) means that the regulatory environment is conducive to business operation.	World Bank Ease of Doing Business Project	

Table 2. Empirical regression results of the three models

Independent Variables	Dependent Variable: FDI Inflow		
	Coefficients (b)	t	p
Model 1 Independent Variable-Domestic Economic Performance			
GDP per capita	**0.524****	**4.879**	**.000**
Gross Domestic Savings	**0.372****	**3.722**	**.000**
Fiscal balance	**-0.186**	**-1.768**	**.082**
Trade (Export+Import)	**-0.031**	**-0.321**	**.750**
R square= .448; adjusted R square= 414; F= 13.167; p=.000; DW=1.938; n=70 *Statistically significant at 0.05 level and **Statistically significant at 0.01 level			
Model 2 Independent Variables- Governance indicators			
Regulatory Quality	-0.191	-0.743	.460
Government Effectiveness	0.992**	3.134	.003
Control of Corruption	-0.621**	-2.672	.010
Political stability	-0.340*	-2.437	.018
International Property Rights	0.602*	2.450	.017
Democracy	0.108	0.840	.404

Independent Variables	Dependent Variable: FDI Inflow		
	Coefficients (b)	t	p
R square= .547; adjusted R square= .504; F=12.692; p=.000; DW=1.924; n=70 *Statistically significant at 0.05 level and **Statistically significant at 0.01 level			
Model 3 Independent Variables-Human Capability and Productivity of Economy			
Human Development	**0.481****	**3.284**	**.002**
Global Competitiveness	**0.654****	**4.155**	**.000**
Ease of Doing Business	**0.408****	**2.709**	**.009**
R square= .586; adjusted R square= .567; F=31.151; P=.000; DW=2.191; n=70 *Statistically significant at 0.05 level and **Statistically significant at 0.01 level See appendix-1 for the list of countries included in the multiple regression.			

Discussion and Implications for SAARC and ASEAN Countries to attract FDI

Domestic Economic Performance and FDI in SAARC and ASEAN countries

In this part of the study, overall economic performances of SAARC and ASEAN countries are analyzed with the empirical findings of regression result. Most of ASEAN countries domestic savings as % of GDP are remarkably high but huge variation of per capita GDP and the economy heavily relied on international trade specially Malaysia, Philippines, Singapore, Thailand and Vietnam does have high volume of trade as % of GDP that implies the product of ASEAN countries have high demand in the world market. There is little variation of fiscal balance among the ASEAN countries and all of the them have deficit financing. From the empirical findings it was found that higher the growth of per capita GDP higher the volume of FDI as GDP per capita is a proxy measurement of the size of the domestic market. Domestic savings as % of GDP also found as an important determinant of FDI. These two variables empirically confirms as the explaining factors of attracting FDI inflows. Fiscal balance and export plus import as % of GDP has found no significant relation as determinants of FDI. Most of the ASEAN countries are performing well to attract FDI especially Singapore, Indonesia, Thailand and Vietnam. The table (4) shows that both Malaysia and Thailand are in declining trend of receiving FDI in 2014. The macro economic variables have shown strong responsive for growth and development and attraction of FDI in ASEAN region. Most of the ASEAN countries per capita income is more than US$ 2000 and reached in middle income position. The per capita income of Malaysia has reached to US$ 11307.10 and about to enter in the list of developed country and the Thailand is in the middle-income trap with per capita income of US$ 5,977.40 and reached in upper middle-income group and Thailand needs to increase economic growth rate more than 3% to get rid of middle income trap.

Despite the socio-cultural and political similarities, the economic performances of SAARC countries are not remarkable at all. The per capita income of India, Pakistan, Sri Lanka and Bangladesh are US $1581, $1316, $3839 and $1086 respectively.

Domestic savings of India is 29.3 % which is as high as of some ASEAN countries. The empirical findings confirm that there is positive impact of domestic savings as % of GDP on FDI. The market size of India is also big as compared to other south Asian countries as a proxy by the size of GDP. The openness of international trade as measured by the trade as % of GDP is large in India than other FDI receiving countries in SAARC region. Most of the SAARC countries are lower middle-income developing economy and GDP per capita fits below US $ 2000. Among the SAARC countries India, Bangladesh and Maldives are growing more than 6% annually. In case of fiscal balance, India and Bangladesh are in better position, though the figure is negative of -4.1% and -3.0% of GDP respectively.

