KHURASAN UNIVERSITY BUSINESS ADMINISTRATION JOURNAL (KU-BAJ)
Received: Jan, 20, 2025 Accepted: March, 03, 2025 Online: April, 30, 2025 e-ISSN: 3008-0983
ORIGINAL ARTICLE Vol 2, Issue 01 (2025) https://krj.khurasan.edu.af p-ISSN: 3008-0975

# Impacts of Bilateral Investment Treaties on Foreign Direct Investment in Developing Economies of South Asia

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## ABSTRACT

Foreign direct investment has been considered as one of the most important factors that influence the progress of economic growth and development, especially in the case of developing and emerging economies like south Asian countries. There are certain factors that influence the inflows of foreign capital to the host nations such as human capital, economic stability, infrastructure development and market size. Bilateral investment treaties is one among such factors which have found previously to have significant impact on the inward flows of foreign capital in many region across the world. This study examined the impact of bilateral investment treaties on foreign direct investment in the context of south Asian countries by using the data collected over the period of 23 years (1998-2020). The study has collected data for all the variables under the analysis of the study for the given time period. The Hussmann test validates the use of fixed effect model for the analysis of the data. The study found that bilateral investment treaties signed and enforced have a significantly positive relationship with foreign direct investment while BIT singed has negative relationship with FDI in the context of south Asian countries. The findings of the study also suggest that economic development, macro-economic stability, market size, trade openness, and human capital have significantly effects foreign direct investment inflows to these countries.

***Keywords:*** Foreign direct investment, Bilateral investment treaties, South Asian, Fixed effect model.

## INTRODUCTION

Foreign Direct investment (FDI) is the stream of capital to the home country by foreign investor in innovative projects and ventures. IMF, (2003) reports that FDI generally involves direct investment from large MNCs which are often aimed at investing in new resources, merger and acquisitions, investment of the retained earnings from operations and direct intra company loans in the host country. BITs relate to the legal mechanism establishing ties between two nations based on specific governance and protection terms of external investors, where the respective country owns new enterprises and acquisitions in the host country. Bilateral investment treaties (BIT) are an important factor used by the developing economies around the world to attract foreign direct investment (FDI). Bilateral investment treaties are mutual agreement between two countries for the protection and promotion of investment in either country's territories. The main motive of the bilateral treaties is to enhance the flow of foreign direct investment into the economy and without any doubt, the policy makers around the world are more optimistic about the flow of foreign direct investment to their economies after signing these bilateral trade agreements. The question, however, still remains whether entering into these bilateral trade agreements has influenced the flow of foreign investment into these

economies as per their expectations or not? The large number of bilateral treaties concluded till date have provided very little evidence and support for the assumption that these BITs have increased the flow of foreign investments into these economies (UNCTAD n.d.). Bhasin and Manocha (2016), report that bilateral treaties are an important legal tools and mechanisms, which attract FDI in most of the emerging economies around the world.

The influx of foreign investment is the most essential factor in developing economies across the world, and it works as a catalyst for the economy's development and expansion. However, some additional measures that are regarded as significant in boosting FDI movements to the hosting nation decide the FDI. Bilateral Investment Treaties are thought to have a substantial influence on the investor's risk assessment, resulting in a favorable impact on FDI inflows. According to Kok & Erosy (2009), BTIs assist and secure overseas investors and convey a positive indication to so many other interested clients that perhaps the growing host homeland is committed to ensuring security and a business friendly environment. It means that BITs result in foreign investment from both the partner government and individual investors in the partner nation. This study aims at analyzing the character of BITs in the inward flow of FDI in South Asian developing countries. In addition, it investigates the influence of other variables, such as trade openness, economic stability, human capital, economic development, and market size, on FDI flows to the region.

