

Relationship of Macroeconomic Factors and Foreign Direct Investment in South Asia: Mediating Role of Political Stability and Corruption

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<https://doi.org/10.62345/jads.2025.14.2.141>

Abstract

The relationship between macroeconomic factors and Foreign Direct Investment (FDI) in South Asian countries is investigated. This study also examines interest rates, exchange rates, oil prices, inflation, and GDP levels. The survey spanned the period from 2000 to 2020, encompassing major economic crises, including the current COVID-19 pandemic. Purposive sampling was used, and information was gathered from reputable sources, including the central banks of Pakistan. The regression model used in the study yields some interesting results. In Bangladesh, interest rates are directly proportional to inflation and GDP. They have a considerable impact on FDI (Foreign Direct Investment), while corruption is an important mediator that affects the relationship between them. FDI in India depends on many variables. Inflation rates, exchange rates, and oil prices, as well as GDP, are the most important of these; relatively few regard corruption as a serious obstacle to foreign investment. But political stability becomes an important intermediary factor. Likewise, in Pakistan, inflation rates and exchange rates will increase or decrease FDI; oil prices have a rapid impact, whereas GDP has a decelerated effect. With corruption marked as insignificant, it's political stability that plays a significant mediating role. The study underlines the significance of government action in bringing macroeconomic factors, including interest rates and exchange rates, down out of their upward movement to encourage investor confidence. Additionally, political stability plays a role in attracting FDI across various sectors. Hence, there must also be an effort to stabilize the political environment. Policymakers are urged to attach importance to these measures, thereby creating an environment conducive to investment in South Asian countries.

Keywords: Interest Rate, Inflation, Exchange Rate, GDP, Oil Prices, South Asia.

Introduction

The issue of price stability poses a significant challenge for developing countries. Instability in prices has several root causes. All global economies are sensitive to changes in the price of crude oil. Because their economies are more susceptible to external shocks, emerging nations feel the effects of fluctuations in crude oil prices more acutely. The rate of inflation and general price

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fluctuations are susceptible to variations in the price of oil. The general economic performance is affected by price fluctuations, as they may cause changes in the financial structure. One of the most effective ways to assess a country's economic health is to examine its inflation rate. Therefore, maintaining low inflation and stable prices are the key goals of policymakers (Sek et al., 2015).

Because of its central role as a raw resource in manufacturing, oil price fluctuations have a direct impact on inflation rates. A rise in oil prices is associated with an increase in production costs and commodity prices. The costs of inputs like labor and materials as well as outputs like completed items are affected by these shifts (Hamilton, 1983). In other words, the price of energy-related items, such as petrol for homes and cars, as well as electricity, is directly tied to the price of crude oil. A similar chain reaction occurs as oil prices rise productivity falls, real wages fall, employment falls, investment falls, profits fall, and stock market capitalization falls. According to Malik (2016), a combination of these factors and the actions taken by central banks explain how fluctuations in energy prices affect overall inflation.

Many people see foreign direct investment (FDI) as a powerful tool for economic development. A lack of investment and financial resources worsens the monetary condition in many developing nations. Foreign direct investment is a primary focus for the governments of these nations. Foreign direct investment (FDI) occurs when a foreign investor or speculator gains a stake in a company and exercises control over it. Employment isn't the only aspect that foreign direct investment (FDI) affects; it also boosts economic growth and development. Foreign direct investment (FDI) has been in decline in developing nations over the past several years (Rahman et al., 2014).

The increase in capacity, administrative practices, exchange of knowledge, and sharing of expertise among different nations can be the most crucial factor in foreign direct investment. The flow of foreign direct investment is a significant factor that can aid the direction of improvement in financial development, and also be beneficial for the government in providing expertise for the strategies it plans for its future. Therefore, it has been reported that the foreign direct investment can be the significant factor which can be helpful to increase the capacity of financing and can be used for the exchange of technology and innovation among the different nations.

The conversation rate can be significantly designated as the value of one exchange in terms of other (foreign) currency. The study of Tiwari (2003) concluded that the instability of exchange rates or higher jumps in the currency of any country would create enormous problems for the financial stability and economic growth. Some studies argue that exchange rates is a source of increasing the country's inflation rate, as the higher current exchange rate the means the value of the present localcy decreases in international relation to a currency, and the burden this will be rising on the country's economy highlights the gap that some factors, such as corruption and political stability, can play a mediating role between macroeconomic factors and FDI. The economic crisis of 2007-08 showed its financial and political effects on almost every country of the world. The economies have faced massive shocks, the stock markets have experienced record crashes, and some countries have seen changes in their political leadership. Due to these shocks, the FDI of both developed and developing countries decreased as firms sought to protect their investments. This shows the global financial crises have shown its severe effects on the FDI around the world.

