

DETERMINANTS OF FOREIGN DIRECT INVESTMENT IN NEPAL

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CERTIFICATION OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled “**Determinants of Foreign Direct Investment in Nepal**”. The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor it has been proposed and presented as part of requirements for any other academic purposes.

The assistance and cooperation that I have received during this research work has been acknowledged. In addition, I declare that all information sources and literature used are cited in the reference section of the dissertation.

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REPORT OF RESEARCH COMMITTEE

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ABBREVIATIONS

ADRL	:	Autoregressive Distributed Lag
CI	:	Confidence Interval
FDI	:	Foreign Direct Investment
GDP	:	Gross Domestic Product
GDPG	:	GDP Growth
INF	:	Inflation
NRB	:	Nepal Rastra Bank
PS	:	Population Size
SD	:	Standard Deviation
SPSS	:	Statistical Package for the Social Sciences
TO	:	Trade Openness
TR	:	Tax Rate
T-test	:	Student's T-test
TU	:	Tribhuvan University
WB	:	World Bank

ABSTRACT

The study analyzes the determinants of foreign direct investment in Nepal. A descriptive and causal-comparative research design was used; the research relied on secondary data from the fiscal years 1999/00 to 2025/264. Sources of the data and statistics for the independent variables include both national and international economic reports, government publications, and organizations including the World Bank and Nepal Rastra Bank. The study examines the effects of independent variables tax rates (TR), GDP growth, population size (PS), inflation (INF) and trade openness (TO) on foreign direct investment (FDI) for the dependent variable. Descriptive and inferential statistics, including correlation and regression analysis, were used to determine the relationship and impact of the independent variables on FDI. The study found that TR and PS had a strong positive relationship with FDI, GDP and INF had a weak relationship with FDI, and that TO had a negative correlation with FDI. Regression analysis indicated that TR is a significant positive factor influencing FDI and, on the other hand, TO was a significant factor on FDI but negative, while GDP and INF were weak affecting factors. The analysis indicates that tax rates and trade openness were the biggest factors for either promoting FDI or hindering FDI to Nepal.

Keywords: *Foreign Direct Investment, Tax Rate, GDP Growth, Population Size, Inflation, Trade Openness, Nepal*

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Foreign Direct Investment (FDI) is viewed as an important driver of economic growth, particularly in the case of developing ecosystems like Nepal. FDI inflows inject capital, technology, managerial expertise, and market access, which are useful for economic growth, generating employment opportunities and constructing infrastructures (Gunawardhana & Damayanthi, 2019). Pursuing economic growth by attracting FDI investment has become a significant goal of developing countries in the context of globalisation and investing discrepancies, where developing economies can leverage not only investment for development but also the technology and skills. Following other South Asian economies, Nepal has been trying to put itself into a more appealing position to foreign investors but the inflow of FDI into Nepal is affected by various macroeconomic and institutional factors such as tax rates, gross domestic product (GDP), population, inflation, and trade openness.

Among the factors that embody determinants, GDP is one of the most common factors that determine FDI inflows. Generally, countries with large GDPs and higher growth rates have received some more FDI than countries with small or lower GDP, and that's not only because the larger market economies have higher consumer demand, but just in general they have higher sustainability and growth (Gunawardhana & Damayanthi, 2019). There is empirical research showing that GDP significantly and positively impact on FDI inflows; Multinational corporations want to enter markets with size and sustainability with GDP, and their liquidity also shows a market's stability (Root & Ahmed, 1979; Torrisi, 1985; Wheeler & Mody, 1992). Nepal's GDP growth has been moderate over the past decade but the question is whether it will be sustainable enough to bring in FDI inflows; the answer to that question is important research.

Another important driver is tax, which is critical for influencing foreign relationships. A high corporate tax rate can deter investment as firms, maximize earnings, want to invest in the lowest tax domicile, (Gastanagav et al., 1998). Tax reductions and incentives have an escalatory effect on FDI, which has been empirically observed in

developing economies (Davies et al., 2021). Although some studies attest that tax rates will not affect FDI alone, it is more macroeconomically influenced, (Hsu et al., 2019). In the context of Nepal, observing the effect of tax policy on FDI may yield GDP-critical knowledge about the need for reforms.

A key factor for FDI is trade openness. In general, countries with open economies (allowing free trade, cutting tariffs and removing barriers to full capital mobility) entice greater FDI (Jun and Singh, 1996; Bhavan et al., 2011). Trade openness fosters multinational company environments for firms to work as part of global value chains, which enhances national competitiveness. Many studies have shown that there is a positive connection between trade openness and FDI, including that less trade restrictions stimulate investments (Sabir et al., 2019). The trade openness of Nepal depends on its trade policies and regional trade agreements, and therefore, is one of the essential components of foreign investors coming to the country.

When using inflation as an indicator of macroeconomic stability, it can have a substantial effect on FDI perspectives. For instance, high inflation creates uncertainty and destroys purchasing power, making countries less relevant to foreign investors (Schneider and Frey, 1985). Many empirical findings illustrate that investors prefer lower and stable inflation in the countries they invest in to maintain investor confidence and, thus bring in more FDI (Nyoni & Bonga, 2018). However, others argue that modest inflation is not necessarily a deterrent to FDI if other aspects of the economy are attractive (Ghahroudi & Chong, 2020). As Nepal continues to see inflation, understanding its effect on FDI ultimately lies in the hands of relevant macroeconomic policies.

Population size is another crucial part of FDI attraction. A large population, combined with a rapid growth rate, can represent a large and growing potential consumer base and employee base for multinational firms (Mottaleb, 2007). The relationship between population size and FDI inflows can be difficult in the sense that while a large population may represent new markets, it may also present challenges if economic productivity is low and there is poor human capital development (Abdouli et al., 2018). In studies of SAARC countries, it was reported that, if population growth was accompanied by infrastructure development and skill improvements, then population

growth could positively impact foreign direct investment inflows (Bhavan et al., 2011). For Nepal, a key analysis of the country's demographic profile is to see whether it helps support or disturbs the foreign investment attraction accumulator after calculating the demographics, and potentially influence investment policies.

Institutional factors, such as governance, regulatory quality, and laws concerning investment protection, also have effects on FDI inflows. Countries with high institutional quality and fully operational and transparent legal structure are generally more likely to attract foreign investors, as the quality of institutional arrangements creates a predictable and overt operating environment (Syamni et al., 2024). The role of corruption, bureaucratic inefficiency, and political instability will drive foreign investment away, or have it reevaluate (Jha et al., 2012). Literature has shown that foreign investment increases with improved quality of the institution in question, especially in the context of developing countries (Oyebamiji et al., 2021).

The dynamics of many determinants can have influenced FDI patterns in Nepal. Nepal has struggled historically to attract adequate FDI due to insufficient infrastructure, policy inconsistency, and regulations that continue to impede development. However, in recent years the government of Nepal has taken steps to change the investment climate with reforms in tax incentives, trade facilitation and promotion of FDI. Even with this, FDI in Nepal has remained low in comparison to nearby countries such as India and Bangladesh (Gunawardhana & Damayanthi, 2019). Thus, determining the determinants of FDI in Nepal will provide for evidence-based strategies for governments to improve investment climate.

It is important to mention regional factors and global economic trends when mapping the determinants influencing FDI. The larger political economy arrangements of a country including geographic location, trade agreements, and political relations really influence their ability to attract foreign investment. Additionally, in an interconnected global context external shocks - financial crisis, pandemic, and geopolitical events will likely have other influences on investor sentiment and capital flows. Understanding the external factors that have affected the FDI available to Nepal will be important in formulating flexible economic policy responses.

In summary, FDI is affected by various economic, political, and institutional factors, including GDP, tax rates, trade openness, inflation rates, and population. Studies have shown that the economic and institutional environment is quite complicated and interaction effects among these factors exist, and that consideration of all such factors is essential to establish the role they play collectively on FDI. Economic growth and potential market size are likely the two most important factors affecting FDI. However, ensuring a stable economic environment, greater trade openness, and institutional environments with greater governance capacity are also necessary for good investment climates.

The intention of this paper is to investigate the determinants of FDI in Nepal by exploring the role of tax rates, GDP, population, inflation, and trade openness for FDI inflows. It will utilize econometric analysis to investigate the key drivers of foreign investment in Nepal and provide supporting evidence of necessary policy changes to improve the attractiveness of foreign registration in Nepal. This work will expand the existing literature of determinants of FDI in developing countries and inform Nepal's investment policies for sustainable economic growth.

1.2 Problem Statement

Foreign Direct Investment (FDI) plays a vital role in economic growth through capital accumulation, technological development, creation of jobs, and contributing to overall economic growth. A number of studies have examined the variables that lead to FDI, including with regards to political stability, trade openness, infrastructure, and macroeconomic stability (Bhasin, 2024; Islam and Beloucif, 2024). However, these studies have mostly examined larger and more developed markets, not addressing the factors that determine FDI flows into smaller and developing economies, such as Nepal. In light of Nepal's economic composition, reliance on remittances, organisation of trade agreements, and unstable political environment, it is important to understand the determinants that affect FDI flows. Despite continued efforts by the government to create a better investment environment through policy changes and liberalisation policies in effect, FDI levels remain lower than their regional peers.

Recent research, such as Syamni et al. (2024) identified FDI determinants in Indonesia, for different presidential regimes. These determinants in Indonesia were institution

quality, economic growth, and leadership. Population had a negative influence on FDI. But, their research found that tax rates and inflation were statistically insignificant, in the case of Indonesia. While the findings from their research are valuable for the Indonesian context, inherent questions arise about how those impacts and influences hold up for Nepal, as Nepal is much smaller with significantly more political instability, and different economic structures, which means different (and, possibly additional) impacts and determinants for FDI. This explanation is not meant to counter claim Syamni et al. (2024) characterises institutional quality, but illustrate that weak governance and regulatory inefficiencies, were just as significant and that previous research came up against these barriers to investment. Given these differences, further research is required to determine whether tax rates and inflation are insignificant as factors in Nepal or whether their impacts are different due to numerous country-specific conditions.

Earlier research regarding South Asia, such as Patel et al. (2024); Ali et al. (2024), have indicated that GDP growth, trade openness, and domestic investment may be important determinants of FDI. However, they lag behind in understanding the country-specific details of regulatory constraints, bureaucratic inefficiency, and Nepal's small size market by total aggregate data across multidimensional countries. Further, Nepal's investment environment is complicated by the country's political instability, governance inefficiency, and inconsistent policy approaches, which regional studies, do not adequately recognize. Dungal and Raila (2023) examined financial sector determinates of FDI to Nepal; however, they predominantly lacked consideration of macroeconomic variables such as tax rates, GDP growth, population size, inflation, and trade openness or the overall climate these variables cultivated so much as the specific consequences for FDI inflows, investor confidence, and allocation of capital that may be evident in Nepal.

Recent studies have also underscored the role of political and governance-related variables in determining FDI inflows. Faruq (2023); Abreo Villamizar et al. (2023) stress the importance of political stability and governance to attract foreign investments. However, during the past few decades, Nepal has witnessed constant government changes, shifting policies, and inefficient governance; these have traditionally been barriers to investors. These issues are well known, yet, little attention has been paid in

research on how these governance-related issues interact with macroeconomic determinants to impact Nepal's FDI inflows. The lack of a holistic framework for examining political stability and macroeconomic conditions does not help us formulate good policy making regarding FDI. If the interplay of the two factors is unclear, it becomes difficult for policymakers to develop effective strategies to attract and retain FDI in their respective economies.

