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Does Political Stability Matter for Foreign Direct Investment in Eurasian countries? Examining the Role of the Business Environment and Macroeconomic Variables

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Abstract

This In recent years, developing countries have placed a strong emphasis on attracting foreign direct investment (FDI), which is ostensibly regarded as the most important external resource for increasing industrial activity and real income growth. Indeed, the subsequent benefits of FDI, one of which is increased economic growth in developing countries, have been widely acknowledged. As a result, the goal of this study was to look into the impact of foreign macroeconomic factors, political instability, and the business environment on foreign direct investment in Eurasia countries. Many developing countries have softened their stances on foreign direct investment (FDI) in the hopes of luring more of this kind of investment and thereby bolstering their economies. This is due to the fact that there are many benefits to utilizing foreign capital during the expansion process. The panel data method was used to analyse information gathered from ten different Eurasia countries over a twenty-six-year period, from 1996 to 2021. The study's findings support the predicted outcomes of the hypothesized research. This study is one of the few in Eurasia countries that can be considered a pioneering study on the subject. This study will help policymakers and researchers understand the relationship between macroeconomic risk, political instability, the business environment, and foreign direct investment.

Keywords: FDI, political stability, Business environment, Asian, Eurasia.

INTRODUCTION

Foreign direct investment (FDI) is widely acknowledged, both in theory and in practice, to confer a number of economic benefits on the nation that receives it. These benefits include increased foreign exchange reserves, capital injection, transfer of technology, an organizational framework, and managerial skills. As a result, the level of competition is heightened, and exports are facilitated by improved access to international markets (Jordaan, 2016; Amendolagine et al., 2019). Some professionals in the field of finance are of the opinion that foreign direct investment (FDI) can stimulate early-stage capital formation (ECG) and innovation in the nation that is the recipient of the FDI, thereby increasing the level of domestic investment (Abdullaev & Brooks, 2017). In the economic literature, the significance of FDI flows is widely acknowledged, and this applies to both developing and developed nations. During the final decade of the twentieth century, FDI inflows (FDIIN) grew at least twice as fast as global trade (Perri & Peruffo, 2016). FDI in the global economy grew at a breakneck pace during the first decade of the twenty-first century. During the industrialization process, developing nations typically increase

their capital formation by attracting FDI. Assuming that marginal capital productivity is high in developing economies, investors from the developed world can anticipate high returns on capital invested in these economies. In a nutshell, the objective of international capital mobility, also known as FDI, is to provide complementary benefits to all parties involved in global transactions (Iamsiraroj, 2016).

The economy of the country that receives FDI can profit in a number of different ways thanks to FDI. These include making the most efficient use of the raw materials that are available, implementing novel management and marketing strategies, providing access to cutting-edge technology (Iamsiraroj 2016).Furthermore, in order to finance the trade deficit in the balance of payments, foreign money inflows can also be used. The FDIIN do not account for the recovery of interest liabilities and debt. A number of developing economies have applied extensive liberalization reforms, which in turn generate cut-throat competition between economies at the global level. In these countries, the controls and barriers to entry for foreign business activities of new entrants are removed, in order to provide policies and incentives for business facilitation, such as creation of export zones, tax refund, etc.

In the twenty-first century, developing economies are engaged in a fierce competition to attract FDI flows. This is done in an effort to capitalise on ECG opportunities. In order to attract foreign investment, developing nations offer attractive incentive packages to foreign investors. Outside of the United States, countries are focusing their macroeconomic policies on the fundamentals in order to strengthen their economies (Bleischwitz, 2017). FDI has experienced unprecedented growth over the past two decades, both in terms of its total amount and its economic significance. This growth has outpaced trade flows, especially among the most advanced industrialised nations. relating to the new growth theory (land, labour, capital, and firms) and the theory of firm investment (future profit of the firm, risk premium). The study is carried out on the eurasian countries (see the figure -1)

Figure 1

Euraisn countries

Source: worldatlas

LITERATURE REVIEW

Smart In FDI is widely acknowledged in the economic literature to be a key factor in driving economic expansion in developing countries in the modern era. Despite this, only a few studies have been published (Gokmenolu and Taspinar 2016; Duarte et al. 2017) that investigate and provide an in-depth analysis of the role that FDI plays in Thailand as a member of the Southeast Asian region. In economic analysis, the relationship between FDI and ECG is viewed as a two-way street: (i) ECG increases the likelihood of FDI, and (ii) FDI increases the likelihood of ECG. There is no agreement among experts on how empirical research should be conducted in developing economies. Several studies, including those conducted by Gokmenolu and Taspinar (2016) and Duarte et al. (2017), investigated the effect of ECG on FDIIN and discovered that it had a positive impact on the host country.