Corruption impedes economic growth by redirecting valuable resources and money to unproductive endeavors. Since foreign direct investment (FDI) is a direct source of capital acquisition, the unequal distribution of resources in developing nations limits economic growth prospects, which in turn causes capital to erode and makes it harder for various economic sectors

to obtain the funds they need to function. Since foreign direct investment (FDI) is a key driver of economic growth, corruption has a direct impact on FDI inflows, which in turn limit economic growth. Corruption appears to be the primary element influencing the perceived progress of capital formation and commercial activities in nations' economies, and this study will focus on its effects on foreign direct investment (FDI) and economic outlook (Nizam & Liaqat, 2022).

Economists view political instability as a significant hindrance to economic growth. Several economists have taken an interest in the detrimental impacts of political instability on financial performance, which has occurred frequently in various nations throughout history. The propensity for a government to fall is referred to as political instability (Alesina et al., 1996). This can be because of the intense rivalry or disagreements among the different political groups. The occurrence of a change in government would also raise the likelihood of further modifications.

FDI is considered the most critical factor for achieving economic growth. The importance of FDI has increased significantly in developing countries like Pakistan, India, and Bangladesh. Different studies conducted on the various factors affecting FDI in these countries have argued that Interest Rates, Inflation Rates, Exchange Rates, oil prices, and GDP are the most significant factors that can directly affect FDI. Irhsadet al., (2022) argued that interest rates are the factor which can affect the policy governing the capital inflow to the market. Fluctuation in the interest rate will lead to disturbance in the cash flow in the market and it is having direct effect on the FDI. Mustapa (2020) and Tariq et al. (2020) reported that the exchange rate is a factor that has a positive and significant effect on economic growth, and FDI is directly related to economic development. The study of Abbasiet al. (2021) & Azam et al. (2021) argued that inflation rate is the factor, which is having negative impact on FDI, but this can be different, depending on the market structure. After evaluation of the literature, the gap has been identified that minimum work has been conducted by examining the selected macro factors in single study with corruption index and political stability index. Therefore, by taking the gap, the existing research will be conducted in finding out the effect of Interest Rate, Inflation Rate, Exchange Rate, Oil Prices, and GDP on FDI in Pakistan, India, and Bangladesh, along with the corruption index and political stability index, as no study has examined them for FDI. The literature shows that no study has been conducted that takes any factors into account in a mediating role. Therefore, the present study takes political stability and corruption as mediating variables and will examine their role between the selected factors and FDI. This study examines different facets of foreign direct investment (FDI) in the South Asian countries. It intends to analyze the effect of interest rates, exchange rates, oil prices, inflation rate and GDP on FDI. The research examines the impact of interest rates on FDI. Also, it investigates whether exchange-rate adjustments or changes in oil prices hurt foreign direct investment, as well as whether inflation plays a role. Its scope includes South Asian nations, such as India, Nepal, and Sri Lanka — all very different from Ho Chi Minh City. Furthermore, the study also goes one step further to explore whether political stability and corruption play a mediating role in interest rates--pressure-exchange rate relations: oil prices--oil surplus (deficit)--inflation ratio relation. The research seeks to provide these insights by focusing on the conditions of FDI in this region.

Literature Review

Many studies have been conducted on FDI and economic growth, as well as the various macroeconomic determinants of FDI in different global markets. These findings are consistent with other conclusions. Some studies have been conducted at the firm level, while most of the literature has been reported at the macro level of factors. The current chapter of the study examines

the relationship between all determinants and FDI, and discusses the findings based on the models. These studies are:

Exchange Rate & FDI

International direct investment (FDI) inflows (in millions of USD) and real gross domestic product (GDP) (USD at constant 2010 prices) in Indonesia were studied by Tanaya and Suyanto (2022) from 1970 to 2018. A natural logarithmic transformation was applied to the variables. According to the Dickey-Fuller and Phillips-Perron unit root tests, the real GDP logarithm is a non-stationary series $I(1)$. In contrast, the foreign direct investment logarithm is a stationary series $I(0)$. An ARDL (3, 2) model with a dependent variable logarithm of FDI, whose lag selection was examined using the Schwarz Bayesian information criteria, may be tested using the ARDL co-integration bound test since each series is expressed in logarithmic order. With an F-statistic of 477.26, which significantly surpasses the $I(0)$ and $I(1)$ bands, the authors inferred a long-term equilibrium link between the logarithm of real GDP and FDI at the 5% significance level. The calculated ECM reveals a highly significant and high income elasticity of foreign direct investment (FDI) of 76.74 in the near term and a considerable income elasticity of FDI of 42.18 in the subsequent period. When compared to its value from the prior period, FDI exhibits a very negative and inelastic behavior. By confirming the co-integration between the series with a negative coefficient of the error correction component, this model concludes.

Interest Rate & FDI

Foreign direct investment (FDI) is a wide-ranging index that includes the equities, debt, and securities markets as well as banks, mutual funds, pension funds, and insurance. There is strong evidence from this and other research that it boosts economic growth worldwide (Tariq et al., 2020). Several studies have shown that the trade balance affects gross domestic product (GDP) in developing countries, such as India, and many others in Asia (Prabhakar & Rentala, 2019). A trade deficit occurs when an economy suffers because imports exceed exports. Conversely, a trade surplus will appear for the government if exports exceed imports. Would a favourable shift in a country's trade balance affect its economic growth?

