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THE INTEGRATED IMPACT OF FINANCIAL DEVELOPMENT AND FOREIGN DIRECT INVESTMENT ON THE ECONOMIC GROWTH OF SAARC MEMBER COUNTRIES: AN ECONOMETRIC APPROACH

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Abstract
This study investigates the combined effect of Financial Development (FD) and Foreign Direct Investment (FDI) on the Economic Growth (EG) of SAARC nations. For the analyses, panel data from 1995 to 2023 is used which was collected from World Development Indicators. For data analysis, panel unit root tests, cointegration tests, panel Autoregressive Distributed Lag (ARDL) model and Granger causality tests were applied. Findings show a significant positive relationship of EG and FD and FDI. But in case of short run, negative and insignificant relationship is found. It implies that FDI and FD are imperative to improve the EG of SAARC countries in the long run. Therefore, the study suggests that FDI inflows and financial sector development on long term bases should be encouraged to improve the economic growth of SAARC countries.

1 Introduction

The targets of EG decided by the developing and developing world for establishing a stable economic status. As a result of increased EG, most of the countries create a multitude of unique plans and policies aiming at promoting social welfare and an undisrupted long term economic development. EG is influenced by an extensive range of macroeconomic factors like; technology, human capital, physical capital, and so forth. Amongst such factors, FDI is considered a critical element of EG and the process of financial globalization due to the belief that it can provide not only the much-needed additional foreign capital, but also new and improved managerial and marketing skills, new and improved technology and know-how, and horizontal and vertical knowledge spillovers through backward or forward linkage with local firms (Javorcik, 2004; Alfaro, 2017). It is now acknowledged that one of the most effective ways to extract external flows is through FDI. Across the world's developed nations, building capital has also involved the use of this technique. But in recent years, these nations' proportion of investments in other states has decreased. The developing nations benefit from FDI as a tool for EG and strengthening (Muhammad, 2007). The most hopeful effects of FDI entry include higher gross output, more job

opportunities, higher export outflows, and the exchange of technological advances between countries and investors (Gudaro et al., 2010).

The definition of FD is the progression of the financial system in respect of efficiency, quantity, and quality. a resilient financial system encourages the transfer of resources from less productive to more productive industries, which in turn accelerates the development of technological advancements. It can be attributed to the expansion, accessibility, and efficiency of the financial sector Theoretically, the justification of the relationship between FD and economic expansion is established by Schumpeter's (1911) work. Researchers, however, designate that FDI flinches to effect EG as soon as a host nation marks a certain level of FD and that this impact grows as FD increases (Azman-Saini & Law, 2010). It is accredited that FDI and FD play a momentous role in shaping EG. FD eases the allocation of resources to industrious sectors, upsurges capital access, and rallies the efficiency of financial intermediation. FDI, on the other hand, provides access to international markets, know-how, and supervisory savoir-faire in addition to finance. Even so, there is a lack of research and understanding regarding the influence of FD and FDI to economic progress in the SAARC region. The financial growth of the SAARC nations diverges, with some having more developed financial infrastructures than others. This inconsistency raises the question of whether FD's impact on the regional EG is consistent. While some SAARC nations see high levels of FDI, others have difficulty luring in outside capital. The region's inadequate FDI distribution points to conceivable complications that should be found and removed. The combined impact on EG varies depending on the nation. It is vital to know if underdeveloped financial systems obstruct the advantages of FDI or if FD increases the beneficial effects of FDI on EG. Therefore, this study is initiated to investigate the combined influence of FD and FDI on the EG of SAARC countries.

The novelty of this study is that it's an attempt to allocated the time series data of the SAARC countries to know the empirical integrated impact of FDI and FD on the EG. The study is organized in five sections. Where, Sections 1 and Section 2 are bestowed on the Introduction and Literature Review. Whereas, Section 3 is allocated for the Methodological Explanations. And, Section 4 and Section 5 are known for the Results and Discussions and Conclusions and Policy Recommendations.