In contrast, research that examined the growth effect of FDI discovered that FDI had a significant positive effect on ECG in the recipient countries studied (Paul & Singh 2017, Tanna et al. 2018). According to some research, such as that conducted by Baccini et al. (2015) and Manger & Pickup (2016), developing countries with an outward focus are more likely to be successful in attracting FDI. Mamingi and Martin (2018) conducted research on the macroeconomic effects of FDI and found that, unlike in Latin America, FDIIN in the Asia region resulted in a direct increase in domestic savings and investment rates via the "co-finance" effect. This was the study's main finding. According to the literature on who, how much, and how FDI affects ECG, FDI has a direct impact on ECG and process development. This is because FDI allows for better resource utilization as well as the transfer of technologies and managerial skills to host countries. Furthermore, FDI makes it easier to develop new processes. Furthermore, resource acquisition, skilled labour training, and the implementation of new organizational planning methods are all ways in which foreign investments indirectly boost the growth rates of the countries in which they are invested (Farla et al. 2016; Mohamed et al. 2017).

Several studies on FDI have primarily focused on three types of macroeconomic factors that influence FDI: cost-cutting factors, factors that improve business operations and the industrial environment, and factors related to a country's macroeconomic policies and development strategy. According to international business studies, certain aspects of a country, such as its level of political instability or high security risk rating, level of corruption (CORR) , and level of underdeveloped infrastructure, are critical to attracting FDI. For example, a repressive import substitution strategy that encourages local investment by substituting locally produced goods with a foreign orientation for imported goods from abroad There is also the option of implementing a direct export promotion strategy.

This would entail encouraging domestic and international businesses connected to exporting industries to invest in products suitable for export (Davaakhuu et al. 2015; Hussin et al. 2016). As a result, the goal of these studies was to provide a description of the usefulness of FDI for the host countries' ECG processes, based on an export-led growth strategy. It has been argued in the body of research on who, how much, and how FDI affects ECG that FDI has a direct impact on ECG and process development. This is because it allows for better resource utilisation and the transfer of technologies as well as managerial skills to the countries receiving the investment. Furthermore, the rate of economic expansion in countries receiving FDI is indirectly increased due to the

facilitation and training of skilled labour, the acquisition of resources, and the implementation of innovative organisational planning methods (Farla et al. 2016; Mohamed et al. 2017).

Several studies on FDI have primarily focused on three types of macroeconomic factors that influence FDI. The first category includes cost-cutting measures; the second includes measures to improve business operations and the industrial environment; and the third includes measures related to a country's macroeconomic policies and development strategy. According to international business studies, it is impossible to overlook certain factors that are critical to attracting FDI. These factors include political instability or a high security risk rating, CORR, and the country's poor infrastructure. A repressive import-substitution strategy, for example, would encourage investment in the domestic market by substituting locally produced goods oriented toward the foreign market for imports. Alternatively, there is the possibility of a direct export promotion strategy, which tends to encourage investment in exportable items that will be produced overseas as well as other domestic enterprises that are concerned with and attached to the exporting industries (Davaakhuu et al. 2015; Hussin et al. 2016).

These studies have thus attempted to describe the usefulness of FDI for the process of ECG occurring in the host countries, which base their growth strategy on export-led growth. FDI (also known as FDI) is widely recognised as one of the primary contributors to economic expansion in nations still in the process of industrialization in the modern era. There are, however, very few published works that investigate and provide an in-depth analysis of the role that FDI plays in Thailand, a country that is part of the Southeast Asian region (Gokmenolu and Taspinar 2016, Duarte et al. 2017). In the field of economic analysis, the relationship between ECG and FDI is frequently viewed as a two-way street. First, ECG increases the likelihood of FDI, and second, FDI increases the likelihood of ECG. There is no consensus among experts regarding the most effective methods for carrying out empirical research in nations that have weak economies.

