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Factors of Garnishing Across the Border Investments

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Abstract

Foreign Direct Investment is of immense importance for the developing economies of the world in achieving their growth targets. The aim of our study is to find out the factors which are responsible in attracting foreign direct investment. The data, on the variables chosen, is taken from the year 1972-2010. The results show relationship to FDI that justify the economic theories. Because of the stationarity of the data at 1st difference intercept in accordance to Augmented Dickey Fuller ADF test, Johansen Juselius test has been used for getting the desired results. The results show that all the variables except labor force participation have got a positive impact on FDI. There is a need of sincere efforts from the Government side to prepare the domestic soil in such a way that it should be found attractive for the foreign investors.

Keywords: foreign direct investment; GDP, trade openness; interest rate; political stability.

1. Introduction

1.1 *Significance and importance of study*

It is because of the importance of Foreign Direct Investment (FDI) that the resurgence of the flow of foreign capital inflows, in respect of FDI, has increased many-fold to especially the developing economies of the world. FDI accomplished the targeted flow of capital of $472B in 2005 compared to that of $104B in 1980's.

Rivero (2007) argued that flow of capital in such fraternity is always to prove of its vivid vitality due to an immense interest of the developing economies not just for the achievement of their economic growth targets rather also for boosting up investment and consumption, improving life style and living patterns and more over for the overall welfare of the population, at large. Short fall of capital in the context of incorporating advanced technologies is perhaps reduced to minimal by catering foreign investors. Hence foreign capital tends to enhance financial modernization and positively contributes to an economic growth with infrastructural sufficiency and conversion of labor into productive capital i.e. human capital.

Since early 1980's, renewed interest of the developing economies of the world has been changed dramatically in respect of proliferating their economic growth and to achieve other macroeconomic goals. Falling growth rates, hyper inflation and widening foreign debts are some of the dreadful difficulties for such economies. On the contrary "aid fatigue" syndromes are also growing increasingly in context of the donor countries (Tsai 1994).

Sethi et al. (2003) argued that there could be many lenses with which the researches are to take the snap shots of the phenomenon of FDI. In-depth study focus on this area exhibits an insight upon most of the factors which are prominent enough in effecting the arrival of FDI. Some of the many may be; the strategy options for motivating Multinational Enterprises to change their investment locality; preferably low cost productive locations; increase of an intensity of competitiveness in original location, cost cutting requirements, pressures to move towards new markets findings, in following the same patterns of rivals.

This is surely imperative, area for many researchers, to analyze the impact of FDI on economic growth (Greenaway & Sapsford, 1994). However an enthusiastic impact of FDI on most of the developing economies of the world is still to be analyzed in multi dimensions. Countries with outward oriented (export promoting) or inward oriented (import substituting) patterns take up an impact of FDI in different. It is vivid that flow of foreign capital in respect of FDI proves to be more beneficial to countries following export promotion patterns than that of the one with the patterns of import substitution (Balasubramanyam et al., 1996).

As a sequel of a brief introduction of the importance of FDI, Section 2 is to reflects the cruxes of the empirical literature review on the topic. Section 3 highlights the flow and trend in FDI in respect of an economy of Pakistan. However section 4 represents the knowhow of the source(s) of the data collection, methodological issues and specification of the model. Section 5 is for the elaboration and interpretation of the results of the study. Last section i.e. section 6 offers concluding remarks and recommendation of appropriate policy.

1.2 Back ground in context of an Economy of Pakistan

As per the central data of the State Bank of Pakistan, since from July to February (2012-13), net foreign capital in account of FDI fell by 9.7% to $504.4M. Total inflow was of $1.405B and inflow remained at $900.7M. Comparing with that of the same period last year, inflow was of $1.424B however outflow was of $865.8M. During the month of February net FDI fell to $13.8M from that of $35.4M a year earlier. Pakistan has reached a volatile state of position on account of her Balance of Payment and must need some extra funds from International Financial Institutions preferably International Monetary Fund (IMF) to heal up the wounds of such formidable crisis on its external account balances, said Werner Liepach (The Country Director of The Asian Development Bank).