2 Literature Review

Sghaier (2023) examined the relationship between FD, trade openness, and EG in North African nations using data from 1991 to 2015. The study used the generalized method of moment (GMM) for data analysis. Taddese and Abebaw (2023) investigated the association between EG and the development of the financial sector in 25 sub-Saharan African nations between 2010 and 2017. GMM estimate was utilized in the study to analyze the data. The study employed return to assets, commercial bank branch per 100,000 adult population, and credit provided to the private sector per GDP as proxies and metrics for the depth, accessibility, and efficiency of the financial sector, respectively. The study by Sghaier (2023) found a strong positive relationship between trade openness and EG. According to the study, trade openness seems to be enhancing FD and has a stronger impact when the FD variable is present. And, the findings of Taddese and Abebaw (2023) showed that the depth, accessibility, and efficiency of the financial sector have a favorable and significant impact on the EG of these nations. As a result, it was advised that the relevant authorities take note of the necessity of increasing the depth of financial institutions by extending more credit to the private sector.

Nguyen & Pham (2021) and Abbas et al. (2022) also explored the relationship of FD and EG. Abbas et al. (2022) used data from 44 nations between 1995 and 2018 to examine the connections between FD and EG. The study used the panel ARDL model for data analysis. Nguyen et al. (2022) investigated the relationship between growth and FD in developing economies using data from 1980 to 2020. The DCCE and causality tests were employed in this study. The findings showed that, over time, FD assists to improve EG. The outcomes also demonstrated that there was a

positive and linear association between FD and EG. Nguyen & Pham (2021) explored the contribution of FD to EG. The analysis employed the GMM method for data estimation and used data from five Asian developing economies spanning the years 1990 to 2020. The findings demonstrated that, although the link appears to be inverted U-shaped, the three FD metrics were substantial predictors of EG in transitional economies. Kassie (2021) investigated the influence of FD on EG of African nations using a panel dataset covering 35 African nations from 1985 to 2018. The study used GMM estimation for data analysis.

On the other side, Awan & Waqas (2023) and Azizov et al. (2023) determined the linkage between EG and FDI in the instance of Pakistan and Turkey using yearly data from 1973 to 2021 and data from 1990 to 2021. The GDP was the dependent variable, while the three independent variables were trade, inflation and FDI. Both short- and long-term relationships are examined by the Johansen cointegration approach. The results indicated that trade and FDI have a positive influence on economic expansion, but inflation has a negative correlation with GDP. In case of Azizov et al. (2023), The results indicated that there was a significant and optimistic link between FDI and GDP. The variables exchange rate and FDI and GDP have a long-term integrative connection. This implies that a one percent increase in FDI causes a 0.35% rise in GDP, provided all other factors stay the same.

Osei & Kim (2020), Phuyal and Sunuwar (2018), and Siddique et al. (2017) also went for discovering the impact of increased FD on the growth-promoting effects of FDI on GDP. The study reexamined the potential nonlinearity between finance, FDI and growth using data of 62 middle- and high-income countries for the period of 1987 to 2016. The study supported the hypothesis that FDI endorses growth; however, the growth impact of FDI was lost when the FD roses above 95.6 percent. Phuyal & Sunuwar (2018) examined the association between EG and FDI. Examining how FDI affects Nepal's employment and EG was the primary focus of this examination. Data from the years 2007 to 2016 was used to achieve this goal. The investigation's findings demonstrated a strong correlation between Nepal's GDP development and FDI inflows into the travel and agricultural sectors.

Ramzan et al. (2009) examined the association between EG and FDI in the context of 70 developing nations. In this study, the panel dataset covering the years 1980 to 2015 was used. Net FDI inflows, the labor force growth rate, gross capital formation, FD, inflation as assessed by the GDP deflator, and human capital were the exogenous factors included in the model, and the GDP growth rate was used to measure the dependent variable, which was EG. The outcomes exhibited that FDI had a favorable influence on EG if a nation's human capital surpassed a certain level.

