

## **How the FDI of a Nation is affected. A case study of Pakistan**

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### **Abstract**

*This study experimentally recognizes the how the FDI of a nation is affected. For the very purpose the case of Pakistan has been taken for the time period of 1980 till 2019. The essential interest is the considering of in which way different components or pointers realizing exchange, monetary and related territory advancement spull Pakistan's FDI. This study uses the regression and cointegration to recognize the components in explaining Pakistan FDI. Our Study thinks about Real expenditures on transport and correspondence by the open segment, Incidence of import obligation (an intermediary for duty rate), Change in genuine GDP, GNP Per Capita in USDollar terms, Depreciation recompense and the Rate of premium, Cost of the capital for the remote companies registered from accessible information on rate of return, Real FDI yearly streams in Pakistan. It included GDP Per Capita an wages test for concerned enthusiasm to work and market size theories. Every element showed right signal and are verifiably important beside pay rate and offer worth run down. The Study Analysis obviously under scores the activity of such methodology factors in captivating FDI & choosing their improvement in both long run and short run in Pakistan. This research work moreover portrays different essential impact of changes on FDI in Pakistan which are talked about in detail.*

**Keywords:** *FDI, GDP, GNP, Depreciation, Tariffs*

### **Introduction**

Every country on the Earth comprehends the hugeness of FDI including Developing countries and Developed countries. Creating markets and creating countries need resources and advantages for continue with their Inflation and advance that produces better outcome. And financial specialists of the rising countries, invest in the profitable

projects. Thus the wealth development is being considered as profitable for the nation as well as for the investors too. The appeal of a nation hypothesis is greater whilst the GDP per capita is lowered for instance some studies have suggested that such nations enhancing low per capita GDP are feasible consideration for uncommon yield on FDI.

Over the world constantly attracted to those nations which help them as far as both and support approaches for investment. Strong strategies from the host nation additionally circle out side interest into regions where they are amazingly alluring. Throughout the most recent couple of years, cash based action has been regarded by a significant/renowned increment in the overall extent of exchange. Another explanation of FDI streams from created nations to creating nations is their young and cheap men-control. In the wake of coming to at high top in 2000, overall FDI streams especially in later annum. The 2003 UNCTAD (United Nations Conference on Trade and Development,) report shows that there is an awful, diminishing for 17.5% on the FDI inflows compared to the previous year which was 2002. In 2003 the entire FDI was approximately 560 Billion USD four percent of the USD1,388 billion recorded in 2000. In any case, because of more cross outskirt M & A (Mergers and Acquisition), increased cash based development worldwide and improved a lucrative state among organizations.

We are living in a worldwide town; the separation has been crushed in view of fast transportation and proficient correspondence framework. One can move from a nation to another nation just in barely any times and can convey his message from a corner to another edge of the world just in a couple of moments seconds. Similarly business can move starting with one spot then on to the next spot immediately of time. The outstanding amongst other case of business development is remote direct speculation (FDI). According to Gilp in R., FDI implies nationals from one nation building up monetary undertakings inside the pure view of different nations as well as a next extension of the current business in the ward of another country.

Remote speculation assumes a significant job in the arrangement of financing required for the foundation of gainful undertakings, move of innovation, commitment to raising livelihoods and expectations for everyday comforts, developing of more occupations, reinforcing of the guide lines of generation, improvement of the aptitudes of the board mastery, and accomplishment of upper hands in the field of fare. This exploration is led to research the Study Analysis of 'Determinants of FDI in Pakistan.

### **Problem Statement**

Pakistani experiences faces diminish local and household costs on account of negligible local reserve funds, huge non-beneficial utilization and moderate financial development. Outside directive nature decided through various monetary factors in the experiences. These components are Cost of outside of firms, Per-capital GNP, change in GDP,

Incidence of import Real obligation consumption on transport and correspondence by open segments which decided remote direct interest in Pakistan. It was analyzed that in Pakistan, FDI was most extreme in the past period show everafter 2008, the decline in the outside direct venture of Pakistan has been inspected. This Study Analysis is directed to inspect Pakistan's FDI (Foreign Direct Investment) determinants. Our research work has researched determinants that influence the Inflow of the (FDI) and its positive or negative associated impact. Predicting Pakistan Interest of remote nations, this investigation is analyzed to the Cost of outside firms, Per-capital GNP, change in GDP, Incidence of import Real obligation consumption on transport and correspondence by the open division of Pakistan. The most recent 38 years are constantly a test for financial experts, supervisors, and specialists.

### **Significance of the Study**

Pakistan is a high investor of local and international capital. Pakistan is collect more money from outside investment from the world. These foreign direct investments are effect individuals, households as well as the entire economy. This research study intention is the exploration of the relationship between Foreign Direct Investment,foreign companies WACC(Cost of Capital),Gross National Product Per Capita,And Gross Domestic Product Change, Incidence of imports, real transport and correspondence by an open division of Pakistan. The proposed show effort to accommodate few adapted actualities about the example of FDI, which investigates diverse economies to create get ready for the improvement of outside investment in the set wo Governments. It can likewise assist distinctive scientists and arrangement creators with opening another entry way for future research. The investigation will be useful considering legislature giving ahead information in FDI, with the goal of selecting the correct option for the arrangements remembering the end goal to help the inflow of FDI in the nation. Nation with entrenched money related markets accomplish impressively from FDI. Thus, endeavors will be made to expand the learning.

