

Multinationals and the State of Civil Liberties and Political Rights in Asia

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Abstract

This research paper analyses the possible influence of political rights and civil liberties in Asian developing host economies on the foreign direct investment (FDI) decision of the multinationals from the developed source nations. Generally, United States, European Union and Japan are considered as the primary sources of FDI. All of them locally have very high standards of political rights and civil liberties. Their societies are extremely sensitive for the respect of personal choice and freedom to express oneself. The current study tries to ascertain that whether the existence of a better set of the same principles have any effect on the investors of these countries. Utilizing annual data of twenty six developing states from Asia for twenty one years, it is found through random effects panel technique that political rights significantly influence the investors' location choice in overseas markets as a possible long-term host to their investment. However, contrary to expectations civil liberties have a negative sway, though the effect is insignificant. The conventional FDI location drivers such as market size, development level, extent of economic liberalization continues to significantly affect multinationals.

Keywords: *Political Rights, Civil Liberties, Asian Economies, Panel Data JEL Classification Codes: C230, F130, F140, F210 and K380*

Introduction

This paper focuses on the impact of political rights (PR) and civil liberties (CL) on foreign direct investment (FDI) in Asian developing states. The emergence of multinationals (MNCs) and their shift towards extensive operations in developing countries is a field on which immense work has been done but still there are many aspects that requires the researchers attention (Shah, 2011b). For example the major FDI exporting countries are the United States of America (USA), the European Union (EU) and Japan (Shah, 2023). All of them are placed among the top nations by the Freedom House world freedom index. Their societies in general have a high regard for the existence of democratic norms in their everyday lives (Shah, 2017d). Therefore, it is expected that their investment decision abroad will also be affected by the existence of these virtues in the foreign host nation (Okara, 2023). The current work investigates this phenomenon and tries to answer whether their esteem for such qualities is just confined to their home societies or it is also sought by them where they intend to operate, manufacture and carry out their businesses.

FDI is expected to affect the host country in numerous ways. It enhances their production capacity, income level, financial development, trade, balance of payments, improves a country's

economy and as a result reduces poverty and creates a competitive environment (Shah, 2009). Moreover, FDI is usually important because through it developing countries may have an easy access to resources that might be otherwise unavailable to those nations (Barry, 2024). It is a way through which developed countries make economic associations with developing countries as well as bonds the people of the two nations (Shah, 2011c). In today's era of globalisation many companies are investing internationally through FDI. This type of investment allows companies to seek new markets and new opportunities, and to find desired labour force (Shah, 2014a). Due to these advantages developing countries are now making reforms related to political and economic development of a country for a fair share of overseas investments (Shah, 2011e). 1990 onwards FDI to developing countries has steadily increased. This remarkable shift in the multinational investment is primarily due to increased liberalisation in developing countries (Shah & Khan, 2016).

FDI is one of the most acceptable ways of capital flow into emerging economies because having a long-term perspective it is less risky as compared to portfolio investments. Various determinants have been recognised that effect investment location choice of multinational companies (MNCs). Foreign investors are attracted to economically active states. They're mostly attracted by factors like economic growth, high incomes, large dynamic markets, skilled and affordable human capital, well-developed physical and technological infrastructure and social and political stability etc. (Shah, 2019; Dancy & Fariss, 2024).

Rather than considering a broad range of varied determinants of FDI, this research focuses on Political Rights (PR) and Civil Liberties (CL) that affect FDI in Asian developing nations. It is found that PR matters the most for multinationals. MNCs are not only interested in financial investment in host countries but also send representative staff to initiate and maintain their operations there. Consequently, their managerial staff and executives are concerned about the state of PR and CL in the host nation (Shah & Gulelala, 2017; Shah, 2018c). Lack of political and civil rights may lead to political and economic tensions with in a country. According to Busse and Hefeker (2007) risks related to investment, political violence, and civil disorder may affect FDI potential of a host country. MNCs are typically interested in stable economic and political conditions. FDI is usually attracted to countries with efficient administration and corruption less bureaucracy. They appreciate political rights such as fair electoral process and civil liberties of citizens.

