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Does FDI Regulatory Policies Influence FDI Inflows in Developing Countries? A Non Linear Analysis

^a Nabila Asghar, ^b Qurat- Ul- Ain, ^c Hafeez ur Rehman

^a Associate Professor, Department of Economics, Division of Management and Administrative Science University of Education, Lahore, Pakistan

Email: nabeela.asghar@ue.edu.pk

^b Department of Economics and Quantitative Methods, University of Management and Technology, Lahore, Pakistan.

Email: s2021060001@umt.edu.pk

^c Professor of Economics Department of Economics and Quantitative Methods University of Management and Technology, Lahore, Pakistan

Email: hafeez.rehman@umt.edu.pk

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ABSTRACT

Purpose: Foreign Direct Investment (FDI) inflow is regarded as highly important particularly for developing countries as it enhances economic activities and create job opportunities. The main objective of the present study is to analyze the impact of two regulatory policies i.e. Regulatory Restrictiveness Index (RRI) and Ease of Doing Business (EDB) on FDI inflows in developing countries.

Research Gap: Not many studies have discussed the role of more than one regulatory policies to examine their impact on FDI inflows. Therefore, the present study is an attempt to bridge this research gap as it uses two regulatory policies to examine this relationship.

Design/Methodology/Approach: The study performs the non-linear analysis using two separate models to determine FDI inflows in 39 developing countries for the period 1997-2020. For this purpose FGLS econometric technique is utilized.

The Main Findings: The linearized marginal effects of RRI show that all the countries are located on the left side of U shaped curve while linearized marginal effects of EDB show that some countries lie on the left side and the others lie on the right side of U shaped curve. The higher value of level coefficient than the value of quadratic coefficient reveals the stronger influence of level coefficients in both models.

Theoretical/Practical Implications of the Findings: The study concludes that developing countries need to reduce FDI restriction for attracting maximum FDI inflows. Furthermore, it is recommended that for improving the confidence foreign investors, appropriate and consistent policies should be designed and implemented.



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Corresponding Author's email address: hafeez.rehman@uut.edu.pk

1. Introduction

Since the last couple of decades FDI has become indispensable for achieving economic and financial stability particularly for developing countries. It increases the pace of economic development through transfer of technology and helps in utilizing the existing resources properly and efficiently. Presently, most of the developing countries depend upon mega and continuous inflows of FDI which provides a new path for inward investment. WTO has provided a new trend of FDI to the international enterprises which now invest in the preferential economies. Furthermore, FDI depends upon certain factors which attract the foreign investors to invest in a country. For example, due to foreign investment policies, cheaper labor, rising purchasing power and improvement in investment environment, China has become an attractive destination for foreign investment especially after WTO.

Since 1990s, most of the developing countries have introduced structural changes and reforms to attract foreign investment. Several appropriate and soft policies such as tax breaks, subsidies and deregulatory policies have attracted more FDI. No doubt, FDI boosts economic growth in developing countries but at the same time it brings up various issues and challenges for them. Usually, the host developing countries remained hesitant to allow FDI in nuclear, coal and mining industries, railways, arms and state-owned enterprises (OECD, 2020). Recently, most of the developed countries have reduced restrictions on FDI and pressurize developing countries to introduce liberal and less restrictive regulatory policies but due to national security concerns these countries are much precautious to allow FDI in some strategic and sensitive sectors. Regulations have a long-lasting effect on a company's financial decision-making, which is one of the main factors influencing investment. These regulations shield domestic investors from possible dangers that can encourage business competition and shield consumers from rising costs. Authorities have attempted to lower investment costs and lower investment-related risks in order to promote FDI inflows into developing nations.