Table 3. Economic Performance of SAARC and ASEAN+ countries for the year 2014

Country	GDP at market prices (current) (US $)	Per Capita GDP (US$)	GDP growth rate	Domestic Savings as % of GDP	Fiscal Balance as % of GDP	Trade as % of GDP
SAARC						
Afghanistan	20,038,215,159	633.6	1.3	-21.4	-23.7	53.0
Bangladesh	172,886,567,164	1,086.80	6.1	22	-3.0	45.0
Bhutan	1,958,803,867	2,560.50	5.5	36.7	-3.2	94.0
India	2,048,517,438,874	1,581.50	7.3	29.3	-4.1	49.0
Maldives	3,061,829,145	7,635.50	6.5	-	-10.2	198.0
Nepal	19,769,642,123	701.7	5.4	7.2	0.2	53.0
Pakistan	243,631,917,866	1,316.60	4.7	8.5	-5.8	31.0
Sri Lanka	78,823,610,057	3,819.20	4.5	23.87	-7.0	39.0
ASEAN+						
Brunei	17,104,656,669	40,979.60	-2.3	62.6	-12.1	107.0
Cambodia	16,777,820,333	1,094.60	7.1	17.6	-2.3	129.0
Indonesia	888,538,201,025	3,491.90	5.0	33.9	-2.2	48.0
Lao PDR	11,997,062,177	1,793.50	7.5	20.9	-5.0	90.0
Malaysia	338,103,822,298	11,307.10	6.0	34.3	-3.6	138.0
Myanmar	64,330,038,665	1,203.80	8.5	18.55	-2.7	51.0
Philippines	284,777,093,019	2,872.50	6.1	17.2	-1.9	61.0
Singapore	307,859,758,504	56,284.60	2.9	52.1	-0.5	351.0
Thailand	404,823,952,118	5,977.40	0.9	30.7	-2.4	132.0
Vietnam	186,204,652,922	2,052.30	6.0	30.1	-3.9	170.0
S. Korea	1,410,382,988,616	27,970.50	3.3	34.5	-0.2	96.0
China	10,354,831,729,340	7,590.00	7.3	49.9	-2.6	42.0
Hong Kong	290,895,784,166	40,169.50	2.5	24	0.3	439.0

Source: World Bank, World Development Indicators- 2015, and World Fact book, Central Intelligence Agency 2015

Table 4. Foreign Direct Investment Inflow in SAARC and ASEAN+ countries) during 2009-2014 (million dollars)

Country	2009	2010	2011	2012	2013	2014
SAARC						
Afghanistan	76	211	83	94	69	54
Bangladesh	700	913	1136	1293	1599	1527
Bhutan	72	31	26	51	9	6
India	35634	27417	36190	24196	28199	34417
Maldives	158	216	426	228	361	363
Nepal	39	87	95	92	71	30
Pakistan	2338	2022	1326	859	1333	1747
Sri Lanka	404	478	981	941	933	944
ASEAN+						
Brunei	370	481	691	865	776	568
Cambodia	928	1342	1372	1835	1872	1730
Indonesia	4877	13771	19241	19138	18817	22580
Lao PDR	190	279	301	294	427	721
Malaysia	1453	9060	12198	9239	12115	10799
Myanmar	27	6669	1118	497	584	946
Philippines	1963	1298	1852	2033	3737	6201
Singapore	23821	55076	48002	56569	64793	67523
Thailand	4854	9147	1195	9168	14016	12566
Vietnam	7600	8000	7519	8368	8900	9200
S. Korea	9 022	9 497	9 773	9 496	12 767	9 899
China	95000	114734	123985	121080	123911	128500
Hong Kong	55535	70541	96581	70180	74294	103254

Source: World Investment Report 2015, UNCTAD

Governance and institutional effectiveness in SAARC and ASEAN Countries and FDI

The empirical findings of the study indicate that governance indicators specially control of corruption, government effectiveness, political stability property rights are statistically sensitive to attractiveness of FDI. Political stability and control of corruption are statistically significant and negatively correlated with FDI and government effectiveness and property rights does have positive significant statistical relation as determinants of FDI. The World Bank world governance indicators reveal the facts about the world-wide governance in the country that is also important intuitional effectiveness determinants of attracting foreign direct investment. The countries those have better value of governance indices are receiving more foreign direct investment in ASEAN+ and SAARC countries. Singapore, Malaysia, Hong Kong, Taiwan, Thailand and China have better index. It tends to have positive relation between higher the governance index and more the attraction of foreign direct investment. The index shows the value -2.5 to 2.5 and 0 is the average with higher positive value indicates better governance (World Bank, 2015). In SAARC region

