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Exploring the Determinants of FDI: An Asian Perspective

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Abstract

Foreign Direct Investment (FDI) as a driver of economic growth is increasingly attracting the attention of researchers and policymakers. Despite the growing literature on FDI, a significant gap exists concerning the antecedents of FDI, particularly in the context of emerging nations. To reduce this gap, the study examines the effect of four independent variables, namely, financial development, interest rate, information and communication technology, and the real effective exchange rate, on FDI inflows. The study uses the data for the eight major emerging economies of Asia, i.e., China, India, Malaysia, Bangladesh, Pakistan, Iran, Singapore, and Indonesia, for the 20 years' time duration ranging from 2000 to 2021. The analysis of the data indicates that all the variables exert a strong positive influence on FDI, except for the real effective exchange rate, which exerts a negative influence. The study offers theoretical and practical insights to the researchers, investors, and policymakers.

***Keywords*:** financial development, foreign direct investment, information and communication technology, real effective exchange rate

Introduction

Foreign Direct Investment (FDI) serves as an essential component of economic development. It is of profound importance for the emerging as well as the developed nations. External funding in the form of FDI facilitates national growth by bringing in advanced methods of production, modern technologies, improved practices, enabling access to foreign markets, and providing substitute capital for the accomplishment of national development goals (Ali et al., 2023; Ianc, 2025). It helps in the attainment of sustainable development goals through reducing poverty (Davidson & Sahli, 2015; Lin & Lee, 2023). In recent times, Asia has emerged as an important avenue for FDI. According to the United Nation Trade and Development (2023), Asian economies, particularly South and Southeast Asian economies, have contributed nearly half to the global FDI inflows in

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fiscal year 2022. Therefore, an understanding of the factors that stimulate FDI inflows in the Asian context is of profound importance.

Despite the expanding literature, a paucity remains regarding what influences FDI in the context of emerging nations. Lee et al. (2024) compared FDI parameters for developed as well as developing countries. They revealed that in the case of developed countries, the effect of social indicators is stronger, while in the case of developing countries, the economic effect is noteworthy. In the case of BRICS nations, macroeconomic stability is an important factor (Alfaro, 2017; Malik & Malik, 2013). The existing studies offer insightful information on what drives FDI; however, their focus is primarily on the developing nations. Despite insightful existing literature, these studies have limited implications for the Asian nations that face unique economic, regulatory, or technological challenges. While some countries are successful in attracting optimal amounts of FDI, others are still striving (Ianc, 2025; Zhang et al., 2021). The variations in the availability of resources, institutional quality, and economic constraints call for contextual studies for effective policymaking. Furthermore, the trend among contemporary researchers has shifted from traditional political or trade-oriented factors to contemporary elements, including technology-based ones (Garg et al., 2026). With the growing emphasis on digital interconnectedness of the global economy, there is a dire need to revisit and broaden the scope of analysis by integrating new variables.

To fill these gaps in the literature, this study attempts to explore the antecedents of FDI in the Asian context by focusing on eight major emerging nations: China, India, Malaysia, Bangladesh, Pakistan, Iran, Singapore, and Indonesia. The selection of countries is based on their regional importance, larger markets, and expanding industrial sectors. Specifically, it examines the impact of four critical variables, namely financial development, interest rate, information and communication technology, and real effective exchange rate, on FDI inflows in the selected countries. The selection of the variables is based on their critical relevance to local economic development and current global investment trends. Financial development entails the growth and development of the financial system, represented by increased monetization of the economy, development measures of the financial sector, and financial inventions (Sawyer, 2015). FDI and FD are acknowledged as two vital elements of

economic operations in any ultramodern economy (Lee et al., 2013, 2017; Shen et al., 2010).

Similarly, interest rate, information and communication technology, and real effective exchange rate represent essential components of the modern business economy. Information and communication infrastructure affects investor perceptions of a country's readiness for digital business operations, while the prevailing interest rate in a country shows the government's intention towards foreign investment. The real effective exchange rate affects the relative cost competitiveness of business operations. Another reason for considering these four variables together is that FDI determinants rarely operate in isolation; they often interact in complex ways, amplifying or dampening each other's impact. For instance, exchange rate competitiveness may be dependent on information and communication technology usage and absorption. Exchange rate competitiveness reduces in the absence of robust information and communication technology. Similarly, the interest rate determines the extent of FD conversion into FDI. Together, these variables allow a holistic view of FDI antecedents by incorporating macroeconomic, institutional, and technological dimensions.

With the increasing importance of FDI in economic growth, the study offers profound implications of theoretical and practical importance. On the theoretical side, it fills an important void in the literature through extending the debate of FDI antecedents by linking a unique set of variables, i.e., financial development, interest rate, information and communication technology, and real effective exchange rate. Moreover, by focusing on South and Southeast Asia, the study provides a cross-country comparison demonstrating how these variables interact to shape FDI inflows across countries with varying levels of economic development. The comparison further allows us to explain how host-country characteristics shape international investment decisions. On the practical side, it may enable policymakers in the selected countries to attract optimal levels of FDI through economic, regulatory, and technological changes. Furthermore, by highlighting the importance of regional competitiveness for attracting foreign investment, policymakers may benchmark their investment policies against successful neighboring countries. Finally, the study offers useful implications for investors by providing information on the investment environment of major Asian economies.