When it comes to foreign direct investment (FDI), Ahmed and Mayowa (2010) found that several factors and variables have an effect. Data was gathered in the Nigerian market between 1970 and 2009 for the study. Both the VECM model and the Granger causality test were employed to assess the link between the time series variables. The study's results suggested that variables such as inflation, market openness, interest rate, and currency rates are crucial drivers in attracting foreign direct investment (FDI) from around the world.

Oil Prices & FDI

The study conducted by Maalel and Mahmood (2018) examined the impact of oil price changes in the economic performance of the country. The study was conducted in the GCC countries and administered the survey on a non-linear basis. The study's findings suggest that oil price changes have a significant impact on economic growth, and more specifically, that a country's dependence on oil can be negatively associated with its economic development. The study findings further elaborated that the economic development of Bahrain and Kuwait has been affected negatively. At the same time, this relationship has been found positive and significant in the case of Qatar and Oman. The study concluded that oil exports hurt the economies of the UAE, Saudi Arabia, and Kuwait. In contrast, the same effect has been found positive in the case of Bahrain. The study of Alkhateeb et al. (2017) argued that the oil prices changed can be negatively associated to the

economic growth. The literature suggested that the changes in the oil prices showed both negative and positive impact on the FDI and economic growth but depending on the market structure.

GDP and FDI

Yearly GDP is another name for the GDP that is calculated annually. According to Ijirshar (2019), a country's GDP is the sum of the market values of all its final goods and services for a specific year. Economists rely on several metrics, but one of the most important is the Gross Domestic Product (GDP), which measures an economy's productivity and overall health. All final goods and services produced inside a nation during a specific period are collectively referred to as its Gross Domestic Product (GDP). Concerning the correlation between GDP, exchange rates, and inflation, several studies have been conducted. According to nearly all of them, inflation has a relatively minor impact on GDP compared to the exchange rate (Ang et al., 2006; Mohsin & Naseem, 2018). There is a long-run link between GDP and FDI, according to previous research on the topic. Although several variables have been adversely linked to GDP, research has shown that foreign direct investment (FDI) is the most critical element that can affect development. Foreign investors have a crucial role in the country's economic output. An uptick in foreign direct investment (FDI) may be good for the company. There are two angles from which investors putting up FDI may make a significant impact. To start with, a company's bottom line might get a substantial boost from overseas investment. Research on the factors that influence foreign direct investment has primarily focused on individual firms.

Political Stability and FDI

Peter and Filip (2017) conducted a study on the relationship between political stability and FDI. The study has examined 11 developing countries, aiming to include both FDI inflow and outflow from each country. The study argued that political stability is the most critical factor in attracting FDI to the country, and political risk can be the most significant negative factor that can shock foreign investors. The study employed the VAR, Granger causality, and ARDL approaches for data analysis. The study has recommended, based on its findings, that political risk can have both long-term and short-term relationships with a country's FDI. The study has suggested that political risk can be considered as a significant factor in developing countries, which can have a negative impact on FDI.

Corruption and FDI

Corruption is a central issue in both developed and developing countries, and it is a factor that can lead to economic instability within the government. The problems faced by developing countries have led to massive economic shocks in these countries. According to Lambsdorff (2017), corruption in the country is the primary factor that erodes the confidence of the international community, and major industries have shifted their focus from the market to safeguard their investments. The study has been conducted in Jordan. The study includes data from 1975 to 2015. The study employed time series analysis, incorporating corruption, law and order, and GDP with FDI. The time series analysis included a VAR and a co-integration model for the study. The findings suggest that corruption has a significant association with FDI; however, it has been recommended that corruption needs to be controlled, as it may otherwise deter FDI.

Tomic (2018) conducted his study in Greece and examined the relationship between corruption, interest rates, and exchange rates in the country's FDI. The study collected data from 2000 to 2017 every month. The time series analysis was recommended for the analysis. The ARDL and VAR models were used to examine the long- and short-run relationships between corruption and FDI.

The findings suggested that corruption was the only significant factor in Greece that showed a negative impact on FDI.

The most challenging aspect of reviving any economy is addressing corruption. Global economists agree that fighting corruption is the greatest obstacle. Considering that corruption stands as the most significant obstacle to attaining economic progress and prosperity. According to Kaufmann and Kraay (2007), corruption permeates practically every facet of social and economic life. It is characterized as any behaviour that undermines the legal system and results in unethical business practices. Reducing investment and distorting corporate activity, which in turn causes economic inflation, has a direct impact on the country's economy. Corruption influences foreign direct investment (FDI) flows, according to Quazi (2014), who studied the relationship between the two in South and East Asia. Some of the elements that are considered while looking at the impacts on foreign direct investment (FDI) are economic freedom, market size, political stability, human capital, corruption, and the rate of return.

