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Revisiting growth fundamentals in SAARC: An empirical investigation of economic freedom, human development, and foreign direct investment

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Abstract. The South Asian Association for Regional Cooperation countries prioritised economic growth and development, but continued to face persistent challenges like poverty, inequality, and sluggish progress in attaining sustainability. Therefore, the purpose of the study was to examine the impact of economic freedom index, foreign direct investment, and human development index on economic growth of South Asian Association for Regional Cooperation countries from 2005 to 2023. Fully modified ordinary least squares regression method was used as estimating technique. The results showed that both the economic freedom index with β = 1.9895; p-value = 0.0000, and the human development index with β = 0.6901; p-value = 0.0020 had a positive and significant effects on economic growth, suggesting that higher levels of economic freedom in addition to having a more skilled, healthy, and productive workforce were associated with improved economic growth. In contrast, both foreign direct investment with β = -0.2981; p-value = 0.0000 and official development assistance with β = -5.4552; p-value = 0.0000 exhibited negative and significant effects on economic growth. When multinational corporations repatriating profits to their home countries rather than reinvesting them in the region, corruption exists in the management of foreign aids, this may limit the benefits of foreign direct investment in the region. This study concluded that economic

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freedom index, foreign direct investment, and human development index affected economic growth in the South Asian Association for Regional Cooperation region. Therefore, to sustain growth, governments of these countries should implement policies that improve market efficiency, reduce bureaucratic bottlenecks, and strengthen legal institutions to attract high-quality investments

Keywords: gross domestic product; financing; free economy; official development assistance; long-run relationship

Introduction

Economic growth and development are fundamental objectives for nations globally, particularly in regions striving to overcome poverty, inequality, and underdevelopment. The South Asian Association for Regional Cooperation (SAARC), established in 1985, represented one of the most dynamic and populous regions in the world, comprising 8 countries: Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka. Collectively, the SAARC region accounts for over 1.9 billion people, approximately 24% of the global population and A.A.E. Eissa & M.M.Y. Mohammed (2023) directed the focus of their studies to the SAARC region.

Many countries within the SAARC region strive to ensure access to basic needs for their citizens, while simultaneously boosting investments and achieving economic growth. M.H. Shah (2023) opined that developing countries faced chronic shortages of domestic capital, prompting intensified competition among them to attract scarce Foreign Direct Investment (FDI) as a means to bridge their investment gaps. A significant challenge for these nations was determining, how to effectively measure citizens' needs. As a result, reliance on the Human Development Index (HDI) and its key sub-indicators such as education, health, and improved living standards has become common. As such, studies such as by F. Wahyuningrum & E. Soesilowati (2021) and A. Štilić *et al*. (2023) used GDP (Gross Domestic Product) per capita in USD to calculate economic growth.

The introduction of needed capital, technology, and expertise via foreign direct investment (FDI) aided in industrialisation and the creation of jobs. S. Ahmed *et al*. (2023) noted that the inflow of FDI has been uneven, often concentrated in India, leaving other SAARC countries with limited benefits. On the other hand, S.K. Fazlly (2024) posited that foreign aids of official development assistance served as an essential lifeline for countries developing countries, helping to address developmental gaps in areas such as education, health, and infrastructure. Despite their benefits, the long-term reliance on ODA and FDI may create vulnerabilities, including external dependency and economic volatility.

N.T. Hung *et al*. (2024) evaluated the effects of economic freedom on the economic growth of 54 nations from 2008 to 2022. The impact of economic freedom on the economic growth of Least Developed Countries (LDCs) between 2000 and 2021 was also investigated by A. Afonso & M.C. Blanco-Arana (2024). The impact of several measures of economic freedom on Indonesia's economic growth from 1995 and 2022 was highlighted by I. Hardi *et al*. (2024). These studies did not consider the significant contributions that FDI, HDI, and ODA provided in boosting growth. Y. Bao *et al*. (2024) examined the effects of corruption, economic freedom, and foreign direct investment on the GDP growth of G7 and African nations between 2010 and 2019. From 1997 to 2022, researchers M. Lucky & E. Hikmah (2024) examined the effects of economic freedom and foreign direct investment (FDI) on economic growth in the Regional Comprehensive Economic Partnership (RCEP) with free trade agreements. M.G. Ansari & R. Sensarma (2022) investigated the relationship between foreign direct investment, economic freedom, and economic growth in 15 nations. However, the importance of ODA and the human development index (HDI) was not taken into consideration in these studies. As a result, little was known about, how economic freedom, FDI, HDI, ODA, and economic growth interacted, especially in the SAARC region.