OECD has developed FDI regulatory restrictiveness index (RRI) for both OECD and non-OECD countries to measure the level of restrictions on FDI. The value of index closer to zero indicates less regulatory restrictions while, the index value closer to one reveals more restrictions on FDI. World Bank (2015) has also developed a new regulatory variable called Ease of Doing Business (EDB) which is considered as the best regulatory indicator because it reflects the gap between a particular country's performances with the best country's performance score. The EDB score lies between 0 to 100. The score 0 means the worst regulatory performance while 100 shows the best regulatory performance.

Several studies have examined the impact of many FDI regulatory policies. The literature shows that FDI restrictiveness index negatively influences the FDI inflows (See, for example Rajput, 2022; Zongo, 2022). While EDB regulatory policy positively influences FDI inflows (See, for example Aziz, 2018; Contractor et al., 2021; Kaushal, 2021). The past literature also reveals that not many studies have used both FDI regulatory restrictiveness index and EDB to determine FDI inflows. The major objective of present study is to examine the impact of both FDI regulatory restrictiveness index and EDB regulatory policies to determine FDI inflows in 39 developing countries. The significant contribution of this study is that it performs non-linear analysis to determine FDI inflows in developing countries using both RRI and EDB regulatory policies.

2. Literature Review

Numerous research works have examined how various rules impact foreign direct investment inflows. In 89 countries, Busse and Groizard (2008) looked at the relationship between regulations and FDI inflows between 1994 and 2003. The study found that enhanced government laws that foster a healthy business climate greatly boost foreign direct investment inflows. The impact of the OECD's FDI regulatory restriction index on FDI inflows was examined by Ahrend and Goujard (2012). The study's findings demonstrated that while greater limitations in OECD nations have contributed to a fall in financial stability and FDI inflows, they have also significantly increased the risks associated with the financial crisis.

Aziz (2018) looked into how institutional quality affected foreign direct investment in 16 Arab nations between 1984 and 2012. The empirical findings of this investigation were discovered using the GMM econometric technique. The study employed many indicators of institutional quality, such as economic independence and ease of starting a new business, for analytical purposes. The findings demonstrated that FDI inflows were considerably and favourably increased by institutional quality proxies.

Ketteni and Kottaridi (2019) examined how business regulations affected foreign direct investment inflows into 66 countries between 2000 and 2015. The GMM econometric technique was used to obtain the results. The study found that FDI inflows to both developed and developing nations are positively impacted by economic growth. Saucedo et al. (2020) examined how FDI inflows affected low- and high-skilled worker employment in Mexico between 2005 and 2018. The analysis showed that FDI inflows have raised employment and salaries in the manufacturing sector for low-skilled workers while failing to have a statistically significant influence on high-skilled workers. The study found inclusive outcomes across low- and high-skilled workers.

Amara (2020) used the gravity model of trade to examine the effects of constraints on FDI stocks in OECD nations from 2010 to 2017. The study's findings supported the notion that limitations and FDI inflows are negatively correlated. The analysis came to the conclusion that FDI stocks have benefited from the policy of deregulation for the service sector. According to Contractor et al. (2021), a number of regulatory factors significantly affect FDI influx decisions. The study came to the conclusion that effective laws for new businesses, improved trade infrastructure, and investment protection all draw foreign direct investment. Using the gravity model, Zongo (2022) investigated the impact of FDI restrictions on various sectors in 49 developed and developing nations between 2010 and 2019. The study concluded that restrictiveness in the service sector have negative impact on FDI inflows. Rajput (2022) carried out a study to examine the impact of FDI restrictiveness on FDI stocks from 1991 to 2011 in India. The results were obtained through regression analysis which revealed the existence of significant association between FDI restrictiveness and FDI stocks.

The past literature shows that trade sector is regarded as highly important in decision making about FDI. Export openness or a country's level of engagement in international trade has a positive impact on FDI inflows. Openness to trade can make a country more attractive to the foreign investors by providing access to a larger market for goods and services. It can lead to increased demand for products and can provide opportunities to reap the benefits of economies of scale. Furthermore, a country open to trade may be more attractive to foreign investors due to stable and favorable economic conditions. The presence of a well-functioning export sector is also an indicator of the presence of good infrastructure, a skilled workforce and are regarded as positive factors for FDI. However, social, economic and political factors play a significant role in determining FDI inflows. But only export openness does not lead to FDI inflows as investment might be driven by other factors such as natural resources or low labor costs.