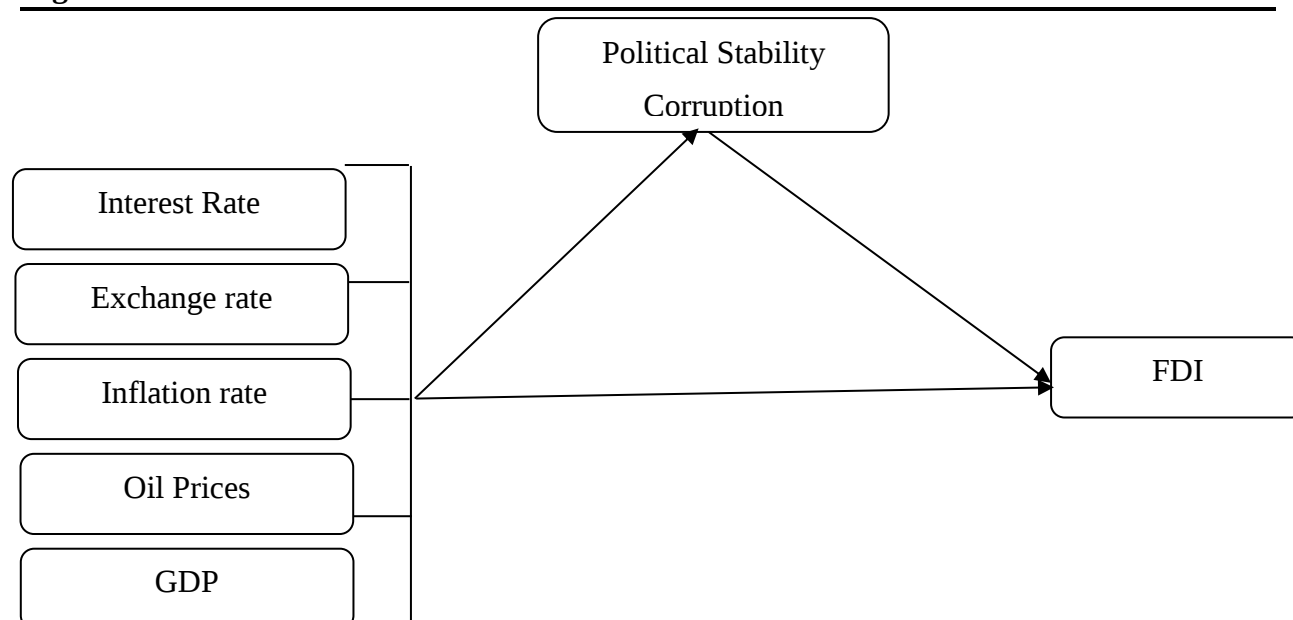
Theoretical Framework

Capital Arbitrage Theory

The theory has been proposed by MacDougall (1960), who argued that FDI can be considered the most critical factor for any country, especially for those with higher returns and progress. The theory argued that FDI always flows from a country where the rate of return is lower to a country where it can obtain a higher rate of return. The theory suggests that multiple factors can be significant for estimating FDI. The investors always prefer to invest in the market where they can get higher returns. The Capital Arbitrage Theory is related to the FDI inflow and usage in the most recommended manner. Tahir et al. (2020) concluded that fluctuations in exchange rates could lead to variability in investments, and this has a negative impact on earnings.

This is because the fluctuation can introduce an unstable market, and it will have a negative impact on financial performance (Deng, 2020). The lower FDI for developing economies is worrisome, which can lead to a shortage of funds to finance their most necessary and profitable projects, resulting in a decrease in capital flow (Osemene & Arotiba, 2018). The exchange rate and FDI can be considered as the most crucial and significant determinants for prosperity and economic integration (Schmidt & Broll, 2009). Most studies have argued that the exchange rate can be used to attract new investments to the country.

Figure 1: Theoretical Framework



Research Methodology

This section of the study discusses its research method. The sampling process and sample unit selection techniques are described in detail below. On top of that, the chapter discusses what kinds of statistical sources were used and explains clearly when exactly data was collected for analysis. It also discusses systematically the models employed and gives a detailed description of the statistical tests used in this study. Based on these carefully constructed models, subsequent analysis of results is grounded. In this way the robustness and reliability of the study's conclusions are guaranteed.

Sample Size & Time Frame

This research work has been conducted to examine the macro-economic factors for the FDI with mediating role of political stability and corruption in South Asian countries. So, the variables were selected on the country level. Due to the limitation of availability of macroeconomic data for the desired variables, it was not easy to include the data set from the beginning of the economic period of the country. Therefore, the most recent time was selected to ensure the collection of updated data. The study adopted purposive sampling technique and included 2000-2020 as the sample time for the data collection. In this period the world economies have seen different crises including major economic crises and the recent COVID-19 Pandemic.

Data Sources

The data nature of the present study variables is macroeconomic in nature. It is therefore recommended that country level reports were used for the data collection. The statistics for the selected variables stayed collected from the authentic intelligences of Central Banks of Pakistan, India and Bangladesh, IMF, World Bank Indicators data portal. These sources are the most recommended and authentic for research purposes.