## LITERATURE REVIEW

The role of foreign direct investment has increased in 1990s in international capital movement. In 1990s, FDI was nearly a quarter of all international capital leakages and show increasing trend, as compare to other types of international investment. This transformation in the structure of capital movement and flows has been synchronous with a move amongst policymaker to draw further FDI, specially follow by the 1980s debt crisis and the contemporary disorder in developing economies. The main motivation behind to increased and attract more FDI streams is that in fact for most of the countries FDI is the smallest volatile source for international investment. Especially, for the developing countries FDI has the basic source of foreign investment. In addition to these benefits, FDI may play a key role in modernization of the economy and stimulate growth (Lu, Tao, & Zhu 2017). Moreover, foreign direct investment has quite a lot of good effects such as transformation of technological know-how, acquire efficiency, inception of new procedures, management skills and knowledge about home marketplace, workforce training, world-wide web for manufacturing, and reach to the market (Saini, N., & Singhania 2018).

Through FDI more industries, firms and economies have become large and globalized. As a result of new technologies and electronic business, the organisation not only able to attend has long term goals but also become able to transform the value chin of so many industries (Dell'Erba, & Reinhardt 2015).

- ***FDI and Bilateral Investment Treaty***

Bilateral investment treaty is signed agreement between two countries in order to protect the property rights of foreign investors against the risks. The prime aim of BITs is characterized by Sachs and Sauvant (2009) as “the protection of the investors and investment from political risks and insecurity.

Büthe and Milner (2014) investigated that the impact of Bilateral Trade Agreements (BTA) and BITs on inward FDI to 22 developing countries from 1970 to 2007. They unveiled that BITs have a significantly positive and greater effects on inward FDI as compared to BTA.

According to Dixon & Haslam (2015) the impact of BIT on FDI inflows is being indecisive. They further argued that high quality investment treaties have a positive effect on the inflow of foreign direct investment. Moreover, when the BIT combine with trade agreements and high protection for foreign investors then the effectiveness will be higher.

Bhasin and Manocha (2016) analyzed that BITs play a positive character in inviting FDI into India. They argued that by giving commitment and security to the foreign investors will raise the FDI flow in India. They also find that other factors such as the large economy size and more liberation can attract more FDI.

Colen, Persyn & Gauriso (2016) argued in order to attract more FDI, the transition, and developing countries of former Soviet Union, eastern and central Europe had highly engaged in signing and enforcing bilateral investment treaties (BIT). According to them BITS more effective in following cases; due to lack of specific-firm knowledge, the firms categorized by hug sunk costs and those sectors, which is sensitive politically for foreign possession.

The study of Yackee (2016) show that the countries having BITs with France received a great share of FDI outflow of French. He also found an insignificant relationship between France BITs and FDI inflow.

Shah & Khan (2018) analyzed the effect of BITs on FDI inward flow to the North African (MENA) developing countries and Middle East. He argued that the theoretical framework of FDI determined the foreign investment of the host developing country. He also considered other controlling variables for the determination of FDI because BITS itself could not be more adequate for drawing foreign investment. So he took the host country market size, financial development, economy openness, business facilitation, human capital, infrastructure obtainability, trade agreement, and economic stability. He found that BITs signed and enforced have powerful effect as compared to BITs just signed and also found that other factors were not just significant effect on attracting foreign investment.