Research Question

Do political rights and civil liberties influence FDI into Asian developing countries?

Research Objectives

The main objectives of this research are:

- ✓ To investigate the role of PR and CL in FDI to Asian developing countries.
- ✓ To find out the extent to which civil liberties influences FDI to these countries.
- ✓ To review the implication of improved level of political rights in Asian developing economies for FDI inflows.

Methodology

The nature of the study is quantitative. Panel data set of developing Asian countries is taken. Random effect panel regression method is used for deriving the coefficients.

Hypothesis

- ✓ H0: Higher level of political rights doesn't result in improved FDI inflows.
- ✓ H1: Higher level of political rights results in better FDI inflows.
- ✓ H0: Civil liberties enhancement doesn't enhance FDI inflows.
- ✓ H2: Good level of civil liberties enhances FDI inflows.

Limitations

There were some constraints while conducting this research work:

- ✓ The choice of independent variables is constrained by data availability; as data wasn't available of some countries on particular variables.
- ✓ The findings of study are only applicable to Asian developing countries for the time period considered.

Paper Organization

Introduction is followed by literature review. Part three presents research methodology and design. Estimation techniques and result analysis are included in part four. Concluding remarks are given in the fifth section.

Literature Review

This part gives a review of the earlier work done by various researchers and scholars. Schneider and Frey (1985) examined economic and political determinants of FDI to 80 less developed countries through a politico-economic model. It included economic and political factors that empirically performed best. They found that higher real per capita GNP and lower balance of payment deficit attracts more FDI. Among political factors aid from western countries has significant effect on FDI. Political instability is found to have negative but insignificant sway on FDI. Richards, Gelleny and Sacko (2001) by examining pooled cross sectional data of 43 developing countries from 1981-1995 through Logit analysis found that there is a significant relation of FDI with government respect for human rights i.e. political rights and civil liberties. Harms and Ursprung (2002) probing a panel of 62 states for 1989-1997 found that MNCs are usually attracted to nations sympathetic towards political and civil rights. Busse (2004) examined MNCs and repression of PR and CL from 1972-2001 in 69 developing countries. It is found that in 1970s MNCs were attracted towards countries with repressed democratic rights but after 1980s there was a transitional change. Post 80s and in 90s MNCs are tilted towards nations that value democratic norms. His findings also revealed that FDI flows amplified to countries with better CL and PR of the people. Pournarakis and Varsakelis (2004) examined a panel of 10 Central East European Countries for 1997-2000. They found that along with resilient markets structure, political factors like PR and CL also influences FDI to developing countries. Tuman and Emmert (2004) studied U.S FDI in 15 Latin American and Caribbean (LAC) countries from 1979-1996. They found that human capital, market size and political instability have positive impact on US FDI in LAC countries. Repression of human rights negatively influenced U.S FDI to these countries during the same time period.

Bahmani-Oskooee and Goswami (2006) scrutinised PR, CL and black market premium on foreign exchange of 63 developing countries from 1972-1992. They found that economies having more value for PR and CL have less black market premium and tries to ally exchange rate with other sectors of the economy. Haile and Assefa (2006) analysing FDI determinants in Ethiopia for 1974-2001 found trade liberalisation and GDP growth to have a significant effect on FDI. Infrastructural botches, unstable macroeconomic environment and poor political conditions negatively affect FDI. Thus, stable macro economy, better infrastructure quality and enriched political conditions shall lead to more FDI. Adam and Filippaios (2007) taking a sample of 105 developing and developed countries for 1989-1997, reported that repressed PR adversely affect FDI in developing countries because stifled CL demoralise the workforce, decreasing their productivity. However, higher CL gives rise to other operative ills like labour unions etc. So, a certain minimum repression, of CL is acceptable for better FDI inflows. Blanton and Blanton (2007) examined the effect of human rights on FDI by using time series, cross sectional data set mostly of OECD countries for 1980-2003. They found that developing countries respecting citizens' human rights successfully attract FDI. Jensen (2008) examined political risk, democratic institutions and FDI for a panel of 119 countries for 1970-1997. He found democratic institutions to lower political risk for MNCs. Suliman and Mollick (2009) using panel fixed effect analysis technique on 29 Sub Saharan African states for 1980-2003 found that FDI responds positively to literacy rate, PR and CL but strongly negatively to war like situations.