Gokmenolu and Taspinar (2016) and Duarte et al. (2017) are just two of the many studies that have looked into the link between ECG and FDIIN and found positive results for the host country. However, there have been many other studies that have come to the same conclusion. However, research that examined the effect of FDI on the economies of developing countries found the exact opposite to be true (Paul & Singh 2017, Tanna et al. 2018). According to research conducted by Baccini et al. (2015) and Manger & Pickup (2016), for example, developing countries that focus their attention on the outside world have a better chance of attracting FDI (FDI). Studies of the macroeconomic effects of FDI (Mamingi and Martin 2018) found that FDIIN in the Asia region led to an increase in domestic savings and investment rates via the "co-finance" effect, whereas in Latin America this was not the case. This was the most important finding that came out of the research.

Studies of who, how much, and how FDI influences ECG have shown that FDI is linked to process improvement and economic expansion. These findings were found in the studies. This is due to the fact that FDI paves the way for the transfer of technologies and managerial skills to the host country, which ultimately results in a more effective use of the country's own resources. The introduction of innovative processes is also made easier by FDI from overseas. In addition, the growth rates of the countries in which foreign

investments are made are indirectly increased as a result of a variety of factors, including the acquisition of resources, the training of skilled labourers, and the implementation of innovative methods of organisational planning (Farla et al. 2016; Mohamed et al. 2017). Numerous studies on FDI have placed a primary emphasis on factors that have been shown to lower operating costs, improve business operations and the industrial environment, and are associated with the macroeconomic policies and development strategy of a country.

According to research conducted in the field of international business, factors such as a nation's political instability, security risk rating, level of CORR, and level of infrastructure development are essential in attracting FDI (FDI). For example, a restrictive import-substitution strategy that encourages domestic investment by displacing foreign-oriented imports with goods produced locally would be an example of such a strategy. Utilizing a strategy that emphasises direct export promotion is yet another viable alternative to consider. To be more specific, this would entail advocating for government policies that encourage domestic and international businesses that are involved in exporting to invest money in products that are export-ready (Davaakhuu et al. 2015; Hussin et al. 2016). Researchers set out with the goal of demonstrating how FDI contributes to export-driven growth in the economies of host nations. According to the research that has been conducted on who, how much, and how FDI affects ECG, two of the areas in which FDI is said to have a direct impact are ECG and the development of processes. This is due to the fact that the recipient nations are able to put the money to better use and gain advantages from the transfer of technologies as well as managerial expertise. In countries that are successful at attracting FDI, a faster rate of economic expansion can be achieved in part by facilitating and training skilled labour, acquiring resources, and implementing innovative methods of organisational planning (Farla et al. 2016; Mohamed et al. 2017). Numerous studies that have been done on the subject of FDI have primarily concentrated on one of three primary categories of macroeconomic factors: (FDI). Under the first heading are the measures that are intended to cut costs, under the second heading are the measures that are intended to improve business operations and the industrial environment, and under the third heading are the measures that are intended to do with a nation's macroeconomic policies and its development strategy. According to studies conducted on international commerce, certain factors that are essential to luring FDI cannot be disregarded under any circumstances (FDI).

A number of factors contribute to this, including the country's subpar infrastructure, its precarious political climate or high security risk rating, and the pervasive nature of its corrupt practises. One example of a restrictive import-substitution strategy would be to replace goods that are imported with ones that are produced domestically with an eye toward exporting the former. Alternately, a direct export promotion strategy could be implemented with the objective of luring international investors to finance the production of exportable goods by domestically based companies that are invested in and related to the exporting industries. This would be done in the hope of attracting foreign investors (Davaakhuu et al. 2015; Hussin et al. 2016). As a consequence of this, these studies have made an effort to define the positive effects that FDI has on the rate of ECG in host countries, particularly in nations that pursue an export-driven growth strategy.

H1: GDP growth rate causes a significant effect on the inward flows of FDI in Thailand

Numerous studies have examined the relationship between openness and FDI. The majority of research conducted on trade and FDI has focused on the nature of the export substitution or complementarity that FDI can bring about. Several economies, especially developing economies, have begun to liberalise imports and join bilateral and multilateral trading agreements around the globe. Despite the fact that the relationship between FDI and Degree of Openness (DOP) in the modern era is a complex phenomenon, a number of economies have begun to liberalise imports.In fact, specific market considerations depend on a company's size and growth; however, domestic market factors are equally important to export-oriented companies based in a different country.