Siddique et al. (2017) explored the correlation between FDI and EG utilizing data from Pakistan that covered the years 1980 to 2016. The outcomes were estimated using the ARDL econometric approach. EG was the dependent variable, whereas FDI, HC and physical capital are the exogenous variables. The results showed that trade, physical capital, HC and FDI all had a favorable effect on EG. Mehic et al., (2013) assessed how FDI affected EG in southeast European nations. The influence of FDI on EG was examined using a panel dataset of nations covering the years 1998 to 2007. The results were estimated using panel-adjusted standard errors in a Prais-Winsten regression. GDP per capita was the dependent variable, whereas trade openness, inflation rate, government balance, domestic investment, and FDI were the independent variables. The study demonstrated a significant and favorable association between FDI and EG. The findings also demonstrated that positive influences on the GDP came from domestic investment and trade openness.

Saqib et al., (2013) inspected the impact of FDI on GDP in the context of Pakistan. The data used in this investigation spanned the years 1981 to 2010. The long-term results of the variables were examined by the author using the ADF test. The ordinary least square approach was used to evaluate the long-run association between FDI, economic growth, and other control variables. Other control variables included in the study that

affect economic growth were trade, inflation, and domestic investment. The findings showed that FDI had an adverse influence on Pakistan's economic performance, but local investment had a beneficial impact. The results also investigated the hypothesis that trade, inflation, and debt had a negative initial influence on GDP. Nonetheless, there was no statistically significant correlation found between debt and EG.

Ek (2007) investigated how FDI affected China's EG. The data used in this investigation covered the years 1994 through 2003. The research showed that FDI has a favorable effect on China's economic growth since it allows one country to transmit its innovative technology to another, increasing the recipient nation's GDP. Thirty regions of China's data were used in this study. The results of the case study of 30 Chinese regions showed that FDI had a beneficial influence on EG and this relationship was substantial at the six percent level.

Moudatsou (2003) analyzed the influence of FDI on EG in EU member states. The panel dataset that the author used spanned the years 1980 to 1996. The results showed that different factors had distinct effects on EG in the various member states of the European Union. EG was the endogenous while the exogenous variables were trade, gross capital formation, FDI, education, and the interaction between FDI and education. The outcomes exhibited that FDI had a positive influence on EG. The outcomes also supported the interaction term FDI*Education, which demonstrated that FDI inflows enhance an economy's growth if the recipient nation's human capital pool meets a minimum standard. Trade, education, and gross capital formation all demonstrated a direct correlation with economic growth.

Alfaro (2003) investigated the association between EG and FDI. The author used data spanning the years 1981 to 1999 to achieve this purpose. Economic growth is the dependent variable in the model, and the independent variables are human capital, government spending, trade, inflation, and FDI. Using the ordinary least squares approach, the results were examined. The results showed that trade, HC and FDI all had a positive influence on EG. It was discovered that inflation has a detrimental impact on EG

The literature gap is evident in context of SAARC. The segregated analyses of FDI and FE in line with EG is a stance of this study to fill a literature gap. Relying on the literature review, following conceptual framework is developed which is shown in Figure 1.

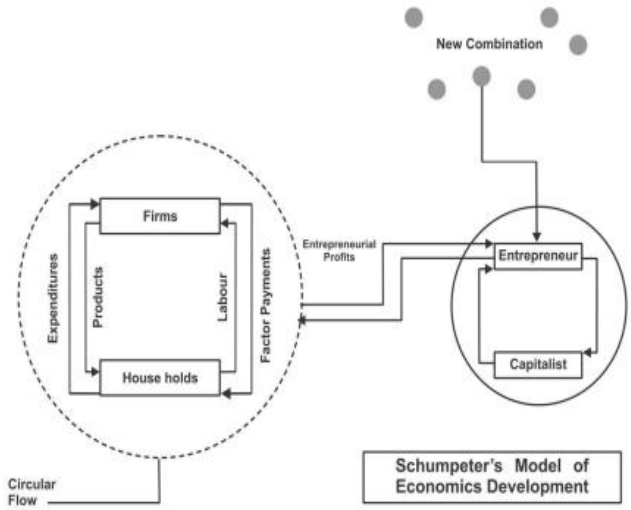

Figure 1
Conceptual Framework

3 Methodological Explanations

This study analyzes the desegregated relationship of FD and FDI on the EG of SAARC nations which include; Bangladesh, Nepal, Pakistan, India, Sri Lanka, Bhutan and Maldives that availability of data has been used for the study purpose. In this study the data from 1995 to 2023 was to be used. Data together from WDI dataset.

