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Impact of Foreign Direct Investment and Exports on Economic Growth of Pakistan

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Abstract
In this study, by means of instance succession exploration we observed impact of foreign direct investment, exports and exchange rate on economy intensification of Pakistan. Information were collected from IMF ,World Bank range figures since 1990 to 2010. We used four variables for this purpose like GDP; it is dependent variable and independent variables similar to Foreign Direct Investment, export and Exchange Rate. By using technique ofOLS and Unit Root Test, thepositive relationship sends abroad and foreign direct investment on GDP. The study conduct aims to analyze benefit of FDI in Pakistan. The objective of FDI is to earn maximum profit and show in form of administrative skills, superior knowledge, improved an employment opportunities, add to in government returns and cause decrease unemployment of country. Remittance inflows in 2004-05 reach US$ 1524 million as maximum if compared last three year in country. This finds FDI in Pakistan more appropriate areas are energy sector, IT and telecommunication, value additional material .Management of Pakistan responsive to significance FDI and results show that is important effect of export and FDI on an economy growth of Pakistan.
Keywords:GDP, FDI, Exports, Exchange rate.

INTRODUCTION

The researchers in economics and finance have shown interest to understand the factors affecting corporate investment. Company Investment has an important role in the business activities of any organization. According to the investment helps to improvement up economic and financial activities for the development in economic growth rate and employment that finally will increase the wage rate, the labor productivity and the living standards of life.The study is show that factors of economic growth like foreign direct investment, exports and exchange rate in Pakistan by applying different test such as unit root test, OLS test, on time series data from 1990 to 2010. Impact of FDI on antrade and industrydevelopment of country, especially at developing country(Falki, 2009)

Alam, M. & Zubayer, M. (2010) Allowing to neo-classical, foreign direct investment that cause a stable growth effect in shownation,FDIhave to existidentified as one of the greatest an efficient process to drawing movementas ofperipheralbasis. This technique has besides developed into a significant aspect to constructing assets a on the increase country in the region of world. Positive an effect to foreign direct investment is turn into increase in popular such as tool for an economy growth. An implement FDI is cause to an increase in aggregate productivity and opportunity in employment. And result is greater outflow to export and exchange technological..

Nishal (2005)is conduct strangethroughasset in a on the increase country is suitable pay and taking advantage of accepted and personincome.Newindustry performs, in terms an organization,promotionassist in reductionfinancial planshortage. An additionaladvantage of FDI that include the danger and policy of peripheralbalance.in addition toappend value to human capital during job training. Country that faces a lack of capital and technological skill and experience growth. FDI functions means totransfer technology, knowledge.Economic Performance and economic growth in a country is influenced by numerous factors. For example import/export, foreign direct investment, taxation system, law and order, government policies employment level and Exchange Rate.(Haque, I; 2005) After World War II most of developing country in world adopts aggressive economic strategies to acquire an economic augment rate of real domestic product. The chiefmotivesprimeextension, increase of human capital, high level of domestic savings and market friendly government.

Lonnatos(2004) is clarifies that developing countries are interested in taking measures and attracts foreign direct investment. Therefore, developing countries face the problem of gap between savings and there investment which is else to be a bridge by FDI and in technology transfer creates job, cause increase in productivity and competition. Such advantages have encouraged the developing countries, including Pakistan, to attract FDI inflows.FDI has been improvement the level an employment, increase in the productivity and exports and improved a tempo of transfer technology. Thebenefit of FDI on crowd country is;utilization to local raw materials such whilefacilitates. Commence new techniques management,promotion andadmittance to new technology.(Aslam, N; 1987)Foreign direct investment inflows can be second-hand for finance current account deficit. FDI do not generate repayment of principal and interest (as opposed to outermoney owing) and increases stock of human capital.

