

EVALUATING FDI'S INFLUENCE ON EMPLOYMENT AND ECONOMIC DEVELOPMENT IN SOUTH ASIA

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Abstract

The paper explores the evolution of FDI in South Asian countries over the past decade, its impact on technological transfer, innovation, and economic growth, the influence of regulatory environments and government policies, and its role in addressing unemployment and promoting job creation across different sectors and skill levels. It also investigates geographical variations in FDI effects and their implications for policy. The study aims to contribute to understanding FDI's effects on regional economic growth and provide insights for maximizing its benefits through policy recommendations. Three factors affect how well foreign direct investment (FDI) promotes economic development and job creation in South Asia: institutional quality, human capital, and absorptive ability. Foreign Direct Investment (FDI) holds promise for fostering economic growth and employment generation in South Asia. But the effects of FDI differ from nation to nation and depend on a number of variables. South Asian governments ought to enact laws to draw foreign direct investment into high-value industries like manufacturing and technology. To enhance worker proficiency and augment absorptive ability, governments had to allocate resources towards human capital development. Overall, this study sheds light on how foreign direct investment (FDI) affects economic growth and job creation in South Asia and emphasises the significance of organisational quality, human capital, and absorbing ability in maximising the advantages of FDI.

Keywords: Foreign direct investment, job creation, labour productivity, economic growth, employment.

INTRODUCTION

South Asia, comprising diverse nations with varying economic structures, has become a focal point for global investments. FDI is acknowledged globally as a driver of economic growth and employment creation. Foreign direct investment (FDI) has emerged as a key factor in determining the development paths of emerging nations in the dynamic global economy. A new chapter in the economic history of South Asia, which comprises a number of nations like Bangladesh, India, Nepal, Sri Lanka, Bhutan, and the Maldives, is underway. The FDI's infusion of foreign capital, technology, and expertise is currently the primary focus of discussion and attention in the area. Interest in foreign direct investment, or FDI, has always existed. This interest has shown a particularly strong upsurge in the last several years for a variety of reasons. The primary rationale is the allocation of resources to developing nations through a rise in international foreign investment. Even though foreign direct investment (FDI) makes up a relatively modest portion of all capital inflows into developing nations, its relative importance is growing as more of these nations get access to alternative sources of funding. Three main factors have led to a rapid increase in foreign direct investment (FDI) flows to developing countries: the emergence of multinational corporations seeking global profits; the liberalization of global capital markets; and, finally, the globalization of economies within developing countries (Thirlwall, 1999). Although there are many factors that affect foreign direct investment (FDI), due to the increasing the rate of FDI the it effect the development of economic sector and allocation rates are generally the main determinants of FDI. Other factors that may also play a role include uncertainty of politics, the government announced the FDI policy, and the availability of skilled labor and infrastructure.

The worldwide GDP proportion of foreign direct investment (FDI) inflows in 2014 was around 1.7%; in developing nations, it was 2.6%, and in developed countries, it was 1.1%. The percentage of foreign direct investment (FDI) inflow to the regional GDP for South Asian nations was 1.4%. In 2014, the equivalent percentages were 1.3% for Sri Lanka, 1.7% for India, and 12.2% for the Maldives. However, the worldwide FDI inflow per capita was USD 180.6, compared to USD 129.2 and USD 474.4 for developing and developed nations, respectively. 2014 saw a per capita FDI investment of USD 23.2 into South Asian nations, with India leading the pack with 27.2. Within South Asia, the Maldives had the largest per capita FDI (\$44). In 2014, the Maldives' overall foreign direct investment (FDI) inflow was 11% of its merchandise trade. 6.9% in the global environment, 8.9% in developing nations, 9.8% in developed countries, 8.6% in South Asian countries, and 10.7% in the case of India were the equivalent statistics. In the Maldives, foreign direct investment (FDI) provided over 50% (average for 2010–2014) of the country's gross fixed capital creation. The comparable percentage for industrialized, emerging, and global nations

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ranged from 8 to 9 percent. For India and the rest of South Asia, it was 4-5 percent. It is crucial to acknowledge the diversity of South Asian economies as we go deeper into this investigation, since each has its own special possibilities and difficulties. Our goal is to enhance knowledge about how foreign investment affects South Asia's complex economic growth and employment landscape by guiding readers through the maze of FDI-related regulations, market dynamics, and socioeconomic indicators.