### **Research Objectives**

To Examine and investigate the impact of different factors on FDI flow in Pakistan.

- a) To examine the impact of the cost of capital on FDI in Pakistan.
- b) To examine the impact of change in GDP on FDI in Pakistan.
- c) To examine the impact of the Incidence of import duty on FDI in Pakistan.
- d) To examine the impact of Real expenditure on transport and correspondence by open division on FDI in Pakistan.
- e) To examine the impact of per-capital GNP on FDI in Pakistan.

### **Research Questions**

What are the Determinants which are considered most important for foreign direct investment in Pakistan?

- a) What is the impact of the cost of capital on FDI in Pakistan?
- b) What is the impact of change in GDP on FDI in Pakistan?
- c) What is the impact of the Incidence of import duty on FDI in Pakistan?

- d) What is the impact of Real expenditure on transport and correspondence by open division on FDI in Pakistan?
- e) What is the impact of per-capital GNP on FDI in
- f) Pakistan?

### **Literature Review**

Foreign Direct Investment Level in native country has been affected through alternate components. Amounts of Study Analysis have seen the determinants of inbound FDI regarding various nations. In the going with trade, as hort audit of the creating proper to the segments of intrigue combined into this evaluation is given.

The open arrangement on FDI, might be secluded in to two general parties, in one social affair experts has been seen as the effect of FDI in cash related improvement, in which way the foreign direct investment has an imoact upon the natuve country's headway, Other the determining factors of foreign direct investment was perceived. Each of social events were clarified here.

There are a few Study examinations open by greatness of Pakistan in which authorities saw the determinants and vitality of Foreign Direct Investment (FDI) in Pakistan. Pakistan's organization has started changes during the 1980s in its money related plans and perseveringly started to change its trade and speculation structure by giving evaluation denials, credit workplaces and liberal responsibility diminish to remote budgetary experts. During the 1990s, the affiliation further empowered its methodology in interests in agribusiness, media transmission, and centrality parts at any rate as a result of clashing outlines and political weakness, the level of FDI remained low meandered from other creating countries (Khan, 1999).

Pakistan got a reasonably higher degree of FDI over the scope of the latest two decades by excellence of market slanting frameworks, an exceptional condition for understanding and took the stand concerning the private part as the engine of money related movement (Atique, 2008). Many creating countries manhandled by the outside hypotheses and budgetary assistance with improving the most extreme of humble assessors to use cash related affiliations, attract endeavors from the globe and accumulate monetary system. Pulling in outside encounters help in diminishing opening between the need of speculation and close to meander holds (Shabbir, 1992). Late Study Analysis displayed the impact of express method factors for FDI in have countries and focused on technique adjusting in creating countries as determinants of FDI inflows (Gastanaga et al, 1998). Developing really impacts the level of FDI which when leveled out pulls in more FDI in have country or in other area. Low developing rate highlight to the financial managers that cash related strategy is being administered by delineated parameters and hypothesis returns would meet researchers' craving (Agim Kukeli, 2007).

**FDI Impact upon the Economic Growth:**

Outside effect of hypothesis upon cash related headway had been considered through the research study of Li and Liu 2005 who has found that the Foreign Direct Investment has an exceptional part in the improving of fiscal improvement; they have observed the basic link of human capital and FDI. A near report was advanced through the study of De Meelo (1999), who have found that there is always a positive nexus between offoreign direct investment monetary progression both in developing and developed countries. Relationship of Causality concerning Foreign direct investment and Monetary Progression had been analyzed through Deretal (2004) having a clue regarding different components such as diplomatic daunt lessness, change standard & joblessness for mulling over effect upon Foreign Direct Investment. Borensztein et al (1998) facilitated an evaluation in 70 developing nations for twenty anums & has observed tha foreign direct investment is vital device for cash related improvements.

Alfaro et al(2004) composed and examination in chinese nation for the time of 20 years that is from 1975 till 1995, to find out bit of financial market in foreign direct investment and financial development. After their analysis they had observed that They found that impacting bit of foreign direct investment, in the monetary progression has always swayed by the money related, because they understood that in developed financial markets foreign direct investment contribute an essential thought in cash related improvement when stood apart from then on-madenation. Antwi and Zhao to lead concentrate to build up the association between FDI in Ghana for the period 1980 to 2010 used time course of action data. The secoundry data was used for the Study Analysis and counsisting yearly observed each factor. The cointegration methodology is applied on yearly data of FDI, GDP and GNI to choose the effects. The result found that there is for along while run balance between outside adventure and budgetary growth. Annaek (2007) to examine the effect of outside direct hypothesis on cash related improvement in china during the time of 1994 to 2003. The Study Analysis relies upon discretionary data for 30 unmistakable are ain china. Backslide techniwus is used for the examination the empirical result show that there is certain association between financial advancement and remote dorect theory. Melnyketal.,(2014) to investigate the impact of remote direct adventure on budgetary developing neone Neo classical improvement theory model is used for the Study Analysis to get the effect of outside hypothesis and cash related development. The result show that monetary advancement and FDI has gainful result of the host countries. Khaliq and Noy, (2007). To search for the impact of remote direct adventure on money related advancement using organized secondary data for outside theory inflow to indonasia over the time of 1997 to 2006. Advance econometric framework is used for the Study Analysis. The Study Analysis show that FDI has helpful result on remote direct investment. Alfaro (2013) look in to the effect of outside hypothesis on cash related advancement its show the outside direct adventure on budgetary improvement in producez one and organizations zones. The secondary data is used to secure the result of these zones with the help of econometric methodology data is

accumulated from the time of 1881 to 1999. The result suggest that FDI hypothesis exert an ambiguous way on progress. Outside enthusiasm for the primary division show ever have an tendency to have negative impact on headway while excitement for social event regions have gainful result on advancement verification from organizations portions is uncertain