Foreign investors seeking to expand their market presence believe that increased openness, fewer trade restrictions, and lower trade costs will likely result in exports serving the market more effectively than FDI. Therefore, a high level of openness is associated with a low level of FDI. However, market-seeking horizontal investments may also have a propensity to exploit markets (also known as export-oriented FDI); in this case, greater openness results in a rise in FDIIN. Other research, however, has discovered a link between a country's trade market openness and the amount of FDI it receives (Lartey, 2017). According to Nwaogu and Ryan (2015) and Lattey (2017), openness is a significant determinant of FDIIN in both Ethiopia and Singapore. Other research has demonstrated that the DOP has a positive effect on the amount of FDI flowing into developing countries. Consequently, numerous studies have found a correlation between economic openness and the influx of FDI. Recent studies have demonstrated a significant positive relationship between openness and FDIIN in Thailand, contrary to the findings of a small number of researchers who have investigated the negative impact that openness has on FDI. In light of this, the second hypothesis is as outlined below.

H2: DOP has a significant effect on the FDIIN in.

The factors for the FDI in Turkey have been observed in the institutional context (Zhang & Zhang, 2018). The results exhibited positive influence of GDP per capita, GDP growth rate, market size, and exchange rate on FDI. In a similar manner, an exchange rate and GNP per capita were assessed (Rasiah et al., 2016) as the indicators of FDI in Eurasia countries). The positive effect of exchange rate and per capita GNP are found by FDI. The association among exchange rate and FDI have been discovered indicating a negative correlation among the external value of dollar and FDIIN (Rahman & Mamun 2016). It explains that a country's depreciated currency has the power to trigger the controlling and purchase of the potential corporate assets. While observing the effects of FDI inflow projections and exchange rate risk, the significant decline of US direct inflows has been witnessed which are likely to be related with the increased real value of foreign exchange.

Moreover, projected increase in the real foreign exchange also tends to greatly minimize the US direct investment. Similar results have also been found by other researchers (Rahman and Mamun 2016). The theoretical literature on the effects of real labor cost and real wealth explain that the strong value of US dollar is expected to discourage the FDIIN into the economy. A significant negative association is found among FDIIN and exchange rate (Pradhan et al., 2017) However, a few studies have shown an insignificant relation among FDIIN and exchange rate. The economic effect of the variability of short-

term exchange rate was observed on the foreign direct inflows and confirmed that the unpredictable nature of exchange rate greatly contributes in the internationalization of production. In the host country, the exchange rate alterations impose no negative influence on the FDI, however, the growth projections and CORR cause positive and negative influence on the FDI, respectively (Pradhan et al., 2017). Thus, the proposed hypothesis for latest data is as follows:

H3: Exchange rate causes a considerable impact on the inward flows of FDI

Inflation rate plays a critical role in affecting the inward flows of FDI. The high inflation rate indicates confusion regarding internal economic pressure, economic uncertainty, and the inability of the central bank and government to maintain budget through the money supply. Furthermore, higher inflation rates lead to the reduction in the inward flows of FDI. It is anticipated that these two variables will have an inverse relationship. It is reasonable to expect that inflation will have a negative impact on FDI, given that investors prefer investing in economically stable and less uncertain nations. However, very few studies have examined the relationship between inflation rate changes and FDI, and even less attention has been paid to how these two variables interact. In light of Begum et alresearch, .'s we investigated the relationship between FDI and inflation in Bangladesh (2018). The investigation concluded that the results of an impulse response analysis provided support for the being considered theoretical model. It has been discovered that a higher rate of inflation in Bangladesh decreases FDI from the United States into Canada while increasing domestic investment in the United States. According to the study's findings, a 7% increase in Turkey results in a 1.9% decrease in US FDI in Canada, whereas US domestic investment increases by 0.3%. In general, the inflation rate is employed to assess the stability of prices and the state of the economy. Africa's overall inflation rate is significantly affected by the amount of FDI that enters the continent (Naude & Krugell, 2007). Begum et al. (2019) discovered a significant negative correlation between FDI and the rate of inflation. In contrast, Awan et al. (2010) discovered a positive and statistically significant correlation between inflation and the amount of FDI flowing into Pakistan.

