

Private Investment, Personal Remittances and Economic Growth of Pakistan

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Abstract
The present study is conducted to find out the association among the variables such as private investment, personal remittances and economic growth in the short run as well as in the long run. Time series data is employed from 1976 to 2013 from world data bank. Johansen cointegration test is used to find out the long run relationship among the variables such as personal remittances, private investment and economic growth. The results indicates that all three variables are cointegreted in the long run. Furthermore study applied VECM to detect the short run adjustment in variables to attain equilibrium in the long run. However, the results indicated that in short run Economic development takes time to converge its equilibrium.

1.1 Introduction

The amount of money which is remitting from foreign to home land play an important role to enhance economic growth. Workers' remittances are consider a strong source to boost economic growth, as compare to other external capital inflows (Aids, Foreign Direct Investment and Foreign Loans) because of their stable nature. According to the World Bank and the IMF, if remittances sent through informal channels are included, total remittances could be as much as 50 percent higher than the official record (World Bank 2010, IMF 2009). In 2010, officially recorded remittances to developing countries reached $334 billion (World Bank 2010).

For many developing countries, remittances constitute a large source of foreign income relative to other financial flows. In 2009, in some countries economic remittances have "become as large as foreign direct investment" and in a large group of developing countries, remittances represent a resource inflow that often exceeds a variety of other balance of payments flows (IMF 2009).

Pakistan is the seventh top emigration country according to the World Bank (2011), with 4.7 million emigrants and eleventh top remittance receiving country with 9.4 billion US$. Pakistan Economic Survey (2011–2012) Worker's remittances have been important sources of foreign exchange for years and these remittances are not only providing support to balance of payment but also helping in poverty reduction and economic growth through different ways.

On the contrary, Private investment play an important role to enhance economic growth. The monetary policy has direct and strong impact on the rate of private investment. Similarly private investment can be influenced by interest rate and exchange rate policies that cause changes in the private capital flows, which augment or reduce financial resources available to the private sector. Private investment is considered as the engine of a long-run sustained economic growth. The strong positive association between investment and growth performance is a well-established empirical fact in a number of recent studies, which show that the higher rate of investment (representing an increase in physical capital stock) leads to higher rate of economic growth. For example, Clements, Bhattacharya and Nguyen (2003), Khan and Kumar (1997) found that increasing rate of physical capital leads to higher rate of economic growth.

The objective of this paper is to find out the relationship among the variables i.e. private investment, personal remittances and economic growth in the context of Pakistan. In the short run and in long term, either private investment or personal remittances have any influence on economic growth of Pakistan or interplay any role to enhance the economic growth.

2.0 Literature Review

The remittances are largely personal transactions from migrants to their friends and families. A large amount of remittances either consumed or invested in private sector to enhance the level of economic growth.

Burki (1991) examined that the amount of money (remittances) which is remitting from the Middle East to their home land have a positive economic and social effects on livelihoods of the household.

According the Oshikoya, 1994, in developing countries, private investment plays a greater role than public investment in determining economic growth and concludes that there is a positive relationship between private investment and real gdp.

Aldeman (1996) find out that in the rural area of Pakistan remittances are used to invest in the purchasing of property (land and buildings) while using five year panel data.

Khan and Kumar (1997) conclude that private and public investment both have a statistically significant positive association with growth, use the data from 1970-1990.

Bouton and Sumlinski (2000) confirmed Khan and Kumar's results and found for a longer period an even larger coefficient on private investment and smaller coefficient on public investment. Thus, the degree of association of private investment with sustainable development and growth appears well established in the economics literature.

Guimaraes and Unteroberdoerster (2006) elaborates that private investment and real gdp are cointegrated positively.

Ratha (2007) explains that remittances efficiently full fill the needs of their recipients; reduce the poverty level and promote human development which leads to overall economic growth.