Rapidly is growing populations such as in Pakistan. Therefore, here economy agriculture, for every capita returns is small, and greatly,residents lives in poverty. The policy maker is an objective of the macro-economics, to slow down inflation rate in this country.price risesplaystask inopportunityintensification and growth.I have been experiential by good researchers in theory as well empirically. Plan of research is study empirically impact of exports and foreign direct investment an economic development of Pakistan.Findings of study put forward to policy makers need in the direction of generate suitable policy in order to increase the volume of exports and FDI inflows. (Hansen and Rand; 2006)

Bashier, A., & Talal, B. (2007).The comparative advantage certain a product is likely to produce and exports those commodities to attain maximum benefits from trade. However, countries require importing raw materials in order to expand their exports. Large agricultural sector which is to contact with their amount produced and export capacity resolute by setting. It is necessary that an exportexist not only to limitharvest only but should to existamplified. An ultimate exportable foodstuff which is highcostother with high toward the back linkages in order to create energy an economy. Economists stress that the trade liberalization, to move a free trade throughout reduction of tariff and other obstruction. It improves welfare and lessens poverty.Liberalization provides an opportunity to create jobs. Therefore, an economic growth that is recoverscustomer choice and livelihood standard life.

Objectives theStudy

The main an objective of study are as follows:

1. Determine the long run effect of FDI, exports, and exchange rate on an economy growth of Pakistan since 1990 to 2010.
2. The short run relationship between Explain and Explanatory variables tomeasure.
3. A policy makers to get higher and sustainable GDP level.

Background of Study

The significance of impact, solution factors an exports, exchange rate and foreign direct investment, violence and opinionatedinstability an economic growth in Pakistan.

By use annual time series data since 1990 to 2010, this purpose the technique is use OLS and finds an empirical result on the data basis.Co-integration vector estimates witnessed negative association between GDP per capita due toterror campaign and political unsteadiness. The economy growth in Pakistan due to positive effect of export and exchange rate, Allowing to an economic theory, exports positionanoptimistic impact on the monetary growth of country.An economic situation and economic policies of the homemade country,Permitting to study exports caused the GDP growth positive.

Experimental results demonstrate that stuck between an economy and export growth in Pakistan. This isdeficientlyunnaturalstandardpowerpredicament, deprivedrule and arrangecircumstances unsecure situation in business events outstandingintimidation, very far above the ground prices of petroleum and gas, management carelessness.Strangeshareholder is to aimearnproceeds and shift them to theircountry and do not move the most modernskill to the congregationnation. Consequence of study, FDI a smaller amount impact andfinancialincrease then switch overspeed positiveprejudicedGDP per capita in long period.Observes that replacevelocityreductionhavereasonsuperior trade and industryexpansionthroughoutmomentage because moneydowngrading lead toaffirmativepayment of the gridsell abroad in GDP. Results show thatnot directlyreplacevelocitydecline would prove the approach to increase an economyexpansion.

Research Question

1. Has an effect of FDI on GDP of country?
2. Doescontact of Exports on GDPof Pakistan?
3. What is relationship between the Exchange Rate and GDP?

LITERATURE REVIEW

Anyamele (2010) has determined a positive relationship among GDP and exports. Observed that a positive impact of export on GDP. It is analysis to facilitate FDI has significant an impact on the Gross Domestic Product. An established a relation between foreign direct investment; exports are the output growth. Foreign direct investment then economy growth of has presented. A preponderance of it investigate work has done globally.

The empirical study show that had critically to go through develop objective in context of country and draw some an important policy conformity.

De Grauwe, P. (1988) is study conduct that to impact of FDI on an economy expansion of Pakistan. Therefore, data has gathered as of different places and data range since 1990 to 2010. Before applied and practical on data which are carried out to check the empirical result. An overview such as studies is given lower; have taken an efficiency of export –led growth impression use time series data from 1990 to 2010. The results find out that a positive connectionamong GDP and export case of Pakistan by means of OLS. And then, verified association between exchange rate and an economy growth by means of using unit root test. The annual data is taking since 1990 to 2010 and the empirical effect display the causality between export expansion and economic growth of Pakistan. The foreign aid which help to overcome i-e violence by reduction poverty and achieve high living standard of life.

Dickey, D, A, (1979)study is conducted that explored link between terrorism and aid in Pakistan time period from 1990 to 2010; His conclusion that is not connection between clash and foreign support in Pakistan. There is foreign aid over come terrorism to direct effect in the long run. In study,we examine impact of foreign direct investment on economy development. Firstly we understand, the foreign direct investment refers a company situated to foreign country directly invests in enhancing the production of target country and this investment can be done by foreign country in many ways like increase the on activities in target country or purchase a firm.