The classical growth model infers that labor and capital are vital sources of production in an economy. The production function suggested by classical is given as follows:

Output = f (Labor, Capital) (4.1)

In addition, FDI and FD are imperative to boost the economic growth of any country. Therefore, this study adds combined version of FDI and FD to the classical growth model in order to know the state of being of EG. Similarly, the control variables incorporated in a model are inflation rate and human capital. The model's functional form is given as under:

Output = f (Labor, Capital, FDI, FD, Human Capital, Inflation Rate)

The model's econometric form is as follows:

$$EG_{it} = \beta_o + \beta_1 ER_{it} + \beta_2 GCF_{it} + \beta_3 INF_{it} + \beta_4 HC_{it} + \beta_5 (FD * FDI)_{it} + u_{it}$$

Where;
EG = Economic growth
ER = Employment rate
GCF = Capital
INF = Inflation rate
HC = Human Capital
FD*FDI = Interaction term of FD and FDI
u_{it} = Error term

Table 1
Variables' Descriptions

Variables	Descriptions	
Dependent Variable		
EG	Economic Growth	GDP growth rate (Annual)
Independent Variables		
ER	Employment Rate	
GCF	Gross Capital Formation	Percentage of GDP
FDI	FDI Inflows	Percentage of GDP
FD	FD	Domestic credit to private sector (percent of GDP)
HC	Human Capital	Secondary School Enrolment (Gross)
INF	Inflation rate	CPI (Annual)

Pesaran et al. (1999) initially introduced the autoregressive distributed lag (ARDL) model, which addresses singular cointegration. The ARDL approach has the advantage of not necessitating that all variables be I (1), as the Johansen framework does. Additionally, it remains applicable if the set contains I(0) and I(1) variables. In contrast to other methods of co-integration, the bounds test procedure has the following econometric advantages:

- The model is predicated on the assumption that all variables are endogenous.
- The bounds test procedure for cointegration is being implemented regardless of the variable's integration

order. Integrated first-order I (1) or I (0) may exist.

- The
- model's short-run and long-run coefficients are estimated concurrently.

The bound test is conducted to know the long run relationship. In this case, the Wald Test F statistic is calculated. The conclusions are given below:

- If the Wald statistic exceeds the upper bound, it indicates strong evidence of cointegration.
- If it falls below the lower bound, it suggests no cointegration.
- If the statistic falls between the bounds, the results are inconclusive.

The panel ARDL long-run forms of the model is given as follows:

$$\Delta EG_t = \alpha + \beta_1 EG_{t-1} + \beta_2 ER_{t-1} + \beta_3 GCF_{t-1} + \beta_4 FD * FDI_{t-1} + \beta_5 HC_{t-1} + \beta_6 INF_{t-1} + \sum_{i=1}^{a_1} \delta_1 \Delta EG_{t-i} + \sum_{i=0}^{a_2} \delta_2 \Delta ER_{t-i} + \sum_{i=0}^{a_3} \delta_3 \Delta GCF_{t-i} + \sum_{i=0}^{a_4} \delta_4 \Delta FD * FDI_{t-i} + \sum_{i=0}^{a_5} \delta_5 \Delta HC_{t-i} + \sum_{i=0}^{a_6} \delta_6 \Delta INF_{t-i} + \varepsilon_t$$

