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Nexus between Foreign Direct Investment, Economic Growth, and Income Inequality: An Analysis from South Asian Countries

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ABSTRACT

In Asian economies, the relationship between misery index, foreign direct investment, human development, and income inequality often follows a non-linear, inverted U-shape. While global integration initially worsens income disparities by favoring skilled labor. Empirical research shows that at lower stages of globalization, inequality rises. However, past a certain developmental and institutional threshold, further integration and foreign direct investment help reduce income disparity. Emphasizing the inequality issue, we have analyzed the role of foreign direct investment, economic growth, human development, and misery index on income inequality in South Asian countries. For this, data have been used from 1997 to 2023. Regression result shows that foreign direct investment and the misery index have increased income inequality in these countries. However, economic growth seems to be lessening income inequality in South Asian countries. Finally, human development also tends to increase income inequality. On the basis of the results, it is suggested that more educational and health facilities should be provided to the public in these countries to reduce income inequality. A more stable environment should be provided to attract more domestic and foreign investment for having more growth and less income inequality. Strategies should be made to enhance economic growth, which helps in lessening income inequality.

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INTRODUCTION

The misery index, an amalgamated measure merging unemployment and inflation rates, has long been used to gauge numerous nations' financial security and communal wellbeing (Cohen et al., 2014; Wang et al., 2019). It measures the economic suffering faced by people with highly developed standards, pointing out especially harsh financial adversity and dilapidated standards of living. The consequences of these financial miseries have important socioeconomic results for people and the world (Dadgar & Nazari, 2018; Aminda et al., 2024). In return, many governments internationally have opened numerous social involvement plans to reduce poverty and lessen disparity. On the other hand, reviewing the efficiency of these plans remains a serious area of study (Aminda et al., 2024; Hamza et al., 2024).

Today, income inequality is one of the adverse problems of social life, and all human societies aspire to decrease this inequality as their objective. Economic disparity is frequently linked with poverty, crime, and social unrest, and income disparity is one of the reasons for political instability and even civil war (Chang, 1994). Inequality is a very common issue in underdeveloped economies, even in rich nations. For the period of the previous more than a small number of decades, experts have emphasized economic growth and income disparity. It is not merely an indicator of disproportionate income sharing, but it also has communal implications, for instance, on community strategies, economic development, and institutional quality. It is the unevenness in income sharing between the wealthy and the deprived. The prosperous gained more, at the same time as the poor were more often than not underprivileged (World Inequality Report, 2022). Professionals in Global Economic Inequality also give details that people with low earnings can be expecting of earnings to go up by approximately 4,000 dollars in anticipation of 2035. The figures indicated that the global financial system grew by a concerning 14 percent over the most recent five years. On the other hand, foreign direct investment at the world level increased by about 23 percent. This flow was 1.35 trillion dollars in 2000, and it was anticipated to increase to 1.58 trillion dollars by 2021 (Rojec & Knell, 2018).

In recent years, there have been numerous works on the influences of foreign direct investment on socio-economic factors. Works are linked to the influences of foreign direct investment on profitability, output, and growth of economies (Javorcik, 2004; Kugler, 2006). A lot of work has shown that FDI has affected positively host nation's

economy, particularly in underdeveloped nations, but its influences on communal fairness, together with income disparity, are not reliable. The effect of foreign direct investment on income disparity is a concern for numerous reasons. First, income disparity affects negatively economic growth (Cingano, 2014). Second, increased inequality may hinder the development of poverty reduction. Lastly, people who are anxious about relative income frequently express a wish to occupy an identical civilization (Figini, 2011; Sylwester, 2005).

We have reviewed studies highlighting many factors such as inflation, unemployment, growth, corruption, foreign direct investment, human development, and misery index affecting income inequality in developing and developed countries. Pan-Long (1995) analyzed how foreign direct investment affected income inequality. The results showed that FDI tended to augment income disparity in developing countries. Beer and Boswell (2002) used data from 1980 to 1995 from 65 countries between 1980 and 1995. Findings showed that FDI results in income disparity in developing nations. By using data from 1993 to 2002 from 119 countries, Choi (2006) examined the influence of foreign direct investment on income disparity. It was found that inequality increased due to foreign direct investment.

Basu and Guariglia (2007) used data from 119 developing countries and focused on the impact of foreign direct investment on growth and income disparity. Results highlighted that FDI tended to increase income disparity in Asian countries. Jin (2009) used data from 1990 to 2006 to check the influence of foreign direct investment on inequality in China. Findings showed that inequality was enhanced in urban areas as compared to rural areas. Globalization also affects inequality, as explained by Asteriou et al. (2014). Authors have used data from 1995 to 2009 across all EU member states. The results revealed that globalization tended to decrease inequality, but foreign direct investment and financial development increased inequality. Balan et al. (2015) also pointed out the influence of globalization on inequality on the basis of data used from 1970 to 2010 in G7 countries. Findings showed that globalization increased income inequality in Canada.

Neaime and Gaysset (2018) highlighted the influence of financial intervention and stability on poverty and income inequality in MENA by using data from 2002 to 2015. GMM results revealed that financial intervention helped in lessening income inequality. But population and inflation increased income inequality. Santos et al. (2019) focused on the influence of renewable energy on income distribution and poverty in European countries. ARDL results showed that the increased cost of renewable energy has increased income inequality in these countries. Castells-Quintana et al. (2019) checked the relationship between human development and income inequality by using data from 1970 to 2010. Findings showed that inequality decreased with human development in the long-run. But human development increased inequality in the short run.