Dritsaki, M., Dritsaki, C., & Adamopoulos, A. (2004) is FDI not only international fund is received but also advanced technology managerial skills and employment prospect are gained. The FDI has significant in both developed and less developed countries. Both developed and developing nations are attracting toward FDI for getting foreign capital. In which study done to the impact of FDI on Pakistan economy find out that government should invest FDI in those areas where production and export in Pakistan can be increased so that more foreign investor are attract. Investment important role in the progress in economy, all the foreign capital provided to developing country and secure kind of external capital. Not only one nation get advantage rather both nations gain advantage from the FDI. According to this study many countries are face the problem of capital shortage without capital firms are not run the business activities like managerial productivity; development process and competitive advantage to achieve this company's need capital. On the other side the investor of developed countries wants to achieve the high return on capital. The inward and outward both type of investment are necessary for the development of the countries. In 1980 by the government of Pakistan provide the many facilities to promote the foreign direct investment like tax reduction, tariff, credit facilities, liberalized its trade and foreign exchange rate etc. (Nishal, 2005)

During 1990, the foreign direct investment rates are low in Pakistan due to many reason rapid change in political, environment change and energy crises even the Pakistan further liberalized the policies, telecommunication and agriculture sector. In this study examine that the labor intensive industries, which liked the production activities show that negative liked between FDI and wages the chief element to cost function are labor cost. Some researcher said that positive lined among the labor cost and foreign direct investment. The countries obtained the foreign direct investment opportunities, if these countries have the good labor skills, trade policies and relaxation in the tax and tariff. The causal relationship among growth in a developing countries and foreign direct investment this show that increase in economic growth due to foreign direct investment (Ekaneyak. E. M; 1997).

This study show that complex linked among foreign direct investment inflow and host country trade balance. The positive trade shows the strong economy that is the flow of inward foreign direct investment. The deficit or negative foreign direct investment shows that weak or low rate of export and different import policies. The foreign direct investment makes the value chain like; it is the regional industrial development compact, partnership among investment promotion agencies and trade(Giusinger, S;1997)..Partnership among government in regions,

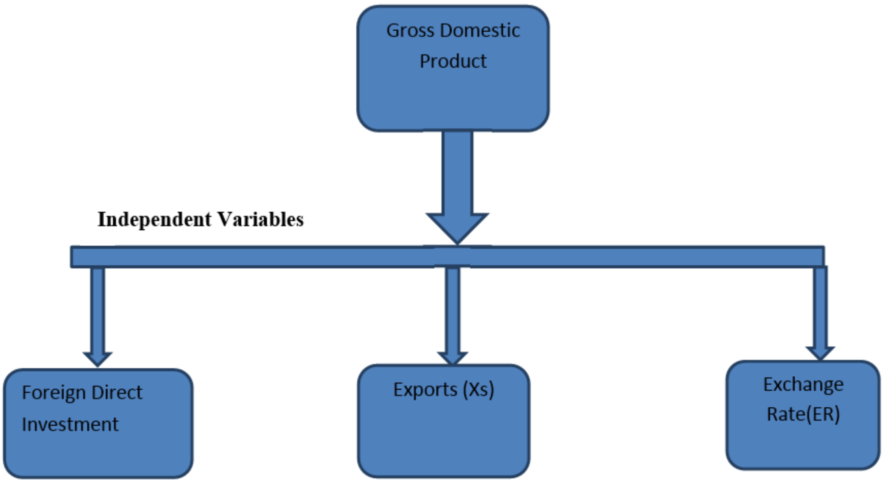
- *Partnership among public sector and private sector.*
- *Partnership among government and international organization.*

The foreign direct investment are those countries where low trade barrier. Even high transaction cost if high trade barrier but in the horizontal foreign direct investment more attract where high trade barrier because due to high horizontal FDI provide the more protection to foreign investor output in the domestic market. Foreign direct investment isimperative role of an economic development of any country.Result is showing that in the multiple regression models. In this study find that foreign direct investment dependconsiderably at an initial GDP on human capital. It means that FDI has momentous impact in GDP growth rate of country. This study conducted in Pakistan, by analysis relationship between foreign privateinvestment and economy impact of the Gross domestic product in country. Similarly, I observe the connecting affiliation among FDI, Exports and production by causality producer since 1990 to 2010 in Pakistan. The significant impact has been found FDI to home output.