1.3 Statement of problem and objective of the study

The objectives of our study is to investigate the impact of certain socio-economic factors that are vibrant in their effects in respect of encouraging foreign investors to be self-motivated in investing into Pakistan.

2. Empirical View of the Literature

FDI earlier was taken up in the theories of capital movements in the direction of portfolio investments (Iversen, 1935; Aliber, 1971). The foundation stone of the concept of FDI was led by (Hymer, 1960; Caves, 1971; Dunning, 1958; Rugman, 1979). All of them took up FDI as prompt source of exploiting ownership advantages and risk diversification. It is worth noticing here that the dependency theories do affirm that sometimes flow of FDI may spur economic growth, but for short-run only and to speed up internal disruptions that sleep away the benefits of the same in the shape of retarding economic growth of the host country (Riedel 1975). FDI is viewed as an asset of the organization and the transfer of knowledge by (Kogut, 1983) and Internalization of the transactions with that of Multi National Enterprises by (Hennart, 1982).

Johanson and Vahlne (1977) conceived in their analysis that Multinational Enterprises are to complement FDI but in gradual and incremental way of persuasions. It has got longitudinal element materialization. (Dunning, (1981, 1986); Narula, 1996; Ozawa, 1992; Tolentino, 1993; Dunning & Narula, 1996). Commercial Banks are a prompt source for getting financial assistance. However vast range of economists does assert that FDI is more steadfast source of financial inflows, possibly for the developing economies of the world. (International Monetary Fund, 1985; Balasubramanyam, 1986). Perhaps it requires the Government officials of a particular country to join heads in investigating what are the factors responsible in inviting FDI? It was found by Riedel (1975) that less developed countries played unreceptive role in determining the direction and volume of FDI. The situations like that of existence of hyper unemployment, enticement of voluntary/early retirement, retrenchment and probably descend in the labor's bargaining power were some of the famous determinants of FDI (Nayek, 2003).

As developing economies enthusiastically urge to get FDI inflows towards themselves, it is required to explore an interrelationship among the three, i.e. trade policy, FDI and that of an economic growth (Greenaway & Sapsford, 1994). Realizing the same it is evident that if host country follows import substitution policies, positive sequels of FDI will be grounded in respect of inefficiencies imposed by trade regime. It is to be noted that it in turn contributes to the growth of income disparities (promoting inappropriate allocation of the resources and raising up X-inefficiency).i.e. (Bhagwati, 1978; Bhagwati & Srinivasan, 1975; Greenaway & Nam, 1988; Kreuger, 1975).

FDI contributed positively into GDP growth said (Shabbir et al., 1992; Khan et al., 1993). However, Aslam (1987) concluded in his research that FDI from public side was not as advantageous as it was from private sector side that helped the recipient to cover up breached gaps between saving and investment. FDI contributed to boosting up exports (Zhang & Song, 2000). There has been enormous no. of literature available that caters the findings of the determinants of FDI for example (Agarwal. 1980; Chakrabarti. 2001; Markusen and Maskus. 1999; Love and Lage-Hidalgo. 2000; Lipsey. 2000 and Moosa. 2002.). In the research carried out in recent years, openness of trade, exchange rate, taxes and tariffs are the important variables uses to explore their impact upon FDI. (Gastanaga et al., 1998; Asiedu, 2002).

Parletum (2008) found that market size of host country and an access to European markets have positive and significant impact on FDI. However trade openness and

corruption brought up insignificant impact over FDI (Xing, 2006). But FDI in turn had positive and significant impact over the growth of the recipient country. (Gerring et al., 2005 and Aqeel & Nishat, 2005) stated that growth in FDI had been found throughout the period from 1961 to 2003, in Pakistan. As argued by Brada et al. (2005) Political instability, prior to the recently passed tenure of the Government, had also have assured that foreign investors failed to gain confidence in taking their capital to Pakistan, unless the business environment was to be turned towards conducive state of position. For instance it was evident that Pakistan is suffering a lot from corruption that is one the major issues effecting the development of her economy (Shahbaz et al., 2008; Shahbaz & Rahman, 2010).

