Impact of Foreign Investment on the Economic Growth of Pakistan

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Abstract
The purpose of this research paper is to analyse the impact of foreign direct investment on economic growth of Pakistan. The data take for this research is from 1980 to 2013.There variables were INF, FDI and GDP .GDP is dependent variable and FDI and INF is independent variable. Regression and correlation technique is a statistical tool which is used to tell the relation and impact of dependent on independent variables. The Finding of this research shows that there is positive relation between GDP and FDI .There is negative relationship between GDP and INF. The research indicates that FDI increase the economic growth of county. Policy maker should make such policy which assault FDI in Pakistan.
Keywords: Gross Domestic Product, Inflation and Foreign Direct Investment:

Introduction:

Foreign Direct investment has on the most famous source of getting investment from other countries. The use of this reserve has major aspects of construction assets in developing countries. The role of foreign direct investment has been consider widely as a growth enhancing factor in the developing Khan (2007) countries. FDI is measured as major structure of manufacture in scene of technological progress, unemployment reduction, talent improvement, market competition and great outflow of exports.

The possible compensation of FDI is its use the local raw material; introduce the technique of administration and advertising. Simplicity the right to use of new technology. The biggest advantages of FDI are to do not pay off principal and interest amount. History tells us that FDI in Pakistan is more in dictatorship as compare to civilian Governments. This is because Foreign has more trust on dictatorship as compare to civilian Government.

The Previous done studies on this topic "Impact of Foreign Direct Investment on Pakistan economy" .For example Farkas (2012) result show that there is positive relationship between Foreign Direct Investment on Pakistan economy. Hameed and Bashir (2012) show us that FDI lead toward economic growth

In this research I want to study the impact of FDI on economic growth of Pakistan from1980 to 2013. For this research my variables were foreign direct investment, Inflation and Gross domestic product .The other part of this research paper is planned as follow. Literature view is mention at section 2, methodology is in section 3 and 4 section tells us about Data analysis and empirical result is given and section 6 include conclusion.
The boarder area of this study is to investigate the GDP and other factors of economy which affect Foreign Direct Investment?

Problem Statement:

The Problem statement of this research is to check the impact GDP on FDI and INF.

Objective of Study:

FDI relation with economic variables is given below.
- To study the Relation between GDP and FDI.
- To study the Relation between GDP and Inflation.

Significance of Study:

FDI is one of the most famous forms of investment in the world and it show positive significant on economy of Pakistan.GDP show the overall condition of particular country. This research also provide clear picture for optional investor and Government official to improve their policies against FDI.

Limitation of study:

This study is limited to three variables. Two of them are dependent (FDI and INF) and one of the is independent (GDP)

LITERATURE REVIEW:

This is one of the hottest topics for Researcher to study. Many researchers have examined the relation between FDI economical growths. Accounting model Frame work is used by many researchers to analysing the effect of FDI on national economy. The review of previous literature in the field of FDI and economic growth is given below.

.M.Azam khan and Nadeem-ur-Rehman Khattak (2009) conducted a study on effect of economic variables on foreign direct investment. Date ranged as of 1971 to 2005 and held variables such as market size, domestic investment, trade openness, return on investment, external debt taxes and foreign direct investment. They use linear regression model, method of least square, Augmented Dickey Fuller test and Error Correction. There finding show that market size, domestic investment, trade openness, and return has show positive significant sign. External debt and taxation show negative significant sign.

H.Younus. Amir sohail and Azeem (2014) analyze the impact of foreign direct investment on economical growth of Pakistan. The study use date from 2000 to 2010.The result show that FDI and GDP has positive relationship. Two-stage least squares method of simultaneous equation estimation is used. Government should concentrate on polices of attracting FDI and trade liberalization in Pakistan to gain more from foreign investment.

A.Iqbal, Parvez Iqbal,Waqasa Akram and M.Umar Farooq (2013) demonstrated the impact of foreign direct investment and export on economical growth. The secondary cover the date from 1973 to2010.There variables were FDI, exports, terrorism and political instability. They use Time serious, Johanson VAR-based co-integration approach, vector error correlation model, Augment Dickey and Fuller (ADF) test is used to analyze the date. The Empirical finding revealed that export, FDI and exchange rate has positive impact on economical growth in Pakistan and terrorism and political instability has negative impact on economical growth

D Saqib1, Maryam Masnoon2 and Nabeel Rafique3 (2013) has given contrasting evidence on impact of Foreign Direct Investment on economic growth of Pakistan. The Date spanned was period of 1981 to 2010.The variables were Debt, Trade, Inflation, Domestic Investment and FDI. There methodology include squares method and Augmented Dickey Fuller Test .The result show that Debt, Trade, Inflation have negative impact on GDP. Pakistan economy has negative impact on FDI while Domestic investment benefitted its economy.