### **Determinants of FDI**

Monetary predictable quality work publicize, geological and social markers {are being used} to think about the FDI. The Study Analysis of Alamand Shah (2013) identify the influencing bit of market part, nature of workplaces what more work cost on FDI by planning a Study Analysis in OECD countries. The Study Analysis was Study Analysis Your Inside the other social affair, the couple of determinants of FDI were examined, the essential examination proposed the cash related professional affiliations elect the sensible more work cost and expanding nation were picked for the undertaking of Mundell (1957) influence a battle to disclose that specific portions to like affiliation deterrents, rich and poor nations at capital establishment and to geographical dissipating of hypothesis prescribe that the diminished level nations at base of Gross private thing, wage difference to there are the revolved around nations. After somewhere in the range of a chance to time the specialists has been found specific factors that empower and influence the examiners to buy the number nation. Such factors are display check, explore was composed by Villeverate and Maza (2012) escape economy for the time of 10 years, they utilize different factors in his appraisal yet obviously they found the negative respects of Market measure with the FDI, which is one of {the key} positive impacting determinants of FDI in almost all nations, this Study Analysis gives the debate that the entirety of the determinants would not shown ear outcomes in all nations and besides considering not ceaselessly the time. Another examination was facilitated in the Singapore economy by the Liew (2010). He utilized grouped cash related markers for the clarification of FDI. They found the certifiable bit of fiscal steadiness in Singapore economy. This may pull in the more indispensable excitement for Singapore. Demirhan and Masca, (2008). The motivation behind the Study Analysis is to choose sections of outside direct experience inflow in developing nations throughout the time of 2000 to 2004. The evaluation is base on test cross sectional in formation of 38 developing nations. Remote direct theory is needy variable and self-administering variable is improvement rate, expanding rate. Callingst and ardline 1000 people evaluated in log, work per cost of working in manufacturing industries measure in log, level of openness, danger, and corporate to appraisal rate. Cross sectional model is used the result show that Telephoning essential line, degree of openness and work cost has useful result while the other have negative effect on remote direct investment. Asia (2010) determinant of outside direct adventure a sectoral and institutional strategy that papers tall various macroeconomic, improvement and institutional determinant of outside direct enthusiasm for a clear of creating business segment and made economies while outside direct hypothesis stream in to primary regions show little dependence of these variables,

secondary and tertiary parts theories are affected in different way by a countries, pay level and change scale valuation similarly as head way pointers, for instance, cash related significance and schools enrollment and institutional factors, for instance, judicial self-rule and work promote flexibility. Finally he found the effect of these pieces often difference among advance and creating market. Meara (2015) The reason behind this paper is to see the basic determinants of outside direct experience on across-country premise. Utilizing abroad instance of both made and developing nations, we locate that normal parts identifying with the estimations and size of cash related action inside the host nation square measure commonly note worthy in instructive remote direct speculation streams, and factors, e.g, financial possibility, charge convincing forces and human capital are not in the scarcest degree essential. These disclosures are according to for all intents and purposes in distinguishable research that shows broadcast measure, cash related straight forwardness and nature of foundation to be key drivers of outside direct experience, Dellisetal., (2017) This paper inspects the bit of money related structures as determinants of FDI inflows. We develop the present creation by concentrating on bleeding edge economies, utilizing as tartinglate open extent of FDI which cleans the information from honest knick knacks, for example, money related round reeling, in addition, by depending upon a wide blend of measures that go-between the possibility of anation's cash related structures. Our outcomes show that there is an observational relationship from the possibility of a host nation's money related structures to FDI inflows.

### **Exchange Rate and FDI**

Exchange rate is a key factor of foreign direct investment. A Study Analysis was used by Cavallari and Addona (2013) on determinant of US Foreign direct enthusiasm for 46 economies. They executed back slide examination using the time of 1982-2009 and shut two crucial results that USFDI has positive association with have country. The connection between outside direct theory and swapping scale is progressively amazing in impact when diverged from downturn and the consequent result was a Positive relationship of FDI with Exchange rate shakiness. In spite of the fact that Ibrahim and Hassan (2013) used an investigation in Sudan over the time of 1970-2010 and dissected that GDP, expanding rate, swapping scale, circumlocutory appraisals and trade straight forwardness are factors of FDI. Johansen co-blend approach was done as such as to find thes ince a long time back run relations among factors.