Kim (2010) examined FDI-political stability association for 28 countries from 1990-2002. He found nations with feeble democracy and higher government corruption receiving more FDI. His findings also revealed that inward FDI has an insignificant relation with PR. Mottaleb and Kalirajan (2010) showed that most lower-middle income states and Asian countries attract FDI mainly by offering liberalised trade policies and a friendly business environment to foreign MNCs. According to them Asian nations and lower middle income economies are substantively attractive destinations for investors as compared to low-income, African and LAC nations. Khan (2011) examining international political relations and FDI in Pakistan for 1972-2009, found economic development, infrastructure and natural resources significantly influencing FDI. However, PR and CL repression has no significant impact on Pakistan's inward FDI in the long-run. Anwar and Cooray (2012) found financial development enhancing FDI prospects in South Asia. Using data for Bangladesh, Bhutan, India, Nepal, Pakistan, Sri Lanka and Maldives for 1970-2010, they found that financial development, PR and CL prevailing in these countries have also contributed to their economic growth. Fatah, Othman and Abdullah (2012) examined economic growth, political freedom and human development in three East Asian Countries i.e. China, Indonesia and Malaysia for 1980-2005. They found that FDI and CL are influencing Chinese economic growth, GDP of Indonesia is affected by trade openness and high fertility rate, however, Malaysia is found to be better both in political freedom and civil liberties and hence receiving more FDI. Dutta and Osei-Yeboah, (2013) studied the liaison between FDI and human capital for seventy three developing countries. It was found that in presence of efficient institutions, improved PR and CL the bond between human capital and FDI flourishes.

Shah and Afridi, (2015) analysed the effect of good governance on FDI in South Asian Association for Regional Cooperation (SAARC) member nations for 2006-2014. Through

random effect panel estimation technique they found that political stability and regulatory quality positively and prevalence of corruption negatively influence the investors decision to invest in the region. Similarly Shah and Faiz (2015) found terror incidents to significantly deter the possibility of overseas investment in SAARC. Shah (2017b) analysing the influence of healthy political institutions and Shah (2018b) of corruption on inward FDI in South Asia found through panel data methods that they have a significant sway on the investors choice of host location in South Asia. Filippaios, Annan-Diab, Hermidas and Theodoraki, (2019) using a sample of 35,000 investments in developing and emerging nations for 2003-2013 studied the political governance and FDI nexus. They found that the host countries civil rights effect FDI depending on whether the investment is coming from an autocratic or a democratic state.

Satoglu (2020) examining 13 emerging economies from 2000-2018 founds civil liberties, property rights and good governance positively influencing FDI. Bougharriou, Benayed and Gabsi (2021) probing the authoritarian Arab states from 2002-2013 advocates that a modest growth in civil liberties and political rights acts a prerequisite to attract FDI. Jeutang and Kesse (2021) also endorse that political constrains negatively affect inward FDI. Bratman, Auch and Stinchfield (2022) evaluating, FDI into the US shale industries, found overseas MNCs to engender a vicious cycles of abating civil liberties and land rights. Di Ubaldo and Gasiorek (2022) analysed 65,752 Greenfield investments from 145 source states into 169 host economies for 2003-2017. Through structural gravity models they found that addition of non-trade provisions such as political and civil rights inclusion in preferential trade agreements negatively affect bilateral FDI inflows to developing nations. Hamid and Jena (2022) using annual data from 1980-2017 found through autoregressive distributed lag method that PR and CL though insignificant in short-run positively influence long-term overseas investment in India. Adelaiye (2023) assessing 145 states for 1990-2020 suggests that large FDI recipients encourage civil liberties and human rights and avoid the use of brute force against protesters. Antonietti and Mondolo (2023) considering FDI in 102 developing nations for 25 years found it to granger cause voice and accountability and rule of law. Dancy and Fariss (2024) exploring Google search data postulates that greater FDI receivers doesn't necessarily exhibit greater reverence for human rights, though they search for them on Google more frequently. Triarchi and Marangos (2024) also consider greater respect of human rights as one of the primary FDI determinants.