3. Flow of FDI to Pakistan

There have been lot many channels and dimension, if it is to view that how do and how much Pakistan can be beneficiary of FDI.

3.1 Trends and Patterns of FDI in Pakistan

Several factors are to effect the arrival of FDI into a particular country. Perhaps FDI brings up economic growth as per the dependency theories. As investigated by Adam (2009) modern theories also suggested the same results and further add up requirement of capital for the bringing up of growth. Past trends on account of the flow of FDI into Pakistan shows that Greenfield investment has been prevailing in the range that exceeds $ one thousand million, in the year 2004-05 to 2010-11. It gained highest peak in the year 2010-11, standing at the level of $ 1634M. It is alarming to notice that the privatization proceeds came to nil since 2008-09 to 2011-12. Private portfolio investment, since 2001-02 till 2012-13 has been seen changing dramatically i.e. reaching its highest peak in the year 2006-07 ($1820M) but negative in couple of years like in 2002, 2004,2009 and 2012.

3.2. Dimensions of Direct and Portfolio Investment in Pakistan

When we investigate about the horizon of inflow and outflow of direct and portfolio investment in Pakistan since July to February 2012-13, we find that among the Asian countries who have brought up heavy FDI, Hong Kong is the only one that has contributed significantly in this respect. On the contrary Japan and Singapore did not invested in major in this context. On account of USA, UK, Norway, Switzerland, UAE and Italy there has been noteworthy contribution in the context of direct and portfolio investment in Pakistan. Most likely Netherlands, Norway and UAE are found as attractive for the outflow of FDI during this time period.

3.3. Flow of FDI in Pakistan (Country Wise)

Throwing a light upon the flow of FDI from major trading partners of Pakistan, it is found that UAE, Switzerland, Hong Kong, Japan, Switzerland, Saudi Arabia, Norway and China have contributed positively and somehow consistently, except china, in exporting their FDI to Pakistan. FY 2007-08 has been a year when Pakistan gained highest peak on account of FDI and FDI including privatization proceeds i.e. $5276.60M and $5409.80M respectively.

4. Source of the Data, Research Methodology and Model Specification

This section makes available an understanding of the data source, methodology and model specification

4.1. Data Source

The study constituted in this research paper is to rely upon the secondary source of the data, perhaps for the period of 1972 to 2010. For the restoration of the authenticity of the results, the data is collected from multisource domain i.e. Hand book of statistics on Pakistan economy (2010) and The World Bank (World Economic Outlook) data on Pakistan.

4.2. Methodology

It is considered mandatory to inspect the stationary of the time series data. It is known by Augmented Dickey Fuller (ADF) test, as Dickey and Fuller. (1979), who developed the framework for working out test of non stationarity. The most appreciable part of this procedure is the testing of unit root. Hence, in short, the co-integration equation is examined by Johansen Juselius co-integration test.

4.3. Model Specification

As far concerned, the estimation issues, FDI function is interpreted as:

FDI = f (GDP, TOP, INTRTE, ER, CPI, LBF, POLST).

Where FDI : Foreign Direct Investment; GDP: Gross Domestic Product; TOP: Trade Openness (export * Imports/GDP); INTRTE: Interest Rate; ER: Exchange Rate; CPI: Consumer Price Index, as a measure of inflation; LBF: Labor Force Participation and POLST: Political Stability (Because of the unavailability/unreliability of the data, political stability is taken as dummy variable. In this respect hypothesis constructed contains values vary from 0 to 1. Value of 0 is assigned to the year(s) when the Govt. (either democratic or care-taker) is dissolved/adjourned. Value of 1 is assigned to the year(s) with the settled Govt.).