- ***FDI and other variables***

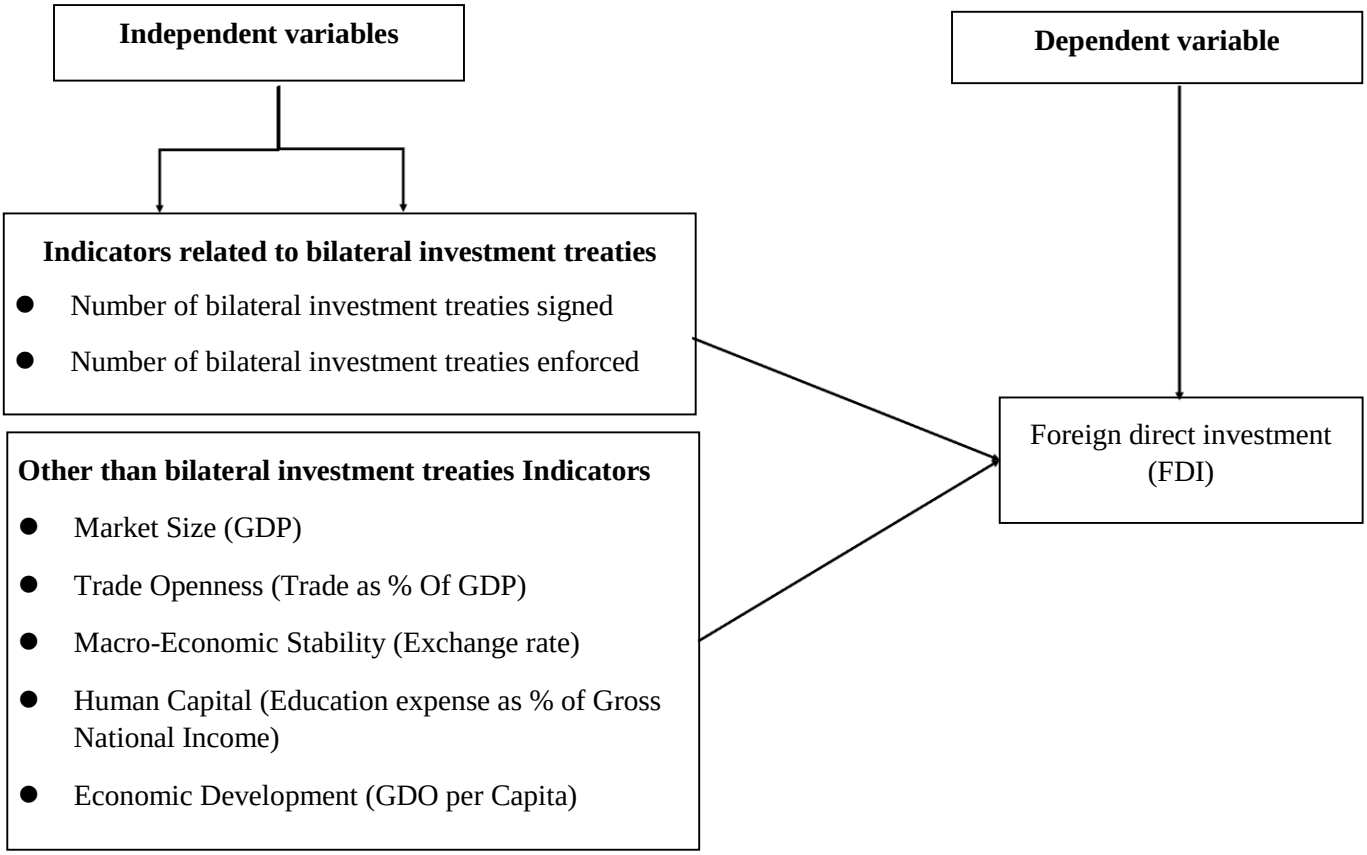
According to eclectic theory, three elements collide at the same time to create an FDI situation under which an MNE has at least one identifiable competitive advantage; additionally, an organization in a foreign nation that provides competitive capital, promising markets, and productivity advantages must seize the chance by internalizing the skills and expertise required to jump over the transaction cost obstacle. The parts of a locality that offer advantages include country human capital, infrastructure, supporting technological capabilities, economic stability market opportunities, and production costs among others. (Büthe & Milner, 2014). Thus, a portfolio of the features of any one location is expected to serve as a stimulus for incoming flows of foreign capital; conversely, a set of MNEs and parent-country features are advantageous factors for outward investment positions. Grounded in this theory, the hypotheses set out below will be tested to deal with the network patterns under analysis. First, countries with high incomes and advanced economies are expected to position larger amounts of capital in diverse markets overseas, due to the higher presence of MNEs with Firm-Specific Advantages (FSA) that may be exploitable in foreign markets (Buckley,2016).

The inflation rate also have a significant impact on the FDI inflows to the host country as increase inflations leads to increases in the cost of production and cost of capital, thus inflation have negative relationship with FDI inflows to the host country. The greater the inflation rate the lesser would be the FDI inflows to the host country and vice versa. Thus, foreign investors are more likely to move from high inflated countries to low inflated countries. Many current trade deals contain provisions on investor rights and regulations since trade and investment flows have become so interconnected. The evidence suggests that MNEs generally locate in countries with a higher trade ratio in relation to their economic size when investing outside of their home country; i.e. countries with higher trade openness are more prone to receive higher volumes of FDI (Bolivar, Rodriguez, & Forero, 2016; Metulini, Riccaboni, Sgrignoli, & Zhu, 2017).