Empirical Model (Regression)

$$FDI = \alpha + \beta(IR) + \beta(ER) + \beta(OIL) + \beta(GDP) + \beta(INF) + e \quad (1)$$

Mediating Model

$$PS = \alpha + \beta(IR) + \beta(ER) + \beta(OIL) + \beta(GDP) + \beta(INF) + \quad (2)$$

$$COR = \alpha + \beta(IR) + \beta(ER) + \beta(OIL) + \beta(GDP) + \beta(INF) + e \quad (3)$$

$$FDI = \alpha + \beta(IR) + \beta(ER) + \beta(OIL) + \beta(GDP) + \beta(INF) + \beta(COR) + \beta(PS) + e \quad (4)$$

Table 1: Variables

FDI	Foreign direct Investment
IR	Interest rate
ER	Exchange rate
OIL	Oil prices
GDP	Gross domestic product
INF	Inflation rate
COR	Corruption
PS	Political Stability
α	Intercept
β	Coefficient
e	Error term

Data Analysis

In this study the nature of the data is macroeconomic that's why we used country level reports to collect the data. The Unit Root Test was used to check the stationary and non-stationary nature of the data. The results showed that the data is unit root at levels as the p-values are insignificant while it is having significant test values and found no unit root at first difference.

Baron and Kenny (1986) method for mediation was used to invention out the influence of Macroeconomics variables on Foreign Through investment (FDI) with mediating role of Political stability and Corruption. We used Linear Regression model to sight out the through impact of DV (Foreign Direct Investment) on IDV (Macroeconomic variables). The ANOVA test was used for model significance.

Results and Discussion

This section is the results and discussion section of the research study. This section included the details results of regression model which has been used in the existing study for checking the effect of IDV on the DV with mediating variables. The regression model has been used since the study has panel data (more countries and a greater number of years). The mediating results are also elaborated in this section based on mediating model using SPSS.

Table 2: Unit Root Test

Variables	At levels		At first difference	
	Test	P-value	Test	P-value
Interest Rate	-1.113	0.513	-4.32	0.00
Exchange Rate	-1.514	0.416	-5.64	0.00
Inflation Rate	-1.641	0.445	-4.88	0.00
Oil Prices	-1.164	0.239	-5.51	0.00
GDP	-1.118	0.531	-5.67	0.00

The overhead table demonstrates the results of unit root test which was used to check the stationary and non-stationary nature. The results showed that the data has unit root at levels as the p-values are insignificant while it is having significant test values and found no unit root at first difference.

Regression Analysis

The results of regression analysis to evaluate the impact of independent factors on dependent variables are captured in this phase of the study. The study's first goal was to investigate the direct and indirect effects of organisational change (leadership, culture), as well as job crafting, on employee performance. The direct effects are analyzed using multiple and linear regression model in this section while the mediation effects are analyzed using Barron and Kenny Approach (1986) in later section.

Regression Result (Bangladesh)

Baron and Kenny (1986) approach were used to treasure out the bearing of Macroeconomics variables happening Foreign Direct investment (FDI) with mediating role of political stability and corruption.

a. Predicting the effect of Interest rate, GDP, Oil prices, Inflation rate and exchange rate on FDI.

Table 3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.766 ^a	0.587	0.449	0.32859	0.587	18.113	5	15	0.00

a. Predictors: (Constant), GDP, oil prices, Interest rate, inflation rate, exchange rate

Mediation effect using Barron and Kenny approach (1986)

a. Predicting mediating role of corruption between macroeconomic factors FDI by Barron and Kenny Approach (1986)

Barron & Kenny (1986) Criteria for Mediation

Step-1: X must be correlated with Y.

Step-2: X must be correlated with M.

Step-3: M must be correlated with Y (Controlling for X on Y)

Step-4: When effect of M on Y is controlled:

- when X is no longer correlated with Y = Complete Mediation

- Correlation between X and Y is reduced = Partial Mediation

- H₂: Corruption and Political Stability has a significant mediating role between Macroeconomic factors and FDI.
- H_{2a}: Corruption has a significant mediating role between interest rate, exchange rate, oil prices, inflation rate GDP and FDI.
- H_{2b}: Political stability has a significant mediating role between interest rate, exchange rate, oil prices, inflation rate GDP and FDI.

Step 1: Total Effect of Macroeconomics Factors over FDI(C=?)

Table 4: Coefficient

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.569	1.136		1.381	0.09
Interest rate	0.643	0.131	0.513	4.908	0.00
Exchange rate	0.419	0.093	0.394	4.505	0.00
Inflation rate	-0.24	0.113	-0.193	-2.115	0.00
Oil prices	0.296	0.053	0.216	5.585	0.00
GDP	0.319	0.135	0.223	2.363	0.00

Dependent Variable: FDI

The table reveals that the value of beta β for IR = 0.643, EX = 0.419, INF = -0.239, OP = 0.296 and GDP = 0.184 (for path C) that represent total effect of macroeconomics factors over FDI.

i. Effect of Macroeconomic factors and Corruption and Political stability (a =?)