There are also inconsistencies within the literature on the effect of inflation and tax rates on FDI. Some authors have argued that macroeconomic stability promotes foreign investment, such as Chowdhury and Anuradha (2023). There are other authors, such as Morsy (2022), which cited high inflation rates and a less favorable tax environment as deterrents to FDI. Nepal's tax policies have ultimately varied over time as the country has gone through periods of different corporate tax rates and fiscal incentives, but the extent to which these tax policies are directly related to foreign investment is unfathomable. It is worth noting that if inflation is moderate, it may present the opportunity for investors to assume there is a measure of economic stability in the country. Hampering investor confidence and increasing business risks occurs when inflation rises dramatically over time. Because Nepal's of unknown tax regimes and inflation policy, it needs further analysis to understand its implications on FDI inflows.

In addition, trade openness is frequently noted as a key factor influencing FDI (Moujahid & Khariss, 2022), but there is a lack of literature on how Nepal's trade policies, regional trade agreements, and geographical limitations influence foreign investment. As a landlocked nation, Nepal depends on its neighbors for trade and transit for imports and exports, which provides both the opportunity and challenge for FDI to be developed. There is a need for greater exploration of the applicability of trade openness for FDI considering Nepal's unique geographic and economic conditions to support proper policy directions.

In addition, available evidence, including that of Nguyen and Cieřlik (2021) indicated that both market size and economic growth are key determinants of FDI in many countries in Asia. However, given that Nepal's GDP growth rate is certainly not as strong as other countries with larger market sizes and economies, this raises the question of not only if GDP growth is still a key factor in attracting FDI, but also if in

fact larger economies are more attractive to foreign investors because there are larger numbers of potential consumers and a larger range of consideration and selection of industries. Therefore, Nepal's low domestic market size and limited purchasing power could discourage foreign investment in the country. Further consideration is required as to whether GDP growth is sufficient to determine FDI attraction or if, as a consequence of Nepal's low domestic market size, other macroeconomic and institutional parameters will, in fact, have influence on making any contribution to attracting FDI.

Previous studies, such as research conducted by Mishra and Paneru (2021) and Saleem et al. (2021), focused on macroeconomic determinants of FDI in general, while this study did not consider Nepal's distinct investment context which has strong macroeconomic determinants, but other considerations like policy inconsistency, weak policy regulation, poor infrastructure and political risk. Addressing the research gaps in Nepal would provide the fundamental basis to substantiate larger spatial strategies to enable Nepal to emerge as an investment destination, which will have long-run benefits for economic development. Research findings may be consistent in global and regional settings, but Nepal has hardly been studied and is often oversimplified in empirical research. More comprehensive research is needed in order to understand the multi-faceted nature of determinants of FDI that are specific to Nepal's socio-economic environment.

An examination of the literature suggests that the previous studies did not provide much insight about the variables driving FDI in Nepal such as tax rates, GDP growth, population size, inflation, and trade openness. Similarly, governance, institutional quality, and political stability in influencing investment decision-making processes gives limited analysis in prior studies in Nepal. To move the field forward, we propose the following research questions to guide our inquiry:

- i. What is the position of tax rate, GDP growth, population size, inflation, trade openness and FDI in Nepal?
- ii. Is there any relationship between tax rate, GDP growth, population size, inflation, and trade openness with FDI in Nepal?
- iii. How do tax rate, GDP growth, population size, inflation, and trade openness impact on FDI in Nepal?

1.3 Objectives of the Study

The main objective of the study is to examine the determinants of Foreign Direct Investment (FDI) in Nepal. To achieve this main objective and address the research issues, the specific objectives of the study are as follows:

- i. To assess the position of tax rate, GDP growth, population size, inflation, trade openness and FDI in Nepal.
- ii. To examine the relationship between tax rate, GDP growth, population size, inflation and trade openness with FDI in Nepal.
- iii. To analyze the impact of tax rate, GDP growth, population size, inflation and trade openness on FDI in Nepal.

1.4 Rationale of the Study

This research aims to uncover the determinants and drivers of foreign direct investment in Nepal, an essential component of overall economic growth. Nepal receives lower FDI inflows relative to other countries in the region following policy reforms, at a time when concerns are being raised about the determinants influencing foreign investors. There are studies of larger economies in the literature for these areas, however the Nepalese economy has a special structure, limited size, and geographical restrictions that are not included in the research decisions. In addition, there are contradictory findings in the level of significance of tax rates, inflation, and trade openness, underscoring the need for a country study to consider Nepal's circumstances. The data will consider important macroeconomic variables including tax rates, GDP growth, population, inflation, and trade openness and how they work together impact the inflow of FDI. Ultimately the study's contributions will inform policy makers and other users, thus contributing to an evidence-based policymaking process, assisting in meaningful economic reforms to establish a better investment climate in Nepal.

1.5 Limitations of the Study

Every research has its boundaries and constraints, and this study is no exception. The limitations are as follows:

- i. The study is based solely on secondary data, which may lack the depth and context that primary data could provide.
- ii. It focuses only on selected macroeconomic variables, potentially overlooking other qualitative or policy-related factors affecting FDI.

- iii. The analysis covers the period from 1999/00 to 2023/24, so findings may not fully reflect recent short-term shocks or long-term structural changes.
- iv. The study uses purposive sampling, which may introduce bias in variable and time-period selection.
- v. Causal-comparative design limits the ability to definitively establish causation due to the non-experimental nature of the data.

CHAPTER II

LITERATURE REVIEW

The literature review examines studies on the determinants of Foreign Direct Investment (FDI) in Nepal, providing a structured understanding of existing knowledge within the national context. It is divided into two parts: the theoretical review, which discusses FDI theories and their role in economic development, and the empirical review, which analyzes studies from 2020 to 2025 that explore how tax rates, GDP growth, population size, inflation, and trade openness affect FDI inflows. Further details of these sections are as follows.

2.1 Theoretical Review

The theoretical review explores theories related to the determinants of Foreign Direct Investment (FDI), focusing on economic growth, market dynamics and investment decision-making. It examines key theories that explain how macroeconomic factors such as tax rates, GDP growth, population size, inflation, and trade openness influence FDI inflows. This review aims to refine existing theoretical frameworks and identify gaps in understanding the factors that attract or deter foreign investment. Key theories include:

2.1.1 Dunning's Eclectic Paradigm (OLI Framework)

John Dunning's Eclectic Paradigm, also referred to as the OLI Framework, was presented in 1977 and aims to explain why firms choose to go in the direction of Foreign Direct Investment (FDI), versus other forms of international expansion (e.g., exports or licensing). The base assumption of the theory is that firms will invest their capital abroad when they have three forms of advantages: Ownership (O), Location (L), and Internalization (I). Ownership advantages refer to resources that are specific to the firm - typically substantial resources such as: technology, brand loyalty, or management expertise. Location advantages relate to characteristics of the host country - such as its size of the market, the abundance of resources, trade openness, and a favourable tax regime. Internalization advantages consider whether a firm prefers FDI in place of other forms to ensure maximum efficiencies and control. There have been a number of studies, including several by Dunning (2000) which used his OLI framework to

determine FDI determinants in countries across the globe. For Nepal, this theory will provide a channel to evaluate the extent to which various factors (eg., tax policies, GDP growth, trade openness) influences foreign investors decisions to establish a business within the country. These determinants will play a key role in how policymakers can generate interests of foreign investment in Nepal through relevant policy changes.

2.1.2 Market Size Hypothesis

The Market Size Hypothesis, developed by Brainard (1997), maintains that the likelihood of foreign investment is higher in countries with larger and growing markets that will provide a greater chance for opportunity and profits. The assumption to the hypotheses is that a larger GDP and population size would create increased demand by consumers, making it more attractive for multinational corporations to establish their operations in the country. Initial studies, including Chakrabarti (2001), provided empirical evidence that a positive relationship exists between GDP growth and FDI inflows. However, in a small economy like Nepal where the market size is proportionately much smaller, it is important to grasp whether GDP and population play significant roles in attracting FDI. This research will investigate whether Nepal's GDP growth and rapidly changing demographic has created favourable conditions for continued FDI inflows.

2.1.3 Institutional Theory

Institutional Theory by North (1990) emphasized that political stability, effective governance, and a strong regulatory environment significantly influence economic decisions such as FDI inflows. According to this theory, countries with robust institutions and rule of law attract more FDI because investors seek stable and predictable environments rather than politically unstable ones. Conversely, nations with weak institutions, corruption, inconsistent investment policies, and lack of accountability discourage FDI. Empirical studies, like Globerman and Shapiro (2002) showed that transnational corporations prefer countries with strong governance systems. Nepal's political instability, poor governance, and inconsistent investment policies pose challenges that likely hinder FDI inflows. A thorough analysis of Nepal's institutional framework could clarify how governance issues affect FDI attraction.

2.1.4 Macroeconomic Stability Theory

According to Macroeconomic Stability Theory by Dornbusch and Fischer (1993), FDI inflows depend on macroeconomic stability with low inflation, manageable fiscal deficits, and stable exchange rates. Foreign investors want to be supported by economic policies that promote sustainable growth, and where inflation and currency risks are minimal. Investors do not want to invest in an economy with high inflation because high inflation impairs purchasing power, raises firm costs, etc. Schneider and Frey (1985) conducted empirical research that shows countries with stable inflation rates with monetary policies that can be predicted receive higher levels of FDI. Nepal has experienced fluctuations in inflation over time and it is possible that this has affected the confidence of investors. This study will examine whether or not macroeconomic stability in Nepal provides a good investment climate or whether it becomes problematic for foreign investors.

2.1.5 Trade Openness Theory

Trade Openness Theory, as supported by Balasubramanyam et al.'s study (1996), determines that economies with a greater openness to trade will have higher levels of FDI due to the willingness of foreign firms to invest in less restricted countries that offer easy access to the markets. The general argument for this theory supports that countries that develop government policies and practices to impose free trade, tariff reductions, and market globalization will offer multinational enterprises with more favorable investment opportunities. In contrast, restrictive trade policies present foreign firms with higher costs associated with market access and implementation costs, thus limiting FDI. Using regional trade agreements, as well as relying upon neighboring economies, Nepal, a landlocked country, has long depended upon trade for market access. However, there remains uncertainty, in light of the literature, with respect to the extent of Nepal's trade openness that limits or creates barriers towards attracting FDI. Asiedu's study (2002) demonstrated that trade openness is a very important factor for FDI, however, FDI is affected by so many other factors in developing countries, including market size and improved infrastructure. This study will investigate the importance of Nepal's trade policies and whether it effectively attracts foreign investors, or alternatively, creates another level of barriers.

2.2 Empirical Review

Gherbi et al. (2025) measured the determinants of bilateral foreign direct investment in OECD countries from 2005 to 2021. Quantitative methodology was used, employing the gravity model with fixed-effects poisson estimation (PPMLHDFE) and analyzed with STATA 17. Variables included 19 economic and non-economic factors such as per capita GDP of source and host countries, investment freedom, geographical distance, long-term interest rates, control of corruption, financial freedom, and regional trade agreements as independent, and bilateral foreign direct investment as dependent. Finding was that per capita GDP in both source and host countries, investment freedom, geographical distance, long-term interest rates, control of corruption, financial freedom, and regional trade agreements significantly influenced bilateral foreign direct investment in OECD countries.

