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## MARKET SIZE, TRADE OPENNESS, AND FOREIGN DIRECT INVESTMENT IN SELECTED ASIAN COUNTRIES

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### ABSTRACT

Developing economies have been observed variations in foreign direct investment inflows with having influx of multinational enterprises. The FDI may be affected by many socio-economic factors. However, this research highlights the role of market size (proxy of GDP per capita) as a key factor in determining foreign direct investment in some selected Asian economies. By using a panel data set of 12 Asian economies during the time span of 2009 to 2019, it is found that high economic growth attracts investment from foreign investors in Asian countries which has a vital importance for further growth and development. Dependent variable is used as foreign direct investment and independent variables are used as GDP per capita as proxy of market size, trade openness, fixed telephone subscriptions per 100 people and urban population in this analysis. The GMM results indicate that GDP per capita, trade openness and fixed telephone subscriptions per 100 people and urban population may result in attracting foreign direct investment in these economies. Our findings recommend for more export and production which will increase growth and attract more investment chances from international businesses.

**Keywords:** Market size; Trade openness; Investment; Asian economies.

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### INTRODUCTION

Foreign direct investment has presumed growing significance over time, fetching a most important apprehension for policy formulators and a popular arguable matter for economists. The discussion on foreign direct investment has a number of aspects, but the specific feature that strategy formulators in capital-starved nations are worried about is the contributing factor of foreign direct investment inflows. Several nations have plans for making resilient inducements for foreign stockholders who are possibly proficient in offering foreign direct investment flows. Mahembe and Odhiambo (2014) found a link between growth and foreign direct investment and explained that such investment fosters the usage of up-to-date know-how in industrialized procedures encourages the transferring of current technology and also introduces managerial exercises. Blonigen (2006) also found that taxes and trade flows were the major factors enhancing foreign investment.

The influx of foreign direct investment is frequently well-thought-out and an indispensable element that outgrowths economic progress by transporting technical know-how, information, capital, and occupations, which possibly affect positively on host nation (Cambazoglu & Karaalp, 2014). Consequently, administrations

of various emerging and underdeveloped nations have unambiguously delivered the private sector and overseas shareholder to make over their states and enhance growth potential. Consequently, a lot of nations around the globe are opening their market to overseas shareholders, reshuffling and opening their foreign direct investment administration, and presenting many monetary and non-monetary inducements for attracting the finest foreign direct investment levels. The emerging financial issue of emerging nations is that they hardly possess much of the national savings for making investments. They continuously require foreign capital as direct and indirect investments. Originally, they acquired loans from worldwide commercial banks. But in the 1980s the drying-up of commercial bank loaning, due to debt crises, forced a few nations to reform their investment strategies for attracting additional steady methods of foreign capital, and such investment seemed to be one of the calmest ways to acquire foreign capital devoid of responsibility for any debt risks. Therefore, it turns out to be a nice-looking substitute for loaning as a way to have more capital.

Foreign direct investment typically signifies a long-standing promise to the host country and donates meaningfully to gross fixed capital formation in emerging nations. Foreign direct investment has quite a few gains over further categories of capital flows, in actuality its greater permanency, and the detail that it would not generate responsibilities for the host country as has been observed in the framework of the Asian financial crisis of 1997–1998 (Cho, 2003). Immense empirical work regarding main factors such as political instability, inflation, labor work, GDP growth rates, etc. has been done in several developed and poor nations. However, our work points out how market size with trade openness, urban population, and fixed telephone subscriptions per 100 people attract foreign direct investment in selected Asian economies. Biswas (2002) analyzed the factors that determine investment abroad by using panel data from 44 economies from 1983 to 1990. The author has used the standard theory of investment depending on the maximization of the expected value of the firm. The theoretical model showed that traditional along nontraditional reasons caused flows of foreign direct investment in a country. Jordaan (2004) focused on reasons for high foreign investment. The result showed that qualitative and powerful infrastructure increased the yield latent of investments in the economy and consequently stimulated the foreign direct investment flows in the concerned nation. Azam and Luqman (2010) worked on factors such as foreign exchange reserves and FDI affecting foreign direct investment in India. It was found that openness has decreased the chances of foreign direct investment in the Indian nation.