Therefore, the political right, civil liberties-FDI rapport is empirically an open unsolved query. Various researchers, analysing different regions/countries for different time periods have found contrasting results. However, given the fact that the Asian states under consideration has seen autocratic as well as democratic regimes during the time period considered, hence it requisites a fresh look into the FDI and Political Rights, Civil Liberties relationship. Moreover, the primary FDI source nations, that are, Japan, European Union and the United States of America observe lofty standards of Civil Liberties and Political Rights at home. Hence, it's pertinent to check whether they, financially also, support them abroad by encouraging their MNC's to actively pursue overseas investment opportunities in states that respect and ensure Civil Liberties and Political Rights of their citizens.

Research Design and Methodology

Methodology portion discusses the method through which the whole study is carried out. It includes nature of research, sample size, data sources from where data on different variables is extracted and the statistical tests which are applied on data to get results. The variables used in the model are also explained over here.

Population

Population is a set of entities having same attributes. The population of our study is all the Asian developing countries included by the World Bank into this geographical region.

Sample

Sample is usually extracted from the population. Initially 32 Asian developing countries were selected on the basis of their GNI per capita in 2009, ranging from \$996 to \$12,195 (Shah & Jamil, 2016). Later it got reduced to 26 countries subject to data availability. These countries include five from South Asia (Bangladesh, India, Nepal, Pakistan and Sri Lanka), seven from Central Asia (Armenia, Azerbaijan, Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan), six from Middle East (Iran, Iraq, Jordan, Lebanon, Turkey and Yemen) and eight from East Asia and Pacific (Cambodia, China, Indonesia, Laos, Malaysia, Philippines, Thailand and Vietnam).

Model

Based on the previous literature we used the following model to gauge the effect of Civil Liberties and Political Rights on FDI in Asia (Shah & Azam, 2018).

Equation 1:

$$FDI_{jt} = f \left\{ \begin{array}{l} \text{MarketSize}_{jt} + \text{EconomicDevelopment}_{jt} + \text{TradeOpenness}_{jt} + \\ \text{HumanCapital}_{jt} + \text{PoliticalRights}_{jt} + \text{CivilLiberties}_{jt} + \text{Sea Access}_j + \varepsilon_{jt} \end{array} \right\} \quad (1)$$

Here FDI is the dependent variable and market size, economic growth, trade openness, human capital, political rights, civil liberties and sea access are independent variables.

Equation 2:

By taking log for linearizing equation 1 and putting appropriate proxies for independent variables we get:

$$FDI_{jt} = \alpha_0 + \beta_1 \ln \text{Population}_{jt} + \beta_2 \ln \text{GDPPC}_{jt} + \beta_3 \ln \text{Trade}_{jt} + \beta_4 \ln \text{SecEducation}_{jt} + \beta_5 \ln \text{PR}_{jt} + \beta_6 \ln \text{CL}_{jt} + \beta_7 \text{SeaAccess}_j + \varepsilon_{jt} \quad \dots (2)$$

Here $\ln FDI_{jt}$ represents flow of foreign direct investment to the host country.

\ln Population stands for population of a country and is used as a proxy for market size

\ln GDPPC stands for GDP per capita and is used as a proxy for economic development

\ln Trade represents imports + exports and is used as a proxy for trade openness

\ln Secondary education shows secondary level education of host country

\ln PR represents political rights

\ln CL stands for civil liberties

Sea Access signifies whether the country have access to sea or not
 ϵ represents the error term,
 j represents country and varies from 1-26 and t represents time varying from 2003-2023.