Folki (2009) conducted a studied on the impact of FDI on economic development of Pakistan. The date ranged from 1980 to 2006 and held various variables such as Domestic variable, labor force and foreign investment capital. They use endogenous theory of growth and regression model. There result show that FDI had negative effect on gross domestic product.

Abbas et al. (2011) analysis the influence FDI and CPI on the GDP of SAARC member nations. The date ranged from 2001 to 2010.The multiple regression mode is used to analysis the date and there result show that positive relation between foreign direct investment and GDP while negative relationship between Consumer price index.

Yousaf et al. (2008) studied the economic impact of foreign direct investment in Pakistan. The time period of study was from 1973-2002.There variables was export. Import and FDI .Co. Integration and error correlation technique was used. The result show that FDI has positive impact in import short and long run and negative impact on export in short run but also positive relation in long run.

N. Zeb, Fu Qiang and Sundas Rauf (2014) demonstrated the role of foreign direct investment in economical growth of Pakistan. The Date spanned was period of 1972-2012.FDI and trade openness, political instability and terrorist attacks were variable of this article. Least square method has been use to check the effect of variables on GDP of Pakistan.FDI has positive significant effect on Pakistan economy.

M. Shahidan Shaari, Nor Ermawati Hussain, and Mohd Suberi bin Ab. Halim (2012) examine the impact of foreign direct investment on the unemployment rate and economical growth in Malaysia from 1980 to 2010.There variables were GDP, unemployment and FDI. The ordinary least squares method is used to test the date. There result indicates that FDI reduce the unemployment rate and increase the domestic Product.FDI increase the economical growth of Malaysia. A.Muhammad Gudaro, Imran Umer and Salamn Ahmed Sheikh analysis the impact of foreign direct investment on Pakistan economy. The date spanned was period of 1981 to 2010. FDI, CPI (Inflation) and GDP were variables of this study. They use multiple regression model to evolutes their variables. According to result, GDP has positive significant impact on FDI and GDP has negative impact on CPI. Policy proposals were advice to attract FDI in Pakistan.

Ismail and Latif (2009) examined the impact of Foreign Direct Investment on unemployment rate and economical growth in Turkey. There variable were FDI, export, une auto regression technique of variance decomposition and impulse employment, and GDP for period of Jaunary,2000 to April 2007.They applies vector auto regression technique of variance decomposition and impulse response function to analysis the variables. There finding show that FDI is unable to reduce unemployment rate and exports have positive impact on GDP. They study did not support export-led model and economical growth is not solution for unemployment Turkey. B.Muhmmad Louzi and Abeer Abadi (2011) study the impact of foreign direct investment on economical growth of Jordan. GDP, FDI, Din (domestic investment) and Tb (Trade liberalization) were their variables. The study is based on time period from 1990 to 2009.The Co integration and error correction were used to test the date .FDI has positive impact on economical growth along with GDP, Din and Tb. M.Yousaf, Zakir Hussain and Naisr Ahmed analysis the economical evaluation foreign direct investment in Pakistan. The Data ranged is 1973-2004. There variables were FDI, import, export, gross domestic product .and GDP deflator. They evaluate the date through unit root test, Co integration technique and error correlation. The result indicates that FDI positively impact import short run and long run. Export impact negative in short run and positively in long run.

Dr. Sauwaluck Koojaroenprasit (2012) explores the impact of Foreign direct investment on economical growth in case of south Korea .The study cover the time period from 1980-2009. FDI, domestic investment, employment, export, and human capital are their variables. The multiply regression model is used. The study indicates that human capital, employment, export has positive impact on economy while domestic investment has negative impact on economy. The result shows that there is a strong and positive impact on Pakistan economy.

Arshad Muhammad (2012) studies the impact of foreign direct investment on trade and economical growth of Pakistan. The date ranged from 1965 to 2005.They use four variables FDI, import, exports and GDP .The co-integrating VAR frame work is used. There result show that there are two long run relationships between GDP. Import. GDP.In second long run relation both import and export affect FDI but GDP is not significant affecting and FDI has no significant effect on domestic investment. Q. Abbas .Salman Akbar, Ali Shah.Hafiz Ammab ullah. and M.Akram Naheem (2011) explore the impact of foreign direct investment on gross domestic product for period of 2001 to2010 .GDP were considered as depended variable and FDI and inflation were considered as in depended variable .They applied multiple regression model. There results indicate that positive and significant relationship between GDP and FDI while insignificant relationship between GDP and FDI.