Kaur and Sharma (2013) explored how factors affect investment inflows in India. Findings highlighted that openness, Reserves, GDP, and LTD have increased such kinds of investment, However, exchange rate and inflation have decreased foreign investment. Szkorupová (2014) found an association of factors such as growth and foreign investment from 2001-2010. It was found that growth and exports enhance investments overseas. Gaikward (2013) used data from 1990 to 2008 and applied the ARDL technique to check how factors influence investments in India. The result indicated that high growth increases foreign investment.

Demirhan and Masca (2016) emphasized determining factors of foreign direct inflows in emerging economies from 2000 to 2004. It was found that per capita growth, telephone lines, and trade openness have enhanced foreign direct investment inflows. But inflation rate and tax rate have decreased investment inflows in poor economies. Boga (2019) used panel data from 23 economies from 1975 to 2017 to find reasons for foreign direct investment inflows in African nations. Findings revealed that growth, openness, domestic credit, natural resources, and telecommunication infrastructure determined foreign direct investment inflows in the long term. However, growth and openness have determined such inflows in the short run. Yakubu and Mikhail (2019) have assessed the causes of foreign direct investment at the sector level in Ghana in different sectors on the basis of data from 2000 to 2014. Findings revealed that market size measured by GDP has increased the inflows of agriculture sector FDI. It was also found that trade openness and exchange rate increased the services sector foreign direct investment.

Nguyen and Cieřlik (2021) investigated factors affecting foreign direct investment from Europe to Asia. Results showed that total income and the similarity in market size between the two countries encouraged horizontal foreign direct investment. It was also found that investment costs in economies in Asia, trade costs to both source and host countries, and exchange rate volatility resulted in fewer foreign direct investment inflows. Sihombing et al. (2023) found how factors affected foreign direct investment inflows in Indonesia from 2018 to 2022. The study result showed that GRDP, regional income, and HDI had increased investment in Indonesia. It was suggested to increase investment continuously in Indonesia.

Current research highlights how market size with trade openness and fixed telephone subscriptions lead to an increase more foreign direct investment from abroad which is very influential in enhancing economic growth and development of Asian countries in the world. Our work may offer a policy for advanced developments.

### **Significance of the Study**

A lot of elements such as GDP growth rates, exports, political instability, labor force, inflation, etc. may attract foreign direct investment in emerging economies. However, this study has focused on the role of market size, trade openness, fixed telephone subscriptions per 100 people, and urban population in affecting foreign direct investment in these selected Asian countries.

### **Research Hypothesis**

H1: Market size is positively associated with foreign direct investment.

H 2: The higher the trade openness, the higher the foreign direct investment.

H 3: There is a positive link between fixed telephone subscriptions per 100 people and foreign direct investment.

H 4: Urban population and foreign direct investment are positively linked.

### **METHODOLOGY**

In this research, we utilized data from 2009 to 2019 from selected developing Asian nations. This research work has emphasized the role of market size, trade openness, fixed telephone subscriptions per 100 people, and inflation in attracting foreign direct investment in 12 Asian countries such as Bangladesh, India, Indonesia, Iran, Jordan, Malaysia, Pakistan, Bhutan, Nepal, China, Sri Lanka, and Philippines's data was taken from World Development Indicators. For this, foreign direct investment has been used as a dependent variable. However, explanatory variables were market size (measured as GDP per capita), trade openness (exports and imports as % of GDP), Fixed telephone subscriptions per 100 people, and urban population (% of GDP). We have used A single equation linear model by applying the Generalized Method of Moments (GMM) technique.

The model is recognized as:

$$FRDI = \beta_0 + \beta_1 LGDPP_{it} + \beta_2 TRADO_{it} + \beta_3 FITS_{it} + \beta_4 URBP_{it} + uit \quad (1)$$

FRDI= Foreign direct investment as % of GDP

LGDPP= Log of Gross Domestic Product per capita

TRADO= Trade openness (Exports and imports as % of GDP)

FITS= Fixed Telephone Subscription per 100 people

URBP= Urban population as a percentage of GDP

it = (time trend)

uit= (error term)

## RESULTS AND DISCUSSION

In this section, we highlight the descriptive data of significant factors. Table 1 indicates that on average, foreign direct investment was 2.2828 in selected Asian economies. Moreover, the log GDP per capita was 3.4301 percent in the concerned states. The trade openness ranges from 25.3062 percent to 162.559 percent in these nations. On average, fixed telephone lines subscriptions per 100 people were 9.6527. Finally, the urban population was observed as 47.0398 percent in the Asian countries.