Similarly, the ARDL short run form of the model is given below:

$$\Delta EG_t = \alpha + \sum_{i=1}^{a_1} \lambda_1 \Delta EG_{t-i} + \sum_{i=0}^{a_2} \lambda_2 \Delta ER_{t-i} + \sum_{i=0}^{a_3} \lambda_3 \Delta GCF_{t-i} + \sum_{i=0}^{a_4} \lambda_4 \Delta FD * FDI_{t-i} + \sum_{i=0}^{a_5} \lambda_5 \Delta HC_{t-i} + \sum_{i=0}^{a_7} \lambda_6 \Delta INF_{t-i} + \omega ECM_{t-1} + \varepsilon_t$$

4
Results & Discussions

Descriptive statistics are specified in Table 2. Significant deviations from the mean values are recorded at all the variables except EG, FDI, and INF. Utmost number of the series are positively skewed with the exception of EG and INF. However, except HC, rest of the variables are leptokurtic with wide tail and sharp peak.

Table 2
Descriptive Estimates

Variables	Mean	Maximum	Minimum	S.D.	Skewness	Kurtosis
EG	5.081	26.111	-33.500	4.737	-3.092	29.579
ER	41.390	79.524	17.458	15.263	1.247	3.775
GCF	29.505	69.485	9.264	11.939	1.188	4.478
FD	34.069	88.440	6.961	14.865	0.753	3.562
FDI	1.788	17.138	-0.676	2.713	3.103	13.576
HC	58.822	100.943	18.524	22.347	0.244	2.187
INF	6.320	22.565	-18.109	4.167	-0.499	9.852

Correlation analyses is presented in Table 3. The results show relatively slighter than moderate correlation among the opted variables.

Table 3
Correlation Estimates

Correlation	EG	ER	GCF	FD	FDI	HC	INF
EG	1.000						
ER	-0.004	1.000					
GCF	0.101	-0.053	1.000				
FD	-0.146	-0.060	0.287	1.000			
FDI	-0.052	-0.221	0.091	0.099	1.000		
HC	0.100	-0.418	0.275	0.575	0.143	1.000	
INF	0.030	-0.016	-0.191	0.059	-0.149	-0.006	1.000

Various panel unit root tests are applied, including the ADF Fisher test, PP Fisher test, LLC, and IPS. Table 4 summarizes the outcomes of these assessments. The outcomes point out that EG, FDI, and inflation are stationarity at I(0) although employment rate, gross capital formation, FD and HC are stationarity at the I(1). Consequently, it is determined that the panel ARDL model is well-suited for the long-term parameter estimation, as indicated by the mixed integration order.

Table 4
Panel Unit Root Test Estimates

Variable	LLC	IPS	ADF	PP	LLC	IPS	ADF	PP	LLC	ADF	PP	Results
EG	2.612 0.996	-2.981 0.001	35.346 0.001	39.706 0.000	4.818 1.000	-1.331 0.092	24.308 0.042	26.283 0.024	-2.259 0.012	26.055 0.026	33.906 0.002	I(0)
ER	2.858 0.998	4.471 1.000	7.884 0.895	1.726 1.000	-0.081 0.468	-0.029 0.488	12.339 0.579	5.833 0.971	-3.813 0.000	31.032 0.006	42.772 0.000	I(1)
GCF	-0.356 0.361	-0.101 0.460	13.097 0.519	14.187 0.436	1.851 0.968	0.045 0.518	13.581 0.481	14.364 0.423	1.197 0.884	6.200 0.961	6.750 0.944	I(1)
FD	0.990 0.839	2.749 0.997	4.374 0.993	3.277 0.999	1.932 0.973	2.171 0.985	4.029 0.995	3.317 0.998	3.113 0.999	3.310 0.998	3.213 0.999	I(1)
FDI	-1.409 0.079	-2.546 0.005	33.376 0.003	41.484 0.000	-0.816 0.207	-1.926 0.027	27.351 0.017	40.691 0.000	-1.483 0.069	18.264 0.195	26.021 0.026	I(0)
INF	-2.762 0.003	-2.605 0.005	27.901 0.015	47.809 0.000	-1.537 0.062	-0.781 0.217	15.787 0.327	33.463 0.003	-2.713 0.003	23.965 0.046	31.684 0.004	I(0)
HC	0.976 0.836	3.903 1.000	2.171 1.000	3.802 0.997	0.507 0.694	-0.116 0.454	13.015 0.525	11.274 0.664	3.677 1.000	0.402 1.000	0.193 1.000	I(1)