The study is further organized as follows: The next Section provides

literature background regarding the previous work done in this domain, identifying the multiple studies that have explored the relationship of various variables with the FDI and identifying the gap. Section 3 discusses the methodology applied to address the research questions and achieve its objectives. Section 4 continues to provide data analysis and discussion in the light of the existing literature. Finally, the conclusion, implications, limitations, and future research agendas are presented in Section 5.

Research Question

The study attempts to answer the following primary research question: What are the antecedents of FDI inflows in the Asian emerging context? Specifically, it aims to address the following sub-questions:

- Does Financial Development (FD) affect FDI inflows in the Asian emerging context?
- Does the interest rate (IR) affect FDI inflows in the Asian emerging context?
- Does Information and Communication Technology (ICT) affect FDI inflows in the Asian emerging context?
- Does the Real Effective Exchange Rate affect FDI inflows in the Asian emerging context?

Objectives

The study seeks to accomplish the following objectives:

- To explore what drives Foreign Direct Investment in emerging Asia
- To examine the influence of the financial system, economic factors of currency exchange rate, interest rate, and technological infrastructure on FDI.
- To examine how these variables interact to shape FDI inflows across countries with varying levels of economic development.
- To explain how host-country characteristics shape international investment decisions.
- To extend the debate of FDI in an underexplored region, i.e., Asia.
- To provide evidence-based policy recommendations for improving FDI

inflows.

Literature Review

The review of literature is performed to provide the contextual strength of the study. For this purpose, a comprehensive literature review is conducted on renowned search engines such as Google Scholar, JStor, Elsevier (Science Direct), Web of Science, etc., using keywords like foreign direct investment, drivers/determinants of FDI. The publications to be included in the review were shortlisted based on relevance and importance. The summarized findings are described as follows.

Foreign Direct Investment (FDI)

Foreign Direct Investment is defined as the cross-border investment by individuals or firms belonging to country A into business operations located in country B. It is typically done through acquiring a lasting interest, such as ownership or significant control in a foreign enterprise (International Monetary Fund, 2023). It is the net inflows of capital that is capable of generating substantial interest revenues in a foreign business enterprise. According to Yavas and Malladi (2020), FDI involves the allocation of funds for production and business activities beyond the investor's home country. It plays a significant role in the economic development of the host countries. FDI is often considered a bigger and more stable source of capital than domestic investment. It has the potential of driving sustainable and profitable growth.

FDI holds immense significance for the developing countries that are continually seeking to attract FDI due to its potential for employment generation, productivity enhancement, and capital accumulation. A sufficient body of literature emphasizes the economic gains of the FDI for the home and destination countries (Desbordes & Wei, 2017; Eicher et al., 2012; Nomani et al., 2025). Desbordes and Wei (2017) asserted that FDI offers long-term strategic advantages through continuous access to international markets, advanced technologies, and better governance structures. Abzari et al. (2011) reported that FDI also provides significant decision-making power in foreign enterprises. This study examines the effect of the financial system, currency exchange rate, interest rate, and technological infrastructure on FDI. A favorable country environment facilitates capital movement by reducing risk and building investor confidence.

With increasing globalization, countries increasingly make reforms in their financial systems. Rajan and Zingales (2004) highlighted the importance of foreign capital in influencing capital budgeting decisions. Imran and Rashid (2023) reported that FDI has become a major source of income. They also highlighted that FDI supports the development of the local infrastructure, the enforcement of the policy, and the generation of income. FDI as an independent variable has an influence on economic outcomes such as technological advancement, managerial expertise, and sustained economic growth (Lee et al., 2024). For the achievement of these benefits, countries are increasingly making strategies to attract FDI. In this regard, macroeconomic and regulatory interventions are noteworthy. The success of FDI is closely linked with the host country's financial and legal systems. La Porta et al. (2000) argued that the financial markets often rely on the quality of legal frameworks and regulatory institutions, in addition to market actors. By exploring the relationship between economic, regulatory, and technological factors and FDI, this study addresses the relevant issue.

The Relationship between Financial Development and Foreign Direct Investment

The effectiveness of Foreign Direct Investment (FDI) is dependent on the financial system (FD) of the destination country (Osei & Kim, 2020). FD is defined as the expansion and efficiency of the financial markets in a country. According to (Lee et al., 2013, 2017; Shen et al., 2010), FDI and FD are the key components of economic development in modern economies. Levine et al. (2000) propound that FD pointers communicate the size, effort, and operational quality of the financial market and intermediaries. Scholars such as Zhang et al. (2024) argue that FDI and FD make up the vital components of the economic systems in any modern economy. The stability and development of financial markets are important contributors to the economic growth of a country. Financial development is defined as the expansion and development of the financial setup, which is indicated by enhanced monetization and development of the financial sector (Sawyer, 2015). Contemporary scholars are increasingly interested in knowing the determinants of the FD, as it is crucial for encouraging economic growth. The scholars argue that a vibrant fiscal system is crucial to profitable development (Fisman et al., 2003).