control of corruption, and political stability of Bangladesh and Pakistan is shown negatively sensible to attract FDI as they belong to poor governances and one of the lowest value of indices. The governance indicators of India and Sri Lanka are better, and India receives highest in SAARC region. The government effectiveness indicator has found high positive impact on FDI both in SAARC and ASEAN countries as it provides the perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies (World Bank, 2015). Only Bhutan and Sri Lanka have positive government effectiveness index in SAARC region and India is also in a better position. In ASEAN region Cambodia, Lao, Myanmar, Indonesia and Vietnam have negative value of the index. But Indonesia and Vietnam have marginal negative value and close to average and the countries are doing well in attracting FDI. Comparing with the two regions SAARC countries are characterized by weak institutional effectiveness and are getting low inflow of FDI. The institutional effectiveness of Singapore and Malaysia in ASEAN region are better and tend to have more attractions of FDI.

Table 5. The World Governance Indicators Indices for SAARC and ASEAN+ Countries for the year 2014

Country	Control of corruption	Government Effectiveness	Political Stability	Regulatory Quality	Rule of Law
SAARC					
Afghanistan	-1.33	-1.34	-2.46	-1.13	-1.53
Bangladesh	-0.91	-0.77	-0.88	-0.94	-0.72
Bhutan	1.27	0.27	1.00	-1.01	0.35
India	-0.46	-0.20	-0.96	-0.45	-0.09
Maldives	-0.11	-0.37	0.88	-0.36	-0.49
Nepal	-0.54	-0.83	-0.70	-0.85	-0.68
Pakistan	-0.81	-0.75	-2.44	-0.69	-0.78
Sri Lanka	-0.34	0.09	-0.25	-0.08	-0.15
ASEAN+					
Brunei	0.63	1.08	1.27	0.97	0.50
Cambodia	-1.08	-0.68	-0.04	-0.40	-0.93
Indonesia	-0.58	-0.01	-0.37	-0.10	-0.35
Lao PDR	-0.76	-0.39	0.46	-0.85	-0.71
Malaysia	0.48	1.14	0.34	0.84	0.64
Myanmar	-0.92	-1.28	-1.06	-1.39	-1.17
Philippines	-0.44	0.19	-0.70	-0.01	-0.33
Singapore	2.12	2.19	1.23	2.23	1.89
Thailand	-0.41	0.34	-0.91	0.27	-0.15
Vietnam	-0.50	-0.06	0.00	-0.59	-0.31
S. Korea	0.49	1.18	0.19	1.11	0.98
China	-0.33	0.34	-0.46	-0.27	-0.33
Hong Kong	1.64	1.84	1.13	2.05	1.85
Taiwan	0.84	1.37	0.80	1.30	1.20

Source: World Bank, Worldwide Governance Indicators- 2015

Table 6. Democracy and International Property Rights Index 2015 of SAARC and ASEAN+ countries

Country	Democracy Index-2015 (Economist Intelligence Unit) (0-10)	International Property Rights Index Score (Property Rights Alliance) (0-10)
SAARC		
Afghanistan	2.77	-
Bangladesh	5.73	2.6
Bhutan	4.93	-
India	7.74	5.2
Maldives	-	-
Nepal	4.77	4.2
Pakistan	4.40	3.6
Sri Lanka	6.42	4.8
ASEAN+		
Brunei	-	-
Cambodia	4.27	3.5
Indonesia	7.03	4.9
Lao PDR	2.21	3.6
Malaysia	6.43	6.6
Myanmar	4.14	2.5
Philippines	6.84	5.1
Singapore	6.14	8.1
Thailand	5.09	4.9
Vietnam	3.53	4.5
S. Korea	7.97	5.9
China	3.14	5.4
Hong Kong, China	6.50	7.6

Source: UNDP, Human Development Reports-2015 and Economist Intelligence Unit-Democracy Index-2015 and Property Rights Alliance-The International Property Rights Index 2015 (Ranking among the 129 countries)

The regression result of the study has found no statistically significant relationship between the growth of FDI and the level democracy as determinant. The Democracy Index is based on five categories: electoral process and pluralism; civil liberties; the functioning of government; political participation; and political culture. (on a scale of 0 to 10). It has been noticed that among the SAARC region India belongs the highest score of democracy index and receives maximum amount of FDI inflows. The position of Bangladesh is 3rd in this region and Sri Lank belongs the second position of democracy index. Democracy index tends to have positive relation for attracting higher FDI inflow in SAARC region but statistically not significant. On the other hand, in ASEAN+ countries excluding China, Vietnam, Lao PDR and Myanmar the democracy index is reasonably high, but China receives the highest FDI and the democracy index of Indonesia is high and receives higher FDI, but the empirical result shows any statistically significant relationship.