The specified equation for FDI is given as follows:

$$FDI = \beta_0 + \beta_1 GDP + \beta_2 TOP + \beta_3 INTRTE + \beta_4 ER + \beta_5 CPI + \beta_6 LBF + \beta_7 POLST + \mu_i$$

5. Results and Discussions

5.1 Descriptive Statistics of Some Selected Variables

Table 1 reports description upon descriptive statistics. An average FDI flows to Pakistan are 0.82 million rupees for our study period with standard deviation of 0.91. The average of GDP is 5.03 and standard deviation is 2.19. Trade openness is at 0.37 as average and o.o5 as its standard deviation value. Interest rate has average of 10.84 with 3.05 as standard deviation. Exchange Rate, CPI (inflation) has 31.61 and 9.39 as mean value and 3.06 and 23.02 as standard deviation. However 37.18 and 0.68 is a mean value for labor force participation and political stability. Standard deviation of these two variables is 8.54 and 0.47 respectively.

Measure of symmetry/asymmetry is checked through the measure of skewness. Table 1 shows all variables except trade openness and political stability are right skewed and rest of the variables is left skewed. Kurtosis measures peakness or flatness of the data relative to the normal distribution. Kurtosis statistics show that Variable taken like FDI, interest rate and CPI are leptokurtic (long tailed or high peak). Rests of all the variables except political instability are platy kurtic (fat or short-tailed). Jarque-Bera is a test of normality. It suggests that residuals of FDI, Interest rate, CPI and political stability are not normally distributed. Whereas, rest of the variables have distributed normally.

Table 1: Descriptive Statistics of Some Selected Variables

Measures	FDI	GDP	TOP	INTRTE	ER	CPI	LBF	POLST
Mean	0.82	5.03	0.37	10.84	31.61	9.39	37.18	0.68
Median	0.545	4.96	0.363	10.00	22.64	8.09	36.05	1.00
Maximum	3.78	10.21	0.47	20.00	84.58	26.66	54.00	1.00
Minimum	0.02	0.81	0.24	6.00	9.02	2.91	24.65	0.00
Std. Dev.	0.91	2.19	0.05	3.06	23.02	5.52	8.54	0.47
Skewness	1.92	0.03	-0.19	1.37	0.73	1.47	0.40	-0.79
Kurtosis	6.05	2.53	2.53	4.39	2.23	4.93	2.09	1.63
Jarque-Bera	38.06	0.35	0.59	15.03	4.36	19.66	2.33	6.96
Probability	0.00	0.84	0.74	0.00	0.11	0.00	0.31	0.03
Sum	31.13	191.34	13.93	412.00	1201.17	357.01	1412.79	26.00
Sum Sq. Dev.	30.94	178.09	0.10	345.55	19609.72	1127.52	2698.98	8.21

5.2 Pair Wise Correlation Matrix

Table 2 represents the strength of the relation-ship between the variables opted in this study. The table shows that labor force participation and an exchange rate are highly correlated, trade openness and interest rate is moderately correlated and rest of all the variables are weakly correlated with FDI.

Table 2: Pair Wise Correlation Matrix

Variables	FDI	GDP	TO	INTRTE	ER	CPI	LBFR	POLST
FDI	1.00							
GDP	-0.16	1.00						
TOP	0.54	0.04	1.00					
INTRTE	0.28	-0.29	0.46	1.00				
ER	0.81	-0.30	0.39	0.25	1.00			
CPI	0.08	-0.05	-0.05	0.12	-0.13	1.00		
LBF	0.85	-0.22	0.57	0.35	0.96	-0.15	1.00	
POLST	0.19	0.11	0.09	-0.12	-0.01	0.19	0.06	1.00

5.3 Unit Root Test

Table 3 reflects the status of stationarity at first difference with intercept. It is because at 1st difference, null hypothesis of non stationarity for all the variables is rejected. All the variables are turned out stationary at first difference and integrated at I (1).