Table 5: Coefficient

Variable	Corruption			Political Stability		
	Beta	T-value	Sig	Beta	T-value	Sig
Interest rate	0.51	3.136	0	0.413	2.314	0.00
Exchange rate	0.04	2.331	0	0.117	1.986	0.06
Inflation rate	0.47	1.364	0.36	0.439	2.036	0.00
Oil prices	0.35	0.961	0.79	0.379	2.791	0.00
GDP	0.33	2.876	0	0.289	3.113	0.00

a. Dependent Variable: PS, COR

The table reveals that the value of beta β for IR = 0.513, EX = 0.036, INF = -0.469, OP = 0.349 and GDP = 0.331 (for path a) that represent total effect of Macroeconomics Factors over Corruption.

The table reveals that the value of beta β for IR = 0.413, EX = 0.117, INF = -0.439, OP = 0.379 and GDP = 0.289 (for path a) represent total effect of macroeconomics factors over political stability.

Table 6: Coefficient

Model	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	1.669	1.119		1.49151	0.3
Interest rate	0.749	0.134	0.556	5.58955	0.00
Exchange rate	0.516	0.104	0.493	4.96154	0.00
Inflation rate	-0.34	0.127	-0.3	-2.66929	0.00
Oil prices	0.349	0.063	0.396	5.53968	0.00
GDP	0.561	0.079	0.559	7.10127	0.00
Corruption	0.769	0.139	0.631	5.53237	0.00
Political Stability	0.617	0.159	0.523	3.8805	0.00

a. Dependent Variable: FDI

The outcome reveals that the value of beta β for IR = 0.749, EX = 0.516, INF = -0.339, OP = 0.349 and GDP = 0.561 (for path c')) and β for COR= 0.769 and PS= 0.617 (for path b) that represent the effect of Macroeconomic factors and PS, COR over FDI.

Analyze the magnitude of beta value.

According to Barron and Kenny Approach (1986), the data in the above tables were analyzed and compared the magnitude of beta β at path C and C' where total effect equals the sum of direct and indirect effects, $C = C' + a*b$. The magnitude of beta β for IR = 0.643, EX = 0.419, INF = -0.239, OP = 0.296 and GDP = 0.184 (for path C) has been increased to β IR = 0.749, EX = 0.516, INF = -0.339, OP = 0.349 and GDP= 0.561 (for path C') which means the total effect has been transmitted at indirect path. The outcome reveals that corruption and political stability have strong and significant mediates the relationship between macroeconomic factors and FDI. These interpretations support alternate Hypothesis.

Regression Results (India)

a. Predicting the effect of Interest rate, GDP, Oil prices, Inflation rate and exchange rate on FDI

Table 7:			Model Summary						
Change Statistics									
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	df1	df2	Sig. F Change
1	.535 ^a	0.286	0.53	0.68571	0.53	21.221	5	15	0.00

- b. Predicting mediating role of political stability and corruption between macroeconomic factors FDI by Barron and Kenny Approach (1986)
- c. H_{2a}: Corruption has a significant mediating role between interest rate, exchange rate, oil prices, inflation rate GDP and FDI.
- d. H_{2b}: Political stability has a significant mediating role between interest rate, exchange rate, oil prices, inflation rate GDP and FDI.

Step-1: Total Effect of Macroeconomics Factors over FDI(C=?)

Table 8:		Coefficients			
Unstandardized Coefficients			Standardized Coefficients		
Model	B	Std. Error	Beta	t	Sig.
(Constant)	1.02	1.136		0.90053	0.69
Interest rate	0.56	0.106	0.46	5.29245	0.00
Exchange rate	0.48	0.136	0.4	3.52206	0.00
Inflation rate	0.6	0.193	0.49	3.09326	0.00
Oil prices	0.45	0.146	0.39	3.07534	0.00
GDP	0.4	0.34	0.32	1.16765	0.31

The table reveals that the value of beta β for IR = 0.561, EX = 0.479, INF = -0.597, OP = 0.449 and GDP = 0.397 (for path C) that represent total effect of Macroeconomics Factors over FDI.

i. Effect of Macroeconomic factors and Corruption and Political stability (a =?)

Table 9:		Coefficients				
Corruption				Political Stability		
Variable	Beta	T-value	Sig	Beta	T-value	Sig
Interest rate	0.54	2.364	0	0.71	3.137	0.00
Exchange rate	0.32	3.449	0	0.26	1.171	0.2
Inflation rate	0.5	1.364	0.12	0.47	4.931	0.00
Oil prices	0.37	2.791	0	0.51	3.778	0.00
GDP	0.59	5.643	0	0.35	2.691	0.00

a. Dependent Variable: PS, COR

The table reveals that the value of beta β for IR = 0.541, EX = 0.316, INF = -0.497, OP = 0.367 and GDP = 0.593 (for path a) that represent total effect of Macroeconomics Factors over Corruption.