Theoretical Framework

Theoretical framework shows that relationship between independent variable foreign directinvestments, (Xs), (ER) and dependent variable gross domestic productwith to use the linear requirement to approximation coefficient of a variety ofvariables for two reasons. First, the connectionflanked bydissimilar variables is not linear.Second, log of representation,charge of diverse coefficients container explained in phrase of proportion in piece and therefore, a variety of units to quantify various things. As a result thatto keep away fromdifficulty, record linear deteriorationreproduction was practicalon behalf ofexamination that is vital an objective of study.

Dependent Variable



Explanation of the Variables

3.1 Gross Domestic Product

Total value of final goods and services createdwithin boundarycountryduration one year that is known as gross domestic product. GDP does not include the foreign remittances. So,
GDP = Gross national product – foreign income
GDP = GNP –FI
Two changes must be made to get GDP:

1. To obtain from factor cost of market pricesby Indirect taxes minus subsidies are added.
2. Reduction is additional to findnet domestic product to GDP.

3.2 Foreign Direct Investment

The external resources of income and advance technology are receivingfrom foreign direct investment which acts as mechanism of an economy growth. An estimate an effect of this variable an economy growth of Pakistan;bydetermine foreign direct investment millions of US$ dollar.

3.3 Exchange Rate

Exchange rate is measured between two countries and decides specific currency of a country. Fluctuations an exchange rate and Currencyfocus to higher reduction have threat in the direction of foreign investor as their asset declines over phase.Negativecontact of an exchange rateon Foreign direct investment inflows,representative exchange raterestricted currency units per US$ included as substitution used exchange rate.

3.3.1 Income Approach

It isevents GDP by means ofadditionproceeds. Firmreimbursedomesticon behalf of the factors production here salarymeant for labor, interest used pro capital, rent on behalf of land and profits designed forprivate enterprise. Pakistan "nationwideprofits and spendingfinancial records" divideaddicted to five groups:
1Salary, earnings, and extraworkrevenue
2Businessprofits
3Importance and varied investment proceeds
4Agriculturalists’returns
5profitsstarting non-farm autonomous business

Data and Research Methodology

DATA

Data used to findcontact of foreign direct investment on Pakistan's growth rate since 1990 to 2010.The data is bygatheredas ofhumankindreservoir, globalmonetarydata and International Monetary Fund. Everyone the variable isclear in actual value, information has been under taken observation as ofless importantinformation andexcellence of data is up to the mark. Elimination valueseveralchangeable is absent. Autonomous changeable have the hypothetical explanations of an effect on GDP.The included variable 4 instudy analysis is: real Gross Domestic Product, volume of an exports and volume of foreign direct investmentbecause a proportion of GDP.

Research Methodology

Econometrics Modal

A simple linear regression use in study;

Statistical Tools

- *Ordinary Least Square Method*
- *Unit Root Test*

Model:

The model is purpose of testing hypotheses is as follow

$Y = \beta_o + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$

$Y (GDP) = \beta_o + \beta_1 (Xs) + \beta_2 (FDI) + \beta_3(ER) + \varepsilon$

From above equation define Y as dependent variable called Gross Domestic Product of the country; $\beta_0$is the value of constant mean the value of GDP in the lacking of any predictor variable. β_1 (Xs) or β_2 (ER)is the value of Repressor flexible named transfer of the country which shows us the relationship and magnitude among the independent variable and Explainedvariable similarly the β_3(FDI) relates to the explanatory variable called foreign direct investment the country. Eshow that error term the relationship of other variables affect the explain variable except the predictor variable defined in the modal.