Stronger FDI inflows are typically connected with higher economic growth and financial development due to related knowledge transfer and improved management practices. When compared to local investments, it contributes more to long-term economic growth. Moreover, FDI inflows to a country are usually influenced by factors such as market size, development level, economic openness, human capital, and trade liberalization (Shah & Khan, 2018).

Among the known typical locational FDI drivers, these research works clearly demonstrate the relevance of the country's human capital, the size of the market, Economic development, economic stability, and Openness. The literature presented suggests that BITs have shaped the international commerce and business relation between economies around the world for the last few decades. The

BITs were originally aimed at creating and maintaining a feasible and favorable environment for the investors in order to create trust and attraction for the foreign investors. The main purpose of treaties are safeguarding and securing the various rights of foreign investors in the host nations. The BITs results are attracting foreign investors to the host country and enhance the flow of funds to these underdeveloped countries. Studies furthermore suggest that not only do funds flow from the signatory countries, but there is a spillover of FDI to the host nation due to the signaling effects of the circumstances. The results however have presented contradictory findings where some supports the positive impacts of BITs on FDI while other has denied these claimed depending upon the analysis procedures, economic and political conditions of these economies. Furthermore, it is also evident that the specific nature of the economy also holds key importance in the realization of the effects of the BITs. The issue has been discussed in respect of developing and western economies however, little work has been done in this regard in the South Asian developing economies.




The aim of this study is analyzing the role of different explanatory variables in explanation of FDI in developing economies of South Asia. There are 8 developing economies in South Asia, which constitute the study population and the study sample selected from this population. The study uses a purposive based sampling technique for selecting the sample of the study and all the economies in South Asia will be included in the sample subject to the data availability. The sample time period for analysis of these developing economies is from 1998 to 2020 and data for these economies for the variables of interest is collected for the sample time period of the study. In accordance with the aim of the study, this is a correlation research study. Quantitative research strategy uses here for the analysis of explanatory variables with FDI of developing economies. Secondary data collection tools are employing and statistical analysis tools are used for analyzing the data.

- ***Econometric Model***

The study uses multiple regression analysis technique and Panel data analysis models for exploring the relationship between the variables of the study. In the multiple regression model FDI is the

dependent/explained variable and the other 7 variables as the explanatory/independent variables. The multiple regression models for the variables is given by the following equation,

$$InFDIjt = \alpha + \beta 1In(Number\ Bilateral\ Investment\ Treaties\ signed)jt$$

$$+ \beta 2(InBITS\ enforced)jt + \beta 3In(Trade\ Openness)jt$$

$$+ \beta 4In(Human\ Capital)jt + \beta 5In(Macroeconomic\ stability)jt$$

$$+ \beta 6In(Market\ Size)jt + \beta 7In(Economic\ Development + \mu jt$$

In above model "In" stands for natural logarithm. This model use logarithm with all variables in order to shrink the skewness of the data (Tortian 2007).Where t from 1 to 23 stands for the time period, j stands for each country and varies from 1 to 7,α is the intercept term of the relation while β stands for the slope coefficient for the variables. In the equation above μ stands for error term in the model.

- ***Panel data analytic Models***

There are two types of panel data Analytical model i.e. fixed effect model and the random effect model. Gujrati (2004) argues that the Panel data analytical model overcomes the biasness in the predictions of the model and provides efficient estimates for the data.

***a) Fixed Effect Model***

The one extension of Panel Data Analysis model is Fixed Effects Model. The fixed effect model uses a constant slope for the coefficients of the variables and also assumes fixed intercepts. According to Gujrati (2004) the fixed effect model as compared to the OLS model overcome the problem of omitted variables and also cater other problems of OLS.

***b) Random Effect Model***

Another extension of panel data analysis model is the Random Fixed Effects. Wooldridge (2002) stated that the random effect model does not assume constant slope coefficients and fixed intercepts instead the random effect model provides average of intercepts to all the variables under analysis of the model.