A financial system helps to attract foreign investment by mobilizing its

capital and reducing information disparity (Mensah et al., 2025; Sy et al., 2026). A financial system also facilitates FDI by improving access to credit, reducing transaction costs, supporting project planning, and enhancing investor confidence (Hermes & Lensink, 2003). The financial institutions allow foreign firms to compare borrowing capacity, plan investments accordingly, and mitigate liquidity requirements. Countries having a vibrant financial system are better positioned to attract and sustain FDI (Alfaro, 2017; Khan, Xue et al., 2022; Khan et al., 2021). Rajan and Zingales (2004) argued that the financial system developments might vary across countries. FD is measured in terms of the availability of liquid liabilities or the private sector funding. The study employs private sector credit as an indicator of financial development.

Financial Development is influenced by trade policies, institutional quality, and governance systems. Countries with strong legal institutions have better financial services, which help in attracting FDI (Desbordes & Wei, 2017; Khan, Xue et al., 2022; Mahmood et al., 2018). A mature financial system helps in the allocation of resources and the provision of information, thereby sustaining FDI inflows. While surveying developing and developed countries, Baltagi et al. (2009) reported that FDI, along with open trade policies, are the major drivers of financial development. Hajilee and Nasser (2015) also reported the same results. Similarly, Desbordes and Wei (2017) argue that more FDI occurs in countries that have transparent and stable financial infrastructures. The financial system, through FDI, supports other outcomes related to innovation, competitiveness, and economic growth (Imran & Rashid, 2023).

Similarly, Hunjra et al. (2022) found that financial development supports the sustainable economic development of the low-middle-income nations. A study by Henri et al. (2019) revealed that FDI is positively linked with the FD over the long term. The development of domestic financial markets eases credit constraints on foreign firms and enables the expansion of innovative activities into the domestic economy (Makalesi et al., 2025). Makalesi et al. (2025) use a panel dataset of international mergers and acquisitions to find that domestic financial liberalization is important in corporate decision-making and foreign investment, emphasizing that they are playing an important role. The existence of an efficient financial system makes it easier for FDI to create a reverse link, which is supportive for the local suppliers as it increases production efficiency.

Any increase in a state's financial resources as a percentage of GDP is considered fiscal development (Islam et al., 2018). Financial development of a state can be measured by the extent of facilities in providing financial services by individuals and improved trust in the services (Liu et al., 2021). The main functions of a fiscal system are to provide information about possible investments, distribute funds, monitor investments, apply commercial governance, and enable the exchange of goods and services. Lastly, financial development enhances a nation's ability to allocate credit efficiently, thereby reducing credit rationing and fostering inclusive growth. For countries striving to attract sustainable FDI, achieving and maintaining a mature financial system is not only beneficial but also essential.

To summarize, the extant literature offers information on what Financial Development entails, how it is institutionalized, measured, and how it impacts FDI inflows. However, the literature is limited regarding how FD influences FDI inflows in emerging countries. Furthermore, the literature offers mixed views regarding its influence on FDI inflows, calling for more contextual research to guide policy making. Therefore, based on the above literature review, the following hypothesis is formulated, which is subject to testing.

H1: There is a positive relationship between Financial Development (FD) and Foreign Direct Investment (FDI).

The Relationship between Interest Rate and Foreign Direct Investment

The next major determinant of FDI is the interest rate, which is roughly defined as the return on investment (Alshubiri, 2022). Generally, investors act on a prevailing interest rate. They shift their investments to the places where they can get higher interest rates. The literature review revealed a significant impact of interest rate on FDI. For instance, Agyeman et al. (2021) conducted a panel study on Africa, revealing that interest rates are significantly linked with FDI inflows. The relationship between these two is influenced by many interwoven factors such as cost of capital, return on investment, exchange rate dynamics, macroeconomic stability, policy impact, risk perception, and sectoral differences (Islam et al., 2018; Maibetly & Idris, 2022; Malik & Malik, 2013). Central bank's monetary policies directly affect FDI (Alshubiri, 2022). The vast literature on interest rate and FDI relationships provides controversial results (Alshubiri, 2022; Wawrosz & Traksel, 2023), calling for contextual research.