$GDP = \beta o + \beta_1 FDI + \beta_2 Xs + \beta_3 ER + \mu$

Here,

FDI= Foreign Direct Investment

GDP= Gross Domestic Product

Xs = Export

ER = Exchange Rate

The above-equation in themanifolddeteriorationreproduction was sprint E-Views to find out Impact of FDI and Xs to GDP in country. GDP is used as dependent variable whether Foreign direct investment andXs, ER exact as sovereign variables. An estimate toaffect FDI on GDP of Pakistan.Statics tools is applied since 1990 to 2010.Three inputs are used; FDI, Exports and exchange rate.

Data Analysis

Unit Root Test to approximate the coefficients of regression an equation, we weathered for the stationary of the variables. The stationary of time series isby means of OLS test.

Unit Root Test

InUnit Root Testmodeling's to confirm the stationaryin sequence. It is toavoid the problem of spurious regressions. Most of an economy data series are stationary i.e. their mean,variance and covariance changes over time. Stationarycan be achieved by differencing the series.Order of integration is the number of appropriatedifferencing to make the series stationary. When deal with a time series is by check whether an underlying time series is stationary or not. When apply to appropriate on an underlying time series data and to get an integrations of underlying time series. We apply OLS to a non-stationary time series andresult in inaccuratedeterioration.Augmented Dickey-Fuller (ADF) test is use on the secondary data. Data will take differentiation level of series pending the unit root is accepted.

Table.1

The Unit Root Test

Variables	Coefficient	Std. Error	t-Statistic	Probability
GDP	0.708940	0.225496	3.143913	0.0393
FDI	1.003246	0.313503	3.200113	0.0369
Export	0.974735	0.228760	4.260950	0.0041
Exchange Rate	-0.653631	0.226890	-2.880826	0.0663

In the Testing for Unit Root: Results of Tables 1 shows that unit root cannot be rejected for any of level variables due to null hypothesis while it can be rejected for their different difference Variable. The gradeof coefficients contribution (FDI) inseveraldecayanalysis optimisticandcrashon GDP. Althoughslopes of coefficients of inputs (exchange rate) encompass negative contact GDP stipulation one percent increase FDI happen, it determinationtransport about .03% change in GDP by investment other variables stable.Because the value of F is else high i.e., 9.8841940and the value of P is so small 0.0369. The R rectangle of thisform.93 that resources 7% disparity in representation is uncertain FDI and Export.

Table: 2

TheResult of Unit Root Test

Variables	R-squared	Adjusted R squared	Prob(F-statistic)	F-statistic	Durbin-Watson stat
GDP	0.354473	0.318610	0.005613	9.8841890	1.919539
FDI	0.419360	0.341941	0.016955	5.416772	2.262010
Export	0.516437	0.487992	0.000528	18.15570	2.029100
ExchangeRate	0.328041	0.288514	0.010375	8.299157	1.801602

The long-run rapportamong gross domestic product, Export and FDI, and is functional and its F-statistics value is checked against critical value.Result show thatregression an equation indicate that the value of coefficientwillpower R^2exceed value of Durbin Watson and statistics. R^2> d (0.94 > 0.90) that create problem of degeneration. In addition, high R^2 and significant t-ratios rationalize an application of time series econometrics. The main an objective of study is to explorebrunt of exports an economic growth, together within long run and inside short run. Data used Augmented Dickey Fuller (ADF) testto estimate time series variables.