**RESULTS AND DISCUSSION**

Data for the concerned variables for the period of 1998 to 2020 were analyzed by using different statistical measures and techniques. The results and findings from the data are given in the following section of the study.

- ***Descriptive Statistics***

***Table 1:*** Descriptive Statistics of DATA

| Variables | Proxy Used | Obs | Mean | Median | Std. Dev. | Min | Max |
|---|---|---|---|---|---|---|---|
| Foreign Direct Investment | In FDIInward stock | 161 | 3.156569 | 3.4127 | 1.275558 | 0.477121 | 5.503092 |
| Trade Openness | InTradeas%GDP | 161 | 1.757889 | 1.69247 | 0.245957 | 1.345711 | 2.476396 |
| Human Capital | InEduexpen%GNI | 161 | 0.431974 | 0.46239 | 0.184119 | 0.09691 | 0.834276 |
| Economic Development | InGDPPC | 161 | 3.045644 | 2.59771 | 0.39983 | 2.314779 | 3.979577 |
| Macro-economic stability | lnFEXR | 161 | 1.716559 | 1.54941 | 0.280054 | 1.070776 | 2.163107 |
| Market Size | InGDP | 161 | 20.59505 | 26.68338 | 7.422792 | 8.500265 | 28.44806 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Bilateral Investment Treaties | lnTITS | 161 | 2.555491 | 2.48490 | 1.250454 | 0.477121 | 4.394449 |
| | lnTITE | 161 | 2.311676 | 1.60943 | 1.148513 | 0.60206 | 4.304065 |

Table-1 provides the brief summary for all the variables of the study from that one can easily understand the important insights of the data. Descriptive statistic presents Mean, Standard deviation, Median, Maximum and Minimum values of the data. It can be seen from the table that there are 161 observations for each variable of study covering the period of 1998 to 2020. The fourth and fifth column presents the mean and median values respectively of the study from which one can easily compare the average of all the variables of the study. It can be concluded form the above mentioned mean and median that there does not exist any significant outlier in the overall data of the study. The mean values for all the variables are presented in the fourth column while the sixth column shows the standard deviation which presents that the standard deviation for the variables are close to its mean value except market size where the value of standard deviation little deviate from its mean value. The seventh and eighth column of the table presents minimum and maximum values respectively and suggests that there does not exists any significant outliers in variables data and also presents that minimum and maximum values for the variables data falls close to its mean values.

Similarly, a correlation among explanatory variables also leads to biased results and therefore, the study used correlation metric for the explanatory variables of the study as given in Table-2 Under this approach the correlation among explanatory variables less than 90% is acceptable and does not leads to any biased results. In the case of current data, there does not exist any significant correlation between the explanatory variables except of the two prime variable of the study (TITS, TITE). However, as mentioned above to avoid biasness in the results the study will use these two variables in separate models.

***Table 2:*** Correlation matrix

| S.no | Variables | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
|---|---|---|---|---|---|---|---|---|---|
| 1 | InFDIInwar~n | 1.00 | | | | | | | |
| 2 | InTradeasGDP | -0.63 | 1.00 | | | | | | |
| 3 | InEduexpenGNI | -0.46 | 0.66 | 1.00 | | | | | |
| 4 | InGDPPC | -0.11 | 0.68 | 0.40 | 1.00 | | | | |
| 5 | lnFEXR | 0.43 | -0.63 | -0.59 | -0.40 | 1.00 | | | |
| 6 | InGDPUS | 0.84 | -0.84 | -0.67 | -0.54 | 0.66 | 1.00 | | |
| 7 | lnTITS | 0.90 | -0.72 | -0.62 | -0.25 | 0.53 | 0.84 | 1.00 | |
| 8 | lnTITE | 0.90 | -0.64 | -0.59 | -0.18 | 0.52 | 0.80 | 0.98 | 1.00 |

- ***Model Specification***

To obtain accurate and unbiased results, the study uses the following specification model in order to choose a more suitable regression model as mentioned in the table below.

