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WHAT LABOUR DYNAMICS ATTRACT FDI INFLOWS INTO SOUTH ASIA?

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ABSTRACT

This research paper examines the impact of labour dynamics such as cost of labour, skill level of employees, and differences in female participation for labour force on Foreign Direct Investments (FDI). South Asia exhibits varying labour dynamics and different patterns of FDI attraction. Thus, employing macro-level data from 2000 to 2003, we estimated a panel data model for four-leading South Asian countries, namely; Bangladesh, India, Pakistan and Sri Lanka. Findings of this study suggest that skilled level of the population, the level of economic openness, and infrastructure availability are key determinants of FDI inflows in to South Asia. Interestingly, cost of labour and differences in gender participation are not significant determinants. However, insignificant relationship between FDI inflows and cost of labour in South Asia is not surprising as East Asian countries such as China, Cambodia and Vietnam still dominantly attract cost-sensitive FDI at the global market. As suggested by the results, South Asia has a comparative advantage to attract skill-sensitive FDI. Therefore, countries in South Asia should invest in human capital to attract more FDI rather than facilitating cost-sensitive investments.

Keywords: Foreign Direct Investment, Labour Dynamics, Panel Data, South Asia