Nonetheless, Kizilkaya et al. (2016) discovered that Thailand's inflation rate has a significant impact on the country's FDI. In light of this, the fourth hypothesis is as outlined below. Both Nwaogu and Ryan (2015) and Lattey (2015) concluded that openness was a significant factor in FDI flows into Ethiopia and Singapore (2017). According to the findings of other studies, a country's DOP has a positive influence on the amount of FDI that flows into developing countries. As a result, a number of studies have found a correlation between economic openness and the amount of FDI a country receives from other nations. Thailand's openness has a significant positive correlation with its inflows of FDI, according to new research. These results contradict the findings of a select group of researchers who examined the negative effects of openness on FDI and found them wanting. In light of this, the second hypothesis is formulated as follows:

H4: The rate of inflation causes a significant effect on the FDIIN in

Hossain (2016) found evidence to support the hypothesis that FDI and the CORR index have a corrosive relationship. The findings of this study (Hossain 2016) supported the view that CORR has a detrimental effect on FDI. The study found that CORR has a significant

impact on FDI. According to the findings of the study, international businesses make an effort to steer clear of corrupt environments because they pose a risk to their operations and can result in decreased productivity. (dos-Santos & dos-Santos 2017) estimated the influence of FDIIN on CORR at the country level while taking into consideration the issues of reverse causation. They came to the conclusion that the presence of FDI as a proportion of GDP is significantly related to a lower incidence of CORR, regardless of the import intensity. Several studies (Jalil et al., 2016) looked into the effect anti-CORR measures had on FDI.

A negative association is found among FDI and CORR. They suggested that the variable of CORR plays a significant part in the decision making of investors regarding selection of a country. An overall significant negative impact of CORR is found on the FDIIN. In other words, higher CORR levels are negatively correlated with FDIIN of lower level. The effects of CORR on the inflows of FDI was examined through employing a panel and cross-sectional data for 117 economies for the time period 1994-2014 (Mallik & Chowdhury, 2017). A negative impact of CORR on the FDIIN is found for all these economies. In a similar context, a study indicated the negative impacts of CORR for the FDI of European Union economies. This indicates that investors are found to be reluctant in making FDIs in highly corrupt economies, especially in the region of European Union. The adverse effects of CORR have been reported on the FDI of corrupt economies.

According to a review of the relevant prior literature, the findings of previous studies on the relationship between the CORR index and FDIIN were inconsistent. There is no significant evidence of a negative relationship between CORR and FDI. However, Mallik and Chowdhury (2017) found that CORR has a significant negative impact on FDI. The authors discovered a negative relationship between CORR and FDI for the same reason. Foreign investors will generally avoid investing in a corrupted business environment because it makes them feel insecure, and CORR can cause operational inefficiencies. Furthermore, the authors discovered that investors' perceptions of CORR levels played a significant role in their decision-making process regarding where to invest their money.

According to Pradhan et al. (2017), the overall effect of CORR has a significant negative impact on the amount of FDI that enters the country. (Bahmani-Oskooee et al., 2019) examined cross-sectional data from 65 countries and concluded that countries with higher levels of CORR have seen a decrease in the amount of FDI. A negative relationship between FDIIN and CORR has been discovered in a line of research that is very similar to this one. As a general rule, effective CORR control is linked to improved national institutions. Given this, it is reasonable to propose the following hypothesis in the context of Thailand:

H5: CORR control index has a significant effect on the FDI in

On the topic of the connection between political stability and direct foreign investment, a great number of studies have already been carried out (Gutu et al., 2017). The findings of the vast majority of studies indicate that political stability has a positive influence on FDI. The empirical findings on the effects of political instability and FDI, however, were inconsistent and mixed (Gutu et al., 2017). By performing a cross-sectional analysis of FDI flows in a number of different countries, Schneider and Karim et al. (2016) came to the conclusion that political instability has a chilling effect on FDI. According to the findings

of the study, political instability is detrimental to ECG and investment, and in nations with such instability, property rights are not adequately protected. Moreover, when there is political unpredictability surrounding property rights, it stifles both investment and growth in the economy. An analysis of the impact on FDI of factors such as the investment climate, political risks, regulatory framework, infrastructure gaps, bureaucratic hurdles, lack of judicial transparency, and CORR revealed a complex picture. Many studies have come to the conclusion that political risk has no impact on FDI, while others have reached the opposite conclusion.

