

# Drivers of Foreign Direct Investment Inflows to Emerging Asian Economies

Journal of Emerging Market Finance  
23(1) 83–107, 2024

© 2023 Institute for Financial  
Management and Research

Article reuse guidelines:

[in.sagepub.com/journals-permissions-india](https://onlinelibrary.wiley.com/doi/10.1111/jemf.12522)

DOI: 10.1177/09726527231196722

[journals.sagepub.com/home/emf](https://journals.sagepub.com/home/emf)



Pami Dua<sup>1</sup> and Neha Verma<sup>2</sup> 

## Abstract

This article examines the role of domestic and global factors in driving foreign direct investment (FDI) inflows to Asian emerging economies. Conventional panel estimations do not adequately account for the interdependence among countries caused by common global shocks and spatial effects. This article, employing a novel technique, augments the panel cointegration estimations with a proxy for unobserved common factors extracted from the augmented mean group regression. Our estimations control for nonstationarity, endogeneity, cross-sectional dependence, and heterogeneity. Based on the data of six Asian emerging economies from 2000Q1 to 2019Q4, we find a significant impact of both *push* (global) and *pull* (domestic) factors in attracting FDI. Our policy implication suggests the sequential opening of the capital account with capital controls and macroprudential regulations in place.

## Keywords

International capital flows, FDI, cross-sectional dependence, emerging markets, group-mean FMOLS

**JEL Codes:** F21, F30, F41

<sup>1</sup> Department of Economics, Delhi School of Economics, University of Delhi, New Delhi, India

<sup>2</sup> Department of Economics, Kirori Mal College, University of Delhi, New Delhi, India

## Corresponding author:

Neha Verma, Department of Economics, Kirori Mal College, University of Delhi, New Delhi 110007, India.

E-mail: [nverma@kmc.du.ac.in](mailto:nverma@kmc.du.ac.in)