Investors' decisions for foreign investment are dependent on the interest rate prevailing in the home and host countries. For instance, Maibetly and Idris (2022) reported that lower interest rates in the home country promote foreign investment, while higher local interest rates lead to lower foreign investments. Similarly, the higher cost of capital in the home country influences investor behavior to divert funds from their home countries to places where the cost of capital is low. Interest rates also affect investment decisions by influencing the risk perception of investors (Suhendra et al., 2022). Foreign investors invest in countries where the cost of capital is low while the return on investment is high. Higher interest rates lead to currency appreciation through higher investment seeking higher returns. Mixed views regarding the association between interest rate and FDI are common in the literature. For example, a study by Hunjra et al. (2022) confirmed the results of the previous two estimators in the G7 countries. The findings of the study stress that the lending interest rate should be lower to enhance capital formation, promote trade, and increase FDI inflows. Similarly, Suhendra et al. (2022) found that capital flight, inflation, and loan interest rates are linked with FDI in the ASEAN-8 countries. Additionally, loan interest rate (SIBOR), inflation, and exchange rate are inversely linked with the FDI. These results were further reinforced by Mohsen et al. (2022) in the context of Switzerland and Sweden. These discrepancies in the earlier studies' findings call for more research to decide on how interest rates influence FDI inflows, specifically in the context of emerging nations. Therefore, to examine the relationship between interest rate and FDI inflows in eight major Asian economies, the following hypothesis is developed.

H2: There is a positive relationship between Interest Rate (IR) and Foreign Direct Investment (FDI).

The Relationship between Information and Communication Technology and Foreign Direct Investment

In the context of Foreign Direct Investment (FDI), Information and Communication Technology (ICT) refers to the integration of digital tools, telecommunication infrastructure, and data management systems that facilitate the flow of information, enhance communication efficiency, and support the operational and strategic needs of multinational enterprises (MNEs) when investing or operating across borders (Maibetly & Idris, 2022).

FDI may additionally assist growth through introducing new technology (Behera et al., 2024), consisting of new manufacturing procedures and techniques (Gholami et al., 2006), thoughts, managerial skills (Arbia et al., 2023), and new forms of capital goods (Gachino, 2025). In the recent literature, the significance of technological modification for economic growth has been emphasized. The economic growth rate of much less developed states is perceived to be particularly dependent on the extent to which those states can adopt and implement new technology accessible in developed states (Khan, Xue et al., 2022). By adapting new technology and thoughts (i.e., technological diffusion), they will catch up to the levels of expertise in developed states. One vital channel through which the adoption and implementation of the latest technology and thoughts in less developed states may also take place is FDI. The new technology they introduce in those international locations may also spill over from subsidiaries of multinational corporations (MNCs) to domestic corporations.

Information and Communication Technology (ICT) is acknowledged as a catalyst in globalization, significantly affecting the amount of FDI. The advanced ICT infrastructure, such as internet, connectivity, broadband access, and telecommunication technologies, affects FDI by reducing transaction costs, enhancing information flow, and improving the efficiency of cross-border operations. The impact of ICT varies depending on the institutional quality. For instance, countries with robust capabilities tend to attract higher volumes of FDI. This is mainly due to improved communication systems, real-time collaboration, and seamless integration within global markets (Behera et al., 2024). ICT supports the operations of multinational corporations through efficient supply chain management, distant monitoring, and relationship management in the local markets (Behera et al., 2024; Ketteni et al., 2015). It also provides foreign investors with market information on risk and investment options (Arbia et al., 2023; Gholami et al., 2006).

ICT also serves as the critical driver of FDI through enhancing institutional quality, providing e-governance systems, and increasing institutional transparency (Ketteni et al., 2015). In the developing economies, ICT infrastructure supports innovation, productivity, and strategic assets to attract and retain foreign capital (Behera et al., 2024). ICT Indicators, including cellular subscriptions, internet access and use, and service exports, have a strong positive relationship with FDI inflows

(Gholami et al., 2006). However, similar to FD, the relationship between ICT and FDI is mediated by macroeconomic and institutional variables. These include governance quality, capital development, and absorptive capacity of the host economy (Ketteni et al., 2015). Though ICT infrastructure helps in attracting foreign investors, the governance system characterized by digital literacy, intellectual property protection, and cybersecurity is crucial for sustaining and scaling these investments.

To summarize, ICT is necessary for attracting FDI through enhancing connectivity in the economy. The current literature highlights the importance of ICT in attracting FDI. It also underscores the advancements and improvements in a country's ICT infrastructure as an outcome of FDI. However, the focus of earlier studies has been on developed nations with advanced ICT infrastructures and strategies, providing limited implications for the developing ones. This lack in literature necessitates contextual research for providing empirical evidence on the importance of ICT for attracting FDI in emerging contexts. To fill this gap and extend the debate on FDI antecedents, the following hypothesis is developed.

H3: There is a positive relationship between Informational Communication Technology (ICT) and Foreign Direct Investment (FDI).