They found that there was a negative relationship among FDI and expanding rate, swapping scale and round about charges. Hunjra, Raza, and Asif, (2013) They attempts to find the impact macroeconomic factors on outside hypothesis (FDI) inflows in pakistan. The time of study was from 1992-2013. The ADF test was used applied to check the data co-coordination, particular estimations and Granger Causality test were used in the examination of the data by using the Eview8. Study Analysis of the examination find that GDP improvement rate, and advance expense have basic effect on FDI inflow in

Pakistan. Zakari, (2017) the purpose of the examination is find the impact of swapping scale change on remote direct enthusiasm for Nigeria. The data of FDI,transformation scale. Furthermore, GDP was assembled from the site of national bank of Nigeria for the time of 2005–2014 by using back slide and association Study Analysis technique. Analysis show that there is strong and positive association among FDI and transformation scale of course there is weak positive association among FDI and GDP. Billawal et al.,(2014) Investigate effect of swapping scale on outside direct excitement for Pakistan. The Study Analysis was based on secondary data which was assembled from the site of head bank of Pakistan for the time of 1982-2013. The preliminary of association and backslide Study Analysis were applied through spss to check the association between change scale and FDI. The result show that there is certain and criticalness association between swapping scale and outside direct theory. Alietal.,(2017) have reviewed the impact of changes in Exchange rate on FDI confirmation from Somalia. The secondary also, time certified data was used for the Study Analysis which is assembled from world bank and SESRIC from 1970 to 2010 multi regression model under OLS technique was applied for the examination the result show that there is negative and significant association between transformation scale and outside direct premium.We look at the effect of trade rates on FDI inflows into the United States in the setting of model that thinks about relationship of outside hypothesis after sometime. Connection is appeared as a two-state Markov process where the two states can be deciphered as either an ideal or an up setting territory for FDI in an industry. We utilize lop sided industry-level board information from the US discount exchange part and our Study Analysis yields two fundamental outcomes. In the first place,we find certify that FDI is reliant after sometime. Second, under an uncommon FDI condition, the swapping scale has a positive and essential impact. On the common place pace of remote direct hypothesis inflows. MARIEL and PÁNKOVÁ, (2010) A clarification of short-run changes in remote direct experience (FDI) streams by swapping scale enhancements depends upon a conviction that contributing remote affiliations can purchase another nation's favorable circumstances and advances economically when its cash is delicate. The believability of a reasonable model of FDI relying on higher minutes of trade rates is finished by proof of the dynamic impacts of the strategy being in sinuated. Material board information methodologies are quickly underlined and by then related. Information of four focal European nations shows comes about which acknowledge the hypothesis proposed.

### **Inflation and FDI**

Inflation is seen as abasic sign of budgetary sufficiency. This is inspected by different examiners like Demirhan and Masca (2008) that lower growing exhibited the relentless economy and it gives a space to the advancement of the economy. The country having stable economy can pull in the various money related experts from abroad in light of the fact that there exists a relentless economy and have space for the advancementof the business and to widen their activities.These disputes were expelled from delayed consequences of backslide models which exhibit that growing has negative and essential

association with FDI. Zahid et al., inspect the effect of outside energy on the improvement and growing of the country. Helper data has been used which is assembled from the site of ADB and SBP during the time of 1990 to 2011. In those paper three elements is taken FDI, GDP, and INF. The show that there is sure relationship between expanding rate and outside interest. Alshamsietal.,(2015) is attempting to consider found the effect of expanding rate and GDP per capita on outside direct excitement for joined Arabemirate. The data of the seelements is accumulated from the site of World Bank from the time of 1980 to 2013. To examination the positive relationship between the penniless variable and self-governing components auto backslide technique is applied in that investigation. The finding of that broked own is show that Inflation has no import an ce association between growing rate and outside direct speculation Wanjiru R Wanjohi(2013). Necessities to take a gander at the impact of expanding precariousness and fiscal advancement on remote direct enthusiasm for Kenya. Data was obtained from the site of WORLDBANK for 1980 to 2012. Foreign direct hypothesis is poor variable and GDP and growing is self-governing variable less greasy back slide was used for the examination of Inflation and outside direct speculation The examination shows that there is no association between expanding rate and foreign direct investment.

### **Interest Rate and FDI**

Shehzad and Zahid (2011) utilized examination in Pakistan so as to inspect monetary pointers which impact remote direct speculation. The time frame of the examination was from 1991 to 2010. They demonstrated that there was sure relationship between Foreign direct speculation and loan fee which has been bolstered by New exchange hypothesis which clarify that those organizations which go into the market as new comers turns into a main organization due to the upside of economies of scale that decays the costs and thus rises the financing cost. Aijaz and Siddiqui,(2014). Have look at the job of loan cost in attracting the outside direct venture study on easing 5 economy the examination is base on secondary information throughout the years 1986 to 2012 utilizing autoregressive procedure to establish the relation of financing cost on remote direct speculation. The outcome recommend that loan cost have negative connection on outside direct investment Khan and Zahra, (2016). Examine the effect ofres identical loan cost on remote direct interest in Pakistan. The examination utilize diverse econometric system. Increased dickey more full test and autoregressive dispersed slack model have been applied on these country information from 1972 to 2013 gathered from database of financial study of Pakistan and worldbank. The outcome found that household loan cost has a positive and huge impact on outside direct investment FAROH & SHEN, (2015) have study the effect of loan cost on foreign direct investment sierral eone economy utilizing econometric system to run multirelapse model for the time of 1085 to 2012 in which test was done to show financing cost is irrelevant impact on outside direct investment. Kaplagatbhe study the effect of interst rate on remote directi nterest in kenya. Distinct research onfiguration was setup to discover the connection between loan fee on outside direct interest in kenya. Subordinate variable in outside direct venture and free vareible

loan fee, expansion and GDP. The outcome found that loan cost is sure correlation with remote direct investment.