The table reveals that the value of beta β for IR = 0.710, EX = 0.259, INF = -0.472, OP = 0.510 and GDP = 0.348 (for path a) that represent total effect of macroeconomics factors over political stability.

ii. Effect of Macroeconomic factors, Corruption and Political stability on FDI

Table 10: Coefficients

Unstandardized Coefficients			Standardized Coefficients		
Model	B	Std. Error	Beta	t	Sig.
(Constant)	1.53	1.311		1.16781	0.23
Interest rate	0.69	0.119	0.56	5.80672	0.00
Exchange rate	0.56	0.164	0.5	3.39634	0.00
Inflation rate	0.63	0.162	0.58	3.89506	0.00
Oil prices	0.67	0.157	0.59	4.24841	0.00
GDP	0.59	0.257	0.34	2.30739	0.00

a. Dependent Variable: FDI

The outcome reveals that the value of beta β for IR = 0.691, EX = 0.557, INF = -0.631, OP = 0.667 and GDP = 0.593 (for path c') and β for COR = 0.581 and PS = 0.639 (for path b) that represent the effect of Macroeconomic factors and PS, COR over FDI.

Analyze the magnitude of beta value

According to Barron and Kenny Approach (1986), the data in the above tables were analyzed and compared the magnitude of beta β at path C and C' where total effect equals the sum of direct and indirect effects, $C = C' + a*b$. The magnitude of beta β for IR = 0.561, EX = 0.479, INF = -0.597, OP = 0.449 and GDP = 0.397 (for path C) has been increased to β IR = 0.691, EX = 0.557, INF = -0.631, OP = 0.667 and GDP = 0.593 (for path) which means the total effect has been transmitted at indirect path. The outcome reveals that corruption and political stability have strong and significant mediates the relationship between macroeconomic factors and FDI. These interpretations support alternate Hypothesis.

Regression Results (Pakistan)

a. Predicting the consequence of Interest rate, GDP, Oil amounts, Inflation rate and exchange rate on FDI.

Table 11: Model Summary

Unstandardized Coefficients			Standardized Coefficients		
Model	B	Std. Error	Beta	t	Sig.
(Constant)	0.45	1.362		0.33	0.75
Interest rate	0.01	0.065	0.02	3.08	0.01
Exchange rate	0.51	0.208	0.48	2.45	0.00
Inflation rate	0.64	0.253	0.62	2.51	0.00
Oil prices	0.57	0.194	0.55	2.94	0.00
GDP	0.72	0.229	0.64	3.15	0.00

Note: R: .745, R-square: .555, F-value: 17.781

a. Predicting mediating role of corruption between macroeconomic factors FDI by Barron and Kenny Approach (1986)

- b. H₁: Independent Variables (Interest Percentage, Exchange Proportion, Oil Values, Inflation Proportion and GDP) have significant effect on FDI.
- c. H_{1a}: Interest rates have a significant effect on FDI.
- d. H_{1b}: Exchange rate has significant effect on FDI.
- e. H_{1c}: Oil Prices have significant effect on FDI.
- f. H_{1d}: Inflation rate has significant effect on FDI.
- g. H_{1e}: GDP has a significant effect on FDI.
- h. Total effect of Macroeconomic factors and FDI (c =?)

Table 12:		Coefficients			
Unstandardized Coefficients			Standardized Coefficients		
Model	B	Std. Error	Beta	t	Sig.
(Constant)	0.968	1.136		0.852113	0.99
Interest rate	0.679	0.107	0.601	6.345794	0.00
Exchange rate	0.549	0.316	0.456	1.737342	0.01
Inflation rate	-0.38	0.142	-0.31	-2.66901	0.00
Oil prices	0.648	0.163	0.576	3.97546	0.00
GDP	0.583	0.19	0.501	3.068421	0.00

The table reveals that the value of beta β for IR = 0.679, EX = 0.549, INF = -0.379, OP = 0.648 and GDP = 0.583 (for path C) that represent total effect of Macroeconomics Factors over FDI.

i. Effect of Macroeconomic factors and Corruption and Political stability (a =?)

Table 13:		Coefficients				
Corruption			Political Stability			
Variable	Beta	T-value	Sig	Beta	T-value	Sig
Interest rate	0.489	2.367	0.00	-0.63	-4.593	0.00
exchange rate	-0.28	0.349	0.56	-0.32	-2.341	0.00
inflation rate	0.159	1.311	0.15	0.264	2.091	0.00
oil prices	0.349	3.694	0.00	0.297	1.978	0.02
GDP	0.572	4.449	0.00	0.193	1.279	0.02

a. Dependent Variable: PS, COR

The table reveals that the value of beta β for IR = 0.489, EX = -0.279, INF = 0.159, OP = 0.349 and GDP = 0.572 (for path a) that represent total effect of Macroeconomics Factors over Corruption.

The table reveals that the value of beta β for IR = -0.631, EX = -0.319, INF = 0.264, OP = 0.297 and GDP = 0.193 (for path a) that represent total effect of Macroeconomics Factors over Political Stability.

j. Effect of Macroeconomic factors, Corruption and Political stability on FDI (b =? C = ?)**Table 14: Coefficients**

Unstandardized Coefficients			Standardized Coefficients		
Model	B	Std. Error	Beta	t	Sig.
(Constant)	1.249	1.089		1.146924	0.33
Interest rate	0.789	0.136	0.693	5.801471	0.00
Exchange rate	0.691	0.243	0.716	2.843621	0.00
Inflation rate	-0.5	0.154	-0.56	-3.24026	0.00
Oil prices	0.773	0.449	0.559	1.721604	0.03
GDP	0.657	0.234	0.697	2.807692	0.00
Corruption	-0.42	0.161	-0.36	-2.60248	0.00
Political Stability	0.837	0.241	0.771	3.473029	0.00

a. Dependent Variable: FDI

The outcome reveals that the value of beta β for IR = 0.789, EX = 0.691, INF = -0.499, OP = 0.773 and GDP = 0.657 (for path c') and β for COR = -0.419 and PS = 0.837 (for path b) that represent the effect of Macroeconomic factors and PS, COR over FDI.