The Relationship between the Real Effective Exchange Rate and Foreign Direct Investment

The fourth determinant of FDI that the study is focusing on is the Real Effective Exchange Rate (REER), which refers to the value of a country's currency in relation to the weighted average of several foreign currencies, adjusted for inflation (Alshubiri, 2022). REER plays a significant role in driving FDI through influencing a country's relative cost structure and international competitiveness. The variability in REER can change the investor's investment decisions. A higher REER indicates that the local currency has appreciated, which can reduce the export competitiveness of a country, and negatively influence its FDI. In contrast, a lower REER can improve the competitiveness of local products in international markets, which helps in attracting more export-oriented FDI. Next, investors' perceptions about the stability of REER influence their perception of risk. A relatively stable REER indicates sound economic management, while a volatile REER indicates economic issues. A relatively stable and predictable REER helps to attract foreign investors (Alshubiri, 2022; Arthur

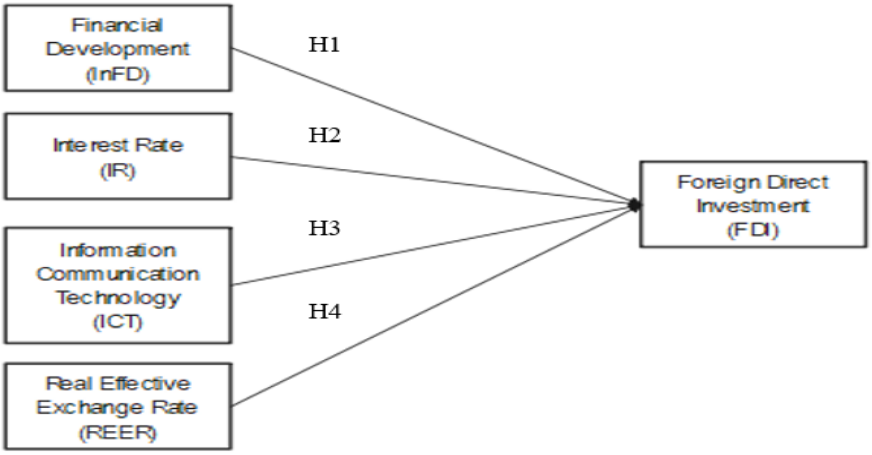
& Addai, 2022; Okonkwo et al., 2021).

The literature on the relationship between REER and FDI is increasing. Okonkwo et al. (2021) argue that an appreciating REER causes the domestic currency to strengthen, which in turn makes domestic goods less competitive in the global markets. Therefore, an appreciating REER deters FDI. Similarly, Arthur and Addai (2022) propound that appreciated REER causes a reduction in FDI inflows. Another stream of literature has reported the positive relationship between the exchange rate and FDI. For instance, Boburmirzo and Boburjon (2022) report that appreciating currency makes investment in technology-intensive sectors more feasible, thereby attracting foreign investment in these sectors. Overall, the literature provides a contradictory view regarding the relationship between the currency rate and FDI, suggesting more contextual studies. In the emerging nations, institutional quality, trade openness measures, and financial market affect the relationship between REER and FDI. Moraghen et al. (2023) reported that institutional efficiency and investor protection measures may help to mediate the relationship between REER and FDI. Alshubiri (2022) also reported that foreign investors link their investment decision with the currency exchange rate of the destination countries.

To sum up, REER is an important factor of FDI related decisions. The direction and magnitude of its effect on FDI depend on the type of FDI, macroeconomic conditions, and institutional quality. Policymakers who aim to set sustainable FDI inflow targets must therefore ensure exchange rate competitiveness while maintaining macroeconomic stability. The literature provides mixed views on the association between REER and FDI (Arthur & Addai, 2022; Boburmirzo & Boburjon, 2022; Okonkwo et al., 2021). These discrepancies highlight the need for further research to decide whether REER should be included in FDI policy agendas or not. Therefore, the following hypothesis is formulated to examine the impact of REER in selected nations.

H4: There is a positive relationship between the Real Effective Exchange Rate (REER) and Foreign Direct Investment (FDI).

Figure 1
Conceptual Model



Methodology

The study uses secondary data extracted from world-bank website. The data includes time series data for emerging Asian countries for the period ranging from 2000 to 2021. The sample of countries is finalized based on data availability. The data comprises variables, namely foreign direct investment, financial development, interest rate, information and communication technology, and real effective exchange rate, which were taken from World Development Indicators (WDI). The dataset contains 147 observations refined after excluding missing values. A brief description of each variable, along with its symbol and source, is provided in Table 1. Following (Gujarati & Porter, 2009), the panel data were analyzed through the Fixed Effects Model (FEM). Panel data includes time series collection and cross-sectional observation. The variables used in the study, along with their description and sources, are given in Table 1.

This research employs financial development, interest rate, information and communication technology, and real effective exchange rate as predictor variables to examine their impact on foreign direct investment. Therefore, the following regression equation is formulated to accomplish this prime objective.