Changes to the constitution and general political unpredictability also had a significant impact on the amount of money flowing into developing economies from direct foreign investment. An unreliable proxy for reflecting qualitative factors in empirical analysis, such as political instability, could be the cause of these contradictory findings. The investigation of the factors that contribute to political unrest is primarily a methodical endeavor. Inadequate infrastructure, a hostile business climate, and political instability have been identified as barriers to FDI flows in a number of studies. According to research conducted by Musila, Jacob, and Sigu (2006), it is essential to recognise that political and macroeconomic stability, in addition to an alluring investment policy, will increase the amount of FDI flowing into the host country. In response to the political unrest, FDI flows have been mixed. During the process of estimating FDI, it was discovered that administrative effectiveness and political instability play no significant role. Multiple other studies have come to the same conclusion: political stability has a significant influence on the amount of FDI that is invested. According to the findings of other studies, political stability is positively correlated with higher levels of FDI (Bende-Nabende, 2018). It is reasonable to anticipate that the level of political stability in the country will have an effect on the amount of FDI that flows into the country. Investors appear to be quite sensitive to the nature of political stability in targeted economies. Even if there are favourable FDI determinants in a country, this may not be enough to entice investors if the political climate is unstable. On the basis of this evidence and other evidence, we are able to propose the hypotheses that follow:

H6: Political stability has a significant effect on the FDIIN in.

DATA AND ECONOMETRIC ESTIMATES

Respondents for the current study were chosen to be representative of fifty one Eurasia nations(Appendix-1). Over the course of a period of twenty-six years, beginning in 1996 and continuing through 2021, information pertaining to ten countries is compiled using data obtained from the World Bank as well as other credible sources. Panel data is a type of multidimensional data frequency that consists of measurements collected over a period of time. Panel data are observations made on specific variables for a number of different firms or entities over the course of a number of different time periods. Its primary use is in the analysis of econometric data, which is where it earns its reputation as an effective method. According to Basheer et al. (2018) and Basheer et al. (2018), panel data analysis has gained popularity among researchers due to its ability to include a set of data for N firms across a cross-section of industries over a T-year period. This is one of the reasons for the popularity of panel data analysis.

Because all of the entities are combined into one data set, the fundamental assumption underlying panel data analysis is that all of the relationships between those entities will have comparable parameters as a result. As a consequence, all of the parameters in the data set will have the same value as a result of this. When data from multiple cross-sections are combined into a single time series for the purpose of conducting a panel analysis, it is possible for there to be differences between the various cross-sectional observations. These differences can be represented by dummy variables. Estimation can take place using either a fixed or a random effect model when a dummy is used to account for variations.

$$Y_{it} = \beta_0 + \beta_1 X'_{it} + \varepsilon_{it} \quad (1)$$

i=1……n, and t =1…... m

Where β is the vector of estimated coefficients, $\varepsilon_{it}$is the error term whose value is given by where i. represents the cross-sectional dimension of variables, t denotes the time series dimension of variables, $Y_{it}$is denoting the deponent variables represent the dependent variable, and is X_{it}denoting the set of independent or explanatory variables in the model.

$$\boldsymbol{\varepsilon_{it} = v_{it} + u_{it}} \quad (2)$$

Where v_{it} is the individual effect of each of the bank and $u_{it}$is the error which assumes a normal distribution?

If we are using pooled OLS than the equation (1) will follow the assumption that cross-sectional dimension of the data is uniform or constant and there is no difference among them and assumed it a standard constant. A fixed effect model displays the differences in intercepts for the different entities being modelled and has a slope that is constant across all entities as well as time. There is potential for both one-way entity fixed effects and one-way time fixed effects, as well as for two distinct ways to have fixed effects (entity and time). When dealing with a large number of entities, the Fixed Effect Estimator, or FEE, is the method of choice, while the Least Square Dummy Variable Estimator, or LSDV, is utilised when dealing with a relatively small number of entities (Greene, 2008). The fixed effect model is represented by the following equation (2***):***

$$Y_{it} = \beta_0 + \beta_1 X'_{it} + \beta_2 Z_{it} + \varepsilon_{it} \quad \text{..... (2)}$$

Let

$$\alpha_i = \beta_0 + \beta_2 Z_{it} \quad \text{..... (3)}$$

Putting the value of equation (3) in equation (1)

$$Y_{it} = \alpha_i + \beta_1 X'_{it} + \varepsilon_{it} \quad \text{..... (4)}$$