| Test | Choose Between | Null Hypothesis | P-value | Result |
|---|---|---|---|---|
| Hausman Test | Fixed Effect vs Random Effect | The null hypothesis is that the preferred model is random effects | If p value <0.05 | Reject Null and use Fixed Effect |

*Table 3: Specification Tests*

To choose an appropriate model for the data analysis the study use Hausman Test to choose among fixed effect and random effects model. The results of Hausman Test are presented in the Table 4. This test was run under the null hypothesis is that the preferred model is random effects than panel fixed

effects for the current data analysis. The results of Hausman test are significant as evident by probability value 0.0013. This leads to the rejection of null hypothesis that the preferred model is random effects and thus, accepts the alternate hypothesis that fixed effects model is better. As a result, fixed effect model is found as a more adequate model as compared to random effects model.

***Table 4:*** Hausman Test

Correlated Random Effects - Hausman Test

Equation: Untitled

Test period random effects

| Test Summary | Chi-Sq. Statistic | Chi-Sq. d.f. | Prob. |
|---|---|---|---|
| Period random | 23.740315 | 7 | 0.0013 |

** WARNING: estimated period random effects variance is zero.

Period random effects test comparisons:

| Variable | Fixed | Random | Var(Diff.) | Prob. |
|---|---|---|---|---|
| InEDUEXPEN_GNI | 1.029155 | 1.241670 | 0.006195 | 0.0069 |
| In_GDP__US$_ | 0.117568 | 0.131679 | 0.000013 | 0.0001 |
| In_TRADE_AS___GDP | -0.599343 | -0.921853 | 0.014606 | 0.0076 |
| In FEXR | -0.936044 | -0.662785 | 0.008554 | 0.0031 |
| In GDPPC | 0.719014 | 1.198137 | 0.020216 | 0.0008 |
| In TITE | 0.365301 | 0.367342 | 0.000281 | 0.9031 |
| In TITS | 0.168405 | 0.088977 | 0.000745 | 0.0036 |

- ***Panel Fixed Effect Analysis***

This study is primarily focused on analyzing the impact of BITs on inward FDI to the developing countries of Asia. Table-5 presents the panel fixed effect regression estimates for the data under the investigation of the study. The value of R-square is 75.9 percent which indicates that independent variables of the study are the strong determinants of FDI inflows to South Asian developing countries. The table presents variable coefficient with its standard error, T-statistics and p-values.

***Table 5:*** **Panel Fixed Effect Model**

Dependent Variable: LN_FDI_INWARD_STOCK_$_MI
Method: Panel Least Squares
Sample: 1998 2020
Periods included: 23
Cross-sections included: 7
Total panel (balanced) observations: 161

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| C | -5.554159 | 1.252978 | -4.432767 | 0.0000 |
| In EDUEXPEN_GNI | 0.967319 | 0.271237 | 3.566319 | 0.0005 |
| In _GDP__US$_ | 0.205944 | 0.064197 | 3.208018 | 0.0016 |

| | | | | |
|---|---|---|---|---|
| In _TRADE_AS___GDP | 0.311929 | 0.346168 | 0.901090 | 0.3690 |
| In FEXR | -0.376128 | 0.393299 | -0.956341 | 0.3405 |
| IN GDPPC | 1.513416 | 0.217626 | 6.954201 | 0.0000 |
| In TITE | 0.583308 | 0.238458 | 2.446166 | 0.0156 |
| In TITS | -0.707885 | 0.319873 | -2.213017 | 0.0284 |

| Effects Specification |
|---|
| Cross-section fixed (dummy variables) |

| | | | |
|---|---|---|---|
| R-squared | 0.759175 | Mean dependent var | 3.156569 |
| Adjusted R-squared | 0.745565 | S.D. dependent var | 1.275558 |
| S.E. of regression | 0.268884 | Akaike info criterion | 0.293869 |
| Sum squared resid | 10.62790 | Schwarz criterion | 0.561817 |
| Log likelihood | -9.656416 | Hannan-Quinn criter. | 0.402666 |
| F-statistic | 265.6712 | Durbin-Watson stat | 1.665907 |
| Prob(F-statistic) | 0.000000 | | |