For the cointegration analysis, Pedroni and Kao cointegration tests are used. Table 5 is given to report the outcomes of the cointegration tests. The outcomes exhibit that the Panel PP-Statistic and ADF-Statistic, Group PP-Statistic ADF-statistic tests have p-values which are lesser than 0.05 and indicate that the H(0) is rejected. Similarly, the Kao Test also displays the p-values lower than 0.05. Therefore, the findings encourage to mention that

there is a long-run cointegration between variables in both models.

Table 5
Cointegration Test

Tests	Model $EG_{it} = \beta_o + \beta_1 ER_{it} + \beta_2 GCF_{it} + \beta_3 INF_{it} + \beta_4 HC_{it} + \beta_5 (FD * FDI)_{it} + u_{it}$	
	Statistic	**Prob.**
Panel v-Statistic	0.0567	0.4774
Panel-rho-Statistic	0.1829	0.5726
Panel-PP-Statistic	-9.3457	0.0000
Panel-ADF-Statistic	-5.2060	0.0000
Group-rho-Statistic	1.9324	0.9734
Group-PP-Statistic	-6.2969	0.0000
Group-ADF-Statistic	-1.6901	0.0455
ADF	-5.0868	0.0000

Long run coefficient estimates are got through ARDL method. The results are given in Table 6.

Table 6
Long-Run Results of Panel ARDL

DV: EG (GDP Growth Rate)				
ARDL (1, 2, 2, 2, 2, 2, 2)				
Variables	**Coefficient**	**S.E.**	**T-Stat.**	**Prob**
ER	0.1810	0.0860	2.1033	0.0374
GCF	0.1787	0.0483	3.6965	0.0003
INF	0.0020	0.0360	0.0557	0.9556
HC	0.0956	0.0706	1.3532	0.1783
FD*FDI	0.0535	0.0116	4.5755	0.0000

The combined version of FD and FDI bears a significant coefficient value of 0.0535. The direction of impact on EG of SAARC nations is positive. Therefore, the conclusion is drawn that the one unit increase in FD*FDI cause EG to increase by 0.0535 units.

The findings have shown that one unit increase in ER increases economic growth by 1.1917 units. Increase in employment favors the economic activity which in-turn lead to engage the economic growth. These outcomes suggest that an increase in employment enhances the income and living standard of the people. So, they can consume and invest it in goods and services and this can lead to improve the economic growth of the country. Asghar et al. (2024) and Shah et al. (2020) also support the classical proposition that there is a positive link between labor and EG.

It suggests that investment in physical assets like machinery and infrastructure supports the economy's overall growth. This is because capital formation fosters technical improvements, increases employment, and improves productivity all of which are essential for long-term economic growth. Asghar et al. (2024), Shah et al. (2020) and Kanu & Ozurumba (2014) also found a similar association between GCF and economic growth.

The HC's β states that as it enhances by a unit the EG also leads to an increase of 0.2361 units. These results infer that improvement in human capital of the country improves the skills, efficiency and specialization of labor. These factors are crucial to improve the productivity and output of the country. Asghar et al. (2024) and Shah et al. (2020) also found a positive link between HC and EG.

The INF's coefficient postulates that as it enhances by a unit the EG also leads to a decrease of -0.1779 units. These results point out that the confidence of individuals in money as a medium of exchange is diminished as a result of inflation, which in turn reduces savings, discourages investment, and impedes economic growth. Inflation's primary mechanism for impeding economic advancement is investment (Barro & Sala-I-Martin, 1995). Therefore, an elevated inflation rate is detrimental to economic expansion. A high inflation rate, poverty, unemployment, and inadequate welfare are all inextricably linked to an economy with insufficient growth (Aydin et al., 2016). These results are also found by Shah et al. (2020) and Azam & Khan (2022).