This lack of regional perspective created a gap in understanding the institutional frameworks required to foster sustainable growth and development within the SAARC region. To bridge this gap, it was worth to evaluate, how changes in economic freedom, FDI, HDI and ODA could explain the variation in economic growth among SAARC countries. Many SAARC countries relied on ODA, so understanding its interaction with economic freedom and investment was crucial for effective policy. A comprehensive view of ODA, FDI, HDI, and economic freedom offered clearer insights into pathways for sustainable growth. The purpose of this study was to test the relationship between economic freedom, economic growth, economic development, and foreign direct investment. Hypotheses of the study: H_0 = no cointegration between variables; H_1 = cointegration between variables.

Literature Review

Economic freedom, as conceptualised by The Heritage Foundation (2025), highlighted the importance of liberty in business operations. The economic freedom index, a key metric for assessing business freedom and market dynamics, initially included ten indicators: property rights, wages, banking and finance, informal market activities, monetary policy, fiscal policy, government intervention, trade policy, capital inflows, and regulation. As of 2020, this index comprised 12 sub-indicators grouped into four main categories. Rule of law, which covered property rights, the efficacy of the judiciary, and

the integrity of the government, and government spending, tax burden, and fiscal health, were among these categories. Regulatory efficiency encompassed labour, business, and monetary policy freedom; open market includes financial, trade, and investment freedom.

Official Development Assistance (ODA) described government help given by industrialised countries to developing countries in order to promote their economic growth and well-being. It included grants, concessional loans, and technical assistance aimed at reducing poverty and fostering long-term growth. ODA was usually provided by international organisations or bilateral agreements between governments. The rise in an economy's output of goods and services over time was known as economic growth, and it was commonly expressed as GDP per capita. GDP per capita, which was a measure of the average income and standard of life of people in an economy, was calculated by dividing the entire economic production of a nation by its population. It helped to assess a nation's economic performance and development progress.

D. Şahin (2018) used bootstrap panel causality analysis to examine the relationship between economic growth, economic freedom, and foreign direct investment in Brazil, Russia, India, China, South Africa, and Turkey. According to the study, foreign direct investment fuelled economic growth in South Africa, while economic freedom in Turkey fuelled investment. No such connections were found in the other countries. F. Economou (2019) considered the factors that affected foreign direct investment (FDI) inflows, including economic freedom, in 4 South European countries (Greece, Italy, Portugal, Spain) using random effects panel model. The study found that larger markets and more capital formation led to higher FDI, while higher labour costs reduced FDI. Economic freedom also consistently boosted FDI. In particular, FDI was strongly positively impacted by monetary independence, government integrity, property rights protection, and financial freedom.

The researchers C. Ciftci & D. Durusu-Ciftci (2021) considered the causal relationships between economic freedom, foreign direct investment (FDI), and economic growth in the 18 countries that attracted the most FDI, using the panel Granger causality test. Based on the total economic freedom index, they discovered shaky evidence for direct causal relationships between economic freedom, foreign direct investment, and economic growth. Using portions of the freedom index, they also examined the linkages between freedom and FDI, freedom and growth, and FDI and growth. The results indicated a number of causal relationships between these variables. A. Gouider (2022) used simple least squares estimation to investigate the link between economic freedom and economic growth in Arab countries from 2002 to 2019. The study found that more economic freedom was linked to higher economic growth. However, only 4 out of the 10 factors in the economic freedom index, trade freedom, government integrity, property rights, and tax burden, significantly affected real GDP per person.