Table.3

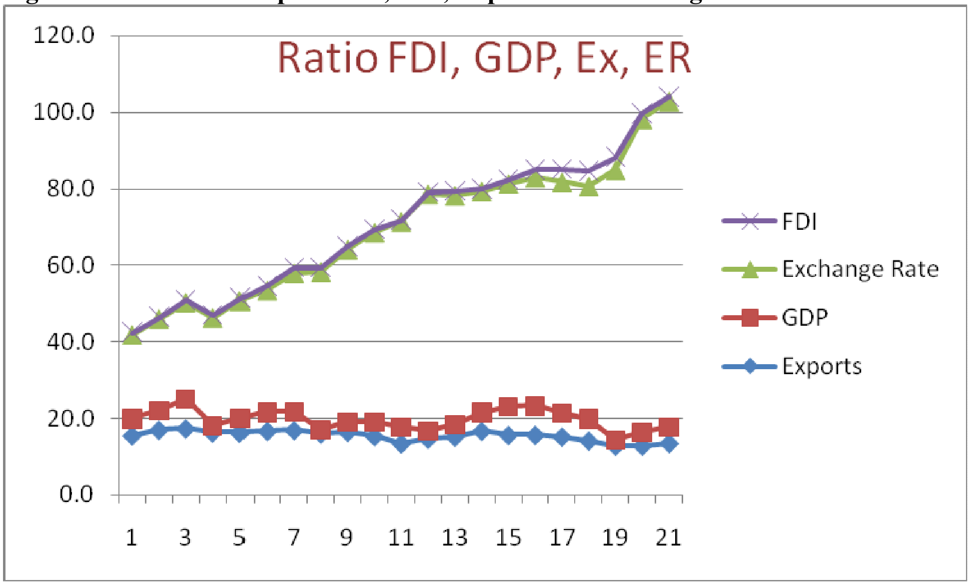
The result an ordinary least square

Dependent Variable: GDP
Method: Least Squares
Sample: 1990 To 2010

Variable	Coefficient	Std. Error	t-Statistic	Prob.
FDI	0.473053	0.472389	1.013529	0.0289
Export	0.259080	0.065819	2.930778	0.0010
Exchange Rate	-0.006164	0.022318	-0.274242	0.7868

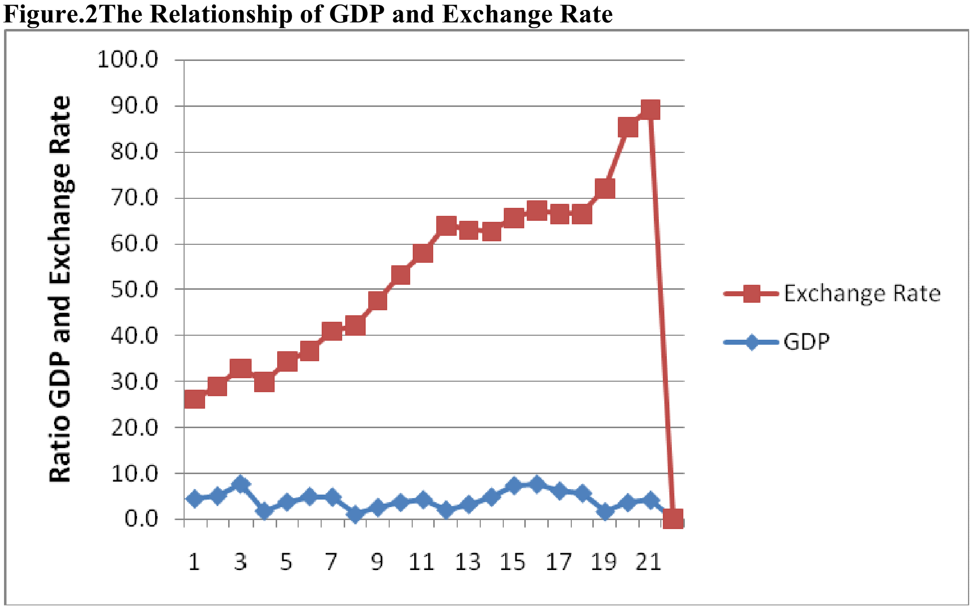
An OLStechnique to estimate Coefficient of deteriorationequation, Data is stationary of variables andAugmented Dickey Fuller (ADF) test is use. Every series is test at different levels and find are stationary but exception of exchange rate. Explained erratic is stationary 1% level of significance.Predictor variables are found to be stationary such as FDI and exports at different level of significance. The result shows that positive relationship among GDP, FDI and exports. Exchange Rate shows that negative and insignificance relationship with Gross Domestic Product. Table 3 show that statistics is greater than the critical value 1.96 it is significance relationship.We conclude that the positive and significance relationship of FDI and Exports with dependent variable GDP.The growth rates of GDP for Pakistan country are shown in Figure 1. GDP growth rates in the country of Pakistan since 1990 to 2010.