Ghosh et al. (2012) have pointed out that FDI is less liberalized than the trade sector. In the last couple of decades, bilateral trade and agreements have reduced the barriers and restrictions in many countries. Shah and Khan (2016) analyzed the impact of trade liberalization on FDI inflow in six emerging economies for the period 1996 - 2014. The study pointed out that trade agreements for reducing duties, tariffs, and taxes have positive impact on FDI inflows. But there are some studies which have shown that trade openness declines FDI inflows in the host country due to several reasons. The present study is an attempt to analyze the impact of regulatory policies along with some control variables such as trade openness, urbanization in 39 developing countries.

3. Conceptual Framework

This study is based on the motivation by EKC hypothesis which is based on non-linear analysis. In EKC the lower level of GDP increases environmental degradation and the higher level of GDP declines environmental degradation which shows the inverted U-shaped relation. Several studies have extended this idea to different variables which are based on non-linear behaviour (Haans et al., 2016; Wang et al., 2022).

The present study assesses the impact of FDI regulatory restrictiveness policies and EDB on FDI inflows in developing countries. The study follows two broad aspects. The first aspect is related to examine the impact of FDI regulatory restrictiveness index and EDB on FDI inflows in developing countries. Following Haans et al. (2016) this study uses the non-linear analysis of RRI and EDB on FDI inflows in developing countries. There are two possibilities for this relationship either U-shaped or inverted U-shaped. The U-shaped relationship indicates that a lower level of RRI and EDB decline FDI inflow while a higher level of RRI and EDB increase FDI inflow. The second possibility is inverted U-shaped curve which shows that lower level of RRI and EDB increase FDI inflows while higher level of RRI and EDB reduce FDI inflows.

4 Methodology and Data

The sample of this study is selected from the 39 non OECD developing countries for the period 1997-2020. The description of variables is presented in Table 1.

Table 1: Description of the variables

Variables	Symbol	Measurement	Data Sources
FDI Regulatory Restrictiveness Index	RRI	Index 0 to 1	OECD
Ease of Doing Business	EDB	score 0 to 100	WDI 2022
Export Unit Value Index	EVI	Index	WDI 2022
Urbanization	URPOP	% of the total population	WDI 2022
Service Value Added	SER	(% of GDP)	WDI 2022

Source: Authors' Defined

In this study, FDI inflows is used as dependent variable which refers to the amount of money that is invested in a country by foreign investors. It includes investments made in the form of setting up new businesses, buying existing businesses, or investing in real estate or other assets. FDI inflow is considered to be a positive indicator of a country's economic health, as it suggests that foreign investors have confidence in the country's economic growth prospects.

FDI Regulatory Restriction Index (RRI) is a measure that quantifies the level of restrictions on FDI imposed by a country's government. The index is based on a set of objective criteria that evaluate the level of government intervention in the FDI process. This index can be used to compare the level of FDI restrictions across countries and over time. Higher values of the index indicate more restrictions on FDI while, lower values show more open and liberal investment climates. It helps companies and investors to evaluate the relative attractiveness of different countries for FDI.

EDB refers to the measure of the regulatory environment and the level of government intervention in a country's economy. It is typically used as an indicator of the ease with which an entrepreneur can start, operate and close a business in a given country. The EDB index is typically created by analyzing and ranking countries based on various factors such as time and cost to start a business, easy access to credit and enforcing contracts. It is used as a tool to attract foreign investment and promote economic growth.