Data Sources

Data used in this study is secondary in nature and is arranged in panel form. Data on FDI, market size, trade openness, and human capital is taken from World Bank, World Development Indicators (WB, WDI). That on political rights, civil liberties are taken from Freedom House, whereas, Sea Access information is extracted from CIA, World Fact Book.

Definition of Variables

All the variables included in equation 1 and 2 are briefly discussed over here.

Dependent Variable - Foreign Direct Investment (FDI)

Foreign direct investment is an investment made by a company belonging to one country into a company in an overseas host state in order to get a long-term control over a firm in the foreign country (Shah & Zeb, 2017). MNCs are usually attracted to countries with an open economy (Shah, 2015). Developed countries are concerned for their investments going abroad. Developing countries at times may be sceptical of inward FDI that it might drive out domestic firms (Shah, 2013b). However, transition/developing economies are reducing restrictions and formulating policies for attracting MNCs for probable transfer of new technologies and expertise brought by them (Shah, 2012a). MNCs are expected to engender a healthy competition with in the host country as well.

Control Variables

Political Rights

Political rights refers to free and fair electoral process, accountability on part of government, rule of law, stress free political participation for individuals and efficient mechanism for elections etc.

Civil Liberties

In the words of Gastil (1990) “Civil Liberties are rights to free expression, to organize or demonstrate, as well as rights to a degree of autonomy such as is provided by freedom of religion, education, travel, and other personal rights”. Harms and Ursprung (2002) have found that FDI is affected significantly by both Political Rights and Civil Liberties. Countries emphasising PR and CL, have fair voting mechanism, individuals are allowed to participate freely in voting and to elect the individual who deserves to be elected. Voters are not pressurised by representatives of political parties, individual free will exists, and they are at liberty to express and to act liberally.

Data on political rights and civil liberties indexes is taken from the freedom house database. Democratic rights of a country i.e. political rights and civil liberties are usually measured on a scale ranging from one to seven. Where one represents high respect for democratic rights while seven represents low respect for democratic rights. Countries are usually evaluated by giving a single value for political rights and civil liberties.

Population

Countries with huge population are usually attractive sites for MNCs (Shah, 2011a). Market size is considered to be a robust FDI determinant. The size of an actual market matters in terms of attractiveness of a specific location for investment when an MNC wants to produce for local consumers. Vast population usually have numerous people with varied wants and needs. These needs create a market for foreigners to produce products and offer services for the fulfilment of particular needs (Shah, 2013a). Investors are attracted by large customer base. According to Aziz and Makkawi (2012) large population attracts FDI because foreign investors get abundant cheap, skilled and literate labour force as well as greater expected market munificence for goods and services offered by MNCs.

Per Capita GDP

Economic development is a powerful driving force in attracting FDI. GDP is one of the financial indicators which show economic development of a country (Shah, 2012b). It is important because it shows financial growth of a state by comparing it with others (Shah, 2011f). It is used to measure economic performance. Rise in GDP per capita also indicates increase in the people's living standard.

Trade Openness

Another important factor affecting FDI is trade openness. Openness means a country having fewer restricted policies and offering tax incentives for foreign companies (Shah & Qayyum, 2015). Previous researches have revealed that openness to trade might exhibit both positive and negative affect on inward FDI. Import oriented horizontal FDI makers might prefer countries with closed economies in order to avoid competition in host countries by enjoying monopoly (Shah, 2017a). However, countries with export oriented policies, attracts multinationals who intends to re-export their finished goods abroad, due to low trade barriers resulting in low transactional costs (Shah & Samdani, 2015). Therefore, MNCs usually prefer export oriented open sates for investments.

Literacy Rate

Various variables can be used to explain human capital, however, we uses secondary level literacy rate for it. Literacy Rate is based on literate people whose age is of 15 or above. Suliman and Mollick (2009) and Aziz and Makkawi (2012) found a significant relationship between literacy rate and FDI. Well educated, skilled and trained population is usually an enormous asset sought by foreign investors (Shah, 2011d). Higher literacy rate results in more skilled and educated labour force which can serve an MNC in a better way.