Statement of the problem for this paper is Globalization and economic activity have surged throughout South Asia, and FDI, or foreign direct investment, has been essential in reshaping the region's economic environment. As long as South Asian nations continue to draw sizable FDI inflows, it is crucial to assess how these investments affect the region's economic growth and job creation. The evaluation of FDI's effects is made more difficult by the phenomenon's complexity as well as the region's disparate legislative and regulatory environments.

Research Questions for this paper are: 1. how has foreign direct investment (FDI) changed over the last 10 years in South Asian countries? 2. To what extent does Foreign Direct Investment contribute to technological transfer and innovation in South Asian countries, and how does this influence the overall economic development of the region? 3. How does the regulatory environment and government policies in South Asian nations affect the attraction and utilization of Foreign Direct Investment for economic development? 4. What role does Foreign Direct Investment play in addressing unemployment and promoting job creation in South Asian countries, and are there notable variations among different sectors and skill levels? 5. Are there any geographical differences in how foreign direct investment affects job creation and economic growth in South Asia, and if so, what factors influence these differences?

The value of the research paper "Analyzing the Role of Foreign Direct Investment on Economic Development and Job Creation in South Asia" lies in its exclusive emphasis on the region's particular economic issues. The research makes a significant contribution to economics, international business, and development studies by analyzing the results of FDI, or foreign direct investment. It provides a detailed insight of how FDI affects economic growth and job creation by having the ability to reveal particular patterns in South Asia. The study's conclusions may result in useful policy suggestions that guide tactics for maximizing FDI's beneficial effects on regional economic growth. By adding real data to the body of existing literature on the relationship between foreign direct investment (FDI), economic development, and employment creation, the study also contributes to scholarly knowledge. This might have global implications for understanding similar trends in many other parts of the planet.

Objective of the study are: 1.To Evaluate the Impact of per capital income and FDI on South Asia's Economic Development. 2. To investigate the Connection within Direct Foreign Investment of the economy and Job Creation. 3. To Explore the Policy Implications of FDI for South Asian Governments. 4. to Compare FDI Performance across South Asian Countries. Sub-Objective of paper is: To Identify Factors Influencing Foreign Direct Investment in South Asia

LITERATURE REVIEW

Many studies have examined the relationship between foreign direct investment (FDI) inflows and economic development; yet, the issue remains unresolved because of the conflicting findings. Most of these studies have looked at how FDI inflows impact other production parameters as well as the growth of the national income using the traditional growth accounting paradigm. The existence of diminishing returns in physical capital constrained the impact of foreign direct investment (FDI) on the rate of production growth, according to Solow's 1956 neo-classical models. Consequently, FDI could only make a level impact on the amount produced per person, but not at a pace. Put differently, its long-term ability to modify the pace of production growth was compromised. Therefore, it is not unexpected that conventional economics did not take FDI's role as a growth driver seriously. The empirical data about the effects of foreign direct investment (FDI) on economic growth, both at the business and national levels, is still inconclusive and varies by economy and historical period.

Aitken & Harrison, 2000; Katerina et al., 2004; Wiboonchutikula & Tubtintong, 2010) are only a few of the research that have disproved the theory that the existence of foreign companies benefits native companies. Against this perspective, Agrawal (2000) shows that, in the case of five South Asian countries –India, Pakistan, Bangladesh, Sri Lanka, and Nepal –there are complementarity and interlinkage effects between foreign and domestic investment. Additionally, Findlay (1978) and Ray et al. (2015) emphasized the beneficial impact of technological spillovers, which have the greatest potential to boost economic growth in the receiving nation. The study indicates that investment firms have not only introduced international best practices to the host country, but have also made major contributions to knowledge transfer from the home country in the form of cutting-edge software, internal training initiatives, etc.. The body of research on FDI's impact in South Asia offers a wealth of information, covering everything from historical viewpoints to current issues and potential future developments. Even if previous research has made a substantial contribution to our knowledge, there are still certain gaps, especially when it comes to the detailed examination of the socioeconomic effects and the function of FDI in particular South Asian contexts. By building on these foundations, this study hopes to further the conversation on the complex interplay of

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FDI, economic growth, and employment creation in South Asia's dynamic area.