Yasmeen (2011) examined the relationship between the private investment and economic growth, taking 25 years' time series data collected from the Economic survey of Pakistan for the time 1984-2009 and concludes that private investment is positively related to gross domestic production.

Private investment is considered as the engine of a long-run sustained economic growth.

The strong positive association between investment and growth performance is a well-established empirical fact in a number of recent studies, which shows that the higher rate of investment (representing an increase in physical capital stock) leads to higher rate of economic growth. While remitting remittances to their home land is a big source of capital inflow rather than the other inflows like aid and foreign loans etc.

3. Data and Methodology

The data is collected from the world data bank, which is consider authentic and reliable source, comprised on the year 1976-2013.

3.1 Unit root results

First of all unit root is applied to the check the stationary either variable's data is stationary or not. It is necessary to make the data stationary before estimation. Result of unit root test is given below in the table 01.

Table.01

Variables	ADF Statistics	Critical value	Integration Order
GDP	**3.774855**	1% level -3.621023 5% level -2.943427 10% level -2.610263	**I(0)**
PI	**2.342156**	1% level -3.621023 5% level -2.943427 10% level -2.610263	**I(0)**
PR	**4.257927**	1% level -3.621023 5% level -2.943427 10% level -2.610263	**I(0)**

It is clear from the results that all variables are integrated meaning that these variables are stationary at level. As a result, the study strongly suggests to apply the Johansen test of cointegration because it full fill the condition which is required by the johansen i.e variable must be non-stationary at level.

3.2 Johansen Cointegrestion Test:

The test is used to analyze the relationship between the variables in the long run. The empirical results are as follows.

(a) Trace Values

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.540996	35.97669	29.79707	0.0085
At most 1	0.168569	7.943648	15.49471	0.4715
At most 2	0.035408	1.297814	3.841466	0.2546

(b) Maximum Eigenvalue

Hypothesized No. of CE(s)	Eigenvalue	Max-Eigen Statistic	0.05 Critical Value	Prob.**
None *	0.540996	28.03304	21.13162	0.0046
At most 1	0.168569	6.645833	14.26460	0.5318
At most 2	0.035408	1.297814	3.841466	0.2546

(c) Coefficients (normalized by b'*S11*b=I)

GDP	PI	PR
5.75E-11	-9.89E-06	4.12E-10
-9.59E-11	7.21E-06	1.46E-10
-2.81E-11	-9.37E-07	1.13E-09

The trace value and the maxi-egn value show that there exists a co-integration equation meaning that result there is long run relationship among the variables.

3.3 Vector Error Correction Model:

Table (02)

Error Correction:	D(GDP)	D(PI)	D(PR)
CointEq1	-0.160036	-4.22E-07	-0.025757
	(0.09715)	(1.0E-06)	(0.00640)
	[-1.64733]	[-0.40672]	[-4.02205]

Vector error correction model shows the adjustment speed of coefficients towards equilibrium and short run relationship among the variables.

4. Conclusion

The study elaborates that there is long run relationship among the variables such as personal remittances, private investment and economic growth by employing time series data from period of 1976 to 2013, which is collected from world data bank. The result indicates that there is negative association between the private investment and economic growth meaning that the part of remittances which is invested in the form of private investment is very low which is not sufficient to affect economic growth strongly. While on the other hand the remittances have a significant and positive impact on the economic growth.

4.1 Suggestions

There some suggestions which are given below

01. The money transfer system (remittances transfer system) should be so sophisticated that everyone prefer to use it.
02. There should be some awareness program which encourage the people to invest in business not in property.
03. Government should generate a suitable environment for the private investment.
04. Some type of incentive should be given to enhance private investment like tax relaxation, security and electricity etc.
05. The government should not impose new taxes or increase the level of pervious taxes to enhance private

investment.

06. Government should introduce some steps which encourage the people that they invest major part of personal remittances in to private investment.
07. Government should gave incentive to the private sector which encourage them to take interest in the private investment rather than in the government jobs.

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