I. Dia & H.A. Ondoa (2022) used a two-stage least squares regression (2SLS) to examine the relationship between economic freedom and foreign direct investment (FDI) in 37 Sub-Saharan African nations. They discovered that economic freedom – which included a robust legal system, protection of property rights, freedom of international trade, and regulations pertaining to labour, business, and credit markets – helped to increase foreign direct investment (FDI) in the area. Nonetheless, stable currency and government size had a small, but favourable impact. The results stayed strong even, when they used FDI per person instead of total FDI. M. Bhuiyan *et al*. (2022) examined the link between economic growth and economic freedom in Bangladesh from 1995 to 2020. They were uncertain whether economic freedom drives growth, growth led to more freedom, or if both influence each other. To explore this, they used the ARDL method to analyse the relationship and found a long-term connection. They tested the data using the Heritage Foundation's economic freedom index and Bangladesh's per capita GDP. The study concluded that a 1% increase in economic growth led to a 0.09% rise in economic freedom in the long run.

Researchers M. Lucky & E. Hikmah (2024) examined the relationship between economic growth, foreign direct investment (FDI), and economic freedom using the Granger causality test and the Vector Error Correction (VECM) model. They examined data from 1997 to 2022 from nations having free trade agreements that were part of the Regional Comprehensive Economic Partnership (RCEP). The results showed a weak long-term relationship between these factors in the short term. Additionally, they discovered a reciprocal association between economic growth and FDI and economic freedom. This implied that measures that promoted economic freedom and drew in foreign capital may boost a nation's economic expansion. M.J. Tama (2024) considered the relationships between corruption, investment, unemployment, and per capita economic growth in 22 Asia-Pacific countries from 2012 to 2020, using the Granger causality test and Vector Error Correction Model. The findings showed a two-way link between corruption and per capita economic growth, while the unemployment rate only affected economic growth in one area. No connection was found between the other variables. In the short term, corruption does not greatly affect economic growth or unemployment, but it does reduce the investment rate. In the long term, corruption harmed per capita economic growth, while investment and unemployment both help it. Overall, corruption slowed down economic growth.

I. Hardi *et al*. (2024) examined the static and dynamic effects of several economic freedom variables on Indonesia's economic growth from 1995 and 2022 using the Solow growth model. They employed techniques

such as Fully Modified Ordinary Least Squares (FMOLS), Dynamic Ordinary Least Squares (DOLS), and Robust Least Squares (RLS), and they used Canonical Cointegration Regression (CCR) to verify the outcomes. 8 of the 9 factors, including property rights, government integrity, tax burden, investment freedom, financial freedom, trade freedom, business freedom, and monetary flexibility, were found to have a favourable impact on Indonesia's economic growth. M.M. Türk (2025) used the Toda Yamamoto causality test to investigate how economic freedom related to Turkey's economic growth from 1999 to 2022, considering globalisation and human development. The findings showed that economic freedom strongly influenced both globalisation and growth, and human development also played a key role. The study also discovered that the effect of globalisation on growth differed according on the institutions and laws of the nation.

Materials and Methods

To investigate the relationship between economic freedom, economic development, and economic growth, this study used GDP growth rate as a measure of economic growth and the economic freedom index from The Heritage Foundation (2025). In addition, HDI was employed as an indicator of economic development, as it included key factors like education and health. The data related to HDI and GDP growth rates were extracted from the World Development Indicators (2023). These data were used on annual basis from 2003 to 2023 as the 2024 data were not available for all sampled countries. This study provided coverage for countries in the SAARC region including India, Bangladesh, Nepal, Pakistan, and Sri-Lanka, excluding Afghanistan and Bhutan.

The variables were taken in logarithmic form to reduce differences. Although the Heritage Foundation's economic freedom index began in 1994, some SAARC countries have missing data, and no estimates were made for them. HDI was used as a measure of economic development, while GDP per capita represented economic growth, and the economic freedom index was used to measure economic freedom. The economic freedom index was chosen because it included all the sub-indicators that can influence human development. The control variable, ODA (% of GDP), was used to represent official development assistance. Thus, the study's functional model was specified as:

$$GDP = f(FREE, FDI, HDI, ODA). \quad (1)$$

This model posited that economic growth was a function (f) of economic freedom level, foreign investment inflow, human development, and foreign aid received. Then, the equivalent equation can be expressed in the second equation as:

$$lnGDP_{it} = \propto_{it} + \beta_1 lnHDI_{it} + \beta_2 lnFREE_{it} + \\ + \beta_3 lnODA_{it} + \beta_4 lnFDI_{it} + \varepsilon_{it}. \quad (2)$$