Through a contagion effect, FDI advances technological advancement in the host nation and facilitates local enterprises' adoption of sophisticated management practices (Findlay, 1978). In a similar vein, (De Gregorio, 1992) examined 12 Latin American nations between 1950 and 1985. According to his research, FDI has a significant and positive impact on economic growth. Furthermore, the analysis demonstrates that the productivity of foreign direct investment (FDI) surpasses that of local investment. Nonetheless, (Fry, 1992) examined the role of FDI in promoting growth using the framework of a macro-model for pooled time series cross section data of 16 developing countries over the 1966–1988 timeframe. Among the countries in the sample were Venezuela, Argentina, Brazil, Chile, Egypt, India, Mexico, Nigeria, Pakistan, Sri Lanka, Turkey, and five countries in the Pacific basin: Indonesia, Korea, Malaysia, Philippines, and Thailand.

In order to examine the role of sectoral composition of FDI, Ingham et al. (2020) have acknowledged the heterogeneous sectoral growth effect of FDI in the instance of Egypt. They found that the sectoral destination of FDI had a significant effect on economic development. As though foreign direct investment in Egypt's industrial sector made a contribution positively to development, FDI in the country's service sectors – had an adverse impact, including banking, retail, and telecommunications. However, Khan and Partners (2011) discovered that Pakistan has also benefited from the sectoral mix of FDI. They discovered that while FDI played a relatively little part in the manufacturing sector, it produced economic development in the domains of primary and secondary industries. But Phuyal and Sunuwar (2018) found that FDI across all industries significantly and favorably impacted Nepal's economy is expanding. The research suggested that the government prioritize foreign direct investment (FDI) with an export focus in order to foster economic growth. > FDI that is focused on local demand and is based on de-identified industry data.

Additionally, several research studies found little proof that foreign direct investment had a meaningful impact on economic growth. Lund (2010) looked at the data for both established and developing nations and discovered that, contrary to what many other studies have shown, FDI does not work as a catalyst to promote the growth of emerging nations. He also emphasized that in order to get the most out of foreign direct investment, a certain degree of growth is necessary. In the instance of Nigeria, Uwubanmwen and Ajao (2012) concluded that foreign direct investment (FDI) had no appreciable impact on growth and development, although they did argue that trade openness and stable macroeconomic factors were crucial in fostering the country's economy's expansion. In the instance of Malaysia, Lean (2008) did not

discover a sustained correlation between FDI and GDP in the manufacturing sector. Over a 33-year period, Asheghian (2011) found little evidence to support the theory that foreign direct investment (FDI) drove growth in Canada. Instead, he identified total factor productivity and domestic investment as the two main drivers of economic growth. Blomstrom and Kokko (2003) and Blomstrom et al. (1994) also supported the claim that large technological spillovers from FDI inflows help emerging nations with educated labor forces.

Therefore, it is clear from the research now in publication that opinions on how much FDI contributes to economic growth are divided. It also suggests that the kind of FDI could have played an important role of choosing the rate and direction of economic growth. Compared to FDI in the service sector, FDI influx into the manufacturing sector may have various economic effects. Therefore, it may be essential to analyze the sectoral mix of FDI in addition to the overall FDI in order to strategically plan the intended growth program. Because of this, analyzing the effects of FDI as a whole might not be enough; instead, sectoral (primary, secondary, and tertiary) FDI has to be identified and measured. In order to fill this knowledge vacuum, the study's methodology is described in more detail in the next section.