Here α_i , $\alpha_1 - \alpha_n$ represents individual specific intercept/entity fixed effect. The test is validated using standard F-test. Where,

$$H_0 : \alpha_1 = \alpha_2 =, \ldots\ldots\ldots = \alpha_n$$

$$H_1 : \alpha_1 \neq \alpha_2 \neq, \ldots\ldots\ldots \neq \alpha_n$$

The alternative hypothesis is deemed to be false and replaced with the null hypothesis if the F-statistic is found to be less than 5%. It can be deduced from the fact that the F-statistic has a low value that the results do not always behave in the same way.

Because it functions well with a constrained number of variables, the LSDV estimator might be the more appropriate choice for this study. As a direct consequence of this, Equation (5), which provides a description of a typical fixed effect model, will be utilised.

$$Y_{it} = \alpha_i + \beta_1 X'_{it} + \lambda_2 DZ_i + \lambda_3 DZ_{2i} + \lambda_n DZ_{ni} + \varepsilon_{it} \quad \text{.....(5)}$$

In contrast to the fixed effect model, the random effect model considers the variation that takes place across entities to be random and uncorrelated with the independent variables that are being modelled. This is in contrast to the fixed effect model. The model is able to incorporate variables that are not affected by the passage of time. A graphical illustration of the model is provided down below in the form of equations (6).

$$Y_{it} = (\alpha + \nu_i) + \beta_1 X'_{it} + \varepsilon_{it} \quad \text{.....(6)}$$

Where… represents individual specific error component

$$Y_{it} = \alpha + \beta_1 X'_{it} + (\nu_i + \varepsilon_{it}) \quad \text{.....(7)}$$

Putting $\mu_{it} = (\nu_i + \varepsilon_{it})$ in equation (7)

$$Y_{it} = \alpha + \beta_1 X'_{it} + \mu_{it} \quad \text{.....(8)}$$

To determine whether or not there is heterogeneity in the data, the Lagrange Multiplier (LM) test needs to be carried out. Only then can the test be considered valid.

$$H_0 : \sigma\nu^2 = 0$$
$$H_1 : \sigma\nu^2 \neq 0$$

If the null hypothesis is found to be false, then the existence of the random effect will be confirmed, and vice versa.

The Hausman test will be carried out to determine whether the regressors are correlated with the one-of-a-kind errors in the model. This will help determine whether a random effect or a fixed effect should be chosen.

$\mathbf{H_0}$: Random effects are consistent and efficient

$\mathbf{H_1}$: Random effects are inconsistent and inefficient that, the fixed effect is consistent and efficient.

The alternative hypothesis will be accepted if the value of the Chi-square probability statistic is found to be significant, and the null hypothesis will be rejected otherwise. In addition, it is going to be discovered that the fixed effect model is superior to the other models in terms of its consistency and efficiency. This provides a fairly convincing argument against the validity of the null hypothesis. The next step in the analysis is to choose between the random effect model and the pooled OLS model by employing the Breusch and Pagan Lagrangian multiplier test. This test is the next thing to do in the analysis. This decision will be based on whether or not the earlier Hausman test deems

the random effect model to be the most efficient and appropriate choice among the available options.

$\mathbf{H_0}$: There are no individual differences that are, no random effect.

$\mathbf{H_1}$: There is an individual difference between the coefficient that is, random effect exists.

If the null hypothesis is correct, then there is no such thing as an effect at random. Pooled OLS is the method that should be used in the event that the null hypothesis is found to be incorrect because there is such a thing as a random effect. The use of panel data analysis has a number of benefits when compared to other methods. For instance, it might lessen the degree to which independent variables overlap one another while simultaneously raising the total number of observations and degrees of freedom. In addition to this, it has the potential to improve the accuracy of econometric estimation while simultaneously taking into account the differences between the variables. It is also possible to use it to investigate shifts in the dynamic of a company or an industry. An additional application for panel data analysis is to investigate how the dynamics of a company or industry have evolved over the course of time. In addition, panel data analysis has the potential to expand the number of observations and degrees of freedom, while simultaneously lowering the likelihood that two dependent variables will be too comparable to one another.