### **Trade Openness and FDI**

Numerous researches were employed by Charkrabati (2001), Blonigen and Piger (2011) and examined that there is a positive trading relation between domestic and foreign countries with Foreign direct investment. Those nations having open trade can bring more foreign direct investment. It was examined by Blonigen and Piger (2011). The trade openness as factor of foreign direct investment. They investigated from the findings of the study that trade openness is significantly related to FDI. Their search employed a Bayesian model averaging approach which in order to attract FDI, the minimal support for the government policies is revealed. KAKAR & KHILJI, (2011). The paper examines the role of trade openness and foreign direct investment in relation to economic growth for Pakistan and Malaysia for the period of 1980 to 2010. Econometric technique was used i.e. Johansen co-integration is used to estimate the nature of relationship between trade openness on foreign direct investment. Variable of the study was GDP growth rate, real exchange rate, and trade openness and foreign direct investment. Foreign direct investment is dependent variable and GDP growth rate, real exchange rate, and trade openness was considered to be independent variables. The data was collected from IFSCRRM from 1980 to 2010. The result shows that in the long run trade openness is positively affected both in Pakistan and Malaysia as well. Serge has examined the impact of long run relationship between trade openness and foreign direct investment on economic growth in Côte d'Ivoire. The study uses advanced econometric techniques. The bond testing cointegration approach (Pesaran et al., 2011) and the Wald Granger causality test results show that the foreign direct investment and trade openness are significant. Wah Hakand Tebaldi, (2011).

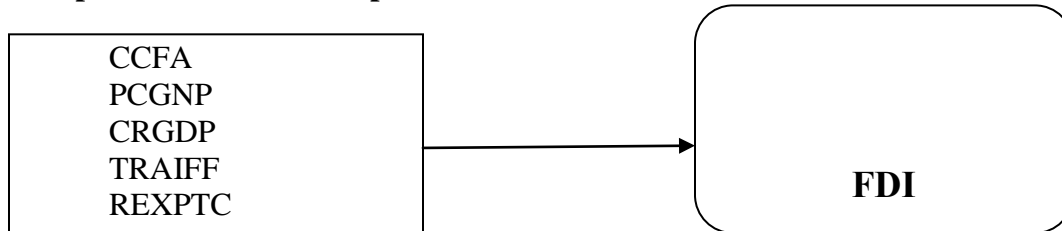
The research investigates the impact of trade openness and foreign direct investment on economic growth. Secondary data is 10 years time period between 1985 - 2005. As a sample 85 countries were taken. Different econometric techniques were used for the analysis. The result shows that trade openness does not significantly influence economic growth (Bourdon, Mouël, & Vijil, 2005). The point of this paper is to add to this verbal confrontation by proposing a more expounded method for estimating exchange receptiveness taking into account two extra measurements of nations' combination in world exchange: quality and assortment. Our outcomes affirm that nations sending out higher quality items develop all the more quickly. More vitally, we locate a fascinating non-direct example between the exchange reliance proportion and exchange quality, proposing that exchange may affect development contrarily for nations which have had some expertise in low quality items. An on-direct connection between exchange proportion and development is additionally discovered, proposing that nations trading a more extensive scope of items will develop all the more quickly until the point that a specific edge as far as reliance of the economy to exchange.

**Market size (GDP) and FDI**

Ibrahim and Hassan (2013) employed a study in which they examined that GDP, inflation rate, exchange rate, in direct taxes and trade openness are factors of FDI in Sudan. They used the time span ranging from 1970 - 2010. They employed co-integration approach to inspect the long run relation. The result of the findings indicated that market size and trade openness are positively associated to FDI which are supported by new theory of trade which explained that the more market expands the high inflows of Foreign direct investment will be received. Similarly, a study was conducted by Awan, Khan and Zaman (2011) and investigated the economic determinants of foreign direct investment using the time range from 1996 to 2008. Iqbal et al., (2014) conduct study the impact on FDI on gross domestic product evidence from Pakistan and try to find the relation between on them. Secondary data is used for the analysis collected from 1983 to 2012 and multi regression analysis is used for to find out the output. Cobb-douglas production function is used for relationship. The result shows that market size is positive relationship on FDI in Pakistan.

Nasir A.,(2016) the main aim of the research is to determine, like exchange rate, market size and trade on emerging economy like Malaysia regarding foreign direct investment. The time series data was collected for the analysis from 1980 to 2010. Simple regression model was used for the analysis with two diagnostic tests which are Breusch-Pagan and Durbin-Watson test was used. The results show that market size positive relation with foreign direct investment in Malaysia.–Randelovic et al.,(2017) he conducted studies to influence the market size as well as the impact of market growth, trade openness, and population size on foreign direct investment into six countries of the western Balkans region in the period of 2007 to 2015 .multiple regression was used to examine the result of these variables. The obtain result show that market size is positive influence on foreign direct investment. AKIN (2009). Seek to investigate how is the market size relevant as a determinant of foreign direct investment in developing countries. These country data is used from 1980 to 2000 from worldbank and for the analysis ordinary least square method is applied for test. Foreign direct investment is dependent variable and market size and population is independent variable. The result obtained that foreign direct investment is concerned with market size in developing countries.

**Theoretical Framework**  
**Independent Variables Dependent Variables**



**Hypothesis**

H1: There is an impact of cost of capital on FDI in Pakistan.

H<sub>0</sub>: There is no impact of cost of capital on FDI in Pakistan.

H2: There is the impact of change in GDP on FDI in Pakistan.

H<sub>0</sub>: There is no impact of change in GDP on FDI in Pakistan.

H3: There is an impact of Incidence of import duty on FDI in Pakistan.

H<sub>0</sub>: There is no impact of Incidence of import duty on FDI in Pakistan.