Table 1

Variables and Their Description

Variables	Symbol	Description	Measurement item	Reference(s)
Foreign Direct Investment	FDI	An investment made typically by acquiring a lasting interest, such as ownership or significant control, in a foreign enterprise	Log natural Foreign direct investment, net inflows (BoP, current US$)	(Eicher et al., 2012; Lee et al., 2022; Wawrosz & Traksel, 2023)
Financial Development	FD	financial system components, growth, and efficiency, including banks, capital markets, and other financial intermediaries	Domestic credit to private sector (% of GDP)	(Abzari et al., 2011; Khan, Khan & Zuojun, 2022)
Interest Rate	IR	Refers to the cost of borrowing in a country's economy	Lending interest rate (% of GDP)	(Alshubiri, 2022)
Information Communication Technology	ICT	refers to the development and penetration of digital infrastructure that facilitate/hinder business operations and communication	Fixed telephone subscriptions per 100 people	(Behera et al., 2024; Iqbal et al., 2023; Kumari & Singh, 2023)
Real Effective Exchange Rate	REER	Refers to the value of a country's currency relative to a basket of other major currencies, adjusted for inflation differentials	Nominal effective exchange rate index to the cost indicator of relative normalized unit labor costs in manufacturing	(Okonkwo et al., 2021; Wawrosz & Traksel, 2023)

To assess the relationship between independent and dependent variables, the following models are drawn:

$$FDI = f(FD, INT, ICT, REER) \quad (1)$$

where FDI is characterized by financial development, interest rate, information and communication technology, and real effective exchange rate. We employed the fixed and random effect technique on panel data. Let the dependent variable (FDI) be denoted as FDI_{it}, representing the FDI for country i at time t. Therefore, the regression equation can be expressed as:

$$FDI_{it} = \alpha + \beta_1 \ln FD_{it} + \beta_2 IR_{it} + \beta_3 ICT_{it} + \beta_4 REER_{it} + \mu_i + \epsilon_{it} \quad (2)$$

Where:

α = constant term (intercept)

ln FD_{it} = log of financial development

IR_{it} = interest rate

ICT_{it} = information and communication technology indicator

$REER_{it}$ = real effective exchange rate

μ_i = unobserved country-specific effect (may be fixed or random), and

ϵ_{it} = idiosyncratic error term

Results

This study examines the relationship of financial development, interest rate, information and communication technology, and exchange rate with foreign direct investment using panel data for eight major Asian developing economies: China, India, Malaysia, Bangladesh, Pakistan, Iran, Singapore, and Indonesia, ranging from 2000 to 2021. Fixed and random effect techniques were employed for the analysis of the study. The Hausman test value 19.95 was significant at p<0.005, which directs the use of the fixed effect model. The results of the fixed effect model are shown in Table 2.

Table 2

Fixed Effect Regression Results

Variable	Coefficients	*p*-value	*t*-value	95% CI	
				LL	UL
lnFD	0.5531	0.024	2.28	0.0733584	1.032878
IR	0.02897	0.012	2.56	0.0065803	0.05135
ICT	5.69e-^{08}	0.020	2.36	9.11e^{-09}	1.05e^{-07}
REER	-0.0093278	0.072	-1.81	-0.019518	0.0008625
Constant	-4.901836	0.043	-2.04	-9.652051	-0.151601

The regression analysis indicates that all the independent variables exert a significant influence on the dependent variable, except the REER. For instance, financial development as indicated by (lnFD), coefficient=0.5531 and *p*= 0.024, exerts a positive and significant influence, a 1% increase in FD leads to increase in FDI by 0.553, which aligns with (Lee et al., 2013, 2017; Shen et al., 2010), who stressed that FD and FDI are the components of an economic system. This indicates the critical role of the financial system, legal frameworks, and the technology infrastructure for attracting foreign investment. The findings are aligned with (Alfaro, 2017; Khan, Xue et al., 2022; Khan et al., 2021), who propound that FD and FDI are important drivers of economic growth. The findings align with previous results that countries having a vibrant financial system are better positioned to attract and sustain FDI (Alfaro, 2017; Khan, Xue et al., 2022; Khan et al., 2021). Countries with strong legal institutions have better financial services, which help in attracting FDI (Desbordes & Wei, 2017; Khan, Xue et al., 2022; Mahmood et al., 2018). A mature financial system helps in the allocation of resources and the provision of information, thereby sustaining FDI inflows. Similarly, Desbordes and Wei (2017) argue that more FDI occurs in countries that have transparent and stable financial infrastructures. The financial system through FDI supports other outcomes related to innovation, competitiveness, and economic growth (Imran & Rashid, 2023). However, countries with a strong financial system might struggle in attracting FDI inflows due to other systemic barriers related to economic or technological developments.

Interest rate (IR) also exerts a significant positive influence on FDI. A 1% increase in interest rate stimulates an increase of 0.03 in the FDI. These findings align with the previous studies (Islam et al., 2018; Maibetly & Idris, 2022; Malik & Malik, 2013), which propound that the interest rate is an important driver of FDI. Alshubiri (2022) also argues that policies related to interest rates affect investment decisions, thereby affecting the total amount and extent of FDI. Maibetly and Idris (2022) reported that higher interest rates in the host country promote foreign investment. Similarly, a higher cost of capital in the host country attracts foreign capital investment. Interest rates also affect investment decisions by influencing the risk perception of investors (Suhendra et al., 2022). Investors tolerate higher risk associated with an investment if they are compensated for the increased risk. However, economic instability might discourage investors from taking excessive risk, thereby affecting the volume of foreign investment.