Analyse the magnitude of the beta value

According to the Barron and Kenny Approach (1986), the data in the above tables were analysed and compared to determine the magnitude of β at path C and C/, where the total effect equals the sum of direct and indirect impacts, $C = C/ + a*b$. The magnitude of beta β for IR = 0.679, EX = 0.549, INF = -0.379, OP = 0.648 and = 0.583 (for path C) has been increased to β IR = 0.789, EX = 0.691, INF = -0.499, OP = 0.773 and = 0.657 (for path/) which means the total effect has been transmitted at indirect path. The outcome reveals that corruption and political stability have a mediating substantial impact on the relationship between macroeconomic factors and FDI. These interpretations support the alternative Hypothesis.

Conclusion

The Indian regression results demonstrated that several variables significantly impact foreign direct investment (FDI), including the currency rate, inflation rate, oil prices, and GDP. The findings bolstered research. i.e., The price of crude oil in US dollars has a significant impact on the supply and demand for foreign currency due to the importance of crude oil in different nations. Since merchants who do not deal in dollars must acquire dollars to purchase oil, this is critically significant from an importer's point of view. Consequently, the cost of importing them is directly related to fluctuations in the value of their currency relative to the dollar. Currency changes will also have an impact on oil exporters. To link oil prices to the pricing system that affects the real exchange rate (Bénassy-Quéré et al., 2007), Amano and Norden (1998a, b) established the terms of trade. The correlation between currency exchange rates and oil prices has been the subject of extensive research.

Foreign direct investment (FDI) in Pakistan is significantly affected by interest rates, currency rates, inflation rates, oil prices, and GDP, according to regression results. According to the findings, the FDI follow-up is impacted by the currency rate. Increases in the value of the dollar relative to the local currency have a favourable effect on foreign direct investment.

Regression results for Bangladesh demonstrated that oil prices, GDP, interest rates, inflation rates, and currency rates all significantly impact foreign direct investment (FDI) in the country. Foreign

direct investment (FDI) has a positive contribution to Bangladesh's gross domestic product (GDP) and exchange rate, according to the study's findings. Additionally, the study found a substantial correlation between Bangladesh's inflation rate and FDI. The frequent and consistent fluctuations in Bangladesh's inflation rate could be to blame. The research indicates that foreign direct investment (FDI) enhances GDP and the value of the Bangladeshi Taka (BDT) about the US dollar. A country's industrialization, GDP growth, and overall economic progress can be best gauged by examining macroeconomic metrics. The research indicates that foreign direct investment (FDI) affects Bangladesh's GDP, inflation rate, and exchange rate, three key macroeconomic indicators. Therefore, this research is essential for the economic growth of Bangladesh and other South Asian nations.

Foreign direct investment (FDI) in Pakistan is significantly affected by interest rates, currency rates, inflation rates, oil prices, and GDP, according to regression results. According to the findings, the FDI follow-up is impacted by the currency rate. An increase in the value of the dollar relative to the local currency has a favourable influence on foreign direct investment.

The results demonstrate that in Bangladesh, Pakistan, and India, corruption has a significant mediating effect on the relationship between macroeconomic variables and FDI. Essentially, corruption acts as a negative mediator between FDI and other factors. Attracting foreign direct investment (FDI) requires the government to eliminate corruption. Countries with stable governments and low corruption rates are the ones that multinational corporations choose to invest in. Since corruption is a factor that can affect interest rates, inflation rates, currency rates, oil prices, and GDP, it can cause adverse movements.

According to the findings, political stability has a crucial mediating function between macroeconomic variables and FDI. According to the results, foreign direct investment (FDI) increases when a country's government is stable. Greater foreign direct investment (FDI) equals greater reserves, which means more power to manage inflation and interest rates. Since domestic output is expected to rise, they won't have to raise oil prices, and their GDP will increase as a result.

Recommendations

- The government should actively maintain and balance the primary macroeconomic factors, such as interest rates, exchange rate levels, and oil prices, so that investors can have a stable expectation of investment returns at an increased level.
- Political stability plays a vital role in attracting FDI to different sectors; the government should strive to maintain political stability.
- The implementation of the rule of law should be ensured. Those who are corrupt individuals should be adequately prosecuted in court and subjected to the implementation of the law, which would be maintained at the standard level, so that investors can gain confidence to invest in the market and receive a higher rate of return.
- Oil prices should be controlled by providing subsidies to the respective sector, so that the public does not suffer, and local industries also receive support from the controlled prices.

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