Sea Access

For geographical locations having access to sea, a dummy for sea access is used (Shah, 2014b). Along certain political and economic factors, geographical location also matters a lot for attracting FDI to developing countries. Some countries have access to sea while others are land locked. Geography has some influence on FDI but it doesn't deter it completely (Shah, 2016a). Countries that are land locked may find snags in order to attract FDI due to lack of access to sea (Shah, 2021). However, they can overcome this problem to some extent by developing road and air transport infrastructure (Shah & Khan, 2019). Export oriented countries usually ignore land locked countries due to high transportation costs (UNCTAD, 2024).

Estimation Techniques and Analysis

This section deals with extraction of the results from the acquired data in a meaning full manner. Different statistical diagnostics like descriptive statistic, correlation, heteroscedasticity tests and regression analysis are applied on the data by using STATA.

Specification Tests

As we have 26 countries for 21 years we have to test whether to use pooled OLS or panel estimation techniques. Consequently, to use suitable empirical method specification diagnostics were carried out (Shah & Khan, 2017). Fischer-Test supports application of Panel Fixed Effects against P-OLS. The results are:

$$u_i = 0 \quad F(26, 546) = 18.62$$

Probability > F = 0.0000.

Breusch and Pagan Lagrangian multiplier test favours Random Effects technique over P-OLS as shown from results:

$$\ln FDI[id, t] = Xb + u[id] + e[id, t]$$

$$\text{Chibar2}(01) = 746.42$$

Probability > Chibar2 = 0.0000

Hausman Specification Test

This test is usually carried out to find which panel estimation method is suitable to be applied on the model. The probability value is $P = 0.2978$ which shows that random effect can be used. We can also say that we are unable to reject the null hypothesis meaning that both random and fixed effects methods can be used (Shah & Khan, 2018). Thus, it allows us to employ random effect method which is usually considered to be more efficient in comparison to the consistent fixed effect technique.

Descriptive Statistics

It presents the salient features of data quantitatively. Descriptive statistic is used to summarize the data. It gives information about number of observations, mean, standard deviation, minimum and maximum values of all the variables used in the study.

Table 1: Summary Statistics

| Variable | Observations | Mean | Std. Dev. | Min | Max |
|------------------------|--------------|----------|-----------|---------|----------|
| Ln FDI | 546 | 18.29355 | 5.942074 | 13.8106 | 25.94406 |
| Ln Population | 546 | 16.9323 | 1.9964 | 12.2989 | 21.0147 |
| Ln GDPPC | 546 | 9.2310 | 6.1098 | 4.5954 | 26.5469 |
| Ln Trade%GDP | 546 | 4.2583 | 0.7971 | 2.8144 | 5.4000 |
| Ln Secondary Education | 546 | 3.8708 | 1.4105 | 3.8898 | 4.6102 |
| Political Rights | 546 | 4.8071 | 1.6753 | 2 | 7 |
| Civil Liberties | 566 | 4.7941 | 1.2104 | 2 | 7 |
| Sea Access | 546 | 0.76881 | 0.4220 | 0 | 1 |

Heteroscedasticity

Breusch - Pagan / Cook - Weisberg test was carried out to check for the problem of heteroscedasticity. The probability value of $P = 0.0000$ shows that the problem exists (Shah &

Ali, 2016). Therefore, we used the robust option while carrying out the regressions to control for heteroscedasticity.

Multicollinearity

The existence of excessive similarity between the independent variables may lead to problematic multicollinearity. This makes the interpretation of the results difficult and their authenticity questionable (Shah, 2016b). To check for the presence of this issue two methods that are Variance Inflation Factor and the correlation Matrix are calculated.

Variance Inflation Factor

This test is usually done to check for the multicollinearity problem in variables. Multicollinearity problem exist when there is a perfect linear relationship among variables. The VIF value of our model was 1.92 which shows absence of excessive multicollinearity.

Correlation

This technique is used to find the relation between two variables. It is used to analyse how strongly two variables are associated to each other. This relation can be positive or negative depending upon the relation. Over here we are using it to gauge the extent of linearity between the explanatory variables (Shah, 2016c). Table two summarises it for all the variables used in the current paper. As all of them are below 90%, it once more confirms the inexistence of problematic multicollinearity.