The third variable related to technological infrastructure, namely Information and Communication Technology (ICT), also exerts a positive and strong influence; however, the effect is negligible. These findings align with Gholami et al. (2006), who underscored the importance of ICT investment for global competitiveness. The investment in ICT infrastructure helps in reducing the transaction costs and enhancing the flow of information (Park & Choi, 2025). This aligns with previous findings that the ICT supports the operations of multinational corporations through improving supply chain management, providing facilities such as distant monitoring and relationship management in the local markets (Behera et al., 2024; Ketteni et al., 2015). It also facilitates market operations by providing market information on risk and investment options (Arbia et al., 2023; Gholami et al., 2006). Behera et al. (2024) also propound that ICT infrastructure supports innovation, productivity, and strategic assets to attract and retain foreign capital through improved communication systems, real-time collaboration, and seamless integration within global markets. This aligns directly with the findings of the current study. Therefore, policymakers must direct their policies for enhancing ICT infrastructure for improving FDI inflows (Arbia et al., 2023; Gholami et al., 2006; Park & Choi, 2025). However, similar to FD, the relationship between ICT and FDI is mediated by macroeconomic and institutional variables. These include governance quality, capital development, and absorptive capacity of the host economy (Ketteni et al., 2015). Though ICT infrastructure helps in attracting foreign investors, the governance system characterized by digital literacy, intellectual property protection, and cybersecurity is crucial for sustaining and scaling these investments.

Finally, the fourth variable, namely, the real effective exchange rate (REER), exerts a negative effect on FDI. Theses finding align with Okonkwo et al. (2021) implying that appreciating currency makes exports unattractive in the global market, thereby reducing their competitiveness. The depreciated currency invites foreign investment by providing an advantage in the form of lower production costs and cheaper domestic assets that attract foreign investors (Alshubiri, 2022). This also supports the finding reported by Arthur and Addai (2022) that there exists a negative association between appreciation of a currency and foreign investment. This also aligns with broader literature that argues that weaker currencies increase host country's competitiveness. Furthermore, a relatively stable and predictable REER is often interpreted as a signal of macroeconomic

stability, which helps to enhance investor confidence (Alshubiri, 2022; Arthur & Addai, 2022; Okonkwo et al., 2021), leading to enhanced FDI. The results, however, contradict with those who reported a positive influence of REER appreciation. Boburmirzo and Boburjon (2022), for instance, reported that appreciated REER may reduce the cost of imported goods (capital), making investment in infrastructure and technology-intensive sectors more feasible.

Based on regression results, the following equation is formulated by putting values in Equation (2).

$$FDI_{it} = -4.901836 + 0.5531179(\ln FD_{it}) + 0.0289651(IR_{it}) + 5.69e-08\,(ICT_{it}) - 0.0093278(REER_{it}) + \mu_i + \epsilon_{it} \quad (3)$$

Equation (3) is developed using regression results, and describes the impact on FDI with a 1-unit variation in explanatory variables. For example, a 1-unit increase in interest rates also raises FDI by 0.0290 units, suggesting that macroeconomic stability attracts investors. However, ICT investment has a negligible positive effect. In the case of the exchange rate, there is an inverse relationship. Appreciation of currency by one unit reduces FDI by 0.0093 units. Overall, the results highlight the criticality of the financial system, interest rate, and ICT infrastructure for boosting FDI in the sample economies.

The value of overall R^2 indicates the lower explanatory power of the model. The model does not account for the full explanation of the drivers of FDI. A 'within R^2' of 0.2128 means that the model explains 21.28% of the variation in the dependent variable within countries over time, while 78.72% of the 'within-country variation' remains unexplained by the model. The R^2 value 0.0548 is quite low and reveals that the model explains only 5.48% variation between countries. Lastly, the overall R^2 value of 0.0035 indicates that the model explains only a small variation in the dependent variable (FDI) across all observations.

Hypotheses Testing

All the hypotheses are supported with $p<0.05$, except the fourth one, which tests the relationship between the real effective exchange rate and FDI, and is not supported with p-value>0.05. The hypothesis testing remarks are provided in Table 3.

Table 3
Hypotheses Results

Hypothesis	Coefficient	*p*-value	Remarks
FD → FDI	0.5531179	0.024 < 0.05	Supported
INT → FDI	0.0289651	0.012 < 0.05	Supported
ICT → FDI	5.69e-^{08}	0.020 < 0.05	Supported
REER → FDI	-0.0093278	0.072 > 0.05	Unsupported

To sum up, while all the predictors have statistically significant association with the dependent variable except REER, the low values of R^2 indicates the model's low explanatory power, implying that important variables may be omitted that need to be explored.

Discussion

This study attempted to examine the impact of financial development, interest rate, information and communication technology, and exchange rate on foreign direct investment using panel data of Asian emerging countries ranging from 2000 to 2021. The results reveal that all the independent variables have a strong positive association with the dependent variable (FDI). This indicates the critical role of the financial system, legal frameworks, and the technology infrastructure for attracting foreign investment. The findings are aligned with (Alfaro, 2017; Khan, Xue et al., 2022; Khan et al., 2021), who propound that FD and FDI are important drivers of economic growth.