Kida et al. (2025) examined driving factors of foreign direct investment in Kosovo: the roles of market access and government support. Quantitative methodology was used based on data collected through a structured questionnaire from 148 foreign investors and analyzed using SPSS version 26 with multiple linear regression and Kendall's tau-b correlation, alongside Breusch-Pagan and collinearity tests for model reliability. Variables were Easy Access to Domestic Markets, Available Market Size, Easy Access to Market Information, Low Cost of Doing Business, and Government Efforts to Promote Exports as independent, and foreign direct investment inflows as dependent. Finding was that Available Market Size and Low Cost of Doing Business had significant positive effects on FDI inflows, while Easy Access to Domestic Markets, Easy Access to Market Information, and Government Efforts to Promote Exports showed weaker associations. The study indicated that 49.4% of FDI variability could be explained by these factors and suggested that improving business costs and market information access could increase FDI inflows by 27.8%.

Kumar et al. (2025) explored the influence of macroeconomic and institutional factors on foreign direct investment inflows in six SAARC countries including Pakistan, India, Bangladesh, Nepal, Sri Lanka, and Bhutan. Panel data methodology was used covering the period from 2000 to 2020 and applied fixed effects and two-stage least squares estimation techniques. Variables were gross domestic product, financial development, inflation, infrastructure, government effectiveness, governance level, political stability,

and regulatory quality as independent, and foreign direct investment inflows as dependent. Finding was that all the selected macroeconomic and institutional variables significantly influenced FDI inflows except government effectiveness, suggesting the importance of creating investment-friendly environments to promote sustainable economic growth in the region. The study provided deeper insights into the role of institutional quality and macroeconomic stability in attracting foreign investment across diverse South Asian economies.

Nazzal et al. (2025) investigated determinants of foreign direct investment inflows to the Middle East and North Africa region. Balanced panel data methodology was used covering 24 MENA economies from 1980 to 2022 through econometric techniques including unit root, cointegration, FMOLS, DOLS, AMG, and CCEMG. Variables were market size, corruption level, government effectiveness, exchange rate, natural resource availability, rule of law, voice and accountability, political stability, and regulatory quality as independent, and foreign direct investment inflows as dependent. Finding was market size, low corruption, government effectiveness, and exchange rate positively contributed to FDI inflows while natural resource availability, rule of law, and voice and accountability deterred FDI inflows, and political stability and regulatory quality had no significant effect. The study emphasized the complex role of institutional and economic factors in shaping FDI patterns in the MENA region.

Perveen et al. (2025) investigated determinants of foreign direct investment in Pakistan and India by examining the impact of unemployment, exports, imports, political violence, and tax revenue using a panel data framework from 1976 to 2017 for most variables and 1991 to 2017 for unemployment and political violence. The study employed unit root tests to confirm stationarity and panel least squares for estimation. Independent variables included exports, imports, unemployment, political violence, and tax revenue, with foreign direct investment as the dependent variable. Findings showed that imports, exports, and unemployment had positive and significant effects on FDI. The study identified uni-directional and bi-directional relationships among these variables, and found both short-run relationships between exports, tax revenue, and unemployment on FDI, as well as long-run relationships involving unemployment, political violence, tax revenue, imports, and exports on FDI.

Lamsal (2024) analyzed the determinants of foreign direct investment (FDI) inflows in Nepal by assessing the key economic and policy-related factors influencing investment decisions. The study employed an empirical research design using secondary data from the Department of Industry and other reliable sources. A fixed effects model was applied to estimate the relationship between FDI inflows and various predictors while controlling for time-invariant factors. The independent variables included political stability, taxation on goods and services, infrastructure quality (road access and electricity consumption), minimum wages, trade openness, and GDP growth, while the dependent variable was FDI inflows. The findings revealed that political stability significantly influenced FDI inflows, with a one-point improvement in the political stability index resulting in a 61.1% increase in FDI. Infrastructure development, particularly road access and electricity consumption, also played a positive role, whereas taxation on goods and services negatively impacted investment. The study concluded that Nepal should focus on maintaining political stability, improving infrastructure, and reviewing tax policies to enhance its investment climate and attract higher FDI inflows.

Syamni et al. (2024) investigated the determinants of foreign direct investment (FDI) in Indonesia by analyzing the effects of institutional quality, tax rates, economic growth, population, and inflation during the leadership periods of Presidents Susilo Bambang Yudhoyono (SBY) and Joko Widodo (Jokowi). The study assessed both short-term and long-term impacts of these factors on FDI using time series data from 2004 to 2021, sourced from the World Development Indicators database. Employing the Autoregressive Distributed Lag (ARDL) model, the research explored cointegration relationships between the independent variables such as institutional quality, tax rates, economic growth, population, and inflation and the dependent variable, FDI. The findings revealed that institutional quality, economic growth, and presidential regimes significantly and positively influenced FDI in both the short and long run, while population had a negative effect. Tax rates and inflation did not exhibit a significant impact on FDI. The study concluded that enhancing institutional quality and economic growth while effectively managing demographic challenges could strengthen Indonesia's ability to attract foreign investment. Additionally, the results indicated that FDI inflows were higher during the SBY administration compared to the Jokowi era,

underscoring the role of governance stability and investment-friendly policies in fostering economic growth.

Islam and Beloucif (2024) conducted a systematic literature review to evaluate the determinants of foreign direct investment (FDI) based on 112 empirical studies published between 2000 and 2018. Using the systematic literature review (SLR) methodology, the study categorized and analyzed key factors influencing FDI inflows into host countries. The independent variables assessed included market size, trade openness, infrastructure quality, labor cost, macroeconomic stability, human capital, and growth prospects, with FDI inflows as the dependent variable. The findings indicated that market size was the most significant determinant, reflecting the fact that a substantial portion of global FDI is market-seeking. Trade openness, infrastructure quality, and macroeconomic stability also played crucial roles in attracting investment, while labor costs and human capital exhibited varying levels of significance. The study concluded that a comprehensive understanding of FDI determinants is essential for policymakers and researchers, emphasizing the importance of market size and economic conditions in shaping investment decisions.

Patel et al. (2024) analyzed the determinants of foreign direct investment (FDI) inflows in India by examining their long- and short-term relationships using the Autoregressive Distributed Lag (ARDL) bounds testing approach and the Error Correction Model. The study employed a quantitative research methodology with secondary data to explore the impact of key economic factors on FDI. The independent variables included domestic investment, inflation, infrastructure, trade openness, and market size, while the dependent variable was FDI inflows. The findings revealed that domestic investment, infrastructure, and trade openness had a significant positive influence on FDI inflows, whereas inflation negatively affected investment. Market size did not show a significant impact on FDI. The study concluded that India should enhance its integration with the global economy, promote domestic investment, and improve infrastructure facilities to attract higher levels of FDI inflows.

Ali et al. (2024) investigated the factors affecting foreign direct investment (FDI) in South Asian countries by analyzing key economic and political determinants. The study employed a quantitative research methodology using secondary data collected from the

Asian Development Bank, World Development Indicators, and the Federal Bureau of Statistics. The Fixed Effects Model was applied for regression analysis, as recommended by the Chow and Hausman tests. The independent variables included GDP, lending interest rate, trade openness, political stability, and inflation rate, while the dependent variable was FDI inflows. The findings revealed that GDP, lending interest rate, trade openness, and political stability positively influenced FDI inflows, whereas inflation had a negative impact. The study concluded that stabilizing the exchange rate, adopting liberal trade policies, and ensuring political stability were essential measures for attracting foreign investment in South Asian economies.

Dhungel and Raila (2023) examined the financial factors affecting foreign direct investment (FDI) flows into Nepal, focusing on the role of financial variables in attracting foreign capital. The study explored the relationship between financial sector indicators and FDI inflows. Using a quantitative research methodology, the study employed regression analysis and elasticity coefficient techniques to assess the impact of financial variables on FDI. The independent variables included broad money supply, NEPSE index, and total transaction in the financial market, while the dependent variable was FDI inflows. The findings revealed that broad money supply (0.81) and total transaction in the financial market (0.38) positively influenced FDI inflows, whereas the NEPSE index (-0.71) had a negative effect. The study concluded that although the Nepalese government had implemented various measures to attract FDI, further development of the financial sector was essential for sustaining and increasing foreign investment in the country.

Faruq (2023) analyzed the determinants of foreign direct investment (FDI) inflows in 24 emerging Asian economies using panel data from 2002 to 2018. The study employed panel data methodology and multiple regression models to assess the impact of economic, institutional, and political factors on FDI inflows. The independent variables included market size, trade openness, inflation, natural resources, lending rate, and capital formation as economic factors; business regulatory environment and business disclosure index as institutional factors; and political stability, government effectiveness, and rule of law as political factors, while the dependent variable was FDI inflows. The findings revealed that economic factors had a significant impact on FDI, with market size, trade openness, and capital formation playing a crucial role. The

business disclosure index was the only institutional factor that significantly influenced FDI, while political stability positively affected investment inflows. However, government effectiveness did not show a significant impact. The study concluded that economic factors played a dominant role in attracting FDI compared to institutional and political determinants, emphasizing the importance of economic stability and openness in enhancing foreign investment in emerging Asian economies.

Abreo Villamizar et al. (2023) analyzed the determinants of inward foreign direct investment (FDI) in Colombia within the framework of economic integration and trade liberalization. The study employed an augmented gravity model approach using secondary data from 2007 to 2020 to examine the key factors influencing FDI inflows. The independent variables included government policies, rule of law, bilateral investment treaties, and economic stability, while the dependent variable was FDI inflows. The findings revealed that stable government policies and the rule of law significantly contributed to attracting FDI, while bilateral investment treaties played a crucial role in driving foreign investments into the country. The study concluded that Colombia's trade liberalization efforts, combined with fiscal discipline and institutional reforms, enhanced its attractiveness to foreign investors, particularly in the oil and mining sectors.

Chowdhury and Anuradha (2023) analyzed the determinants of net inward foreign direct investment (FDI) in China, Japan, India, and Korea by applying the Flying Geese Model and Eclectic Theory. The study employed the Autoregressive Distributed Lag (ARDL) modeling approach to examine the long-run cointegration between FDI inflows and key economic variables. The independent variables included GDP growth rate, inflation (as a proxy for economic stability), nominal exchange rate, and real interest rate (as a proxy for the cost of capital), while the dependent variable was FDI inflows. The findings revealed the existence of a long-run cointegration relationship between FDI, GDP growth rate, inflation, and exchange rate, with significant error correction terms for all four countries. However, no specific set of common variables consistently determined FDI across all nations. The study concluded that a country-specific FDI model would be more effective in explaining investment patterns than a generic FDI theory-based approach.

Emako et al. (2022) examined the determinants of foreign direct investment (FDI) inflows into developing countries by analyzing a panel of 53 nations from 1996 to 2019. Using the Driscoll and Kraay model along with Factor Analysis, the study investigated the influence of institutional quality, political stability, regulatory quality, and language policies on FDI inflows. The independent variables included institutional quality, political stability, regulatory quality, and voice and accountability, while the dependent variable was FDI inflows. The findings indicated that political stability and regulatory quality had a significant positive impact on FDI, whereas voice and accountability negatively affected investment inflows. The study concluded that improving infrastructure, maintaining political stability, strengthening legal systems, and implementing foreign language policies could enhance FDI attraction in developing countries.

Apostu et al. (2022) investigated the determinants of foreign direct investment (FDI) in the least developed countries (LDCs) by analyzing both traditional and non-traditional factors influencing investment inflows. Using data from 2003 to 2019, the study employed static and dynamic panel regression models along with Granger causality tests to assess the relationships between key variables. The independent variables included the Human Development Index (HDI), governance, fertility rate, and urbanization, while FDI inflows served as the dependent variable. The findings indicated that HDI and governance had a significant impact on FDI in both static and dynamic models. Additionally, the study introduced a composite governance index and identified new factors relevant to the LDC context, such as fertility and urbanization, that influenced FDI inflows. The study concluded that policymakers and international organizations should consider governance quality and socio-economic factors to enhance FDI attraction in the least developed countries.