Figure.1The Relationship of GDP, FDI, Exports and Exchange Rate



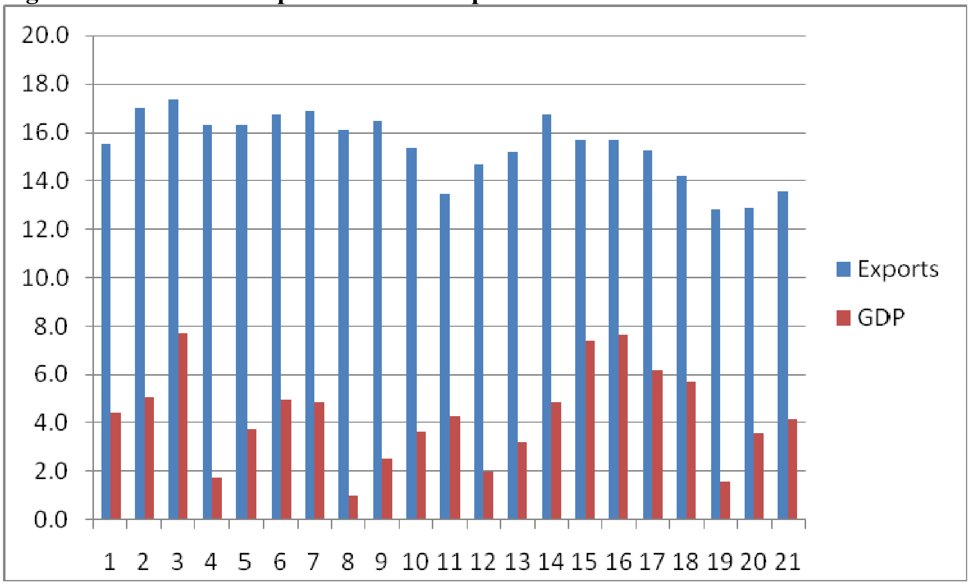
In the Unit Root test, parameters in the Ordinary Least Square can interpreted as an estimate of extensivescuttlerelationship between variables. Therefore, estimated parameter values from these an equations when normalize are elongatedscamper elasticity. The relationship between GDP and FDI is positive and significant. FDI elasticity is 1.003529. It means that 1 % level of increase in FDI forcebe GDP by 3.18 %. Favorable host country's environment is prerequisite to benefit from FDI. Developing countries are characterized by weak institutions and administrative structure with underdeveloped local markets which act as a constraint to growth enhancing effects of FDI. The relationship between exports and GDP is positive. An elasticity of export andfinances that 1 % increase inexports will bring increase GDP by 0.814 % in the long run.

Figure.2The Relationship of GDP and Exchange Rate



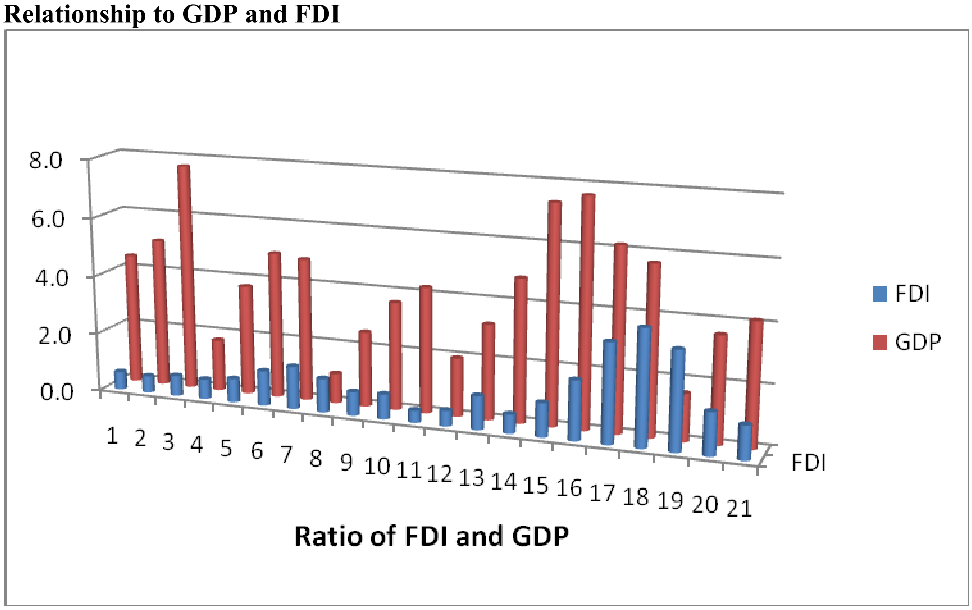
The horizontal axis X is taken different year and vertical axis Y is GDP and exchange rate show Million Us Dollars. The level at growth rate GDP a twenty years is fluctuation. Exports are use such as output augmentation withinnumerousdeteriorationequations. Output measured at home million US Dollars. It used ansovereignchangeablein reproduction. Result of study supports the exchange rate-led growth hypothesis. The relationship between real education expenditures and GDP, It means increase in real education expenditures will increase the GDP by 0.458 %.Educated and skilled labor force enhances the economic growth and productivity ultimately resulting economic development.