The International Property Rights Index serves as a barometer for the status of property rights across the world. The index scores based on three factors: the state of the legal and political environment, physical property rights, and intellectual property rights. It measures the significance of both physical and intellectual property rights and the protection for economic well-being. The overall grading scale ranges from 0 to 10, with 10 being the highest and 0 being the lowest value (i.e. most negative) for a property rights system within a country (Property Rights Alliance 2015). The empirical result has found positive statistically significant relationship in attractive FDI. In SAARC region again, India has got the highest value of International Property Rights Index (5.2) and Bangladesh belongs the lowest value of International Property Rights Index (2.6) which is the second lowest in the world economies that confirms the new institutional theory of growth and it has positive relation to the attraction of FDI. The new institutional theory is supportive in case of ASEAN+ countries that confirms by the high score of property rights index of Singapore, Hong Kong, Malaysia, China, Korea and Thailand for attraction of FDI. In ASEAN region Lao PDR, Cambodia and Myanmar holds the lowest score of property rights and receives lower FDI. The investors are very much aware of legal and property rights of a country for investment decision.

Competiveness, Ease of Doing Business and Human Development in SAARC and ASEAN Countries and FDI

The competiveness and cost of doing business and human development are the important and indispensable factors in attracting FDI. Most of the SAARC countries and half of the ASEAN countries position in ease of doing business is not business friendly as poorly ranked. A high ranking (a low numerical rank) means that the regulatory environment is conducive to business operation. The regression result reveals that all the three components are statistically positively significant for the growth of FDI.

India and Sri Lanka are in a better position in ease of doing business ranking of World Bank (2015). The ranking of SAARC countries is India 130, Sri Lank 107, Pakistan 138 and Bangladesh 174. Bangladesh is the worst position of world ranking of ease of doing business in SAARC region. The poor business environment of Bangladesh and Pakistan can reduce the eagerness of investors to invest. The better the business environment the more the attractiveness of SAARC countries to FDI as confirmed by the business environment of India in attracting FDI. Comparing with the ASEAN+ countries Singapore holds the top position and Hong Kong, Malaysia, Thailand are in better position for business operation. China is the middle of the ranking but receiving the highest amount of foreign direct investment. It has been empirically proved that better business environment can attract more FDI. ASEAN countries are more business friendly than SAARC countries and receiving more FDI.

Table 7. The Global Competitiveness Index, Human development Index and Global Rankings of Ease of Doing Business for SAARC and ASEAN Countries for the year 2014

Country	Human Development Index (UNDP)(0-1	Global Competitiveness Score (1-7)	Ease of Doing Business Ranking
SAARC			
Afghanistan	0.465	-	177
Bangladesh	0.570	3.72 (109)	174
Bhutan	0.605	3.80 (103)	71
India	0.609	4.21 (71)	130
Maldives	0.706	-	128
Nepal	0.548	3.81 (102)	99
Pakistan	0.538	3.42 (129)	138
Sri Lanka	0.757	4.19 (73)	107
ASEAN+			
Brunei	0.856	-	84
Cambodia	0.555	3.89 (95)	127
Indonesia	0.684	4.57 (34)	109
Lao PDR	0.575	3.91 (93)	134
Malaysia	0.779	5.16 (20)	18
Myanmar	0.536	3.24 (134)	167
Philippines	0.668	4.40 (52)	103
Singapore	0.912	5.65 (2)	1
Thailand	0.726	4.66 (31)	49
Vietnam	0.666	4.23 (68)	90
S. Korea	0.898	4.96 (26)	4
China	0.727	4.89 (28)	84
Hong Kong, China	0.910	5.46 (7)	5
Taiwan		5.25 (14)	-

Source: World Economic Forum-The Global Competiveness Report 2014-2015 (Ranking among the 144 countries) and World Bank: Ease of doing business index (1=most business-friendly regulations).