Short run coefficient estimates are published in Table 7.

Table 7
Short Run Estimation

Variables	β	S.E.	T-Stat.	Prob.
ECT(-1)	-0.5555	0.1312	-4.2338	0.0000
D(ER)	1.3821	0.6460	2.1394	0.0343
D(GCF)	0.3065	0.1483	2.0658	0.0409
D(HC)	0.0137	0.1009	0.1359	0.8921
D(INF)	-0.0147	0.0721	-0.2042	0.8385
D(FD*FDI)	-0.0159	0.0115	-1.3835	0.1689
C	-6.3252	1.8781	-3.3678	0.0010

The results show that employment rate and gross capital formation are positively and are significantly associated with EG in the short-run. In contrast, the influence of HC and INF on EG is mixed but statistically no substantial in the short-run. In addition, in the model of short-run, the ECM term is imperative to study. The outcomes display that the ECT(-1) is negative and statistically significant. It specifies that at the rate of 55.55 the short-run errors are adjusted to move into long-run equilibrium.

To examine the causality analysis, panel Granger causality test is applied. For this purpose, firstly, optimal criteria of lag length are determined using LogL, LR, AIC, SC and HQ tests. The outcomes reported in Table 8 indicate that the LR, AIC and SC tests are significant at lag 3 while HQ suggests optimal lag length one. Based on the findings, it is concluded that the optimal lag length for the Granger causality test is three.

Table 8
Estimate of the Lag-Length Criterion

Lag	LogL	LR	AIC	SC	HQ
0	-3949.827	NA	49.1531	49.2871	49.2075
1	-2763.707	2254.364	35.0274	36.0992	35.4626*
2	-2697.388	120.2806	34.8122	36.8218	35.6282
3	-2630.197	116.019*	34.5863*	37.5337*	35.7830

Table 9 displays the Granger causality test estimates. The results show that one-way causality between employment rate and EG, one-way causality between GCF and EG, two-way causality between FD and EG, unidirectional causality between FDI and EG, unidirectional causality between human capital and EG and no causality between INF and EG.

Table 9
Granger Causality Test (Lags 3)

H_o	F	P-Value	Results
ER ↛ EG	0.08776	0.9667	Two-Way
EG ↛ ER	3.28107	0.0226	
GCF ↛ EG	2.68946	0.0484	Unidirectional
EG ↛ GCF	0.72437	0.5389	
FD ↛ EG	3.21093	0.0247	Bidirectional
EG ↛ FD	2.21072	0.0891	
FDI ↛ EG	6.67238	0.0003	Unidirectional
EG ↛ FDI	0.99895	0.3951	
INF ↛ EG	0.99163	0.3985	No-Causality
EG ↛ INF	0.68883	0.5602	
HC ↛ EG	4.32327	0.0059	Unidirectional
EG ↛ HC	0.25931	0.8546	

5 Conclusion & Policy Recommendation

This study investigates the integrated impact of FD and FDI on the EG of SAARC countries. For this purpose, the data from seven SAARC countries including Bhutan, Bangladesh, Nepal, Pakistan, Sri Lanka, Maldives and India are used in a study based on data availability. Data from 1995 to 2023 is used in the study. The data was collected from World Development Indicators.

The panel ARDL long-run estimates show that the variables such as; employment rate and GCF are directly linked with the EG in SAARC countries while inflation and human capital bear an insignificant sign. Similarly, the panel ARDL results of the prescribed model also show that the ECM (-1) term is negative and statistically significant and specifies that at the rate of 55.55 the short-run errors are adjusted to move into long-run equilibrium.

It implies that FDI and FD are imperative to improve the EG of SAARC countries. These results also point out that a country's economic growth is improved by the transfer of technology, an increase in gross fixed investment, and the enhancement of employment opportunities through FDI.

As a policy recommendation, it is need to create an environment which is friendly for FDI and FD related concerns so that the desired objectives of economic growth are achieved by the SAARC nations.

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