Morsy (2022) analyzed the determinants of foreign direct investment (FDI) in Egypt, examining various economic, political, and institutional factors influencing FDI inflows. The study employed a qualitative methodology based on secondary data from sources such as the World Trade Organization, the World Investment Report, the United Nations Conference on Trade and Development, and the Central Bank of Egypt. The independent variables included political stability, education, infrastructure, GDP growth, inflation, tax system, corruption, and exchange rates, while the dependent

variable was FDI inflows. The findings revealed that political and economic stability, infrastructure development, and an efficient tax system positively influenced FDI, whereas corruption, inflation, and exchange rate fluctuations negatively impacted investment inflows. The study concluded that while FDI contributed to employment creation and infrastructure development in Egypt, its role in technology transfer remained limited. The research emphasized the need for policy reforms to enhance transparency, improve investment conditions, and create a more favorable environment for foreign investors.

Moujahid and Khariss (2022) analyzed the determinants of foreign direct investment (FDI) in Morocco by employing the cointegration approach and the Vector Error Correction Model (VECM) using macroeconomic data from 1980 to 2019. The study investigated the impact of infrastructure, human capital, trade openness, labor cost, political stability, financial system development, and market size on FDI inflows. The independent variables included infrastructure, human capital, trade openness, labor cost, political stability, financial system development, and market size, while the dependent variable was FDI inflows. The findings revealed that infrastructure, human capital, trade openness, labor cost, political stability, and financial system development positively influenced FDI inflows, whereas market size did not exhibit a significant effect. The study concluded that Morocco's efforts to enhance its investment climate through economic, fiscal, financial, and institutional reforms contributed to FDI attraction, emphasizing the importance of maintaining political stability, improving infrastructure, and fostering trade openness to sustain foreign investment growth.

Nguyen and Cieřlik (2021) investigated the determinants of foreign direct investment (FDI) from Europe to Asia using the knowledge-capital model. The study analyzed data from 38 European countries and 24 Asian host countries over the period 1995–2013 to evaluate factors influencing FDI flows. Employing the Poisson-pseudo maximum likelihood estimation method, the research examined the impact of independent variables including total income, market size similarity, skilled labor endowments, investment costs, trade costs, exchange rate volatility, common language, bilateral investment treaties, and historical colonial ties on the dependent variable, FDI inflows. The findings revealed that higher total income and market size similarity between source and host countries positively influenced horizontal FDI, while differences in

skilled labor endowments encouraged vertical FDI in Asia. Additionally, investment costs, trade costs, and exchange rate volatility negatively affected FDI, whereas common language, bilateral investment treaties, and colonial ties facilitated investment flows. The study concluded that geographical location, governance systems, exchange rate regimes, and Eurozone membership influenced FDI patterns, highlighting the role of governments in both source and host countries in fostering investment-friendly environments.

Mishra and Paneru (2021) investigated the macroeconomic determinants of foreign direct investment (FDI) inflows in Nepal and India by comparing factors influencing investment in these two South Asian economies at different levels of development. The study explored the key economic factors affecting FDI inflows and assessed their significance in both countries. Using a quantitative research methodology, the study collected secondary data from reliable sources and applied econometric techniques, including descriptive statistics, mean difference tests, and regression analysis, to examine the relationship between variables. The independent variables included financial development, GDP growth, infrastructure development, trade openness, exchange rate, labor force, and natural resources, while the dependent variable was FDI inflows. The findings revealed that exchange rate and natural resources significantly influenced FDI inflows in India, whereas financial development and trade openness were the primary determinants in Nepal. The study concluded that India needed policies to stabilize exchange rates and manage resources effectively to attract FDI, while Nepal required improvements in financial development and trade openness to enhance investment inflows.

Saleem et al. (2021) analyzed the key determinants of foreign direct investment (FDI) flows in Pakistan by examining their long-term relationship with economic factors. The study explored the factors influencing FDI inflows and their co-integration dynamics. Using a quantitative research methodology, the study employed secondary data and applied econometric techniques, including the autoregressive distributed lag (ARDL) model and the Johansen co-integration test, to assess the long-run and short-run relationships between variables. The independent variables included market size, trade openness, exchange rate, inflation, infrastructure, and political stability, while the dependent variable was FDI inflows. The findings revealed that market size, trade

openness, and infrastructure positively influenced FDI, whereas exchange rate volatility, inflation, and political instability had negative effects. The study concluded that maintaining economic stability, improving infrastructure, and fostering investor confidence through policy reforms were essential for enhancing FDI inflows in Pakistan.

Ul-Haq et al. (2020) explored the economic determinants of foreign direct investment (FDI) in five South Asian economies—India, Pakistan, Bangladesh, Nepal, and Sri Lanka over the period 1996 to 2020. Using the Pooled Mean Group (PMG) panel Autoregressive Distributed Lag (ARDL) model, the study estimated the coefficients of the investment demand function. The stationarity of data was tested through the Im, Pesaran & Shin W-test and Levin, Lin, & Chu t-tests, while the Panel Kao residual cointegration technique was applied to detect long-run relationships among variables. The independent variables included economic growth, energy consumption, education, gross capital formation, government debt, inflation, and debt servicing, while FDI inflows served as the dependent variable. The findings indicated that economic growth, energy consumption, and education positively influenced FDI, whereas gross capital formation, government debt, inflation, and debt servicing negatively affected investment inflows. The study concluded that governments should enhance economic stability, improve the education sector, and implement effective debt-management policies to create a more attractive environment for FDI inflows in South Asia.

Gunawardhana and Damayanthi (2020) analyzed the determinants of foreign direct investment (FDI) and its impact on economic growth in South Asian Association for Regional Cooperation (SAARC) countries. The study investigated the influence of economic size, economic growth, host market potential, economic stability, trade openness, income levels, and institutional developments on FDI inflows. Using time series data from 1980 to 2018, sourced from the United Nations Conference on Trade and Development (UNCTAD) and the World Bank, the study applied panel data analysis with fixed effects and cross-section weight methodologies to examine relationships between variables. The independent variables included Gross Domestic Product (GDP) growth, financial deepening, inflation, current account balance, trade openness, infrastructure, and institutional quality, while the dependent variable was FDI inflows. The findings indicated that higher GDP growth, trade openness, financial

depth, and institutional development significantly attracted FDI, whereas inflation was not a determining factor. Additionally, FDI was found to have a positive and significant impact on economic growth in SAARC countries. The study concluded that maintaining macroeconomic stability, improving trade openness, and enhancing financial systems are essential for attracting FDI, which in turn fosters economic growth in the region.

Chandra and Handoyo (2020) analyzed the determinants of foreign direct investment (FDI) in 31 Asian countries from 2002 to 2017 by employing the Generalized Method of Moments (GMM) for dynamic panel analysis. The study investigated the effects of political stability, inflation rate, trade openness, exchange rate, market size, and interest rate on FDI inflows, considering FDI as the dependent variable. The findings revealed that political stability, trade openness, and market size positively influenced FDI inflows, while inflation had a negative impact. However, exchange rates and interest rates did not show a significant relationship with FDI inflows. The study concluded that ensuring political stability, fostering trade openness, and expanding market size were essential strategies for attracting FDI, highlighting the importance of stable economic policies in enhancing investment inflows.

Kurbanov (2020) analyzed the determinants of foreign direct investment (FDI) in 78 selected countries by examining economic factors influencing investment inflows. The study employed a quantitative research methodology using secondary data from the World Bank covering the period from 2000 to 2018. The empirical model was based on FDI theories and previous empirical studies, with countries categorized into four groups: advanced economies, developing countries, transition economies, and low-income countries. The independent variables included GDP per capita growth rate, age dependency ratio, gross domestic savings, trade openness, inflation, and real interest rate, while the dependent variable was FDI inflows. The findings revealed that trade openness was a significant determinant of FDI across all country groups. The study concluded that fostering an open trade environment played a crucial role in attracting FDI, highlighting the need for policies that promote economic liberalization and financial stability to enhance foreign investment.

Table 1*Summary of Empirical Review*

Author(s)	Objectives	Variables	Methodology	Findings
Gherbi et al. (2025)	To measure determinants of bilateral FDI in OECD countries from 2005-2021	Dependent: Bilateral FDI; Independent: 19 economic & non-economic factors (per capita GDP, investment freedom, corruption control, etc.)	Quantitative; Gravity model with fixed-effects Poisson (PPMLHDFE); STATA 17	The finding was that per capita GDP (source & host), investment freedom, geographical distance, interest rates, corruption control, financial freedom, and trade agreements significantly influenced bilateral FDI.
Kida et al. (2025)	To examine driving factors of FDI in Kosovo: market access and government support	Dependent: FDI inflows; Independent: Market access variables and government efforts (market size, cost of doing business, etc.)	Quantitative; Structured questionnaire; SPSS 26; Multiple regression, Kendall's tau-b	The finding was that available market size and low cost of doing business had significant positive effects on FDI inflows; other factors showed weaker associations.
Kumar et al. (2025)	To explore influence of macroeconomic and institutional factors on FDI in SAARC countries (2000-2020)	Dependent: FDI inflows; Independent: GDP, financial development, inflation, infrastructure, government effectiveness, governance, political stability, regulatory quality	Panel data; Fixed effects, two-stage least squares estimation	The finding was all variables except government effectiveness significantly influenced FDI, highlighting importance of investment-friendly environments in South Asia.

Nazzal et al. (2025)	To investigate determinants of FDI inflows in MENA region (1980-2022)	<p>Dependent: FDI inflows;</p> <p>Independent: Market size, corruption, government effectiveness, exchange rate, natural resources, rule of law, voice/accountability, political stability, regulatory quality</p>	<p>Balanced panel data;</p> <p>Econometric tests (unit root, cointegration, FMOLS, DOLS, AMG, CCEMG)</p>	<p>The finding was market size, low corruption, government effectiveness, and exchange rate positively influenced FDI, while natural resources, rule of law, voice/accountability deterred FDI; political stability & regulatory quality had no significant effect.</p>
Perveen et al. (2025)	To investigate determinants of FDI in Pakistan and India (1976-2017)	<p>Dependent: FDI;</p> <p>Independent: Exports, imports, unemployment, political violence, tax revenue</p>	<p>Panel data;</p> <p>Unit root tests;</p> <p>Panel least squares</p>	<p>The finding was imports, exports, and unemployment had positive and significant effects on FDI with both short-run and long-run relationships involving these variables and political violence, tax revenue.</p>
Lamsal (2024)	To analyze the determinants of foreign direct investment (FDI) inflows in Nepal by assessing economic and policy-related factors.	<p>Dependent: FDI inflows</p> <p>Independent: Political stability, tax, infrastructure quality, minimum wages, trade openness, GDP growth</p>	<p>Fixed effects model using secondary data from the Department of Industry</p>	<p>The finding of this study was that political stability significantly influenced FDI inflows, with a one-point improvement leading to a 61.1% increase. The results of this study showed that infrastructure development positively impacted FDI, whereas taxation on goods and services had a negative effect.</p>

Syamni et al. (2024)	To examine FDI determinants in Indonesia under SBY and Jokowi regimes.	Dependent: FDI Independent: Institutional quality, economic growth, tax rate, population, inflation, presidential regime	Time series (2004–2021), ARDL model	The finding of this study was that institutional quality, economic growth, and presidential regime positively influenced FDI, while population had a negative effect. The results of this study showed that tax rates and inflation were insignificant.
Islam and Beloucif (2024)	To evaluate the determinants of FDI based on 112 empirical studies published between 2000 and 2018.	Dependent: FDI inflows Independent: Market, TO, IQ, labor cost, MS, HC, growth prospects	Systematic Literature Review (SLR) methodology	The finding of this study was that market size was the most significant determinant of FDI. The results of this study showed that trade openness, infrastructure quality, and macroeconomic stability also played crucial roles.
Patel et al. (2024)	To analyze the determinants of FDI inflows in India by examining their long- and short-term relationships.	Dependent: FDI inflows Independent: Domestic investment, inflation, infrastructure, trade openness, market size	ARDL bounds testing and Error Correction Model	The finding of this study was that domestic investment, infrastructure, and trade openness positively influenced FDI. The results of this study showed that inflation negatively affected FDI, while market size had no significant impact.
Ali et al. (2024)	To investigate the factors affecting FDI in South Asian countries by analyzing economic and political determinants.	Dependent: FDI inflows Independent: GDP, lending interest rate, trade openness, political stability, inflation rate	Fixed Effects Model using secondary data	The finding of this study was that GDP, lending interest rate, trade openness, and political stability positively influenced FDI. The results of this study showed that inflation had a negative impact on investment.