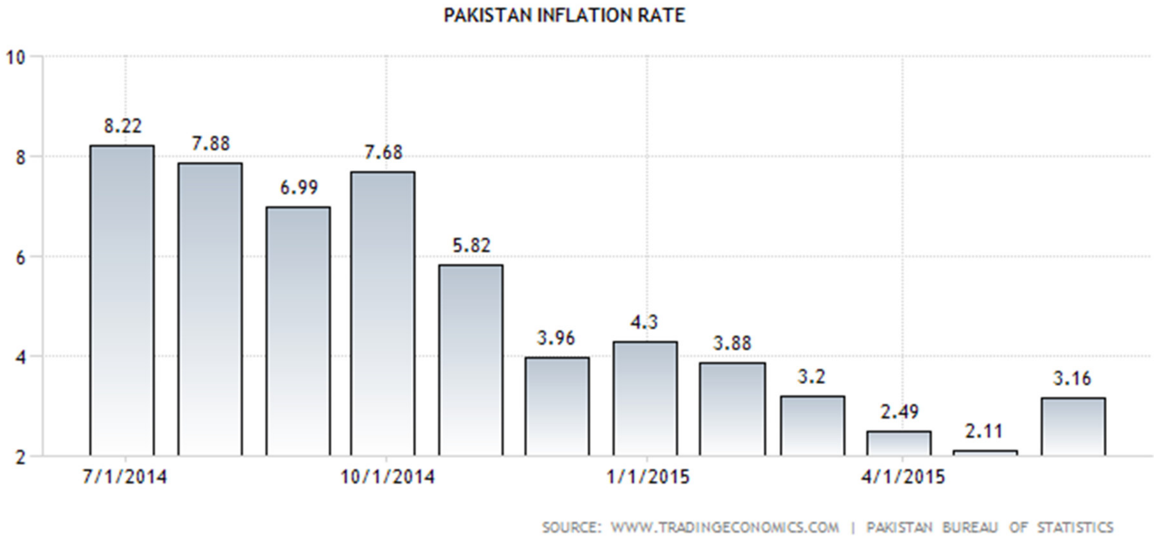
METHOLODOGY:

Theoretical Framework Diagram:

It is a group of related idea that provides guidance for a research project and understanding individual relationship between variables.

Inflation:

“It means that your money would not busy as much today as you could yesterday”. This statement means that sustained increase in the general price level in economy.



Foreign Direct Investment:

It means net inflow of foreign investment in a country; it is combination of short term and long term capital and equity capital. It usually involved in joint venture, management, technology transfer and expertise.

Hypothesis:

There are two different Hypothesis and the entire variable have different impact or relation with GDP.

H_0: There is no significant impact of FDI on GDP.

H_1: There is significant impact of FDI on GDP

$H_0\alpha$: There is no significant impact of CPI on GDP.

$H_1\alpha$: There is significant impact of INF on GDP

Methodology:

The purpose of this study is finding the impact of FDI on economic variables which are GDP and CPI.

Model

$$GDP = \beta + \beta_1 FDI + \beta_2 INF + \mu$$

Where as

FDI = Foreign Direct Investment

GDP = Gross Domestic Product

INF = Inflation Rate

μ = Error Term

β = Slop

Source of Data

I used secondary data for this study. Data is collected from State Bank of Pakistan and trading economy websites. The Sample size of this Data is 33 years (1980-2013)

Econometric Technique .To find out the relationship between dependent variable (GDP) and Independent variable (FDI& CPI).Correlation and Regression test is used. I used Statistic software called “SPSS ”.Correlation is a statistic tool which tells the relation between two variables and linear relationship between variables .Regression is a statistic process which tells the relation between independent and dependent variable. Dependent variables are shown by Y and independent variables by a.

Table I Data of macroeconomic variables for the years of 1980-2013.