Le et al. (2021) emphasized the impact of FDI on income disparity in Vietnam. GMM results showed that FDI led to an increase in income disparity in this economy. By using data from 1971 to 2019, Sotoudeh et al. (2023) checked the effect of the misery index on income inequality. The results showed that the misery index increased income inequality. Moreover, the ratio of real government spending to real GDP and economic growth also increased income disparity. Tabash et al. (2024) used data from 1991 to 2021 to find the effect of globalization on income disparity. 2SLS results indicated that globalization increased income inequality in developing countries. But the combination of trade openness and foreign direct investment reduced inequality among developing economies. Yuldashev et al. (2023) found the effect of FDI, human capital, and growth on income disparity in Asia by using data from 1990 to 2020. Findings showed that foreign direct investment affected inequality negatively. The study suggested increasing investment and human capital. Osuma and Nzimande (2025) used data from 2007 to 2022 to find out the consequence of the misery index on income inequality in Sub-Saharan Africa. It was found that the misery index has increased income inequality. The study suggested policies regarding job creation, inflation control, and anti-corruption.

We explain studies showing variables such as inflation, unemployment, growth, corruption, foreign direct investment, human development, and misery index affecting income disparity in nations of the world.

Objective of the Study

The objectives are explained as follows:

1. To highlight the impact of the misery index on income inequality.
2. To point out the influence of FDI on income disparity.
3. To investigate how human development affects income inequality.
4. To analyze the influence of growth on income disparity.

METHODOLOGY

In this research, we have examined the effect of the misery index, foreign direct investment, economic growth, and human development on income inequality in South Asian countries. For this, we have used data from 1997 to 2023 from 7 South Asian countries, such as Bangladesh, India, Indonesia, Malaysia, Pakistan, Thailand, and the Philippines. Income inequality was used as the dependent variable. However, foreign direct investment, along with growth and

development, were taken as explanatory variables. These countries were selected based on data availability. Data were taken from the WDI. We used an OLS regression model for this analysis.

Model Specifications

The equation is:

GINI = β0 + β1 MISRYINDit + β2 FDINVit + β3 HDI it + β4 LGDPPC it + uit (1)

GINI= Gini coefficient

MISRYIND= Misery index (inflation + unemployment)

HDI= Human development index

LGDPERC= Log GDP per capita

ui= (error term)

it= it = (time trend)

RESULTS AND DISCUSSION

In Table 2, we present descriptive statistics. It is found that, on average, income inequality is 0.6310 percent in South Asian countries, and a low standard deviation indicates the normality of the data. The misery index is 109.4668 percent in these economies. Its range varies from 26.9211 to 348.8291 percent, which indicates variation. On average, the foreign direct index is 1.7519 percent to 1.3778 percent. Finally, economic growth is 3197.854 percent in South Asian countries.

Table 2: Summary statistics

Variables	Observations	Mean	St. deviation	Minimum	Maximum
GINI	189	0.6310	0.0960	0.437	0.803
MISRYIND	189	109.4668	47.4088	26.9211	348.8291
FDINV	189	1.7519	1.3778	-2.7574	6.4348
HDI	189	0.6361	0.0965	0.436	0.811
GDPPC	189	3197.854	2637/288	566.2711	11429.59

Table 4: OLS Results

Variables	Coefficients	Standard Errors	t-values
MISRYIND	0.0001*	0.0001	1.73
FDINV	0.0134*	0.0030	4.55
HDI	0.09408*	0.1093	8.61
GDPPC	-0.0570* * *	0.0318	-1.79
C	0.1871	0.0489	3.82
F-Statistics	172.35		
Probability	0.000		

R- Square	0.79
Adjusted R-Square	0.78

** p<0.10, * p<0.1

Results are shown in Table 2. Income inequality can be affected by so many factors. It is found that a one percent increase in the misery index results in increased income inequality by 0.0001 percent in South Asian countries. The reason may be that higher unemployment and inflation result in less purchasing power, low income, and income inequality. Our result is supported by Osuma and Nzimande (2025). Foreign direct investment also affects income inequality in nations around the world. It is found that a one percent increased foreign direct investment has caused for increased income inequality by 0.0134 percent in South Asian countries. The reason may be that more foreign direct investment will lead to increased income disparity in different forms in these economies. The study is supported by Le et al. (2021).

Human development also affects income inequality. Findings indicate that a one percent increase in human development has resulted in increased inequality by 0.0941 percent. Education also affects economic growth positively. The reason may be that education, gender, and income disparities increase in these economies. The result is supported by Castells-Quintana et al. (2019). Economic growth is another factor that affects income inequality in South Asian countries. The finding indicates that a one percent increase in economic growth results in decreased income inequality by 0.0570 percent. The result is supported by Bouincha and Karim (2018).

CONCLUSIONS

In this study, we have investigated the major factors affecting income inequality in South Asian countries. For this, we have utilized data from1997 to 2023 from South Asian countries. The dependent variable was income inequality. However, foreign direct investment, economic growth, human development, and the misery index were used as independent variables affecting income inequality in South Asian countries. Regression results indicated that foreign direct investment and the misery index increased income inequality in these countries. However, economic growth seems to be lessening income inequality in South Asian countries. Finally, human development also increased income inequality. On the basis of the results, our study recommends that more educational and health facilities should be provided to the public in these countries to reduce income inequality. The government should provide a more stable environment to attract more domestic and foreign investment for more growth and less income inequality. Finally, economic growth should be enhanced, which helps in lessening income inequality.

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