In this model, GDP represented GDP per capita; ODA – official development assistance; FDI – foreign direct investment; HDI – human development index; *ln* – natural logarithm; and – error term; β_1, β_2, β_3, and β_4 – slope parameters, while α – fixed effect of the parameters. To determine whether the variables in the panel dataset were stationary, the Levin-Lin-Chu Test (LLC) and IM-Pearson-Shin (IPS) panel unit root tests were adopted. Levin-Lin-Chu Test and IM-Pearson-Shin were the most famous statistical analysis to test the stationary between cross-sectional data – thus, if p-value <0.05, rejected the null hypothesis of a unit root, variable was stationary. Then, the Johansen-Jesules (J-J) cointegration test was used to test the validity of the following hypotheses: H_0 = no cointegration between variables; H_1 = there is cointegration between variables.

To determine the optimal Lag length, selection criteria such as Sequential Likelihood Ratio (LR) test, Akaike Information Criterion (AIC), Final Prediction Error (FPE), Schwarz Criterion (SC) and Hannan-Quinn (HQ) were applied, to minimise the effect of omitted variable bias and ensured that serial correlation and endogeneity were adequately addressed. VAR stability test was conducted to ensure the model's stability and confirm that all eigenvalues had moduli were less than one. Fully modified ordinary least squared (FMOLS) regression was used to avoid the non-exogeneity and heterogeneity between panel data. FMOLS was used in panel data studies to estimate relationships among non-stationary, but cointegrated variables. That was, variables that had unit roots individually and move together over time. Therefore, the data should be cointegrated across the time series in order to reach consistency, and avoid bias and inconsistent data. FMOLS was more reliable in estimating panel data more than OLS because the latter depended only on nuisance parameters (Pedroni, 2001).

Results and Discussion

The wide gap between the minimum and maximum GDP per capita highlighted economic inequality among countries. As noted in n Table 1, GDP per capita had a mean of 1,489.794. Economic freedom had a mean of 54.35294, showing that on average, sampled countries have moderate levels of economic freedom. FDI had a mean of 1.17518, showing a positive average inflow of FDI as a percentage of GDP. HDI had a mean of 0.589387, suggesting that most sampled countries struggle with poor healthcare, education, and living standards. ODA had a mean of 1.631167, showing that on average, countries receive positive ODA inflows as a percentage of GDP. Summarily, economic disparities exist among sampled countries, with wide variations in GDP, ODA, and FDI. A unit root test was done to check, if there was variation between the different variables. Two cointegration tests including Levin-Lin-Chu Test and IM-Pearson-Shin (IPS) were used as shown in Table 2.

Table 1. *Descriptive data (USD)*

	GDP	FREE	ODA	HDI	FDI
Mean	1,489.794	54.35294	1.631167	0.589387	1.17518
Maximum	4,077.044	62.50000	5.450494	0.782000	3.668323
Minimum	315.8058	44.20000	-0.289102	0.190000	-0.073509
Standard Deviation	975.3391	3.107853	1.599651	0.103729	0.802245

Note: *GDP – Gross Domestic Product, FREE – Economic Freedom, ODA – Official Development Assistance, HDI – Human Development Index, FDI – Foreign Direct Investment*
Source: *World Development Indicators (2023)*

Table 2. *Panel unit root results (USD)*

Variables	Levin-Lin-Chu Test				IM-Pearson-Shin Test			
	Level	Status	1st difference	Status	Level	Status	1st difference	Status
FREE	1.6343	–	7.094**	I(1)	-0.5042	–	-3.3535**	I(1)
GDP	-1.2262	–	-3.767**	I(1)	1.7395	–	7.2688**	I(1)
HDI	1.3730	–	7.4712**	I(1)	0.6807	–	-3.0334**	I(1)
FDI	1.0169	–	-4.5235**	I(1)	-1.9147	–	-1.8328**	I(1)
ODA	-2.5476**	I(0)	5.3763**	I(1)	1.9143	–	-2.6295**	I(1)

Note: *GDP – Gross Domestic Product, FREE – Economic Freedom, ODA – Official Development Assistance, HDI – Human Development Index, FDI – Foreign Direct Investment, ** – 5% level of statistical significance*
Source: *World Development Indicators (2023)*

The results showed mixed outcomes for the two tests. For most variables, economic freedom (FREE), gross domestic product (GDP), human development index (HDI), and foreign direct investment (FDI), both tests consistently indicated non-stationarity at levels. However, each of the variables became stationary after first differencing, signifying that they were integrated of order one, I(1). This implied that, while the original series exhibited time-dependent trends, their first differences were mean-reverting. In contrast, official development assistance (ODA) presented conflicting results: the LLC test suggested stationarity at level [I(0)], whereas the IPS test identified stationarity only after first differencing I(1). To ensure robustness and comparability, ODA was treated as an I(1) variable. The Lag length selection results Table 3 indicated that Lag 2 was the most appropriate for the model, based on multiple selection criteria.