Dhungel and Raila (2023)	To examine the financial factors affecting FDI flows into Nepal.	Dependent: FDI inflows Independent: Broad money supply, NEPSE index, total transaction in the financial market	Regression analysis and elasticity coefficient techniques	The finding of this study was that broad money supply and total transaction in the financial market positively influenced FDI. The results of this study showed that the NEPSE index had a negative effect on FDI.
Faruq (2023)	To analyze the determinants of FDI inflows in 24 emerging Asian economies.	Dependent: FDI Independent: Market size, TO, INF, natural resources, LR, capital formation	Panel data methodology and multiple regression models	The finding of this study was that economic factors played a dominant role in attracting FDI. The results of this study showed that political stability positively influenced FDI, while government effectiveness was not significant.
Abreo Villamizar et al. (2023)	To analyze the determinants of inward FDI in Colombia within the framework of economic integration and trade liberalization.	Dependent: FDI inflows Independent: Government policies, rule of law, bilateral investment treaties, economic stability	Augmented gravity model using secondary data (2007-2020)	The finding of this study was that stable government policies and the rule of law significantly contributed to attracting FDI. The results of this study showed that bilateral investment treaties played a crucial role in increasing FDI inflows.
Chowdhury and Anuradha (2023)	To analyze the determinants of net inward FDI in China, Japan, India, and Korea.	Dependent: FDI inflows Independent: GDP growth rate, inflation, nominal exchange rate, real interest rate	ARDL modeling approach	The finding of this study was that GDP growth rate, inflation, and exchange rate exhibited long-run cointegration with FDI. The results of this study showed that no common variables consistently determined FDI across all countries.

Emako et al. (2022)	To examine the determinants of FDI inflows into developing countries.	Dependent: FDI Independent: PS, RQ, voice and accountability	Driscoll and Kraay model with Factor Analysis	The finding of this study was that political stability and regulatory quality significantly influenced FDI. The results of this study showed that voice and accountability negatively affected FDI inflows.
Apostu et al. (2022)	To investigate the determinants of FDI in the LDCs by analyzing traditional and non-traditional factors.	Dependent: FDI inflows Independent: HDI, governance, fertility rate, urbanization	Static and dynamic panel regression models, Granger causality tests, data from 2003 to 2019	The finding of this study was that HDI and governance significantly impacted FDI. Fertility and urbanization also influenced FDI, emphasizing governance quality and socio-economic factors for enhancing investment inflows.
Morsy (2022)	To analyze the determinants of FDI in Egypt by examining economic, political, and institutional factors.	Dependent: FDI inflows Independent: PS, Edu., infrastructure, GDP, INF, Tax, corruption, EXR	Qualitative study using secondary data from global financial organizations	The finding of this study was that political and economic stability, infrastructure, and tax efficiency positively influenced FDI. The results of this study were that corruption, inflation, and exchange rate fluctuations negatively affected investment inflows.
Moujahid and Khariss (2022)	To examine the determinants of FDI in Morocco using a cointegration approach.	Dependent: FDI inflows Independent: Infrastructure, human capital, trade openness, labor cost, political stability, financial system development, market size	Cointegration approach, Vector Error Correction Model (VECM), data from 1980 to 2019	The finding of this study was that infrastructure, human capital, and trade openness positively influenced FDI. The results of this study were that market size did not significantly affect FDI inflows.

Nguyen and Cieřlik (2021)	To investigate the determinants of FDI from Europe to Asia using the knowledge-capital model.	Dependent: FDI inflows Independent: Total income, market size similarity, skilled labor, investment costs, trade costs, exchange rate volatility, language, treaties, colonial ties	Poisson-pseudo maximum likelihood estimation, data from 38 European and 24 Asian countries (1995–2013)	The finding of this study was that total income and market size similarity positively affected horizontal FDI. The results of this study were that investment costs, trade costs, and exchange rate volatility negatively impacted FDI.
Mishra and Paneru (2021)	To compare the macroeconomic determinants of FDI inflows in Nepal and India.	Dependent: FDI inflows Independent: Financial development, GDP growth, infrastructure, trade openness, exchange rate, labor force, natural resources	Quantitative study, regression analysis, secondary data	The finding of this study was that exchange rates and natural resources influenced FDI in India, while financial development and trade openness were crucial for Nepal. The results of this study were that Nepal needed to improve financial development to enhance FDI inflows.
Saleem et al. (2021)	To examine the key determinants of FDI flows in Pakistan and their long-term relationships with economic factors.	Dependent: FDI inflows Independent: Market size, trade openness, exchange rate, inflation, infrastructure, political stability	Autoregressive Distributed Lag (ARDL) model, Johansen cointegration test	The finding of this study was that market size, trade openness, and infrastructure positively influenced FDI. The results of this study were that exchange rate volatility, inflation, and political instability negatively impacted FDI.

Ul Haq et al. (2020)	To explore the economic determinants of FDI in five South Asian economies.	Dependent: FDI inflows Independent: Economic growth, energy consumption, education, GCF, government debt, INF, debt servicing	Pooled Mean Group (PMG) ARDL model, panel data from 1996–2020	The finding of this study was that economic growth, energy consumption, and education positively affected FDI. The results of this study were that government debt, inflation, and debt servicing negatively influenced investment inflows.
Gunawardhana and Damayanthi (2020)	To analyze the determinants of FDI and its impact on economic growth in SAARC countries.	Dependent: FDI inflows Independent: GDP growth, financial deepening, INF, TO, current account B/f, infrastructure, institutional quality	Panel data analysis, fixed effects, cross-section weight methodology	The finding of this study was that GDP growth, trade openness, and institutional development significantly attracted FDI. The results of this study were that FDI had a positive impact on economic growth in SAARC countries.
Chandra and Handoyo (2020)	To investigate the determinants of FDI in 31 Asian countries from 2002 to 2017.	Dependent: FDI inflows Independent: Political stability, inflation, trade openness, exchange rate, market size, interest rate	Generalized Method of Moments (GMM) for dynamic panel analysis	The study found that political stability, trade openness, and market size positively influenced FDI. Additionally, inflation had a negative impact, while exchange rate and interest rate were insignificant. The findings also highlighted the importance of regulatory quality, government effectiveness, infrastructure development, investment incentives, and economic growth in attracting foreign investment.

Kurbanov (2020)	To examine economic factors influencing FDI inflows in 78 selected countries.	Dependent: FDI inflows Independent: GDP per capita growth, age dependency ratio, savings, trade openness, inflation, real interest rate	Quantitative study, secondary data from the World Bank (2000–2018)	The study found that trade openness significantly influenced FDI, emphasizing the importance of economic liberalization, financial stability, supportive regulatory policies, market efficiency, and institutional quality in attracting foreign investment.
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2.3 Research Gap

The literature on the determinants of Foreign Direct Investment (FDI) has examined various factors that influence FDI inflows into multiple countries, with a strong emphasis on economic, political, and institutional variables. Some studies (Lamsal, 2024; Syamni et al., 2024) utilized fixed effects models or ARDL models to analyze secondary data from various national or international financial reports, while other studies employed a single country or specific time frames, ultimately varying in their methodological approaches. Furthermore, most studies examined data from macroeconomic variables such as GDP, openness to trade, and inflation, and performed less well in analyzing FDI in Nepal, utilizing local features like population size or tax rates. Likewise, while studies like Patel et al. (2024) and Morsy (2022) used regression models to measure the impact of tax rates on FDI, various studies employed qualitative and systematic literature review approaches. Sample populations included limited periods or datasets, which did not account for long-term trends. In contrast, the current study has employed a descriptive and causal-comparative research design, analyzing a more extensive range of macroeconomic data from 1999/00 to 2023/24. It has used secondary data from credible sources like the World Bank and Nepal Rastra Bank, offering a robust dataset. The study also considers a broader range of variables, including tax rates, GDP growth, population size, inflation, and trade openness, which have not been comprehensively addressed in previous research on Nepal. The use of correlation and regression analysis ensures a more thorough and statistical exploration of these relationships. Thus, while previous studies contributed valuable insights, the current research successfully fills a gap by utilizing a broader research design, a more extensive sample period, and a more diverse set of variables.

CHAPTER III

RESEAECH METHODOLOGY

The research methodology segment has detailed the strategies, instruments, and techniques used to examine data and compile findings related to the topic “Determinants of Foreign Direct Investment in Nepal.” It has involved a thorough exploration to identify the most suitable research method for analyzing the impact of macroeconomic factors on FDI. To achieve the study's objectives, the researcher has employed the following methodology:

3.1 Research Design

The research design has employed both descriptive and causal-comparative methods to explore the topic “Determinants of Foreign Direct Investment in Nepal.” The descriptive design has analyzed the trends and patterns of FDI, focusing on macroeconomic factors such as tax rates, GDP growth, population size, inflation, and trade openness. The causal-comparative design has examined the relationships between these independent variables and the dependent variable, FDI inflows, to determine their impact on foreign investment. This methodology has facilitated a comprehensive evaluation of how these macroeconomic factors have influenced investor decisions, utilizing secondary data from national and international financial reports, government publications, and global economic databases. By integrating both descriptive and causal-comparative methods, this study has provided valuable insights into the key determinants shaping FDI in Nepal.

3.2 Population, Sampling, and Sampling Design

This study has sourced its population from the complete economic data of Nepal, with the sample specifically drawn from the ten-year period between the fiscal years 1999/00 and 2023/24 using a purposive sampling design. It focuses on key macroeconomic variables such as tax rates, GDP growth, population size, inflation, and trade openness. By analyzing data from this timeframe, the study aims to examine how these factors have influenced Foreign Direct Investment (FDI) and to gain a broader understanding of the key determinants shaping investment trends in Nepal.

3.3 Nature and Sources of Data, and Instrument of Data Collection

This study has utilized secondary data sourced from annual reports, financial statements, and documents from various entities. It has also reviewed information from newspapers, magazines, economic journals, and reports from the Nepal Rastra Bank (NRB). Furthermore, data from the Central Bureau of Statistics (CBS), the Ministry of Finance (MOF), and international organizations such as the World Bank and IMF have been included. By aggregating this extensive information, the study seeks to assess the impact of tax rates, GDP growth, population size, inflation, and trade openness on Foreign Direct Investment (FDI) inflows in Nepal. This method has facilitated a deeper understanding of how these macroeconomic factors influence FDI and aims to provide insights for more effective investment policies and economic strategies in Nepal.