H4: There is an impact of Real expenditure on transport and communication by public sector on FDI in Pakistan.

H<sub>0</sub>: There is no impact of Real expenditure on transport and communication by public sector on FDI in Pakistan.

H5: There is an impact of per-capital GNP on FDI in Pakistan.

H<sub>0</sub>: There is no impact of per-capital GNP on FDI in Pakistan.

**Research Methodology**

R.B.Johnson and A. J. Onwuegbuzie (2004) contended that an exploration approach characterizes the examination exercises and how to process them. It likewise characterizes how to gauge the advancement of research exercises which prompts accomplish the creator's destinations. With the end goal of research, a few strategies are utilized. The use of these techniques and approaches relies on the idea of the undertaking and the examination that will be performed. The investigation will utilize the accompanying philosophy, which is suitable to lead this exploration. This examination will be done about researching and relative investigation of the determinants impacting FDI in Pakistan.

**Type of Research**

For the goal of research, there are two methodologies which are for them ostpart utilized. One is the quantitative methodology and the other is subjective methodology. The specialists frequently utilize one of them or both are utilized to gether as per their necessity to achieve the ideal objective. (Flick,2006). According to the past inquires about, the investigation will utilize quantitative research technique for this sort of research.

**Population**

Total population is 68 years, starting from 1947 to 2016.

**Sample:**

The sample size is 36 years starting from 1980 to 2018.

**Data collection**

The Study will use secondary sources data to facilitate the helpful in formation for this study. The data will be collected from world development in dicators of World Banks website and UNCTAD, PBS and Economic Survey of Pakistan. Yearly based data will be collected for the research period of 1980 to 2018.

**Statistical Technique**

There are number of techniques which are widely used in statistical analysis but according to the previous research studies, the study will use Regression technique which is suitable to carryout of this research and estimation error correction model and Johnson Co-integration test.

**Endogenous Variables**

The foreign direct investment (FDI) inflows in Pakistan are taken as the poor variable. These are stream sentering the alter of portions the extent that worth subsidizing have abroad and have comprised noun derten% of the offer (asdictated by the World Bank) in a partnership development. Outside directintrig uefuses purchases of settled capital assets, import of capital supplies and outside exchange for various business trades. The present Study Analysis investigates the lead of FDI streams concerning capital plan and its affecting limit as to other choosing components, within teresting reference to impose evaluation approach of Pakistan. FDI is portrayed as the well spring of acquirement of managerial control by a partnership try of are mote country over a business activity in a host country (Graham,1982). It is described as a long stretch endeavor by an outside direct monetary pro in an endeavor occupantinan economy other than that in which the remote direct the oristis based. It is generally perceived that remote direct theory produces financial points of interest to the recipient countries by giving capital, outside exchange, development, contention and by overhauling access to outside business segments (Crespo and Fontura,2007).

**Exogenous Factors**

On account of low nature of data and other forcets, simply those components are picked like variables which are exogenous that can be assessed & has been open out of the appropriated links. Illustrative elements being masterminded in 4c lasses explicitly: solicitation or variables for the measurement of the market, variables for the cost and political & social. Root & Ahmad (1979) had twenty eight instructive components impacting foreign direct investment in the countries which are developing. Measurement of the market addresses yield ingestion that TNC in native country delivered & mirrors bargain advantages degree. Such may be called as the entire solicitation from the buyers side which are in that country & where the remote companies search for the theory. In the curret research study Analysis it is try to combine the GNP Per Capitain USD & entire variations in the GDP. With a particular ultimate objective to run tests for the checking of hypothesis of per unit cost of the capital which is remotein the districts which are

developed has been utilized for the enlightening variable of Foreign direct investment in Pakistan Shah and Ahmed (2003 ). Such mediatoris having strengthen applications for the adventure companies & and open foundations like it tends be affected by the financial consideration & free hand practices. Unit cost of the capital has been portrayed by utilizing the Jorgenson's(1963) exhibit & got by Ahmed (1997)to contribute in the backward study .It is upheld over discount rate and extended length security yields as it mirrors the genuine cost paid for one unit of hypothesis capital. Evaluation hindrances show the host government's game-plan to confirm home industry by restricting imports through commitment dividers. FDI may be empowered on the off chance that it is discovered hard to trade and appreciated that there is increasingly noticeable bit of leeway by stirring up its part. It will in general be a wellspring of decrease in transportation cost and publicizing expenses lastly can keep up an imperative decent ways from commitment obstructions. The middle person utilized for charge rate is the persuading import duty and is gotten by finding the degree of import pledge to demonstrate estimation of imports in Pakistan. Bigger part of the past Study Analysis presumes that defiling empowers FDI inflows and weakens outpourings. By thought of the swapping scale variable we have endeavored this theory. Foundation, a wellspring of lessening overhead creation cost, has essential association with the hypothesis openings. By a long shot the majority of the creating nations are featuring more on the course of action of foundation al working environments as it offers access to market and age locale openings. People all things considered locale improvement programs are distributing more supporters for these courses of action as these are considered as the pre-requirements of hypothesis progress. Use on PSDP was utilized as a bit of this assessment yet that made the outcomes conflicting and is dislodged by use on transport and correspondence (REXPTC). The variable is joined into the last model and is changed over into veritable respects after balanced for inflationary changes.