Table 2: Correlation Matrix

| Variables | 1. | 2. | 3. | 4. | 5. | 6. | 7. | 8. |
|------------|-------|--------|--------|--------|--------|--------|--------|------|
| lnFDIf | 1.00 | | | | | | | |
| lnPop | 0.26* | 1.00 | | | | | | |
| lnGDPpc | 0.06* | -0.09* | 1.00 | | | | | |
| lnTr | 0.12* | -0.45* | -0.01* | 1.00 | | | | |
| lnSec | 0.03* | 0.24* | 0.09* | 0.01* | 1.00 | | | |
| Pr | 0.09* | -0.12* | 0.09* | 0.02* | 0.06* | 1.00 | | |
| Cl | 0.02* | -0.03* | 0.11* | -0.11* | -0.08* | 0.82* | 1.00 | |
| Sea access | 0.09* | 0.28* | 0.22* | -0.19* | 0.40* | -0.01* | -0.01* | 1.00 |

*Significant at 1% level

Regression Analysis

Random effect panel regression technique is used for deriving the coefficients. This procedure is used for analysing the effect of the independent variables on dependent variable. It shows how dependent variable varies with the change in independent variables. In this analysis FDI inflows are taken as regressand and population, GDPpc, trade openness, political rights, civil liberties and the dummy variable sea access as regressors (Shah, 2018a). This analysis is done step wise by adding variables one by one.

As evident from the very first regression in table three market size is found to be exerting positive and significant sway on FDI. Population is used to represent market size. The reason for its positive and significant relation might be that multinationals are usually attracted by large markets of the host countries in order to achieve economies of scale (Dunning, 2009). Huge

population give them possibilities of attaining the sought large markets. They're attracted by huge customer's base. According to Aziz and Makkawi (2012) vast populations attracts FDI because foreign investors get cheap, skilled and literate labour force (Shah, 2014a). Besides, more people are expected to have apposite spending for the goods and services offered by MNCs.

In the second model economic development is added. GDP per capita is used to represent economic development. It carries a positive and significant coefficient showing that economic development plays an important role in attracting FDI. Increase in economic growth is a positive indicator of surge in financial development of a country. Increase in GDP per capita shows rise in living standards of a country's population. It also indicates increase in spending capacity for the goods and services offered by the multinationals (Shah, 2011b). Besides, market size retains its significance.

In the third step trade openness is added to consider its effect. It was found that the relation between trade liberalisation and FDI inflows is positive and significant. This shows that FDI inflow increases to countries with open economies. It means that countries with lesser restrictions, flexible trade policies and offering tax incentives are preferred by the multinationals for investment purposes (Shah 2017a & C). Export oriented MNCs usually prefer countries with open economies for cost reduction purposes. Market size and economic growth continues to exert their positive and significant sway.

In fourth step secondary literacy rate was added which is used as a proxy for human capital. Nonetheless, the relation between literacy rate and FDI inflows is found to be insignificant. This insignificant relation can be justified on the basis that multinationals are usually interested in raw materials and natural resources of these countries while making investment decisions. For the purpose of extracting raw materials and natural resources cheap labour is required rather than educated, trained and skilled labour force, which may demand relatively higher wages.

In fifth model political rights was added to find out its impact on FDI inflows. It carries a positive and significant coefficient showing that countries having superior political rights, where there is free and fair electoral process, accountability on part of government, rule of law, stress free political participation for individuals, efficient mechanism for elections provides appropriate environment for FDI. The results are found to be supported by Busse (2004), Pournarakis and Varsakelis (2004), Satoglu (2020), Jeutang and Kesse (2021), Antonietti and Mondolo (2023) and Triarchi and Marangos (2024). The interesting finding is that of civil liberties in the sixth model. It was found to be showing insignificant relation with FDI. The reason behind it might be that civil liberties are not valued or given importance in these countries in comparison to political rights. This result is found to be consistent with that of Khan (2011), Shah (2017b & d), Shah (2018b) Bratman, Auch and Stinchfield (2022) and also with those of Di Ubaldo and Gasiorek (2022) and Shah (2023).