3.4 Method of Analysis

Method of analysis refers to the techniques used to interpret data, such as regression, correlation, and descriptive statistics. This study has assessed the determinants of Foreign Direct Investment (FDI) in Nepal using SPSS Version 29 for descriptive and inferential statistics. Key characteristics like minimum, maximum, mean, and standard deviation have been summarized through descriptive statistics. Inferential statistics has involved correlation and regression analysis, where correlation analysis has explored relationships between independent variables (tax rates, GDP growth, population size, inflation, and trade openness) and the dependent variable (FDI inflows). Regression analysis has assessed the impact of these independent variables on FDI inflows to determine their significance and predictive power. The tools for analysis include:

3.4.1 Descriptive Statistics

Descriptive statistics have been used to analyze the key variables, including tax rates, GDP growth, population size, inflation, trade openness and Foreign Direct Investment (FDI) in the study on “Determinants of Foreign Direct Investment in Nepal.” The analysis has provided insights into their minimum, maximum, mean, and standard deviation (SD), helping to understand the distribution and variability of these factors. This has laid the foundation for examining how these macroeconomic variables influence FDI in Nepal. The following are the findings from the descriptive statistics:

Arithmetic Mean

The arithmetic mean, or average, is the central value of a dataset, calculated by summing all values and dividing by the number of values. It summarizes data by showing the typical value, helping to identify overall trends. However, it can be influenced by outliers or extreme values, which may distort the true representation of the dataset. Despite this limitation, the mean remains a fundamental statistical measure, widely used in economic, financial, and scientific analyses to compare data points and detect patterns over time. In large datasets, the impact of individual outliers is often minimized, making the mean a reliable indicator of overall distribution.

The formula for the arithmetic mean is as follows:

$$\text{Arithmetic mean } (\bar{x}) = \frac{\sum X}{n}$$

Where,

n = Total number of values in the dataset

$\sum X$ = Sum of all values in the dataset

Standard Deviation

Standard deviation measures the variation or dispersion within a dataset, indicating how much data points differ from the mean. A smaller standard deviation shows less variability, while a larger one indicates greater spread. It ensures consistency and is widely used in finance, research, and quality control. A low standard deviation suggests that data points are closely clustered around the mean, whereas a high standard deviation indicates significant fluctuations. Understanding standard deviation helps in risk assessment, trend analysis, and making informed decisions based on data stability.

The formula for the Standard deviation is as follows:

$$\text{Standard deviation } (\sigma) = \sqrt{\frac{\sum (X - \bar{X})^2}{N - 1}}$$

Where,

X Represents each individual data point in the dataset

\bar{X} Represents the mean (average) of the dataset

N is the total number of data points in the dataset

3.4.2 Inferential Statistics

Inferential statistics analyze the relationship and impact of tax rates, GDP growth, population size, inflation, and trade openness on Foreign Direct Investment (FDI) in Nepal. Correlation and regression analyses are used to determine which factors significantly influence FDI and how they interact with investment decisions. Correlation analysis identifies the strength and direction of associations between variables, helping to highlight which factors have a positive or negative relationship with FDI inflows. Regression analysis further quantifies the impact of each independent variable on FDI, providing insights into their predictive power and significance. This combination of statistical methods enables a comprehensive understanding of how macroeconomic factors contribute to FDI variations. The key findings are as follows:

Correlation Analysis

Correlation analysis measures the strength and direction of relationships between variables. A positive correlation means both variables increase together, while a negative correlation indicates that as one increases, the other decreases. The correlation coefficient (r) ranges from +1 (perfect positive) to -1 (perfect negative), with 0 indicating no relationship. This analysis helps assess variable relationships and informs further statistical evaluation. A strong correlation suggests a significant association between variables, while a weak correlation indicates a minimal connection. Correlation analysis does not establish causation but helps identify patterns and trends within data. It is widely used in economics, finance, and social sciences to examine dependencies between key factors. In the context of this study, correlation analysis evaluates how tax rates, GDP growth, population size, inflation, and trade openness relate to Foreign Direct Investment (FDI) inflows. Understanding these relationships provides a foundation for deeper analysis using regression techniques.

The Pearson correlation coefficient (r) is calculated using the formula:

$$r = \frac{n(\sum XY) - (\sum X)(\sum Y)}{\sqrt{[n(\sum X^2) - (\sum X)^2]} \sqrt{[n(\sum Y^2) - (\sum Y)^2]}}$$

Where;

n = the number of data pairs

$\sum XY$ = the sum of the product of each pair of scores

$\sum X$ And $\sum Y$ = the sums of X and Y scores respectively

Regression Analysis

Regression analysis is a statistical method that quantifies the impact of one or more independent variables on a dependent variable. It assesses how changes in independent variables influence the dependent variable, measuring the strength and significance of these effects. By using regression coefficients (denoted as ' β '), this method provides insights into the magnitude and direction of impact, showing how much the dependent variable changes for each unit increase in an independent variable while holding other factors constant. A positive coefficient indicates a direct relationship, whereas a negative coefficient suggests an inverse relationship. This technique is widely used for impact assessment, trend analysis, and policy evaluation across economics, finance, and social sciences, offering valuable insights for data-driven decision-making.

Model Specification

In this model, the dependent variable is Foreign Direct Investment (FDI) influenced by several independent variables, including tax rates, GDP growth, population size, inflation, and trade openness in the study on “Determinants of Foreign Direct Investment in Nepal.”

The model is represented as:

$$FDI = \beta_0 + \beta_1 TR + \beta_2 GDP + \beta_3 PS + \beta_4 INF + \beta_5 TO + \epsilon_{it}$$

Where;

β_0 = Intercept/ Constant Term

FDI = Foreign Direct Investment

TR = Tax Rates

GDP = Gross Domestic Product Growth Rate

PS = Population Size

INF = Inflation

TO = Trade Openness

ϵ_{it} = error term of the stochastic model

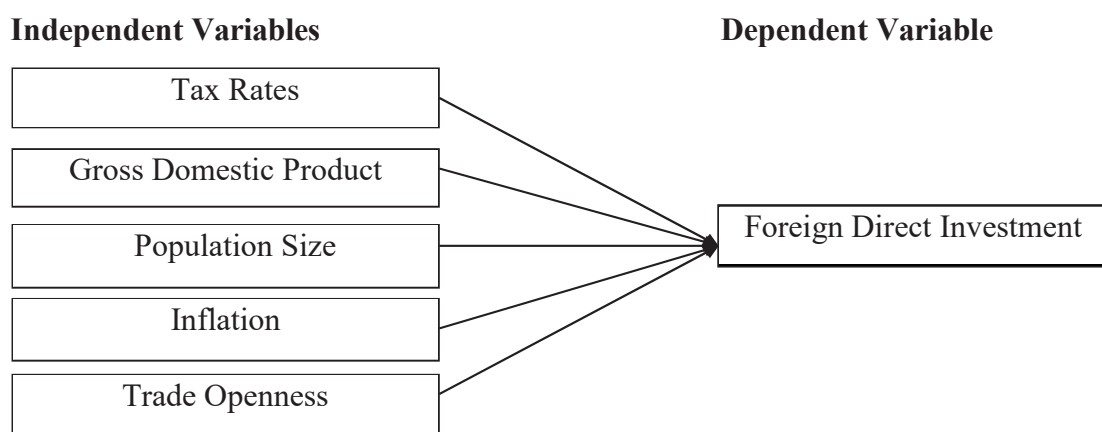
Betas ($\beta_1, \beta_2, \beta_3, \beta_4, \beta_5$) are the parameters of the model

3.5 Research Framework and Definition of Variables

In the section on research framework and definition of variables, the dependent and independent variables of the study have been clarified through the research framework. Each variable has been defined clearly. The independent variables have been identified as tax rates, GDP growth, population size, inflation, and trade openness, while the dependent variable has been defined as Foreign Direct Investment (FDI). The topic has focused on the “Determinants of Foreign Direct Investment in Nepal.” This framework provides a structured approach to analyzing how macroeconomic factors influence FDI inflows. Understanding these relationships helps in assessing investment trends and guiding policy recommendations. The research framework of this study has been presented in the following figure:

Figure 1

Research Framework



(Source: Syamni et al., 2024; Gunawardhana & Damayanthi, 2020)

Table 2

Description of the Variables

Variables	Description
FDI	FDI as a percentage of Gross Domestic Product
Tax Rate	Tax ratio of tax revenues as a percentage of GDP
Gross Domestic Product	Annual GDP growth percentage rate
Population Size	Number of historical populations data
Inflation	Annual inflation rate in Nepal
Trade Openness	Export and Import as a percentage of GDP

(Source: Syamni et al., 2024; Gunawardhana & Damayanthi, 2020)

Dependent Variable

Foreign Direct Investment

Foreign Direct Investment (FDI) is an investment in the economy of Nepal made by foreign companies through business output, acquiring assets, or investing in equity. FDI is important because it provides capital, technology, and managerial development to the country that receives the investment. The factors explaining the volume of FDI inflow include the rate of tax, economic growth, and trade openness (Dunning, 2000). Foreign capitals flow into countries due to various macroeconomic actors where there are stable economic conditions and favorable investment opportunities; countries with high inflation, or restrictive trade restrictions/analyses are less able to attract foreign industries (Asiedu, 2002). Understanding the determinants of FDI inflows is important for Nepal as the basis of additional policies and improvements towards being an attractive investment destination and growing the economy. There has been something empirical studies focused on economic and policy conditions of FDI inflow benchmarks, such as Syami et al. (2024); Gunawardhana and Damavanthi (2020), and had looked at the trend and studies of foreign investment in emerging economies.

Independent Variables

Tax Rates

Tax rates are the percentage of income or profit that businesses and individuals have to pay to the government and are a key driver of FDI flow, depending on whether they are high or low. Higher corporate tax rates can affect profitability and a firm's willingness to invest lower tax burdens and tax concessions could be seen as attractive features to reduce the cost of market entry for overseas investors (Gastanaga et al., 1998; Davies et al., 2021). The corporate tax framework through its tax policies and fiscal incentives in Nepal will influence an overseas business's decision on investment opportunities. Taxation policies and their effect on investment decisions and economic competitiveness have been addressed in previous research (Syami et al., 2024).

GDP Growth Rate

Growth in Gross Domestic Product (GDP) is representative of the total growth of an economy and is a measure of production, consumption, and investment trends. A faster growing GDP is often seen as a sign of economic stability, and an increasing number of market opportunities, which helps to attract foreign investors (Chakrabarti, 2001). In

fact, research shows that when economies grow at historic rates, they often receive higher levels of foreign direct investment (FDI) because of the stability and perhaps higher return on investment (Brainard, 1997). In Nepal, economic growth has been susceptible to fluctuations in the economy due to factors such as political instability, and infrastructure concerns. Syami et al. (2024) have studied to what degree GDP growth relates to foreign investment inflows, and if economic growth by itself is enough to attract FDI.

Population Size

The size of a given population is critical to the market opportunity and labor supply available, which is fundamental to assessing investment potential and influences inflows of FDI. A larger population will be able to produce greater demand given more potential customers and hence will appeal to foreign investors, as they seek out opportunities to reach ever richer consumers (Mottaleb, 2007). Multinationals need a larger pool of skilled workers to cooperate and work with to achieve their operational efficiencies in foreign markets (Abdouli et al., 2018). When a population expands, it does not always guarantee expanded economic opportunities for everyone; higher population growth rates can lead to unemployment and inefficiencies in the economy which limit investment. Syami et al. (2024) have examined how population size impacts investment attractiveness, particularly within developing economies.