Interest rate (IR) also exhibited a positive and strong influence on the FDI. These findings are aligned with previous studies, which propound that interest rate is an important driver of FDI (Islam et al., 2018; Maibetly & Idris, 2022; Malik & Malik, 2013). The results imply that countries' policies, such as interest rates, affect the level of FDI inflow by impacting cost and risk perceptions of investors (Suhendra et al., 2022). The policymakers must update their monetary system to set an optimum level of interest rate to attract foreign investment. The next variable, Information and Communication Technology (ICT), exerts a smaller but statistically significant influence on FDI. It supports the argument of Gholami et al. (2006) that ICT as a catalyst for globalization reduces the transaction costs, enhances the information flow, improves the efficiency of cross-border operations, and allows the efficient supply chain management, remote monitoring, and better engagement with local markets (Behera et al., 2024;

Gholami et al., 2006; Ketteni et al., 2015). ICT also enables foreign investors to access and evaluate risks based on market information, and connect efficiently (Arbia et al., 2023; Gholami et al., 2006).

The last component, the real effective exchange rate (REER), has a negative and insignificant association with DFI. This aligns with Okonkwo et al. (2021), supporting the notion that an appreciating REER deters export-oriented FDI. These relationships are more visible in the emerging countries, which are struggling for attracting the FDI. Arthur and Addai (2022) also argue that currency appreciation reduces FDI. The results are in contradiction with the other scholars, who argue that currency appreciation may be advantageous, as it reduces the cost of imports, thereby attracting investment in technology-related sectors (Alshubiri, 2022; Arthur & Addai, 2022; Boburmirzo & Boburjon, 2022). While the overall R^2 indicates the limited explanatory power of the model, the 'within R^2' underscores the importance of the financial system, interest rate, exchange rate, and technology development in influencing FDI.

Implications of the Study

The study provides insightful findings, which have profound implications for theory and practice. Theoretically, it enhances the literature by providing the analysis of important drivers of FDI, namely financial development, interest rate, information and communication technology, and exchange rate. It also adds to the literature an important insight for the developing nations, for which FDI is even more critical to support their economic growth, and which are struggling to attract FDI. Practically, the results provide information on the important drivers of the FDI. The countries that have stable interest rates, lower inflation, and a competitive exchange rate may be attractive avenues for investors. Therefore, the concerned policymakers must direct policy interventions to foster a viable environment to attract foreign investors. The study indicates that in all the sample countries, independent variables exert a positive influence on FDI, except for the exchange rate, which has a negative influence. Therefore, the investors may also consider the countries for their investment, which are ready to attract and sustain foreign investment. The negative influence of the exchange rate on the FDI indicates that policymakers should avoid currency appreciation as it can hurt export competitiveness. They should focus on aligning currency competitiveness with the export-oriented industrial policies to attract long-term FDI. Furthermore, the investors'

perception of the country's information and communication technology (ICT) plays a crucial role in attracting foreign investment. The government should focus on improving ICT infrastructure. Overall, the study indicates the importance of balancing a good mix of financial development, interest rate stability, and technological advancement strategies for attracting FDI in the sample countries.

Limitations and Future Research Agendas

Despite the useful insights, the study contains several limitations. The first concern is regarding the scope of the study. It uses only four independent variables, while overlooking others such as the impact of the corporate tax rate. This is also apparent in the overall R-squared that indicates the limited explanatory power of the model. Next, it provides insights only for the eight emerging countries, while ignoring many others, which have regional importance, keeping in view the regional developments, such as the countries along the borderline of China Pakistan Economic Corridor (CPEC). Both of these limitations raise concerns about the generalizability of the findings. Potential researchers may focus on reducing this concern by incorporating more variables and including more contextual studies to guide regional policies. The next limitation is related to the methodology employed to analyze the effects of independent variables on the DFI. The current study has used the fixed effects model, which does not account for endogeneity. To eliminate this concern, potential researchers may employ advanced techniques for data analysis. Lastly, the data timeline (2000-2021) also contains structural shocks such as COVID-19, which may raise concerns regarding its implications. Given that, these shocks have totally redefined operations of business, organizations, and global trade, including FDI; more studies are needed to examine the relationships before and after these shocks. Therefore, potential research may focus on separating these effects, and provide comparison of before and after such shocks. In short, by including more variables, focusing on contextual studies, and incorporating structural shocks, the study's scope and implications can be enhanced.

Author Contribution

Nadia Hanif: conceptualization, writing – review & editing, supervision. **Madiha Saleem:** writing – review & editing. **Muhammad Bilal Ahmad**: writing – review & editing, formal analysis.

Conflict of Interest

The authors of the manuscript have no financial or non-financial conflict of interest in the subject

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Data Availability Statement

The data associated with this study will be provided by the corresponding author upon request.

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