- ***Economic development and inward FDI to South Asian developing Economies***

Economic development has a significantly positive relationship with FDI inflows to South Asian developing countries as evident by the strong coefficients and positive values for GDPPC in the table (DGPPC = 1.513; p value = 0.000). Lim (1983) stated that economic development with a greater pace provides a wide range of opportunities to investors for making higher profits and on the other hand, slow economic development or no economic development at all provides less or no opportunities at all to earn higher profits. Similarly, the studies of Lunn (1980); Culem (1988); Schneider and Frey (1985) and Shah & Khan (2018) also concluded a significantly positive impact of economic development on FDI inflows. This suggests that economic development of country is one of the important factors that attracts foreign investors to South Asian developing countries and thus, presents significantly positive impact on FDI for these countries.

- ***Macro-economic Stability and inward FDI to South Asian developing Economies***

It is evident from the above table that economic stability has an insignificant negative association with FDI inflows to Asian developing countries as shown by the negative coefficients values for Foreign exchange rate ( Forex rate = - 0.376) which measures the impact of macro-economic stability on FDI inflows to South Asian developing countries. It is due to the fact that devaluation of the host country currency or weak home currency attracts more foreign investors because they will convert fewer amount of strong or superior currency into more weak currency in the host country which will make them able to invest more. However, this association is insignificant, because p value is greater than 0.05 (p value = 0.3405). These results are in line with the findings of Froot and Stein (1991) who conducted a study in United States (US) for the period 1970 to 1980 and pointed out that US have experienced large FDI inflows due to its weak currency in the mentioned time period. Similarly, Cushman (1985, 1988) also carried out a study to examine two sided FDI flows between five industrialized countries and US and found negative relationship between foreign exchange rate and FDI inflows

- ***Trade Openness and inward FDI to South Asian developing Economies***

It is evident from the above table that trade openness has a positive association with FDI inflows to Asian developing countries as shown by the coefficients values for Trade as a percentage of GDP (Trade_GDP = 0.311929) which measures the impact of trade openness on FDI inflows to South Asian developing countries. However, the impact of trade as percentage of GDP is insignificant with a p value of (p value = 0.3690 > 0.05). These findings are in line with the findings of Seim (2009); Majocchi and Strange (2007) as their studies revealed that trade openness negatively affects FDI inflows to a host country. Similarly, Wheeler and Mody (1992) found that trade openness in the telecommunication and electronic center have a positive impact on FDI inflows to a host country.

- ***Market size and inward FDI to South Asian developing Economies***

It is evident from the above table that market size has significantly positive impact on inward FDI to South Asian developing countries as shown by the consistently significant values of GDP which is used as a proxy for the market size in the context of South Asian developing countries (GDP = 0.205944; p value = 0.0016). These results are supported by the studies of Schmitz & Bieri (1972); Lunn (1980); Kravis & Lu, Tao, & Zhu 2017 (1982) where they found a statistically significant impact of market size on FDI and suggested that large market size of a host country is more likely to attract foreign investors because the large market size is important for the efficient utilization of economic resources and also for the better economy of scale which as a result will provide higher profit to the investors.

- ***Human Capital and inward FDI to South Asian developing Economies***

Human capital has a significantly positive correlation with FDI inflows to South Asian developing countries as evident by the significantly positive coefficient values of education expense which is used as an indicator to measure human capital (Educ_Exp = 0.967319; p value = 0.0005). These results are in line with the findings of Zhang and Markusen (1999); Dunning (1998) as found that the lack of human capital discourages FDI inflows to developing or less developed countries. According to Zhang and Markusen (1999) skilled labor is a direct requirement of foreign investors in the host country and therefore, it affects the volume of inward FDI to the host country. Moreover, the study of Dunning (1998) that the level of education and skill of labor in a host country play a significant role in attracting FDI inflows to a host country as it can affect both the volume of inward FDI to the host country as well the nature of activities that foreign investors want to undertake in the host country.