These practical conditions depend on the hypothetical definition grew be fore in this segment. The direct plan of FDIwork is given as:

$$RFDI = \beta_0 + \beta_1 TARIFF + \beta_2 PCGNP + \beta_3 CCFA + \beta_4 CRGDP + \beta_5 REPTC + \dots + \mu_0$$

$\mu_0$  is the stochastic mistake term catching the left finished impacts. It is expected a dispersed freely and ordinarily with zero mean and steady difference. Clarifications of the fact or saregiven in Appendix A. Our speculations recommend that the extent of the market and the normal development possibilities in yield and it sretention may effectively affect internal FDI. These speculations like wise demonstrate that people in general part's formative uses, particular lyin giving great framework,c and raw in more FDI. At last, popularity based and stable government appears to have the ability to get the consideration of transnational makers.

### **Description of Variables**

RFDI=Real FDI annual flows in Pakistan

CCFA=Cost of capital for foreign firms computed from the available data on Income tax rate,

Depreciation allowance and the Rate of interest.

PCGNP=Per capita Gross National Product interms of USDollar.

CRGDP=Change in real GDP.

TARIFF=Incidence of import duty (aproxy for tariff rate).

REXPTC=Real expenditures on transport and communication by the public sector.

**Data Analysis**

In this research study used time-series data from 1980 to 2016, To investigate the determinants of FDI in Pakistan now the first test is Phillip-Parron are utilized for unit roots to identified that the factors are finished up to be coordinated of a similar request at that point Johasn-Juseliustest for cointegrate in utilized after by blunder remedy Model to investigate short time connection of variables utilizing standards technique and diagnostic tests.

Time-Arrangement in formation has the property of non-stationary in level and the came about evaluations normally include 'spuriousre lapse'. To begin with unit pull tests are performed for the stationary in levels and in first contrasts of the factors.

Var.	1 <sup>st</sup> Diff	WithoutTrend	WithTrend	Conclusion
RealFDI	1 <sup>st</sup> diff	-0.7810 -7.3543*	-2.6791 -7.3283*	I(1)
CostofCFA	1 <sup>st</sup> diff	-0.646 -4.7893*	-0.7452 -5.4683*	I(1)
PercapitalGNP	1 <sup>st</sup> diff	-0.9572 -6.7249*	-2.8958 -6.8131*	I(1)
ChangeinGDP	1 <sup>st</sup> diff	-0.4795 -8.3323*	-3.8244** -8.2925*	I(1)
TRAIFF	1 <sup>st</sup> diff	-0.7447 -5.4404*	-2.606 -5.3284*	I(1)
RealexpenditureofPTC	1 <sup>st</sup> diff	-0.3318 -4.6147	-2.2561 -4.1851*	I(1)

I=Unitroot

The above tables how the unit root test result which shows the change in gross domestic product CRGDP only trend with critical level at 5%, this shows all different factors are non-stationary at 95% level with & without patterns. But according to 1<sup>st</sup> difference all of these variables are stationary at 95% including change in GDP. So according to the sestatistic we can't reject null H0 because in 1<sup>st</sup> differences all of the mare stationary.

**Regression Results**

Ind.Variables	M1M2M3		
CostofCFA	-36799.12 (-5.4834)	-32904.15 (-4.9762)	-26278.59 (-4.9174)*
PercapitalGNP	14.62 (4.7166)	11.75 (3.7857)	7.16 (2.8349)*
ChangeinGDP	0.0308	0.0395	0.0288

	(2.0381)	(2.5343)	(1.7582)***
Traiff	13569.42	15099.83	11444.83
	(4.3936)	(4.8978)	(3.9359)*
Realexp.ofPTC	0.1631	0.2011	0.2676
	(1.9136)	(2.3609)	(3.0944)*
AdjustedR <sup>2</sup>	0.66520	0.69660	0.7377
D.W.	1.5881	1.7671	1.9768
LM $\chi^2(1)$	29.9213		
RESET	1.0218		
JBNORM $\chi^2(2)$	0.9845		
White'sHET $\chi^2(1)$	21.9838		
BG $\chi^2(1)$	0.009339		
ARCH $\chi^2(1)$	0.6708		

Dependent Variable=FDI

The above table gives results in three forms M1, M2 and M3. Model three clearly shows serial correlation, Heteroscedasticity and non normality and problems of function in (C4). No mis specifications of evidence are found in these results. (Reset, LM), No serial correlation (ARCH, B G), nor any trouble of heterosedasticity and no other defect are found in non normality in residuals in M3. All variables are significant at 5% level.

The CC of coefficient has greater thet-ratio with the negative excepted sign, significant event at the 1% level of confidence. So this proved effectively the cost-capital is an important factor in determinants of FDI in Pakistan who determine the flow of FDI in Pakistan.

Real Expenditure of PTC and incidence of import duty have significant relation with FDI. Which shows the government transport and communication sector polices has positive impact on inflow of FDI. Other side the PCGNP variables has positive sign which show the greater the per capital income so greater the investment ratio but according to results most of FDI funs used in manufacturing side and construction side as compared to other sectors.

### Johnson Co-integration test

In First result we have find the variables are stationary in 1<sup>st</sup> difference than in second step we used the Johnson Cointegration test to find the integration among variables, the lag optimum length is k=2. They are restricted at 5% against the value of 7.8148 from the chi-square, so the model is precise with k=2. Likelihood ratio test shows 3 co-integrating equation at 5% of implication level in each case. H0: r=1 and Ha: r=0 as alternative, for Max. EigenValues test is rejected even at 1% of confidence level and shows to the variables are cointegrated.

