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**ECONOMIC INSTITUTIONS & FDI IN SOUTH ASIA****Abstract:**

In this paper the importance of the existence of sound economic institutions in five SAARC countries, that is, Bangladesh, India, Nepal, Pakistan and Sri Lanka for overseas investors from France, Germany, Japan, United Kingdom and the United States of America i.e the five leading OECD, FDI exporters is gauged. Due to the lasting association of FDI with the host economy, presence of durable economic institutions is a decisive location assistance provided by the host countries, specifically by the ones like the SAARC nations being deficient in natural resources to lure investors from abroad. To comprehensively analyse inward FDI in the host countries from the source nations for the years 1985 to 2007, a random effect panel estimation model is used. It is found that the institutional indicators significantly influencing overseas investors from the leading OECD economies in the SAARC nations are the ones regulating labour disputes, business and credit issues and favourable business conditions related to freedom of international trading, from Economic Freedom of the World Index provided by the Fraser Institute. India seems to be the most sought after host nation and Germany making the highest investments in the region.

**Keywords:**

Foreign Direct Investment, Economic Institutions, South Asia, OECD and Panel Data

**JEL Classification:** C33, F55, F68