Table 3: Estimation Results By Random Effects

| Variable | Proxy | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
|-------------|-------|---------------|---------------|---------------|---------------|--------------|---------------|---------------|---------------|
| Market size | lnPop | 0.9888 *** | 1.0388 *** | 1.2540 *** | 1.3789 *** | 1.489* ** | 1.4883 *** | 1.4982 *** | 1.4838 *** |

| | | | | | | | | | |
|----------------------|------------|--------------|--------------|---------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|----------------------------------|
| | | (0.281 7) | (0.306 7) | (0.285 1) | (0.295 8) | (0.279 5) | (0.291 4) | (0.271 2) | (0.272 9) |
| Economic | lnGD | | 0.2187 * | 0.1278 ** | 0.1313 ** | 0.1270 ** | 0.1325 ** | 0.1279 ** | 0.1221 ** |
| Development | PPC | | (0.124 3) | (0.060 3) | (0.062 2) | (0.063 9) | (0.067 2) | (0.059 2) | (0.059 8) |
| Openness | lnTr | | | 1.9978 *** | 2.0600 *** | 2.0442 *** | 2.0105 *** | 1.9516 *** | 1.9738 *** |
| | | | | (0.676 4) | (0.693 4) | (0.674 3) | (0.715 4) | (0.698 8) | (0.706 2) |
| Human Capital | lnSec Edu | | | | - 0.5111 (0.453 6) | - 0.6263 (0.452 5) | - 0.6122 (0.472 6) | - 0.6682 (0.425 0) | - 0.7226 * (0.398 5) |
| Political Rights | lnPR | | | | | 0.3593 * | | 0.7558 ** | 0.7558 ** |
| | | | | | | (0.194 6) | | (0.304 0) | (0.302 1) |
| Civil Liberties | lnCL | | | | | | - 0.1422 (0.381 0) | - 0.8203 (0.517 4) | - 0.8196 (0.516 6) |
| Dummy | Sea Access | | | | | | | | 0.6129 (0.906 8) |
| No. of Observations. | | 546 | 546 | 546 | 546 | 546 | 546 | 546 | 546 |

***, **, * shows significance at 1%, 5% and 10%

In eighth model dummy variable for sea access was added and the relation between sea access and FDI inflows was found to be insignificant. This shows that it doesn't act as an encouraging factor for FDI inflows. Also the reason might be the presence of sufficient road and air infrastructure which adequately compensates for the need of sea access.

Conclusion and Summary of the Study:

The main focus of the study is to assess the level to which political rights and civil liberties effects FDI to Asian developing countries for a sample of 26 countries for 21 years covering the time period from 2003 to 2023. Results from random effects panel method suggest that FDI exhibit significant relation with PR. This depicts that FDI inflows increase with greater respect for political rights. Countries emphasising more on PR are considered favourable destinations by the investors. However, civil liberties have insignificant impact on FDI of these countries. The reason might be that these rights are given lesser attention in these countries.

Other important variables or factor that explains variability in FDI inflows are also gauged in the regression models, such as market size, economic development, trade openness, secondary level literacy rate and sea access. The association between FDI inflows and market size, economic development and trade openness was found to be significant and positive. This shows that large markets, financial growth of a country and less restricted economies act as a driving force in attracting FDI. Nevertheless, the relation between FDI and secondary level literacy and sea access was insignificant. The reason might be that multinationals are usually interested in cheap labour for extracting resources rather than educated and skilled humans. Sea access is a privilege to countries but absence of sea access doesn't act as a deterring factor for land locked countries because those countries usually have well developed road and air infrastructure to overcome this problem.

It is advised that prospective researchers shall probe industry specific issues on the lines of Bratman, Auch and Stinchfield (2022). Though, due to data non availability we are unable to make industry specific suggestions yet we believe that our findings may help future researchers to set the foundations of their academic research work on these lines.

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