Inflation

Inflation reflects the rate at which the overall prices of goods and services rise at a given time, and can arguably set back purchasing power and economic stability. High inflation rates raises uncertainty, decrease investor confidence, and increase businesses costs ultimately harmfully affecting the attractiveness of the country for FDI investments (Schneider & Frey, 1985), whereas moderate inflation can reflect healthy economic activity and consumption demands and if contained, may also be a good sign or signal for investment opportunities (Nyoni & Bonga, 2018). Inflation rates have influenced the course of Nepal as the countrys supply chain disturbance, along with trade dependency, and monetary policies. Syami et al. (2024); Gunawardhana and Damavanthi (2020) both have studies on inflation and the impacts on foreign investors concluding that inflation is an important factor influencing investor decision.

Trade Openness

Trade openness gauges the amount of trade that occurs in a country and usually measure this as the sum of exports and imports to GDP. Greater trade openness, whether through lower tariffs or liberalized trade policies, leads to increased FDI (foreign direct investment) flows because it gives foreign investors improved access to world markets (Balasubramanyam et al., 1996). Empirical evidence indicates that trade openness increases competitiveness, facilitates technology transfers and supports economic integration, all of which are factors facilitating FDI (Asiedu, 2002). As Nepal is landlocked and highly reliant on regional trade agreements, it is essential to understand how trade policies influence FDI flows. Gunawardhana and Damavanthi (2020) examined the relationship between trade openness and foreign investment, recognizing it as an important factor for improved economic connectivity and attractiveness for investment.

CHAPTER IV

RESULTS AND DISCUSSION

In this chapter, data have been presented in an appropriate format, then analyzed and discussed. The analysis has aimed to answer the research questions set in the introduction chapter. The outcomes of the analyses have been considered as the results. These results have then been discussed and interpreted in light of relevant theories and empirical studies to reach a conclusion. Accordingly, this chapter has been organized under the Results and Discussion section.

4.1 Results

This section has analyzed the determinants of foreign direct investment (FDI) in Nepal by examining the influence of independent variables such as tax rate, GDP growth, population size, inflation, and trade openness on the dependent variable, FDI. Descriptive statistics, including minimum, maximum, mean and standard deviation (SD), have summarized the key characteristics of these variables over the study period. The minimum and maximum values define the range, while the mean provides the average, and the SD indicates the variability around the mean. Correlation analysis has assessed the strength and direction of relationships between the independent variables and FDI, revealing how closely these factors are related. Regression analysis has quantified the impact of tax rates, GDP growth, population size, inflation, and trade openness on FDI, offering insights into how these determinants influence foreign investment in Nepal. The results of this study have been presented below:

4.1.1 Results of Descriptive Statistics

Descriptive statistics has been used to summarize the key characteristics of the data, including the minimum, maximum, mean, and standard deviation (SD) for the independent variables such as tax rates, GDP growth, population size, inflation and trade openness, along with the dependent variable, foreign direct investment (FDI) in Nepal. The analysis covers data from 1999/00 to 2023/24, aiming to illustrate the range and variability of these variables. The findings are presented in Table 2, showing trends and comparisons across these key metrics.

Table 3*Summary of Descriptive Statistics for Study Variables*

Variables	N	Min	Max	Mean	S.D.
TR	25	8.40	19.80	12.8208	3.75903
GDP	25	-2.37	8.98	4.2084	2.39258
PS	25	24.14	30.89	27.2960	1.74869
INF	25	2.27	11.09	6.4212	2.69255
TO	25	36.30	55.80	45.6360	4.63158
FDI	25	-0.10	0.70	0.2200	0.21409

(Source: SPSS Version 29)

Table 3 displays descriptive statistics description for study variables such as RMT, FDI, INF, TO, UR and GDP based on figures between the periods of 2009/10 and 2023/24 (15 years). Remittance inflows have ranged from \$2.98 billion to \$11.00 billion, with a mean of \$6.69 billion and a standard deviation of \$2.24 billion, indicating moderate variation in remittance patterns. FDI has ranged from \$0.03 billion to \$0.20 billion, with a mean of \$0.10 billion and a standard deviation of \$0.056 billion, indicating the volatility in foreign investment. Inflation has oscillated between 3.63% and 11.09%, averaging 7.36%, reflecting occasional inflationary pressures in Nepal's economy. Trade openness has oscillated between 36.30% and 49.20%, averaging 44.05% and having a standard deviation of 3.94%, reflecting moderate oscillations in Nepal's trade policies. The unemployment rate oscillated between 10.58% and 13.16%, averaging 10.95% and having a low standard deviation of 0.75%, reflecting relatively stable employment patterns. Lastly, GDP growth ranged from 12.85% to 41.18%, with a mean of 27.64% and standard deviation of 8.68%, which shows huge fluctuations in Nepal's economic performance over the past 15 years (2009/10-2023/24).

4.1.2 Results of Inferential Statistics

Inferential statistics includes correlation and regression analysis. Correlation analysis examines the relationship between independent variables, such as TR, GDP Growth rate, PS, INF and TO with the dependent variable Foreign Direct Investment (FDI). Regression analysis assesses the impact of these independent variables such as TR, GDP Growth, PS, INF and TO on FDI to determine the extent of their influence. The results of the inferential statistics have been presented below.

Correlation Analysis

The correlation matrix presents the relationships between TR, GDP, PS, INF, and TO with FDI in Nepal. It highlights the strength, direction, and significance of these associations, offering key insights. The detailed results are provided below.

Table 4

Karl Pearson's Correlation Analysis of Study Variables

Variables	TR	GDP	PS	INF	TO	FDI
TR	1					
GDP	0.186	1				
PS	0.849**	-0.040	1			
INF	0.084	-0.059	0.181	1		
TO	-0.215	0.401*	-0.436*	-0.399*	1	
FDI	0.711**	0.150	0.545**	0.224	-0.414*	1

** . Correlation is significant at the 0.01 level (2-tailed).

* . Correlation is significant at the 0.05 level (2-tailed).

(Source: SPSS Version 29)

Table 4 depicts the correlation analysis between the independent variables such as TR, GDP Growth, PS, INF and TO with the dependent variable FDI, highlighting their strength and significance. Tax Rate (TR) has a strong positive correlation with FDI ($r = 0.711$, $p < 0.01$), indicating that higher tax rates are significantly associated with increased Foreign Direct Investment. Gross Domestic Product (GDP) shows a very weak positive correlation with FDI ($r = 0.150$, not significant), suggesting little to no direct relationship between GDP and Foreign Direct Investment. Population Size (PS) exhibits a moderate positive correlation with FDI ($r = 0.545$, $p < 0.01$), implying that a larger population size is significantly associated with higher Foreign Direct Investment. Inflation (INF) has a weak positive correlation with FDI ($r = 0.224$, not significant), indicating that inflation has a weak and statistically insignificant association with Foreign Direct Investment. Trade Openness (TO) demonstrates a moderate negative correlation with FDI ($r = -0.414$, $p < 0.05$), suggesting that greater trade liberalization is linked to a decline in Foreign Direct Investment. These results show that TR and PS have the strongest positive correlations with FDI, while GDP and INF have minimal links, and TO negatively affects FDI in Nepal.

Regression Analysis

Regression analysis examines the impact of TR, GDP, PS, INF and TO on FDI. The analysis includes the model summary, analysis of variance, and coefficients to assess how these variables influence FDI. The regression analysis results have been presented below.

Table 5

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.818	0.669	0.582	0.13834

a. Predictors: (Constant), TR, GDP, PS, INF, TO

(Source: SPSS Version 29)

Table 5 outlines the model summary, where the R² value is 0.669, indicating that 66.9% of the variance in FDI is explained by the independent variables TR, GDP, PS, INF, and TO. The remaining 33.1% of the variance is influenced by other factors not included in the model.

Table 6

Analysis of Variance (ANOVA)

	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	0.736	5	0.147	7.695	0.000
	Residual	0.364	19	0.019		
	Total	1.100	24			

a. Dependent variable: FDI

b. Predictors: (Constant), TR, GDP, PS, INF, TO

(Source: SPSS Version 29)

Table 6 shows the results of the Analysis of Variance (ANOVA) for the regression model. The significance value (p-value) is 0.000, which is below the 0.05 threshold, indicating that the model is statistically significant. This confirms that the independent variables TR, GDP, PS, INF and TO collectively have a significant impact on FDI.

Table 7*Coefficients of Regression Model for Dependent Variable FDI*

Model	Unstandardized		Standardized	t	Sig.
	Coefficients		Coefficients		
	B	Sd. error	Beta		
(Constant)	2.207	1.023		2.158	0.044
Tax Rate	0.061	0.016	1.069	3.818	0.001
GDP Growth	0.010	0.014	0.112	0.719	0.481
Population Size	-0.069	0.036	-0.566	-1.930	0.069
Inflation	0.005	0.012	0.063	0.436	0.668
Trade Openness	-0.021	0.008	-0.451	-2.551	0.020

a. Dependent variable: Foreign Direct Investment

(Source: SPSS Version 29)

$$FDI = 2.207 + 0.061TR + 0.010GDP - 0.069PS + 0.005INF - 0.021TO + \epsilon_{it}$$

Table 7 demonstrates the coefficients of regression model for Foreign Direct Investment (FDI) with Tax Rate (TR), GDP Growth (GDP), Population Size (PS), Inflation (INF) and Trade Openness (TO) as independent variables. TR has a positive and significant impact on FDI (B = 0.061, p = 0.001), meaning a one-unit increase in TR raises FDI by 0.061 units, and since the p-value is below 0.05, this impact is statistically significant at the 5% level. GDP has a positive but insignificant effect (B = 0.010, p = 0.481), meaning that a one-unit increase in GDP increases FDI by 0.010 units, but its p-value exceeds 0.05, making it not significant at the 5% level. Similarly, INF shows a weak positive but insignificant effect (B = 0.005, p = 0.668), as its p-value is greater than 0.05, confirming no significant impact on FDI. On the other hand, PS has a negative and marginally insignificant effect (B = -0.069, p = 0.069), suggesting that a one-unit increase in PS reduces FDI by 0.069 units, but since the p-value slightly exceeds 0.05, it is not statistically significant at the 5% level. Lastly, TO has a negative and significant impact on FDI (B = -0.021, p = 0.020), meaning a one-unit increase in TO decreases FDI by 0.021 units, and with a p-value below 0.05, this effect is statistically significant at the 5% level. In summary, TR has the highest impact on FDI, with a standardized coefficient of 1.069, which is significant, while PS has the lowest impact on FDI, with a standardized coefficient of -0.566, which is not statistically significant at the 5% level.

4.2 Discussion

The study has examined the Determinants of Foreign Direct Investment in Nepal, focusing on independent variables such as Tax Rate (TR), GDP Growth (GDP), Population Size (PS), Inflation (INF), and Trade Openness (TO), with Foreign Direct Investment (FDI) as the dependent variable. This study has collected data on these variables for the period 1999/00 to 2023/24. The data have been sourced from NRB reports, economic databases, and World Bank reports. The researcher has analyzed the collected data using descriptive statistics (mean, standard deviation) and inferential statistics (correlation, regression) to examine relationships and assess their impact on FDI inflows. Descriptive statistics have provided insights into the position of TR, GDP, PS, INF, TO, and FDI, while inferential statistics have examined the relationship between variables through correlation analysis and analyzed the impact of independent variables on the dependent variable through regression analysis.