Table 3: Results of Augmented Dickey-Fuller Test (ADF) (for unit root at first difference intercept)

Variables	T Statistics	Probability	Conclusion
FDI	-4.8	0.00	I (1)
GDP	-11.18	0.00	I (1)
TOP	-7.4	0.00	I (1)
INTRTE	-4.8	0.00	I (1)
ER	-2.6	0.09	I (1)
CPI	-7.4	0.00	I (1)
LBF	-6.4	0.00	I (1)
POLST	-11.5	0.00	I (1)

5.4 Unrestricted Co-integration Rank Test

One of the tests that we extract out from Johansen Juselius co-integrating test is the determination of the magnitude and sign of long run likelihood of relationship and marginal values of the above mentioned equation, the co-integration vector has been normalized at FDI. Test of co-integration appear in table 4. The observations appear in the table show three co-integrating equations at 0.05 level.

Table 4. Unrestricted Co-integration Rank Test (Maximum Eigenvalue)

Hypothesized		Max-Eigenvalue	0.05	
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Prob.**
None *	0.881	76.671	52.362	0.000
At most 1 *	0.831	64.005	46.231	0.000
At most 2 *	0.710	44.628	40.077	0.014
At most 3	0.489	24.231	33.876	0.439
At most 4	0.416	19.397	27.584	0.384
At most 5	0.326	14.238	21.131	0.346
At most 6	0.308	13.299	14.264	0.071
At most 7	0.081	3.054	3.841	0.081
Max-eigenvalue test indicates 3 cointegrating eqn(s) at the 0.05 level * denotes rejection of the hypothesis at the 0.05 level **MacKinnon-Haug-Michelis (1999) p-values				

5.5 Normalized co-integrating coefficients: 1 co-integrating Equation(s)

In respect of normalized co-integrating coefficients, the coefficients of ß are represented in Table 5 in the line.

Table 5: Normalized co-integrating coefficients: 1 co-integrating Equation(s)

FDI	1.00		
	coefficients	Standard error	t-statistic
GDP	0.18	0.03	6.00
TOP	6.86	1.59	4.31
INTRTE	0.02	0.02	1.00
ER	0.07	0.01	7.00
CPI	0.05	0.01	5.00
LBF	-0.11	0.04	-2.75
POLST	0.24	0.11	2.18

The results appear in Table 5, show that all of the variables except labor force participation have positive relation to FDI. The results clearly show that 1% increase in GDP brings 0.18% increase in the FDI. It is so because GDP is a sign of an economic health. As the health is good, the chances are there that foreign investors would feel ease to bring up their investments to the same country. The same results have also been found by Tsai, (1994). Trade openness and FDI also have direct relation between one another said Mohiudin and Salam, (2011). Our findings suggest that Rs. 1 Million of increase in TOP increases volume of FDI by Rs. 6.86 Million.

As investigated by Shaikh and Ansari (2011) Foreign Direct Investment and Interest rate slither in same direction. Our findings acknowledge the same that is FDI is to increase by 0.02 % as interest rate increases by 1 %. The results, we have gathered are justified based on an economic reasoning that high rate of interest raises the capital inflows domestically. An Exchange rate bears positive relationship with FDI. An increase of 1 unit in exchange rate increases FDI by 0.07 units. It is due to the fact that an increase in the exchange rate (taking Pak Rupee as denominator) shows that the rupee has been devalued against major currencies of the world. Having known this, foreign investors can get more rupee on behalf of their own currency. This is an obvious fact that it will increase FDI inflows (Aqeel et al., 2005).

An effect of inflation is seemed positive on FDI, as found earlier by (Shaikh & Ansari, 2011). It is due to the fact that gradual increase in the price level of an economy brings up sense of confidence on part of an entrepreneur. Supply is to rise in turn of an increase in the price level (provided it is steady). The same results are found in our research. 1% increase in inflation increases FDI by 0.05 %. More is a labor force participation less will be a flow of FDI. Now a days the global trends being followed by the business class are to use up modern techniques of production which are capital intensive. The results acknowledge the same as 1% rise in labor force participation, reduces FDI inflows by 0.11 %. Political stability and improved state of socio-economic indicators of an

economy are always required for inviting foreign investors. The results show that 1 unit rise in political stability increases FDI by 0.24 units.