The Export Unit Value Index (EVI) measures the change in the price of exported goods over time. It is calculated by dividing the total value of exported goods by the total volume of exported goods. The EVI is used to track the trends in international trade and it can provide insight into the competitiveness of a country's exports. It is often used as an indicator of inflation in the export sector.

Urban population as a percentage of the total population is a measure of the proportion of a country's population that lives in urban areas. This metric is used to track the changes in population distribution and urbanization over time.

Service Value Added (SER) is a measure of the economic contribution of the service sector to a country's GDP. It is calculated by subtracting the cost of intermediate inputs (such as raw materials, energy, and other inputs used in the production of services) from the value of the services produced. This measure is helpful in tracking the growth of the service sector and its contribution to the overall economy.

4.1 Econometric Model

The study uses two separate models for analysis purpose. Considering the non linear behaviour of RRI and EDB, the quadratic terms are used for analyzing the impact of RRI and EDB on FDI inflows in developing countries. For this purpose the following econometric form of model 1 is used:

$$FDI = \alpha_0 + \alpha_1 RRI_{it} + \alpha_2 RRI_{it}^2 + \alpha_3 LNEVI_{it} + \alpha_4 LNURPOP_{it} + \alpha_5 LNSER_{it} + \epsilon_{it} \tag{1}$$

Where, FDI is Foreign direct investment; RRI is FDI regulatory restrictiveness index; RRI²= Quadratic term of FDI regulatory restrictiveness index; LNEVI is Natural logarithm of the export unit value index; LNURPOP= Natural logarithm of urbanization; LNSER= Natural logarithm of service value added;

In equation 1 FDI regulatory restrictiveness index is used as the key independent variable. The cut-off value is measured by taking the partial derivative of equation 1 with respect to RRI and setting it equal to zero.

$$\frac{\partial FDI}{\partial RRI} = \alpha_1 + 2\alpha_2 RRI = 0$$

$$IRR^* = -\frac{\alpha_1}{2\alpha_2} \tag{2}$$

Equation 2 shows the optimum point of the U-shaped or inverted U-shaped curve of the RRI for determining the FDI value.

For investigating the impact of EDB on FDI inflows in developing countries the model 2 is used given below:

$$FDI = \beta_0 + \beta_1 EDB_{it} + \beta_2 EDB_{it}^2 + \beta_3 LNEVI_{it} + \beta_4 LNURPOP_{it} + \beta_5 LNSER_{it} + \epsilon_{it} \tag{3}$$

Where, EDB is Ease of doing business. The cut off value is calculated by taking the partial derivative of equation 3 with respect to EDB and setting it equal to zero. Cut off the value of EDB

$$\frac{\partial FDI}{\partial EDB} = \beta_1 + 2\beta_2 EDB = 0$$

$$EDB^* = -\frac{\beta_1}{2\beta_2} \tag{4}$$

Equation 4 shows the minimum or maximum optimal value of the quadratic function

5. Results and Discussion

The descriptive statistic of the concerned variables is presented in Table 2. The significant Jarque-Bera values and high Kurtosis values indicate non normal distribution.

Table 2: Descriptive Statistics

Statistic	FDI	EDB	RRI	LNSER	LNEVI	LNURPOP
Mean	4.5500	55.9665	0.1992	3.8683	4.4795	4.0071
Median	3.1420	57.7249	0.1260	3.9207	4.5932	4.0440
Maximum	55.0703	87.3103	1.3700	4.3978	5.2633	4.5230
Minimum	-37.1727	-39.6486	0.0080	-1.1585	1.9569	2.8937
Std. Dev.	5.5843	16.8110	0.2053	0.2976	0.3709	0.3561
Skewness	3.2389	-1.3632	1.9053	-7.3409	-0.9760	-0.8994
Kurtosis	28.8114	7.0799	7.7170	107.2394	5.6237	3.4678
Jarque-Bera	25435.9300	864.8425	1320.6770	398006.90	384.1081	124.0759

Probability	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Sum	3922.0610	48243.1100	171.6680	3334.4470	3861.3630	3454.1340
Sum Sq. Dev.	26849.6500	243325.4000	36.2996	76.2476	118.4344	109.1667

Source: Authors' own calculations

The results of VIF of both models are presented in Table 3. The mean value of the VIF appears less than 10 which confirm the absence of multicollinearity in both models.