- ***Bilateral Investment Treaties***

At last, analyzing the impact of BITs on inward FDI to the South Asian developing countries it was found that entrance into BITs significantly attracts foreign investors to the host country as it effects their decisions that where to locate their investment funds. The results suggest that there exists significantly positive correlation between BITs and inflows to the South Asian developing countries. The results also presents that countries who signed BITs have received high volume of FDI inflows and these inflows was increased with enforcement of these treaties. The coefficient value for the BITs signed is -0.707 while for the BITs enforced is 0.583; which suggests that the enforcement of BITs results in more FDI inflows as compared to total BITs signed by South Asian developing countries. BITs affect FDI inflows positively due to the fact that it provides protection to foreign investors against different risk which the foreign investor may experience in the host country. These finding are in line with the studies of Agrawal, S. & Sethi (2017) argues that BITs are a legal mechanism that provides certain provisions to overseas investors in developing nations, as these nations normally have a high level of economic, political, and other risks. . Likewise, Kok & Erosy, (2009) suggests that BITs does not only increase FDI inflows from the signatory countries but also have signal effects as these treaties attracts FDI inflows from countries other than the signatory countries to the host nation. This is due to the fact that these investors are interested to invest in host country but are seeking for more favorable and secure conditions in the host country and BITs has almost become a single source which provides these conditions to the foreign investors. Thus, it suggests that the host country which provides legal protection to foreign investors under BITs does not attract FDI inflows from the signatory developed countries but also attract other independent foreign investors from countries other than the signatory due to signaling effects. Consequently, the findings of this study leads to the accept of alternate hypothesis that BITs has positive and significant relationship with FDI inflows to developing countries of South Asia and also findings of this study are according to the previous researches done in this field.

## CONCLUSION

In developing countries across worldwide the inflow of FDI has a great importance as it play significant role in the economic development and growth of these countries. There are certain factors (i.e. market size, economic development, macro-economic stability, human capital, trade openness, infrastructure development) which deemed too important for attracting foreign investors to the host

countries. One the most important factor is the feasibility of the host country environment, that whether it protects foreign investors against certain risk (i.e. privatization, expropriation, discrimination, political and economic risk) or not. To provide a favorable environment to the foreign investors BITs provide a legal mechanism that provides protection to foreign investors against certain risk and thus leads to greater FDI inflows to the host country. BITs do not only attracts FDI inflows from the partner countries but also send positive signals to other prospective investors across the world that host country is providing favorable environment and protection against certain risks. The relationship between BITs and FDI has been previously analyzed in the developing countries of European and North American countries. However, in Asia and especially in south Asia very little work is available in this regard.

This study analyzed the impact of BITs on FDI inflows to Asian developing countries using BITs as a prime explanatory variable and FDI inflows as a dependent variable in these for these developing countries. The study used the data for seven developing countries for the time span of 1998 to 2020 resulting in the total number of 23 years. The finding of the study presents that BITs signed has a significantly positive impact on FDI inflows to the south Asian developing countries. However, BITs enforced have more significant relationship with FDI inflows to these countries and thus leads to high volume of FDI inflows to the host country. Consequently, the findings of the study leads to the acceptance of alternate hypothesis that BITs has significantly positive relationship with FDI inflows to South Asian developing countries and also findings of this study are in line with the previous studies in this field.

**RECOMMENDATION**

- BITs have a positive significant relationship with FDI inflows in developing countries of south Asia and thus significantly affect the flow of FDI to the host country. Hence, BITs play crucial role in the economic development and growth of these countries.
- Other than BITs the FDI inflows also depends on other contextual factors such as market size, economic development, macro-economic stability, human capital, trade openness, infrastructure development. Thus, BITs will have more lasting and substantial effects on FDI inflows in the presence of favorable economic condition, stable macro environment, more trade openness, skilled labor, quality infrastructure and lower currency rate of the host nation.
- As suggested by previous studies that FDI provide sustenance to the economic growth and development of the developing countries, therefore the developing countries of south Asia also need to pay more attention to the context of BITs that as a result will leads to more FDI inflows to these countries.

**ACKNOWLEDGEMENT:** The authors have no acknowledgements to declare.

**CONFLICT OF INTEREST:** The authors declare no conflict of interest.

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