Table 3. *Lag length criteria (USD)*

lag	LogL	LR	FPE	AIC	SC	HQ
0	-464.94	NA	809.96	20.886	21.087	20.961
1	-282.82	315.672	0.7572	13.903	15.108*	14.352*
2	-251.87	46.775*	0.6064*	13.639	15.847	14.462

Note: *LogL – Log Likelihood, LR – Likelihood Ratio, FPE – Final Prediction Error, AIC – Akaike Information Criterion, SC – Schwarz Criterion, HQ – Hannan-Quinn Criterion, NA – not available, * – statistical significance – optimal lag length*
Source: *World Development Indicators (2023)*

Specifically, the Sequential Likelihood Ratio (LR) test and the Final Prediction Error (FPE) both favour a two-Lag structure, as evidenced by the significant improvement in model fit and predictive accuracy, when moving from Lag 1 to Lag 2. Although the Schwarz Criterion (SC) and Hannan-Quinn (HQ) slightly favour Lag 1, the Akaike Information Criterion (AIC) and the lowest FPE value suggested that Lag 2 offer the better balance between model complexity and explanatory power. Consequently, Lag 2 was taken as the optimal Lag length for the subsequent estimation procedures to ensure robustness and reliability in the model specification (Table 4).

Table 4. *VAR stability check (USD)*

Root	Eigenvalue	Modulus
0.98612		0.98612
0.95069		0.95069
0.72718		0.72718
0.65606		0.65606
0.36249 +	0.26774i	0.45064
0.36249 -	0.26774i	0.45064
-0.38371		0.38371

Table 4, Continued

Root	Eigenvalue	Modulus
-0.17474 +	0.13007i	0.21784
-0.17474 -	0.13007i	0.21784
0.17583		0.17583
The unit circle contains all of the eigenvalues. VAR meets the stability requirement		

Note: *i – i^{th} eigenvalue*
Source: *World Development Indicators (2023)*

The stability of VAR showed the stability of data used in Table 4. The results showed that all eigenvalues lied inside the unit circle, as each modulus was less than 1, with the largest being approximately 0.98612. This indicated that the VAR model was dynamically stable and satisfies the necessary condition for stationarity. In order words, this meant that shocks to the system will dissipate over time rather than persist or explode, making the model reliable. In order to test whether a long-run relationship existed among the variables (GDP, FREE, FDI, HDI, and ODA), Johansen-Jesules (J-J) test was employed as shown in Table 5.

Table 5. *Cointegration test results (USD)*

Series: GDP, FREE, FDI, HDI, ODA				
Lags interval (in first differences): No. of lags				
No. of CE(s)	Eigenvalue	Trace stat	5% critical value	p-values
None *	0.42019	86.4694	69.8189	0.0013
At most 1 *	0.39500	53.7658	47.8561	0.0126

Note: *GDP – Gross Domestic Product, FREE – Economic Freedom, ODA – Official Development Assistance, HDI – Human Development Index, FDI – Foreign Direct Investment, * – 5% level of statistical significance*
Source: *World Development Indicators (2023)*

The results confirmed the presence of a statistically significant long-run relationship among the variables economic freedom (FREE), foreign direct investment (FDI), human development index (HDI), and official development assistance (ODA) at the 5% significance level. This meant that these variables tend to move together over time in a consistent manner. In other words, changes in one of the variables will eventually lead to systematic adjustments in the others to restore long-run equilibrium. As all of the variable were integrated according to unit root test results in Table 2, FMOLS was applicable. Thus, FMOLS test was the best choice for the data that were integrated at the first level within unit root test. The results from the FMOLS analysis were presented in Table 6.