RESULTS

The findings of the Spearman correlation test for FDI and the other variables that explain things are presented in Table 2. Their connection is significant even at the 1% level of analysis, so that's saying a lot. Other variables have a significant relationship with FDI, despite the fact that their correlation values are relatively low.

Table 2.
Correlation

Variables	1	2	3	3	4	5	6
FDI	**1.00**						
GDP	0.45	**1.00**					
DO	0.45	0.47	**1.00**				
EXR	0.59	0.27	0.51	**1.00**			
INFL	0.55	0.39	0.40	0.57	**1.00**		
COR	0.16	0.30	0.55	0.61	0.61	**1.00**	
PS	-0.74	-0.67	-0.71	0.79	-0.66	0.62	**1.00**

The results of Hausman test declares the fixed effect estimates as the most appropriate estimates. The results of fixed effect estimates are shown in the table 3

Table 3.
Regression Results

Variable	Coefficient	Standard Error	*t*-value	*p*-value
Fixed Effects:				
Constant	12.754	2.952	17.87	0.000*
GDP	0.806	0.758	3.70	0.000*
DO	0.178	0.046	3.88	0.000*
EXR	-0.025	0.046	2.55	0.081*

INFL	-0.185		0.785	-2.24	0.014*
COR	-0.153		0.734	-2.36	0.000***
PS		0.456	0.002	2.34	0.000***
Diagnostic statistics:					
R2					
Within	0.101				
Between	0.343				
Overall	*0.192*				
Wald χ2 (7)	24.89				
Prob (χ2)	0.00				
Multicollinearity	1.23				
Heteroskedasticity	5.0e+05				
Serial Correlation	6.673				
F-Statistics	*F*(45,360)=23.02				

According to the findings of the study, there is a correlation that is both positive and significant between FDI and each of the following factors: GDP; degree of openness; and political stability. On the other hand, foreign direct investment is significantly impacted in a negative way by a number of factors, including the currency exchange rate, inflation, and CORR.

CONCLUSION

It is common practice for developing countries to relax their restrictions on FDI in the hopes of luring additional FDI into their economies. This is as a result of the fact that there are benefits associated with the incorporation of foreign capital into the process of business expansion. Both the positive and negative effects of FDI on the growth of an economy have been the subject of a significant amount of research in the academic field of economics. However, empirical studies and theories have produced findings that contradict one another with regard to the impact that FDI has on ECG in developing economies. This is especially true with regard to economies that are still in the process of developing. Over the course of the previous two decades, both inbound and outbound forms of direct foreign investment have experienced phenomenal growth on the global stage (FDI). On the other hand, it is estimated that the global FDIs were somewhere around 4.4% in the year 2011.

Both Thailand's and Indonesia's economies are seen as two of the most promising developing nations in the global trade economy in the south-east Asian region. Thailand's economy is expected to grow at a faster rate than Indonesia's. Since the implementation of market-oriented economic policy and reforms in the year 2000, Thailand has become an attractive investment destination in the South East for foreign investors in fields ranging from agriculture to industrial finance. This is due to the fact that Thailand is located in the Southeast region of the world. The data suggest that as a result of Thailand's rapidly expanding economy, the country has become a desirable location in Southeast Asia in which to make investments. As a consequence of this, the governments of the countries that make up the Eurasia region ought to focus more of their attention on economic reforms taking place within their very own nations. Furthermore, they ought to work toward opening the economy to external trade as quickly as possible and invest in its expansion process.

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Appendix -1

1. Moldova
2. China
3. Russia
4. United Kingdom
5. Norway
6. Gibraltar
7. Hong Kong
8. Macao
9. Cambodia
10. Åland Islands

11. Kosovo
12. Taiwan
13. Kazakhstan
14. Belarus
15. Belgium
16. Greece
17. Türkiye
18. Germany
19. France
20. Luxembourg
21. Finland
22. Austria
23. Czechia
24. Croatia
25. Estonia
26. Denmark
27. Hungary
28. Iceland
29. Italy
30. Ireland
31. Latvia
32. Lithuania
33. Liechtenstein
34. Malta
35. Montenegro
36. Netherlands
37. Poland

38. Portugal
39. Romania
40. Spain
41. Switzerland
42. Slovakia
43. Slovenia
44. Serbia
45. Ukraine
46. North Macedonia
47. Sweden
48. Bulgaria
49. Cyprus
50. Israel
51. Kyrgyzstan