Table 3: Variance Inflation Factor (VIF)

Variable	Model 1		Model 2	
	VIF	1/VIF	VIF	1/VIF
RRI	1.1400	0.8737		
EDB			1.2000	0.8318
LNSER	1.1200	0.8921		
LNURPOP	1.0600	0.9427	1.0500	0.9569
LNSER	1.0200	0.9764	1.1100	0.9031
LNEUVI	1.0200	0.9764	1.1100	0.9029
Mean VIF	1.0900		1.1200	

Source: Authors' own calculations

The results of panel unit root tests presented in Table 4 show that all variables are of mixed order of integration, suggesting that FGLS estimation technique is valid.

Table 4: Panel Unit Root Analysis

Variable	Levin, Lin & Chu t*	Im, Pesaran and Shin W- stat	ADF - Fisher Chi- square	PP - Fisher Chi- square
Level				
FDI	-5.2345*	-5.1731*	148.9060*	219.2680*
EDB	-5.3383*	6.9965	43.4130	70.3576
RRI	-2.4124*	2.4911	29.4829	38.9521
LNSER	-4.2379*	-2.8082*	132.3950*	198.8030*
LNEVI	-3.4430*	0.0844	58.4243	62.8498
LNURPOP	5.3546	7.6017	117.1410*	368.3090*
First Difference				
D.FDI	---	---	---	---
D.EDB	---	-7.3044*	435.7280*	228.9400*
D.RRI	---	-3.5575*	81.7238*	161.7300*
D.LNSER	---	---	---	---
D.LNEVI	---	-9.3552*	219.2860*	307.5070*
D.LNURPO	---	---	---	---
P	-2.6213*	-2.3028**	---	---

Source: Authors' own calculations

The results of the Kao test of both models are presented in Table 5 which shows the long-run relationship between the variables. The t-statistics of Kao test for both models are statistically significant, which means there exists long-run co-integration among the variables.

Table 5: Kao Test

	Model 1		Model 2	
	t-Statistic	Prob.	t-Statistic	Prob.
ADF	-2.448	0.000	-0.554	0.034
Residual variance	0.081		0.002	
HAC variance	0.011		0.001	

Source: Authors’ own calculations

Table 6 presents the FGLS results of model 1. The negative value of level coefficient shows the inverse relationship between RRI and FDI inflows. The results show that one unit increase in RRI reduces FDI inflows by 10.54 units. The higher value of level coefficient than quadratic coefficient indicates the stronger influence of level coefficient on FDI inflows.

Table 6: The FGLS Results of Model 1

Dependent variable: FDI inflow						
	Coef.	Std. Err.	z	P>z	[95% Conf. Interval]	
RRI	-10.5409	2.1779	-4.8400	0.0000	-14.8095	-6.2724
RRI2	6.4134	2.5155	2.5500	0.0110	1.4832	-11.3436
LNURPOP	-0.9268	0.5382	-1.7200	0.0850	-1.9817	-0.1281
LNEVI	1.2372	0.5040	2.4600	0.0140	0.2495	-2.2250
LNSER	-1.9273	0.6570	-2.9300	0.0030	-3.2151	-0.6395
CONS	11.7518	3.8341	3.0700	0.0020	4.2370	-19.2665

Source: Authors’ own calculations

Table 7 presents the cut-off value of the level and quadratic coefficients of RRI. The cut-off value 0.8218 lies between the maximum and minimum values of RRI.