Figure.3The Relationship of GDP and Exports



The horizontal axis is using year and vertical axis GDP and Exports growth rate. Exports are taken by an output in the figure. Data series has been used since 1990toward 2010 and taken commencinghumankindstore.GDP calculatedduring million US Dollars.Pakistan's exports had promoted beginning low income group in 2005 to central point income group in 2009. Anorganization of Pakistan exports is presented in Figure-3of which show that an export of Pakistan are divided into prime (15%); insincere (71%) and semi manufactured (8%) products.

Figure.4
Relationship to GDP and FDI



We hand-me-down FDI, as an effortprogresspointer inManifoldDeterioration Model. This is recycled as conditional variable in the future classical and originatesordinaryactual and significant. The perpendicular axis X is the year and flat axis Y is FDI (in Million Us Dollars). FDI in these indication twenty years is show the tendency of variation

Conclusion and Suggestions

Conclusion

The research was lead with aim to find out personsfeature, which ismomentous in influential the positionconclusion of International Corporation in country. Secondary data the period since 1990 to 2010 has been used for econometric analysis and the method of Unit Root test andOrdinary Least Square was used for empirical estimation. Improved Ordinary Least Square test and Unit Root Model have also been used check stationary in the different level of data. But, concludedan estimation some variable have found high statistically significant, a few lower noteworthy and some an insignificant to attraction of FDI into Pakistan. The lower value and insignificant do not mean that these variables have small or no an effect the determination of FDI. When toattract more FDI in Pakistan, thenadministrationought toprotect stable an economic situation, encourage a deep-rooted structure together with good quality. Telecommunication and in sequence technology,behindrise rate,reductionouter debt, an eliminatehurdle and extra restrictions an import and exports to favortraffic honesty.Financial and business inducement is consistency in government policy.

We focus mostly role of maritalpecuniarycoordination andassociationconnectingforeign direct investment and GDP intensification rate at country. Most of developing country hadmisrepresented their feelings foreign direct investment.Thiswhispered that foreign direct investments put in to development effort a country through sinking saving-investment hole. multinational firmresult to enlarge productionone more country is baselesser costs and higher efficiency contemplation. Consequently, such policies can an effective in attracting FDI.Butnarrowsurroundings can limit the potential benefits generate by FDI. We propose that FDI plays an important role in economy growth of Pakistan. But, maritalmonetary sector development is essential positive effects to recognize that has not been show before. We offerproposal that the relationshipstuck between FDI and growth is elementary, anywhere FDI promoteintensification through monetarysegmentmaturity. Furthermore, the results put forward that better familialpecuniarycircumstances not onlyapull towards you foreign company but also allow national country economy to make the most of the benefits of foreign savings.

SUGGESTIONS

- *Exports increased an economic growth rate and therefore, government ought tocenter on value additional exports.*
- *There is a need to an improve structure conveniences and acceptable safetystate of affairs to attract FDI in country. Imperativetrounceapowerpredicamentsimilar toelectrical energy and gas load-shedding, discontenteddefenseposition due warbesideviolence andbiasedshakiness attract FDI and eliminate its harmful bruntprofitabledevelopment of Pakistan.*
- *Govt. will increase present standard of an export objects to bring well in the export earrings.*
- *Management shall implement suchgiven thatappropriatereplacecharge policy correct real exchange rate that is useful go earlier output ability and anfinancialexpansion of Pakistan.*

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