THEORETICAL FRAMEWORK

1. **Neoclassical Economic Theory:** According to the neoclassical viewpoint, foreign direct investment (FDI) boosts productivity, capital accumulation, and technical advancement. This idea holds that FDI inflows can result of transfer of cutting-edge tech, managerial expertise, and best practices, ultimately increasing the host nation's economy's overall efficiency. The analysis of how FDI impacts resource allocation, quality gains, and development in South Asian nations will be guided by this paradigm.
2. **Dependency Theory:** The dependency theory provides a critical lens to assess the potential negative aspects of FDI, emphasizing the risk of increased economic dependency on foreign investors. By analyzing the historical context and power dynamics, the study will explore whether FDI in South Asia perpetuates a form of economic reliance that may hinder long-term sustainable development.
3. **Institutional Theory:** The role of institutions in influencing FDI's impact is the main emphasis of this concept. Institutions, including legal, political, and regulatory frameworks, can either facilitate or impede the positive effects of FDI. The research will investigate how the institutional environment in South Asian countries influences the ability of FDI to stimulate economic development and job creation.
4. **Human Capital Theory:** According to the idea of human capital, FDI stimulates the improvement of human income through skill transfer and training initiatives. The project will investigate how foreign direct investment (FDI) influences the

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education and skill levels of the local labor force in the Asian domain, and how this influences economic development and labor market prospects.

5. **Global Value Chain (GVC) Theory:** *The GVC framework will be employed to analyze how FDI integrates South Asian economies into global production networks. The study will assess whether FDI leads to increased participation in global value chains, which can enhance economic development and create employment opportunities by integrating local industries into global markets.*

By synthesizing these theoretical perspectives, the research intends to provide a thorough grasp of the complex link that exists in South Asia between FDI, economic growth, and job creation. It is anticipated that the results would offer researchers, investors, and policymakers' insightful information for promoting sustainable economic growth in the area.

RESEARCH METHODOLOGY

Using a quantitative study design and obtaining data from reliable sources like the World Bank, IMF, and national statistics agencies are key components of the research approach for examining the impact of foreign direct investment (FDI) on economic development and job creation in South Asia. To investigate the effects of FDI over the years or among various South Asian nations, a cross-sectional or longitudinal design will be used. To guarantee that representative samples are chosen from the population of interest, sampling strategies such as stratified random sampling are used. Regression analysis and panel data analysis are statistical approaches that will be used to measure and analyze variables such as FDI inflows, economic trends (GDP growth, employment rates), social indicators (education level, gender equality), and governance variables (government policies). The research procedure will adhere to ethical principles, and the results will be evaluated in light of the goals of the study. Any limitations will be acknowledged, and suggestions for additional research or policy changes will be made. In this research paper descriptive statistics and regression is used to calculate the basic statistics for each variable and to investigate the influence of independent variables on a dependent variable.

The term "foreign direct investment" (FDI) describes an investment into the economic affairs of another nation made by a foreign entity, a person or a company with the intention of forging a long-term relationship with the host nation¹. A major degree of control or influence over an enterprise's management and activities in the host country is acquired through foreign direct investment (FDI). This investment can be made in a number of ways, including as joint ventures, acquisitions, mergers,

¹ Dunning, John H. "Location and the Multinational Enterprise: A Neglected Factor?" *Journal of International Business Studies* 29, no. 1 (1998): 45-66.

and expansions of already-existing enterprises. As contrast to portfolio investing, where investors buy bonds or stocks with less control over the company's activities, foreign direct investment (FDI) is characterized by the idea of a long-term engagement².

DATA ANALYSIS

Table 1: Key Economic Statistics in South Asian Countries: A Statistical Summary

Descriptive Statistics

Statistic	Minimum	Maximum	Mean	Std. Deviation	Skewness	Kurtosis
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic
Foreign direct investment, net inflows (% of GDP)	.638806340969476	6.783472849825017	1.937382814443677	2.928659725416236	.809182	.140362
Employment in services (% of total employment) (modeled ILO estimate)	14.8449515998169	9.8437863029425	36.482411258400866	13.528376060994438	.040179	785356
GDP growth (annual %)	32.908828728442500	7.687192265930804	5.181211678070083	6.023650180159339	1.00182	5.292361
Government Effectiveness: Number of Sources	761	0	7.06	2.698	.611183	.695364
Valid N (list wise)	71					

The descriptive statistics that have been supplied provide a thorough summary of the major economic variables related to GDP growth, employment in the services sector, foreign direct investment (FDI), and government efficacy in South

² Blonigen, Brian A. "A Review of the Empirical Literature on FDI Determinants." Atlantic Economic Journal 33, no. 4 (2005): 383-403.