Table 1. Descriptive statistics of major variables.

Variables	Observations	Mean	Standard deviation	Minimum	Maximum
FRDI	132	2.2828	2.1889	0.0567	13.5019
LGDPP	132	3.4301	0.3477	2.7543	4.0964
FITS	132	9.6527	10.4317	0.4399	38.8177
TRADO	132	63.2561	32.7145	25.3062	162.559
URBP	132	47.0398	21.5225	16.434	91.203

### Empirical Estimations

Table 2 indicates results from GMM methods. It reveals market size with fixed telephone subscriptions per 100 people and other variables that may enhance chances for attracting foreign direct investment in Asian nations.

Table 2. GMM results, the dependent variable is foreign direct investment.

Variables	Coefficients, Standard Errors and t-values
LGDPP	0.0728 (4.80)
TRADO	0.0572* (4.52)
NTLP	0.2998 * (3.85)
INFL	0.0146 (3.34)
C	0.0064 (1.18)
R-Square	0.7021
Adjusted R-Square	0.6923
J statistic	113.4341
Probability of J Statistic	0.773000

Note: t-values are in parentheses; \* p<0.1.

Market size affects foreign direct investment in a positive way. GDP per capita is used as a proxy of market size in this research analysis. GDP per capita indicates a strong position of economies and it attracts foreign investors for making heavy investments in host economies. Results found that a one percent increased GDP per capita leads to an increase in foreign direct investment by 0.0728 percent in selected Asian nations. The reason may be that high GDP per capita signifies a strong financial position and the development of economies. All this guarantees for high chance of earnings for the investors. The result is supported by the findings of Kaur and Sharma (2013).

Trade openness also indicates a strengthened position of economies. High exports and imports increase sound relationships among nations and they are more reliant upon each other in a friendly environment. This increased trade openness among nations attracts much foreign direct investment from the investor's countries. It is found that a one percent increase in trade openness led to increased foreign direct investment by 0.0572 percent. The study finding is supported by Boga (2019).

Fixed telephone subscriptions also have a positive influence on foreign direct investment from industrialized nations in developing economies. The improved infrastructure is a good indicator for attracting the interest of foreign investors. The result revealed that a one percent increase in fixed telephone subscriptions per 100 people has increased foreign direct investment by 0.2998 percent in Asian countries. The reason may be that higher provision of improved infrastructure attracts more investment from foreigners. Our result is favoured by Demirhan and Masca (2016), and Boga (2019).

Finally, urban population increases growth potential and the development and high foreign direct investments. Results showed that one one-unit increase in urban population resulted in increased foreign direct investment by 0.0146 percent in select Asian nations.

## **CONCLUSIONS**

This work makes an effort to highlight the role of market size with other variables in attracting foreign direct investments in selected Asian countries. The study has used the GMM technique to find out the major outcomes regarding foreign direct investments. We have used market size, fixed telephone subscriptions per 100 people, trade openness, and urban population as major variables influencing the inflow of foreign direct investment in concerned Asian economies. It is revealed that how better and improved financial development with financial inclusion and other signified that market size which is GDP per capita is the key factor in appealing foreign investments from abroad. The study results also showed that the role of trade openness and fixed telephone subscriptions seemed positive and significant. It is also found that the urban population increases the foreign direct investment in the concerned economies. In the light of above-mentioned major results, it is suggested that there is a need to increase the GDP per capita more and more to attract more foreign direct investments from foreign nations. This will improve the living standard and human development of people in concerned countries. A maximum financial approach should be given to people. More Governments of these economies must make an effort to improve their physical and social infrastructure for high attraction of foreign investments. Finally, there is a dire need for more employment opportunities in urban areas to absorb such a rapidly increasing urban population. For this, there is a need to boost the industry in these economies which will strengthen these economies.

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