The descriptive statistics have summarized key study variables, including TR, GDP, PS, INF, TO, and FDI. TR has ranged from 8.40% to 19.80%, with a mean of 12.82% (SD = 3.76), indicating moderate variability. GDP has fluctuated between -2.37% and 8.98%, averaging 4.21% (SD = 2.39), reflecting economic instability. PS has had a mean of 27.30 million (SD = 1.75), showing low variability. INF has ranged from 2.27% to 11.09%, with an average of 6.42%, suggesting periodic inflationary pressures. TO has varied between 36.30% and 55.80%, with a mean of 45.64% (SD = 4.63), indicating moderate changes in trade policies. FDI has fluctuated significantly, with a minimum of -0.10 and a maximum of 0.70, averaging 0.22 (SD = 0.21), showing inconsistent investment trends.

The correlation analysis has highlighted the relationships between independent variables (TR, GDP, PS, INF, TO) and FDI. TR has shown a strong positive correlation with FDI ($r = 0.711$, $p < 0.01$), indicating that higher TR has attracted more FDI. GDP has exhibited a weak positive but insignificant correlation ($r = 0.150$), suggesting minimal impact. PS has demonstrated a moderate positive correlation ($r = 0.545$, $p < 0.01$), implying that a larger population has been linked to higher FDI. INF has shown a weak, insignificant positive correlation ($r = 0.224$). TO has displayed a moderate negative correlation ($r = -0.414$, $p < 0.05$), suggesting that increased trade openness has reduced FDI inflows. Overall, TR and PS have had the strongest positive correlations

with FDI, while GDP and INF have had weak links, and TO has negatively affected FDI.

Regression analysis has revealed that TR has significantly boosted FDI ($B = 0.061$, $p = 0.001$), while GDP ($B = 0.010$, $p = 0.481$) and INF ($B = 0.005$, $p = 0.668$) have had weak, insignificant effects. PS has negatively impacted FDI ($B = -0.069$, $p = 0.069$) but has been marginally insignificant. TO has significantly reduced FDI ($B = -0.021$, $p = 0.020$). TR has had the highest impact ($\beta = 1.069$, $p < 0.05$), while PS has had the lowest ($\beta = -0.566$, $p > 0.05$). These findings have suggested that TR has positively influenced FDI, TO has hindered it, and other factors have had minimal or insignificant effects.

Based on correlation, Tax rate (TR) exhibits a strong positive relationship towards Foreign direct investment, in agreement with Lamsal (2024). GDP growth (GDP) has a weak positive but insignificant correlation consistent with Syamni et al. (2024). Population size (PS) exhibits a moderate positive correlation, consistent with Lamsal (2024) and Ali et al. (2024). Inflation (INF) has a weak, insignificant positive correlation, consistent with Syamni et al. (2024), and opposed to Morsy (2022) which found that inflation negatively affects FDI. Trade openness (TO) has a moderate negative correlation that contradicts Gunawardhana and Damayanthi (2020) and Lamsal (2024), who found a positive or neutral effect.

Based on regression analysis, Tax rate (TR) affected Foreign direct investment. This is consistent with Lamsal (2024). GDP growth (GDP) had a weak insignificant effect, consistent with Syamnai et al. (2024). Population size (PS) had a negative affect on Foreign Direct Investment, which contradicts Ali et al. (2024). Inflation (INF) had an insignificant effect, consistent with Syamni et al. (2024). Trade openness (TO) had a significant negative effect on FDI, which contradicts Faruq (2023) last and Lamsal (2024), who found that TO had a positive or neutral effect.

CHAPTER V

SUMMARY AND CONCLUSION

This chapter has been structured into three sections: a summary of the study, research conclusions, and the implications derived from both.

5.1 Summary

The main objective of the study is to assess the determinants of foreign direct investment (FDI) in Nepal. A descriptive and causal-comparative research design has been employed, utilizing secondary data from the fiscal years 1999/00 to 2023/24, gathered through purposive sampling. The data sources have included national and international financial reports, government publications and databases such as the World Bank and Nepal Rastra Bank. The independent variables examined in this study have included tax rates (TR), GDP growth, population size (PS), inflation (INF), and trade openness (TO) while FDI has served as the dependent variable. The study has applied both descriptive statistics and inferential statistics (correlation and regression analysis). Descriptive statistics have been used to assess the position of study variables such as TR, GDP, PS, INF, TO and FDI. Correlation analysis has been employed to examine the relationships between TR, GDP, PS, INF and TO with FDI, while regression analysis has been used to analyze the impact of these variables on FDI. This analysis has aimed to provide a comprehensive understanding of the factors influencing FDI in Nepal's economy.

Descriptive statistics have provided an overview of the key variables, including tax rates (TR), GDP growth, population size (PS), inflation (INF), trade openness (TO), and FDI. These variables have shown moderate to high variability, with FDI displaying significant fluctuations. The mean values of these variables indicate a moderate level of stability, with some periodic changes in the economic environment, especially in relation to inflation and trade openness.

The correlation analysis has highlighted key relationships between the independent variables and FDI. A strong positive correlation has been observed between TR and FDI, suggesting that higher tax rates are linked to more FDI inflows. A moderate

positive correlation has been found between PS and FDI, indicating that larger populations tend to attract more FDI. On the other hand, GDP and INF have shown weak correlations with FDI, while TO has displayed a moderate negative correlation, indicating that increased trade openness may reduce FDI inflows.

Regression analysis has demonstrated that TR has significantly boosted FDI, while GDP and INF have had minimal or insignificant effects. PS has shown a marginally negative impact on FDI, though it is not statistically significant. TO has had a significant negative effect on FDI, suggesting that higher levels of trade openness have hindered foreign investment in Nepal. Overall, the findings indicate that tax rates and trade openness are the most influential factors, with TR having the highest positive impact on FDI and TO the most significant negative effect.

5.2 Conclusion

The first objective of this study is to assess the position of tax rate, GDP growth, population size, inflation, trade openness, and FDI in Nepal. This has been achieved through descriptive statistics, which provided an overview of the status of these key variables. The study examines how these factors have fluctuated over time and their roles in shaping Nepal's economic environment. The findings reveal that tax rates have shown moderate variability, with a positive correlation to FDI, while GDP growth has fluctuated, indicating economic instability. Population size has demonstrated a moderate positive impact on FDI, and inflation has shown periodic pressure on the economy.

The second objective of this study is to examine the relationship between tax rate, GDP growth, population size, inflation, and trade openness with FDI in Nepal. This objective has been addressed through correlation analysis, revealing varying degrees of relationships between these variables and FDI. The study finds a strong positive correlation between tax rates and FDI, indicating that higher tax rates attract more foreign investment. Population size also shows a moderate positive relationship with FDI. However, GDP growth and inflation exhibit weak, insignificant correlations with FDI, suggesting minimal impact. On the other hand, trade openness shows a moderate negative correlation, implying that increased trade openness may have a detrimental effect on FDI inflows.

The third objective of this study is to analyze the impact of tax rate, GDP growth, population size, inflation, and trade openness on FDI in Nepal. This has been achieved through regression analysis, which indicates that tax rate has a significant positive impact on FDI, while trade openness significantly reduces FDI inflows. GDP growth and inflation have minimal or insignificant effects on FDI. Population size, while showing a negative impact, remains marginally insignificant. The findings suggest that tax rates play a crucial role in attracting foreign investment, while trade openness may need to be reassessed to avoid hindering FDI inflows.

5.3 Implications

The implications of this study on Determinants of Foreign Direct Investment (FDI) in Nepal are relevant for policymakers, businesses, and academics. These findings provide valuable insights for improving FDI inflows and guide future strategies. The key implications are as follows:

For Policymakers

This study highlights the importance of tax rates and trade openness in attracting foreign investments. Competitive tax policies can create a more favorable environment for foreign investors, and the findings suggest that tax reforms may be necessary to enhance Nepal's investment appeal. The negative relationship between trade openness and FDI suggests that policymakers should balance liberalizing trade with ensuring the protection of foreign investments. By doing so, policymakers can better position Nepal to attract more foreign direct investments and improve the economic outlook.

For Practitioners

For businesses and investors, understanding the macroeconomic factors that affect FDI is essential in making informed decisions. The study emphasizes the role of tax rates and population size in determining the flow of foreign investments. Practitioners can utilize these insights to craft more targeted strategies for market entry and investment in Nepal, aligning their business operations with key determinants of FDI. Additionally, businesses can anticipate the effects of inflation and trade openness on their investment plans to reduce risk and increase profitability.

For the Academic Community

This study contributes significantly to the academic literature on FDI by exploring the impact of various macroeconomic factors in Nepal. It provides a foundation for future research, encouraging further investigation into the variables not fully explored in this study, such as political stability, infrastructure quality, and institutional factors. Academic research in the future could compare FDI determinants in Nepal with other countries in South Asia or focus on sector-specific studies to offer deeper insights into FDI trends in different industries.

Scope for Future Research

Future research could expand on the variables explored in this study by examining political stability, infrastructure development, and institutional quality to further understand their influence on FDI in Nepal. Longitudinal studies tracking FDI trends over extended periods could provide valuable insights into the long-term effects of macroeconomic changes on foreign investment. Furthermore, comparative studies of FDI determinants in Nepal and other South Asian countries or sector-specific analyses could help identify industry-specific factors influencing FDI inflows, broadening the scope of FDI research in the region.

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APPENDIX

Data Collection for Study Variables such as FDI, Tax, GDP, PS, INF and TO

Years	Tax Rate (%)	GDP Growth Rate (%)	Historical Population Size (In Mill)	Inflation (%)	Trade Openness (%)	FDI as a % of GDP
1999/00	8.4	4.41	24.14	7.45	52.6	0.1
2000/01	8.7	6.20	24.55	2.48	55.7	-0
2001/02	8.8	4.80	24.95	2.69	55.8	0
2002/03	8.6	0.12	25.33	3.03	46.2	-0.1
2003/04	8.7	3.95	25.68	5.71	44.2	0.2
2004/05	9	4.68	26.03	2.84	46.1	-0
2005/06	9.2	3.48	26.28	6.84	44.1	0
2006/07	8.8	3.36	26.51	6.92	44.8	-0.1
2007/08	9.8	3.41	26.71	2.27	44.6	0.1
2008/09	10.4	6.10	26.88	9.91	46.0	0
2009/10	11.8	4.53	27.02	11.09	47.1	0.3
2010/11	13.4	4.82	27.16	9.33	46.0	0.5
2011/12	11.6	3.42	27.26	9.23	36.3	0.4
2012/13	12	4.67	27.33	9.46	37.9	0.4
2013/14	13.3	3.53	27.38	9.04	41.9	0.3
2014/15	13.99	6.01	27.46	8.36	46.0	0.1
2015/16	14.68	3.98	27.61	7.87	46.7	0.2
2016/17	16.14	0.43	27.86	8.79	42.1	0.4
2017/18	17.99	8.98	28.13	3.63	44.6	0.7
2018/19	19.08	7.62	28.50	4.06	48.4	0.2
2019/20	19.80	6.66	28.83	5.57	49.2	0.5
2020/21	15.77	-2.37	29.34	5.05	40.9	0.4
2021/22	17.48	4.84	30.03	4.15	43.1	0.5
2022/23	16.09	5.63	30.54	7.65	49.0	0.2
2023/24	17.00	1.95	30.89	7.11	41.6	0.2

(Source: Macro economy Data, World Bank, NRB from 1999//00 – 2023/24)

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