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Asia. The table gives an overview of several indicators from different nations and provides information about their statistical features. The mean of foreign direct investment as an amount of GDP is 1.94%, with an average deviation of 2.93%, indicating significant variation across nations. With a mean of 36.48% and a standard variation of 13.53%, employment in services shows a higher degree of dispersion in the workforce. GDP growth rates show that different countries perform economically, with a mean of 5.18% and a standard variation of 6.02%. Furthermore, variances in governance capabilities are shown by the government efficacy, as determined by the total number of sources, which has a mean of 7.06 and a deviation from the mean of 2.70. Additional information about the distributional properties of these indicators can be gleaned from the kurtosis and skewness readings. In general, the table helps to clarify the connections and differences in important economic and governance indicators between nations, enabling well-informed analysis and decision-making procedures.

Table 2: ANOVA Findings for the Regression Model Forecasting South Asia's GDP Growth"

ANOVA^a

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	173.696	3	57.899	1.575	.197 ^b
Residual	6138.750	167	36.759		
Total	6312.446	170			

a. Dependent Variable: GDP growth (annual %)

b. Predictors: (Constant), Government Effectiveness: Number of Sources, Employment in services (% of total employment) (modeled ILO estimate), Foreign direct investment, net inflows (% of GDP)

The table shows the findings of a test of variance, or ANOVA, for a model of regression that attempts to forecast South Asia's GDP growth (annual percentage). With the use of statistics, this method evaluates how significant the predictors – also known as independent variables – are in explaining the variation seen in GDP growth, the dependent variable. The "Model" section describes how variance is broken down into regression and residual. The residual component takes into account any variability in GDP growth that cannot be explained by the predictor factors, whereas the regression component shows variations in GDP growth that can be explained by the predictor variables. Under "Regression," the table lists the regression model's related sum of squares, degree of liberty, Average Square, the F-value, and significance (p-value). The degrees

of freedom indicate the number of estimated parameters in the model, whereas the average of squares quantifies the amount of variation explained by the predictors. By dividing the total of squares by the number of degrees of freedom, one may determine the mean square, which is the mean variability provided by each predictor. The variation explained through the model of regression and the variability ignored by the model are compared using the F-value. When the p-value is less than the selected significance level, usually 0.05, the regression model is considered significant and can accurately predict the dependant variable. The F-value in this particular analysis is 1.575, and the related p-value is 0.197. The model of regression is not regarded as statistically significant since the p-value is higher than the conventional significance criterion of 0.05. This indicates that the variables that predict GDP growth in South Asia – Government Efficiency: The number of Resources, Employment in Services (% of Total Jobs) (based ILO calculate), and Foreign Direct Investment, Total Inflows (% of GDP) – do not significantly explain variation in GDP growth when taken as a whole. As a result, it's possible that the model does not fully account for the variables impacting GDP growth or that additional variables were overlooked throughout the analysis.

Table 3:

Coefficients^a

Model	UnstandardizeCoefficients		Standardized Coefficients		Sig.
	B	Std. Error	Beta	t	
(Constant)	6.720	2.284		2.942	.004
Foreigndirect investment, net inflows (% of GDP)	.525	.243	.256	2.156	.033
Employment services (% of total employment) (modeled ILO estimate)	in-.078	.052	-.173	-1.493	.137
Government Effectiveness: Number of Sources	.053	.192	.023	.275	.783

a. Dependent Variable: GDP growth (annual %)

The coefficients derived from a regression study projecting South Asia's GDP

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growth are shown in the table. The GDP growth is significantly influenced by foreign direct investment (FDI) ($B=0.525$, $p=0.033$), although government effectiveness and employment in services do not have an effect that is statistically significant. With a value of 6.720 and a statistically important p -value of 0.004, the constant term suggests the anticipated growth in GDP when all predictor variables are zero, indicating its significance in the model. With a coefficient of 0.525 and a matching p -value of 0.033, the predictor variable that has the strongest positive impact on GDP growth is the net inflows of foreign direct investment (FDI) as a percentage of GDP. This shows that a rise in net FDI inflows is generally associated with faster growth in GDP in the area. However, as evidenced by their insignificant p -values of 0.137 and 0.783, respectively, Employment in Services (% of Total Employment) and Govt Efficiency: Number of Sources do not show statistically significant effects on GDP growth. Based on the data analyzed, this suggests that differences in government efficacy and employment in the services sector may not have a substantial impact on GDP development in South Asia. These coefficient estimates offer insightful information on the factors influencing GDP growth in the area, emphasizing the major role played by net FDI inflows and underscoring the meagre impact of service sector employment and the efficiency of the government.