5.6 Analysis of Short-Run Dynamics

The error correction model (ECM) traces the possibility of short-run relationship. As is evident in table 6, the coefficient of Error Correction Co-integration equation value is 0.08. It shows that 8% of disequilibrium is corrected each year. The variables with positive effect on FDI are GDP (at two year lag), trade openness, interest rate (at one year lag), and political stability (at two year lag) and labor force participation.

Table 6: Results of an Error Correction Model for Short-Run Dynamics

Dependent variable= FDI		
Independent variable	**Coefficient**	**t-statistics**
Constant	-0.04	-0.38
D(FDI(-1))	0.62	3.41
D(FDI(-2))	-0.62	-2.23
D(GDP(-1))	-0.00	-0.16
D(GDP(-2))	0.01	0.34
D(TOP(-1))	1.02	0.33
D(TOP(-2))	3.14	1.31
D(INTRTE(-1))	0.12	2.36
D(INTRTE(-2))	-0.19	-2.15
D(ER(-1))	-0.04	1.44
D(ER(-2))	-0.06	-1.75
D(CPI(-1))	-0.03	-2.06
D(CPI(-2))	0.02	1.56
D(LBF(-1))	0.11	1.57
D(LBF(-2))	0.02	0.34
D(POLST(-1))	-0.27	-1.83
D(POLST(-2))	0.04	0.38
EC (CointEq1)	-0.08	-0.30
R-squared: 0.748751 F-Statistics: 2.98 Adj. R-squared: 0.497503		

5.7 *Granger Causality Test*

Granger. (1969), built up a test that defines the causality: that is a variable x is supposed to be granger-cause y, if y is to be predicted with a greater accuracy by the use of the past values of x instead of not using the same past values, ceteris paribus. The results of granger causality test are presented in table 7. The results indicate that null hypothesis of

(there does not granger cause) is accepted for 1. FDI and GDP, 2. Trade openness and FDI, 3. Inflation and FDI, 4. Political stability and FDI. There is found unidirectional causality among Interest rate and FDI and among labor force participation and FDI. In case of exchange rate and FDI, there is a rejection of null hypothesis.

Table 7: Granger Causality Test

Sample: 1972-2010 Lags: 2			
Null Hypothesis:	Obs	F-Statistic	Prob.
GDP does not Granger Cause FDI	37	0.26677	0.7675
FDI does not Granger Cause GDP		2.09022	0.1402
TO does not Granger Cause FDI	37	1.15672	0.3273
FDI does not Granger Cause TOP		1.92472	0.1624
INTRTE does not Granger Cause FDI	36	0.88344	0.4235
FDI does not Granger Cause INTRTE		4.60371	0.0178
ER does not Granger Cause FDI	37	3.36425	0.0472
FDI does not Granger Cause ER		5.20844	0.0110
CPI does not Granger Cause FDI	37	0.62532	0.5415
FDI does not Granger Cause CPI		1.03052	0.3684
LBF does not Granger Cause FDI	37	9.40869	0.0006
FDI does not Granger Cause LBF		0.49175	0.6161
POLST does not Granger Cause FDI	37	1.02290	0.3710
FDI does not Granger Cause POLST		1.01083	0.3752
TOP does not Granger Cause GDP	37	1.85770	0.1725
GDP does not Granger Cause TOP		2.13204	0.1351
INTRTE does not Granger Cause GDP	36	2.37113	0.1101
GDP does not Granger Cause INTRTE		0.14688	0.8640
ER does not Granger Cause GDP	37	6.08711	0.0058
GDP does not Granger Cause ER		1.34929	0.2738
CPI does not Granger Cause GDP	37	0.83788	0.4419
GDP does not Granger Cause CPI		0.54297	0.5863
LBF does not Granger Cause GDP	37	1.32711	0.2794
GDP does not Granger Cause LBF		0.89625	0.4181