S.NO.	Year	GDP	FDI	CPI
1	1980	3.433987204	28	11.94
2	1981	3.605497845	35	11.88
3	1982	3.580737295	98	5.9
4	1983	3.594568775	42.1	6.36
5	1984	3.668676747	48	6.09
6	1985	3.658420247	70.3	5.61
7	1986	3.701301974	145.2	3.51
8	1987	3.763522997	108	4.68
9	1988	3.895893623	162.2	8.84
10	1989	3.893859035	209	7.84
11	1990	3.945457782	216.2	9.05
12	1991	4.025351691	246	11.79
13	1992	4.143134726	335.1	9.51
14	1993	4.128745989	306.4	9.97
15	1994	4.203198967	354.1	12.37
16	1995	4.347693956	442.4	12.34
17	1996	4.343805422	1101.7	10.37
18	1997	4.348986781	682.1	11.38
19	1998	4.355425953	601.3	6.23
20	1999	4.354141431	472.3	4.14
21	2000	4.342505877	469.9	4.37
22	2001	4.294560609	322.5	3.15
23	2002	4.387014176	484.7	3.29
24	2003	4.510859507	798	2.91
25	2004	4.648229675	949.4	7.44
26	2005	4.768139014	1524	9.06
27	2006	4.914858339	3521	7.92
28	2007	5.024538199	5139.6	7.6
29	2008	5.017941869	5410.2	20.29
30	2009	5.084505143	3719.9	13.65
31	2010	5.161924742	2205.7	13.88
32	2011	5.355642433	1634.8	11.92
33	2012	5.371103036	820.7	9.7
34	2013	5.417876602	1447.3	7.7

Note : (Real GDP is included in this data)

FINDING AND ANALYSIS:

The result of this research is presented in this chapter. Correlation and Regression is used to get the result their results are given below.

Correlation

The table II shows the relationship between variables

		INF	GDP	FDI
INF	Pearson Correlation	1	.336	.324
	Sig. (2-tailed)		.052	.061
	N	34	34	34
GDP	Pearson Correlation	.336	1	.796**
	Sig. (2-tailed)	.052		.000
	N	34	34	34
FDI	Pearson Correlation	.324	.796**	1
	Sig. (2-tailed)	.061	.000	
	N	34	34	34

**. Correlation is significant at the 0.01 level (2-tailed).

This table shows that GDP is positively correlated with INF with 32.4%.FDI is strongly positively correlated with GDP with 79.6%. Both the variable has positive significant relation with GDP :.The table III shows regression analysis between variables

In this table IV R *square and* Adjusted R square is presented. R Square is coefficient of Correlation ranged from +1 to-1.R square show that my in depended variables depend 64.0time on depend variables. Which mean that there is positive strong relation among variables

Adjusted R Square value is .617 which mean that Dependent variable 61.7% explain by independent variables.

ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	65954.399	2	32977.199	27.543	.000a
	Residual	37116.683	31	1197.312		
	Total	103071.082	33			

In this table V F show the significant of model. The value of F is 27.543 which mean that this model is good.

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	-103.039	26.830		-3.841	.001
	INF	1.268	1.664	.087	.762	.452
	FDI	30.127	4.472	.768	6.736	.000

Dependent Variable: GDP

Table VI shows the “t” value show that which hypothesis is accepted .The “t” value of INF is .762 which means that GDP has negative significant relation with INF so we accept H0.

FDI has positive and significant relation with GDP so i accept H1

CONCLUSION & RECOMMENDATIONS;

Conclusion:

In this research topic “Impact of Foreign Direct Investment on Economy Growth of Pakistan” and seen the relations between FDI, INF and GDP. The result show that their significant positive relationship between them which mean that FDI play significant role in economy of country according to my study. According to my studies H1 and H1α is accepted.GDP has positive relation with FDI and negative relations with INF.

For a country like Pakistan, the need of the hour is to concentrate on infrastructure Development, human resource training, encouraging local entrepreneurs, creation of a Stable macroeconomic environment and ensuring opportunities that would be conducive For investors and provide momentum to the developmental process.

Recommendations:

Our results are likely to provide an opportunity to frame some policy implications. The regression results confirmed that an increase in FDI has positive impact on growth rate of Pakistan. Hence the authorities should positively concentrate on maximum utilization of resources to increase FDI in order to increase GDP growth rate. It needs effective and encouraging FDI attractive policies from the public sector to restore the confidence of the investors. Government should offer Business friendly environment as it provides pace to attract huge FDI.As Pakistan is a populous country and have deprived educational system therefore, fundamental attempts could be taken to attract FDI in this sector. In Pakistan the major setback against FDI growth is political instability, so serious measures in the following areas should be taken.

Pakistan's educational sector is highly negligible and its quality is on its last legs .Short of financial resources causes a poor quality of education which further causes a massive talent deficiency and this forced harmful impact on the domestic as well as foreign Business. Infrastructure plays an essential role for the growth of any economy. The countries which have good physical infrastructure are considered as the best attractive hosts for the FDI.

A dynamic market economy requires political stability for its best possible Outcomes. Political instability generates economic uncertainty because of turn down in Investment. Political instability is reducing the confidence of investors in our country. In business sector decisions are mainly based on the political stability not on the type of the government.

Business friendly environment must be created on priority to attract large FDI. To maximize the benefits of FDI persistently Pakistan should also focus on developing human capital and technology Jobs for unskilled population when compared with service sector.

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