Table 6. *FMOLS results (USD)*

Dependent variable: economic growth			
Variables	Coefficient	t-Stat.	Prob.
FREE	1.9895	3.4470	0.0000
FDI	-0.2981	4.2672	0.0000
HDI	0.6901	2.3922	0.0020
ODA	-5.4552	5.1715	0.0000
C	0.2962	5.5624	0.0000
	R^2 = 0.8197		
	F-stat. = 11.1103		
	Prob. = 0.0000		
	D-W stat. = 2.0002		

Note: *GDP – Gross Domestic Product, FREE – Economic Freedom, ODA – Official Development Assistance, HDI – Human Development Index, FDI – Foreign Direct Investment, C – Constant, R2 – R-squared, t-Stat. – t-Statistic, F-stat. – F-statistic, Prob. – p-value, D-W stat. – Durbin-Watson statistic*
Source: *World Development Indicators (2023)*

The outcome demonstrated that economic freedom significantly boosted economic expansion. This implied that a higher GDP per capita was linked to greater economic freedom (Filipishyna *et al*., 2023). Economic freedom typically reflected the degree to which individuals and businesses can operate freely in an economy, with minimal government intervention. When these conditions were present, they created an environment conducive to investment, innovation, and productivity, which, in turn, driven economic growth. For example, if

a country improved its economic freedom index (e.g., by reducing trade barriers, enhancing property rights, or simplifying business regulations), it was likely to experience higher economic output per person. This finding aligned with the findings of S. Zeng & Y. Zhou (2021), which discovered that economic freedom significantly boosted economic growth. However, the finding contradicted that of Y. Bao *et al*. (2024), which found economic freedom to exert significant negative effect on economic growth. Similarly, the result showed that human development index had significant positive effect on GDP per capita. This suggested that higher levels of human development were strongly associated with increased GDP per capita. The HDI was a composite metric that represented a nation's accomplishments in three important areas of human development: standard of living (income), education (years of schooling), and health (life expectancy). When these dimensions improved, they contributed to a more skilled, healthy, and productive workforce, which directly enhanced economic productivity and growth. For example, if a country invested in education, healthcare, and income-generating opportunities, it was likely to experience higher economic output per person. This was consistent with economic theory, which emphasised the importance of human capital in promoting economic expansion. This finding aligned with the results obtained by A.A.E. Eissa & M.M.Y. Mohammed (2023), who found that HDI had significant positive effect on economic growth.

On the other hand, the outcome demonstrated that FDI significantly lowered GDP level per capita. This implied that, within the study's parameters, greater FDI was linked to lower GDP per capita. This was a counterintuitive result, as FDI was generally expected to contribute positively to economic growth by bringing in capital, technology, and expertise. However, in this case, the relationship was negative, indicating that increased FDI may not be translating into higher economic output per person. This could be conditioned by multinational corporations repatriating profits to their home countries rather than reinvesting them locally, thereby limiting the benefits of FDI to the host economy. Moreover, FDI may be crowding out domestic investment in such a wat that FDI might displace local businesses or domestic investment, reducing the overall contribution to economic growth. Factors such as weak institutions, inadequate infrastructure, or unfavourable policies might prevent FDI from having its intended positive impact. Additionally, the type of FDI (e.g., resource extraction vs. manufacturing) and the sectors it targeted could influence its effect on GDP per capita. This aligned with the findings of I.K. Ofori *et al*. (2023), who found a significant negative effect of FDI on economic growth. As noted by M. Akkaya (2019) and J.O. Sekunmade (2021), FDI had no significant effect on economic growth. In addition, O. Akisik *et al*. (2020) found significant positive effect on economic growth. C. Naanwaab (2018) examined, how economic freedom affected human development across 88 developing countries from 1990 to 2005, while M.A. Gezer (2020) assessed, how economic freedom impacted human development among European transition economies for the period of 1996-2018.