POLST does not Granger Cause GDP	37	0.76857	0.4720
GDP does not Granger Cause POLST		1.66615	0.2050
INTRTE does not Granger Cause TOP	36	2.38300	0.1090
TOP does not Granger Cause INTRTE		3.20293	0.0544
ER does not Granger Cause TOP	37	4.46944	0.0194
TOP does not Granger Cause ER		7.39841	0.0023
CPI does not Granger Cause TOP	37	0.86626	0.4302
TOP does not Granger Cause CPI		0.07188	0.9308
LBF does not Granger Cause TOP	37	0.31549	0.7317
TOP does not Granger Cause LBF		0.09096	0.9133
POLST does not Granger Cause TOP	37	0.24396	0.7850
TOP does not Granger Cause POLST		0.24344	0.7854
ER does not Granger Cause INTRTE	36	0.08654	0.9173
INTRTE does not Granger Cause ER		2.02463	0.1491
CPI does not Granger Cause INTRTE	36	0.27526	0.7612
INTRTE does not Granger Cause CPI		1.61701	0.2148
LBF does not Granger Cause INTRTE	36	0.94110	0.4011
INTRTE does not Granger Cause LBF		1.81104	0.1804
POLST does not Granger Cause INTRTE	36	0.24347	0.7854
INTRTE does not Granger Cause POLST		1.34949	0.2742
CPI does not Granger Cause ER	37	0.93387	0.4035
ER does not Granger Cause CPI		0.06283	0.9392
LBF does not Granger Cause ER	37	4.53981	0.0184
ER does not Granger Cause LBF		0.83036	0.4451
POLST does not Granger Cause ER	37	1.14566	0.3307
ER does not Granger Cause POLST		3.32073	0.0489
LBF does not Granger Cause CPI	37	0.33023	0.7212
CPI does not Granger Cause LBF		0.95789	0.3944
POLST does not Granger Cause CPI	37	0.42373	0.6582
CPI does not Granger Cause POLST		1.38368	0.2652
POLST does not Granger Cause LBF	37	1.07667	0.3528
LBF does not Granger Cause POLST		1.32074	0.2811

6. Conclusion and Recommendation(s)

6.1 Conclusion

Foreign Direct Investment accounts for an immense weight especially for the developing economies of the world, i.e. Pakistan. For the last 3 decades, the developing economies have changed their route of gaining economic development through inviting the foreign investors. It is quite unfortunate that flow of foreign direct investment to Pakistan has fell by 9.7%, during July to February (FY 13).

The major aim of our research is to explore some of the socio-economic variables that affect the flow of FDI to Pakistan especially. We have employed a technique of Co-integration equation, which is examined by Johansen Juselius Co-integration test. Further we have explained descriptive statistical analysis and an analysis of correlation matrix. The results of Augmented Dickey-Fuller Test for the unit root (at first difference intercept) have also been concluded and Error Correction Model, shows the results that 8% of the disequilibrium is corrected each year. At the last we have given the results of Granger Causality test that show that null hypothesis of (there does not granger cause) is accepted for 1. FDI and GDP, 2. Trade openness and FDI, 3. Inflation and FDI, 4. Political stability and FDI. There is found unidirectional causality among Interest rate and FDI and among labor force participation and FDI. In case of exchange rate and FDI, there is a rejection of null hypothesis.

Results of Normalized Co-Integration Coefficient: 1 Co-integrating equation show that trade openness has significant positive effect upon the flow of FDI. All of the variables used bear a positive relation to FDI except Labor Force Participation. What is found essential is that the responsibility rests upon the Government of Pakistan to take appropriate measures so that the Foreign Direct Investment is to be attracted at high mass level as it is one of the major players of bettering –off the foreign exchange reserves.

6.2 Policy Recommendations

It is recommended that the Government is to carry out essential measures to control inflation, better off the state of GDP, strengthen international trade partnerships, should improve the standings of political harmony and stability. All of this in-turn improves the flow of Foreign Direct Investment which later would surely bring up stability in the socio-economic position of Pakistan.

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