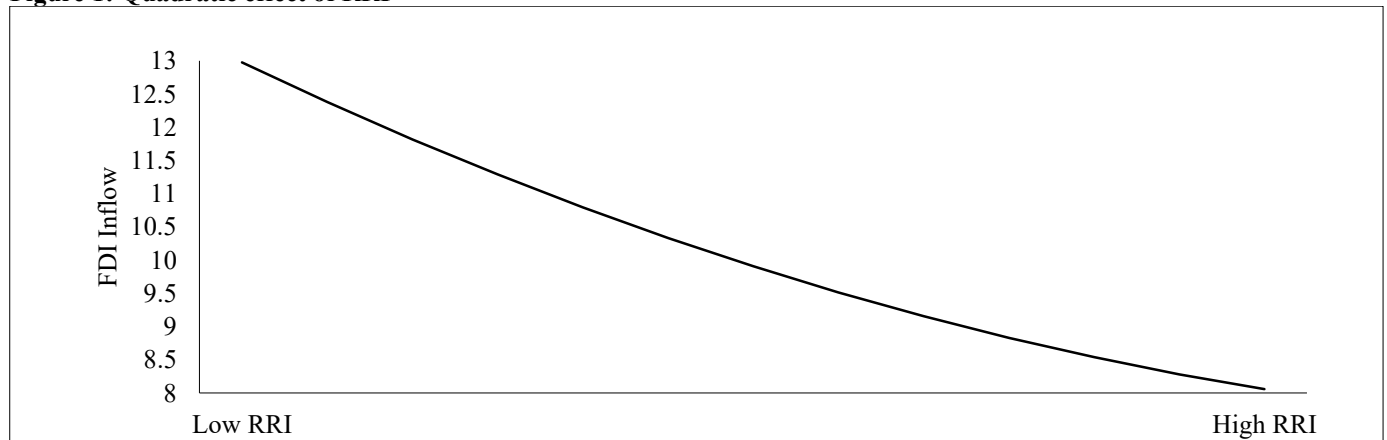
Table 7: The cut-off value of RRI

Measure	Coefficient
Level coefficient	-10.5409
Quadratic coefficient	6.4134
Cut-off Value	0.8218

Source: Authors’ own calculations

Figure 1 shows the quadratic effect of FDI regulatory restrictiveness index on FDI inflows.

Figure 1: Quadratic effect of RRI



Source: Based on Authors calculations

Table 8 presents the long-run results of the coefficients of EDB. The level coefficient of EDB inversely impacts FDI inflows. It shows a one-unit increase in EDB reduces FDI inflows by 0.1316 units. While the

quadratic term of EDB impacts FDI inflows positively this shows that one-unit increase in the quadratic term of EDB increases FDI inflows by 0.0013 units.

Table 8: The FGLS Results of Model 2

Dependent variable: FDI inflows						
	Coef.	Std. Err.	z	P>z	[95% Conf. Interval]	
EDB	-0.1316	0.0315	-4.1800	0.0000	-0.1934	-0.0699
EDB2	0.0013	0.0003	3.8800	0.0000	0.0006	0.0019
LNURPOP	-0.8808	0.5455	-1.6100	0.1060	-1.9500	0.1884
LNEVI	1.8736	0.5310	3.5300	0.0000	0.8327	2.9144
LNSER	-0.6884	0.6612	-1.0400	0.2980	-1.9843	0.6076
CONS	5.3709	3.7670	1.4300	0.1540	-2.0123	12.7541

Source: Authors’ own calculations

Table 9 shows the cut off value of EDB which lies between the maximum and minimum values of EDB proposing U shaped curve.