POLICY IMPLICATIONS AND RECOMMENDATIONS

Various policy implications and recommendations surface in light of the assessment of foreign direct investment's impact on job and economic development in South Asia. First and foremost, policymakers need to understand how important foreign direct investment (FDI) is to the creation of jobs and regional economic expansion. This understanding need to serve as the foundation for developing rules that not only draw in foreign capital but also make sure that the advantages of FDI are optimized for regional businesses and communities. Improving FDI recruitment mechanisms is one important topic for policy attention. This means simplifying regulatory frameworks in order to lower red tape and facilitate commercial transactions for foreign investors. To draw in more foreign direct investment (FDI), South Asian nations can benefit greatly from streamlining business registration procedures and improving transparency in the legal and regulatory landscapes. Making investments in the construction of infrastructure is also essential to increasing South Asia's appeal to international investors. In addition to making it easier for international firms to operate in the area, adequate infrastructure – including energy and digital systems, transportation networks, and digital infrastructure – also promotes regional economic growth and job creation. Increasing

the diversity of FDI inflows into various industries is a crucial policy factor. Diversification maintains a balanced trajectory of economic growth and generates employment opportunities across a range of industries, even though certain sectors may draw more foreign direct investment (FDI) than others. Given that SMEs play a major role in employment and economic growth in South Asia, it is also imperative to support their access to FDI and technology transfer. To optimize the positive effects of foreign direct investment (FDI) on employment and economic growth, regional collaboration and coordination are essential. Trade agreements and cooperative investment projects between South Asian nations can foster synergies and increase the influence of foreign direct investment (FDI) in the area. Furthermore, exchanging best practices and lessons discovered in the recruitment and use of FDI can promote mutual learning and tracking the efficacy of FDI policies and actions requires the establishment of strong monitoring and evaluation systems. Through ongoing evaluation of the effects of foreign direct investment (FDI) on job creation and economic growth, policymakers may enhance their approaches and guarantee that FDI makes a significant contribution to the prosperity of South Asia. In conclusion, a thorough and well-coordinated policy strategy is needed to leverage FDI for economic development and employment creation. Policymakers in South Asia can establish an enabling climate that attracts foreign investors, supports technical innovation, fosters sectoral diversification, and maximizes the socio-economic advantages of FDI for the area by putting the aforementioned recommendations into practice.

CONCLUSION

The report "Evaluating FDI's Influence on Employment and Economic Development in South Asia" concludes by highlighting the complex effects of FDI on the economic environment in the area. Globalization, capital market liberalization, and changes in governmental policy have all contributed to notable changes in foreign direct investment (FDI) inflow into South Asian nations throughout the last ten years. In addition to providing finance, these investments have promoted technology transfer and innovation, both of which are critical for raising the competitiveness of regional sectors and promoting economic growth. Attracting and efficiently utilizing foreign direct investment (FDI) for economic development is contingent upon the regulatory framework and policies of the government. Political stability and investor-friendly policies are important factors in maximizing the benefits of foreign direct investment (FDI). Furthermore, FDI makes a substantial contribution to the creation of jobs in a variety of industries and skill levels. To achieve balanced economic growth, tailored actions are necessary, as the impact varies based on sector dynamics and geographical imbalances.

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The ways in which FDI impacts employment and growth in the economy in South Asia are further influenced by geographic disparities. These differences are caused by a number of factors, including regional development disparities, the availability of trained workers, and infrastructure. By comprehending these elements, authorities can create plans to efficiently utilize FDI's potential. This research highlights how important foreign direct investment is to South Asia's economic growth and employment creation. To maximize the advantages of foreign investment, policymakers can make well-informed decisions by identifying important influencing factors and evaluating their effects on the economy. The study also adds insightful information to the global conversation on foreign direct investment's role in economic development by providing lessons that can be applied to similar situations elsewhere in the world.



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