Ultimately, the result showed that official development assistance (ODA) had significant negative effect on GDP per capita. The finding suggested that higher levels of ODA were associated with lower GDP per capita. This was a counterintuitive result, as ODA was typically intended to support economic development, reduce poverty, and improve infrastructure in recipient countries. However, in this case, the relationship was negative, indicating that increased ODA may not be effectively contributing to higher economic output per person. This finding aligned with the results of A. Anwar *et al*. (2024), who found a significant negative effect of ODA on economic growth. This might be conditioned by ODA being directed toward projects or sectors that do not contribute significantly to economic growth or might be misused due to corruption or inefficiency. In addition, high levels of ODA might create dependency on foreign aid, reducing the incentive for domestic resource mobilisation and self-sustaining economic policies. ODA also often came with conditions or may not align with the recipient country's priorities, leading to ineffective use of funds. However, the finding contradicted that of S.K. Fazlly (2024), who found foreign aids to exert significant negative effect on economic growth. Accordingly, the study discovered that human development and economic freedom have a substantial beneficial impact on economic growth, suggesting that improvements in living standards, healthcare, and education, and increased business independence raise GDP per capita. Conversely, foreign direct investment (FDI) and official development assistance (ODA) showed significant negative effects on economic growth. This may be conditioned by issues like profit repatriation, crowding out of local investment, misallocation of aid, or dependency on foreign assistance.

Conclusions

The study concluded that economic freedom index with $\beta = 1.9895$; p-value = 0.0000, human development index with $\beta = 0.6901$; p-value = 0.0020, foreign direct investment with $\beta = -0.2981$; p-value = 0.0000 and official development assistance with $\beta = -5.4552$; p-value = 0.0000 had effected on economic growth in the South Asian Association for Regional Cooperation region. Thus, economic growth in this region was positively determined by level of human capital, foreign investment, and official development assistance, but the enabling environment created by economic freedom must be tailored to each country's unique economic environment. Therefore, to get the most from foreign investment and aid, each country needs its own plan to guide these funds into useful

areas that supported long-term growth. This meant making economic policies and reforms that match the country's unique situation and development goals. Consequently, the study recommended that policymakers should reduce trade barriers, simplify business regulations, and encourage foreign investors to reinvest locally or partner with internal businesses to boost investment, innovation, and knowledge transfer. It also advised directing aid toward key sectors like infrastructure, education, and health, aligning it with national priorities to reduce dependency, while increasing investment in human capital to improve productivity and support long-term economic growth.

Future research may examine other types of foreign capital such as portfolio investment and foreign debts, alongside their distinct impacts on the economies of the South Asian Association for Regional Cooperation region.

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Conflict of Interest

None.

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Переосмислення основ економічного зростання в країнах АРСПА: емпіричне дослідження економічної свободи, людського розвитку та прямих іноземних інвестицій

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Анотація. Країни Асоціації регіонального співробітництва Південної Азії вважали пріоритетним економічне зростання та розвиток, однак продовжували стикатися з тривалими викликами, такими як бідність, нерівність і повільний поступ у досягненні цілей сталого розвитку. Метою даного дослідження було оцінити вплив індексу економічної свободи, прямих іноземних інвестицій та індексу людського розвитку на економічне зростання країн Асоціації регіонального співробітництва Південної Азії у період з 2005 по 2023 рік. У якості методу оцінювання було використано регресійний аналіз із повністю модифікованими найменшими квадратами. Результати показали, що як індекс економічної свободи (β = 1,9895; p-значення = 0,0000), так й індекс людського розвитку (β = 0,6901; p-значення = 0,0020) мали позитивний і статистично значущий вплив на економічне зростання. Це свідчило про те, що вищий рівень економічної свободи, а також наявність більш кваліфікованої, здорової та продуктивної робочої сили асоціювалися з покращенням економічних показників. Натомість, прямі іноземні інвестиції (β = -0,2981; p-значення = 0,0000) та офіційна допомога розвитку (β = -5,4552; p-значення = 0,0000) виявили негативний і значущий вплив на економічне зростання. Такий результат може пояснюватися тим, що транснаціональні корпорації репатріювали прибутки до країн походження замість їх реінвестування в регіон, а також наявністю корупції в управлінні іноземною допомогою. Було зроблено висновок про те, що індекс економічної свободи, прямі іноземні інвестиції та індекс людського розвитку впливали на економічне зростання у країнах Асоціації регіонального співробітництва Південної Азії. Отже, для підтримання зростання урядам цих країн слід реалізовувати політику, що сприятиме підвищенню ефективності ринку, зменшенню бюрократичних бар'єрів і зміцненню правових інституцій з метою залучення якісних інвестицій

Ключові слова: валовий внутрішній продукт; фінансування; вільна економіка; офіційна допомога розвитку; довгостроковий зв'язок