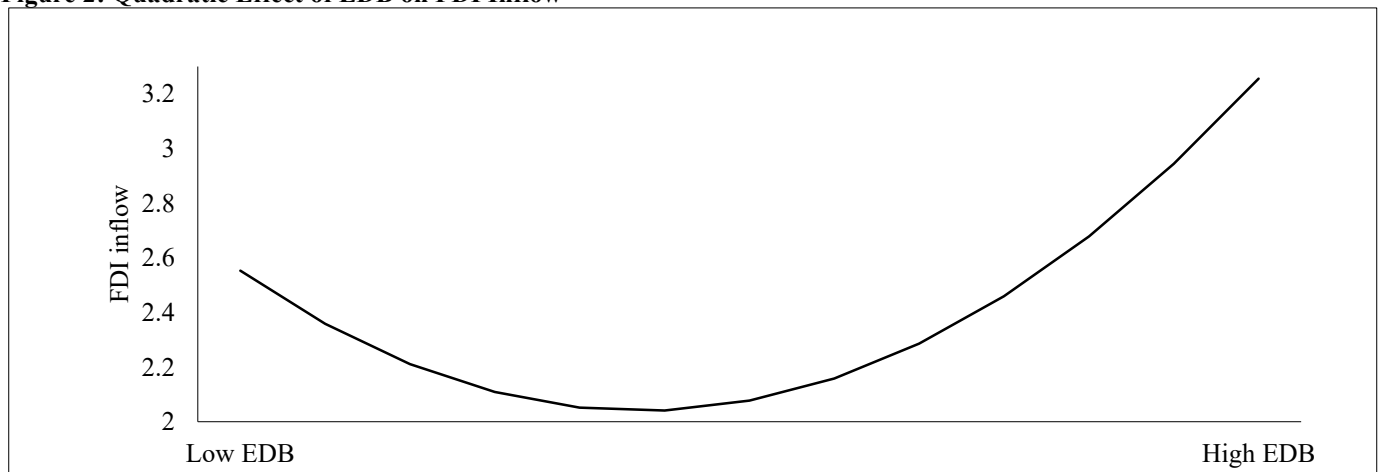
Table 9: The cut-off value of EDB

Measure	Coefficient
Level coefficient	-0.1316
Quadratic coefficient	0.0013
Cut-off Value	51.7188

Source: Authors’ own calculations

Figure 2 shows the proposed U-shaped curve which reveals that some selected countries lie on the left side while others are located on the right side of U shaped curve.

Figure 2: Quadratic Effect of EDB on FDI Inflow



Source: Based on Authors calculations

In both models, some control variables are also included. Urbanization declines FDI inflows in both models. While, the export unit value positively impacts the FDI inflows in both models and service value added inversely impacts the FDI.

The linearized marginal effect of 39 developing countries is presented in Table 10. It can be observed that inverse relationship between RRI and FDI inflows exists. While in case of EDB, many developing countries lie on the left side of the U-shaped curve which shows that these countries are having a lower score of EDB which decline their FDI inflows. While only a few countries (Azerbaijan, Brazil, Croatia,

Kyrgyzstan, Lebanon, Malaysia, Montenegro, Peru, Romania, Russia, Saudi Arabia, South Africa, and Thailand) are located on right side which shows that EDB increases FDI inflows.