The global Competitiveness score of World Economic Forum that is defined as the set of institutions, policies, and factors that determine the level of productivity of a country. The productivity of a country determines its ability to sustain a high level of income; it is also one of the central determinants of its return on investment, which is one of the key factors explaining an economy's growth potential. The score is 0-7 (7= most competitive and productive countries). The empirical findings of the study confirm that the productivity of country or competiveness tend to attract more FDI. It is seen in the table (7) that the high scorer of global competitiveness index of ASEAN+ countries like Singapore, China, Malaysia, Thailand, Indonesia, Taiwan, Hong Kong are the major recipient of foreign direct investment that means these ASEAN+ courtiers except Myanmar and Cambodia has high productivity to sustain high level of income and return on investment and thereby economic growth. The ASEAN+ countries are

performing well in attracting foreign direct investment. Among the SAARC countries India (4.21) and Sri Lanka's (4.19) score are high that confirms the productivity of India is high and receiving a sizable amount of foreign direct investment. The position of Bangladesh and Pakistan is far behind only (3.72) and (3.42) score respectively that implies the lower competiveness of Bangladesh and Pakistan and return on investment is low among the SAARC countries and receiving meager amount of FDI.

Considering the human development index that emphasizes people and their capabilities should be the ultimate criteria for assessing the development of a country, not economic growth alone. The Human Development Index (HDI) is a summary measure of average achievement in key dimensions of human development: a long and healthy life, being knowledgeable and have a decent standard of living. The empirical findings reveal that higher the ranking score of HDI tend to promote more FDI in the FDI receiving countries. The human development index supports the endogenous growth theory for explaining the determinants of annual average growth rate and applicable to explaining as an important factor of growth of foreign direct investment. It is having been seen that the country which has high HDI that receives high foreign direct investment in ASEAN+ and SAARC countries. In SAARC region India and Sri Lanka has high HDI and India receives the highest FDI among the region. Bangladesh is holding the fifth position among the SAARC region. In ASEAN+ countries Singapore, Hong Kong, China, Malaysia, Thailand and Indonesia has high HDI value and receives the most FDI. In the year 2014 China receives 128500 million US$, Singapore 67523 million US$, Indonesia 22580 million US$ followed by Thailand 12566 million US$ and Vietnam is in right track that attracts 9200 million US$. Human development is one most important determinant of FDI and to attract more FDI the poor scorer countries of SAARC and ASEAN needs to improve the capabilities, knowledge and quality of the life of people.

Policy Recommendations and Conclusion

The above empirical findings, analysis, discussion and implications would suggest that the prospect of SAARC and ASEAN countries in attracting FDI is very bright in many aspects of world economic situation and trade relations among the nations. The countries do have high per capita income and domestic savings and other better domestic economic performances tend to receive more FDI. The non-economic performances of both the regions would suggest that the countries do have better governance in terms of government effectiveness, property rights, better control of corruption and political stability can attract more FDI. Global competitiveness, business friendly environment, capability and better quality of life of people would play remarkable role as determinants of FDI in both the regions. It is seen that the ASEAN countries domestic economic performances, governance indicators, competiveness, business friendly environment and human capabilities are better than that of SAARC countries. The study reveals that countries in both the regions have intuitional weakness except Singapore and Malaysia. The countries in SAARC region needs to improve intuitional effectiveness more than the ASEAN countries in order to receive more FDI. Beyond economic performance, the MNCs are now more concern about the political stability, control of corruption, government effectiveness, business friendly

environment, property rights, human capabilities and productivity of the economy to make investment decision in a country.

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Appendix 1.

List of countries for empirical studies

Algeria
Argentina
Australia
Azerbaijan
Bangladesh
Bhutan
Brazil
Bolivia
Cambodia
Cameroon
Canada
Chile
China
Colombia
Costa Rica
Côte d'Ivoire
Czech Republic
Dominican Republic
Egypt
El Salvador
Georgia
Ghana
Greece
Guatemala
Guyana
Honduras
Hong Kong, China
Hungary
India
Indonesia
Italy
Kazakhstan
Kenya
Lao PDR
Malaysia
Mexico
Moldova, Republic of
Morocco
Myanmar
Nepal
Netherlands
Nicaragua
Nigeria
Norway
Pakistan
Panama
Paraguay
Peru
Philippines
Poland
Portugal
Romania
Russian Federation
S. Korea
Singapore
Spain
Sri Lanka
Swaziland
Sweden
Switzerland
Thailand
Uganda
Ukraine
United Kingdom
United States
Uruguay
Venezuela,
Vietnam
Zambia
Zimbabwe