Table 10: Linearized Marginal Effect

No	Country	Mean Value		Linearized Effect	
		RRI	EDB	RRI	EDB
1	Argentina	0.1310	47.5286	-8.8606	-0.0107
2	Armenia	0.0190	42.3265	-10.2972	-0.0239
3	Azerbaijan	0.0770	87.3103	-9.5532	0.0905*
4	Belarus	0.0860	-1.3655	-9.4378	-0.1351
5	Bosnia and Herzegovina	0.0370	51.3981	-10.0663	-0.0009
6	Brazil	0.0810	62.6618	-9.5019	0.0278*
7	Brunei Darussalam	0.1460	-39.6486	-8.6682	-0.2325
8	Cambodia	0.0540	47.7866	-9.8483	-0.0100
9	China	0.2140	35.0162	-7.7960	-0.0425
10	Croatia	0.0340	56.9189	-10.1048	0.0132*
11	Egypt	0.1170	40.8027	-9.0402	-0.0278
12	Georgia	0.0180	33.4177	-10.3100	-0.0466
13	India	0.2070	28.9705	-7.8858	-0.0579
14	Indonesia	0.3470	16.2488	-6.0900	-0.0903
15	Jordan	0.2200	51.6023	-7.7190	-0.0003
16	Kazakhstan	0.1130	0.1831	-9.0915	-0.1311
17	Kosovo	0.0010	29.2230	-10.5281	-0.0573
18	Kyrgyzstan	0.1370	60.4244	-8.7836	0.0221*
19	Lao PDR	0.1920	32.8993	-8.0782	-0.0479
20	Lebanon	0.1480	59.2032	-8.6425	0.0190*
21	Libya	0.7130	35.0892	-1.3954	-0.0423
22	Malaysia	0.2570	84.6306	-7.2444	0.0837*
23	Moldova	0.0600	51.1081	-9.7713	-0.0016
24	Mongolia	0.0720	50.1634	-9.6174	-0.0040
25	Montenegro	0.0240	59.5184	-10.2331	0.0198*
26	Morocco	0.0670	34.3096	-9.6815	-0.0443
27	Myanmar	0.1120	32.2179	-9.1043	-0.0496
28	North Macedonia	0.0260	29.8784	-10.2074	-0.0556
29	Peru	0.0770	61.9507	-9.5532	0.0260*
30	Philippines	0.3740	39.7153	-5.7437	-0.0306
31	Romania	0.0150	70.4000	-10.3485	0.0475*
32	Russia	0.2620	53.1438	-7.1803	0.0036*
33	Saudi Arabia	0.2110	54.1045	-7.8344	0.0060*
34	Serbia	0.0500	10.3122	-9.8996	-0.1054
35	South Africa	0.0550	81.2431	-9.8354	0.0751*
36	Thailand	0.2680	56.5747	-7.1033	0.0123*
37	Tunisia	0.1740	47.0109	-8.3090	-0.0120
38	Ukraine	0.1210	41.9534	-8.9889	-0.0249
39	Viet Nam	0.1300	14.2755	-8.8734	-0.0953

Source: Based on Authors calculations

6. Conclusion

This study looks at how FDI laws affected FDI inflows into 39 developing nations between 1990 and 2020. Higher kurtosis values indicate that there are outliers in the panel data, which directs the application of the FGLS estimation method. Using two different models, the study aims to investigate how RRI and EDB affect FDI inflows into developing nations. According to the panel unit root tests, there is a jumbled order of integration for all the variables. The absence of multicollinearity in both models is demonstrated by the correlation matrix and variance inflation factor. The study's findings show that although the quadratic coefficient of RRI raises FDI inflows, the level coefficient of RRI decreases FDI inflows.

The second model proposes the U-shaped relationship between EDB and FDI inflows in which level coefficient of EDB declines the FDI inflows while the quadratic coefficients of EDB increase FDI inflows. The linearized marginal effect show that Azerbaijan, Brazil, Croatia, Kyrgyzstan, Lebanon, Malaysia, Montenegro, Peru, Romania, Russia, Saudi Arabia, South Africa, and Thailand lie on the right side of the U-shaped curve which indicates that EDB increases FDI inflows and remaining countries lie on the left side of U shaped curve. The policy recommendations on the impact of FDI regulatory policies on FDI inflows appear slightly different from those for developed countries. The study suggested that there is a need of consistency in policies for attracting the confidence of foreign investors. Furthermore, measures are required to encourage investment in those sectors which can promote economic development. The study suggests that sufficient incentives to the foreign investors are indispensable to attract FDI in those sectors that can promote technological transfer, skills, jobs and linkages to domestic firms. The major limitation of the study is that it considers only 39 developing countries for analysis purpose. The present research work can be extended by including more developing countries in the sample for obtaining reliable results.

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