The trace also shows the three co-integrating equ. At 5% confidence level. r=1,r=2,r=3 null Ha rerejected but r=4 accept. Consequently, we have conclude that table 3a shows the normalized co-efficient of the in-depended variables on FDI from the Johnson test.

They show the long term relationship between real FDI and other variables. All of the mare strongly significant at1% & proved their presence in the study.

H0	Ha	t-test	95% level
<b>Max.Eigenvalues</b>			
r=1	r=0	77.127*	45.38
r=2	r=1	58.717*	37.47
r=3	r=2	34.817*	33.36
r=4	r=3	19.961	27.17
r=5	r=4	12.981	20.87
r=6	r=5	9.723	14.17
r=7	r=6	3.736	3.86
<b>Tracetest</b>			
r=1	r≥0	214.056*	124.24
r=2	r≥1	136.935*	294.15
r=3	r≥2	78.211*	68.52
r=4	r≥3	46.395	47.21
r=5	r≥4	26.438	29.68
r=6	r≥5	13.444	15.41
r=7	r≥6	3.728	3.76

Var.	Coff.	SDerror
CostofCFA	36415.69*	-2683.71
PercapitalGNP	-6.70392*	-1.77303
ChangeinGDP	-0.01869**	-0.01367
TRAIFF	-19312.7*	-1526.74
RealexpenditureofPTC	-0.61365*	-0.09764
C	2758.92	-506.246

TableNo:3ashowstheNormalizedcoefficientofJJtestonFDI.

(\*\*)and(\*)showsthesignificanecat5%and1%

**Estimation of Error Correction Model**

Through ECM can be recognized on the way to the short run dynamic of the regression model. Handry (top down) approach which is known as general to specific approach. We consist of special lags from top-low, of the independed variables & EC(-1) as error Correction term. Then we slowly but surely remove the irrelevant variables.

$$\Delta RFDI = \beta_0 + \beta_1 \Delta TARIFF + \beta_2 \Delta PCGNP + \beta_3 \Delta CCF + \beta_4 EC_{(-1)} + \dots$$

Table No:4 represented the results of ECM, the two variables are shows significant relationship in short run both these variables shows the significant at 5% level of confidence and all of the mare stationary. The per-capital GNP and TARIFF are proved significant relation other does not prove his existence in shor trun. Cost of capital show

insignificant because of statistical reason but its t values is greater than one then they contribute in the flow of FDI.

In-dependendvariables	Co-eff.	t-ratio
ChangeinGDP	-0.5413*	-5.7793
CostofCFA	5150.830+	1.0791
PercapitalGNP	4.8711**	2.0339
TRAIFF	6317.050*	3.5500
RealexpenditureofPTC	-31.8205	-0.7865
AdjustedR <sup>2</sup>	0.7875	
D.W.	2.0275	
LMx <sup>2</sup> (1)	17.6302	
RESET	6.9378	
NORMx <sup>2</sup> (2)	1.2318	
HETROx <sup>2</sup> (1)	8.1032	
ARCHx <sup>2</sup> (1)	0.682	

Note: \*, \*\*, \*\*\*showsthesignificantlevel1%,5%and10%respectively.(+)showsinsignificantat10%

### CONCLUSIONANDPOLICYIMPLICATIONS

This paper observationally tried to explore the determinants of Foreign Direct Investment in Pakistan. There are not so much barely any Study Analysis on the determinants of FDI inflows regarding Pakistan. These are essentially stressed over the open business condition and its impact on the FDI streams. On the other hand this Study Analysis is increasingly essential to general society game plans and their consequences for the inside FDI streams in Pakistan. Using a progressively broad extent of time course of action data (1960-61 to 1999-00), in testing the speculations observationally, we used the co-blend method advanced by Johansen and Juselius (1990). Ensuing to considering the veritable fiscal essentials that are related to FDI organization and the analyzed choosing powers allow us to close and calculate some specific technique proposals. These proposals might be significant for methodology makers and examiners.

- The improvement of globalization and a dependably creating condition for widespread competition in resource use is growing distinctly. Developing perceptions, manners and forceful perspective changes the restrictive and protectionist approach position for changed and outward looking courses of action. There is no exception for Pakistan to keep itself isolated of this internationalization strategy. Or maybe the size, resources and perceptions are maintaining for beneficial and rapidly creating hypothesis openings.

- Resource gap, declining official inflows and mechanical movement must be cultivated by diminishing open weight and by the help of private business practices in the country. FDI is a potential wellspring of filling this multidimensional opening.
- The true results found the picked factors exceedingly basic as time goes on with the typical signs (Johansen-Juselius Test). In handling the expense of capital we used the Jorgenson's endeavor exhibit advanced by Ahmed (1997); Shah and Ahmed (2002). This figuring considers all of the plans and liabilities that are related to remote enthusiasm for Pakistan. Exploratory results prescribe that the accepted hypotheses are totally following the outcomes. Exceedingly significant co-efficients for cost of capital, obligation and use on transport and correspondence are motioning for progressively noticeable open territory part in attracting outside direct enthusiasm for Pakistan.
- Econometric results are procured after wary considerations for the issues related to show assurance and other time game plan burdens. All explanatory test bits of knowledge were performed to get legitimate investigation.
- The model works reasonably as time goes on as being exhibited by Johansen and Juselius (1990) tests for co incorporation. Likelihood extent (LR) tests show 3 co-organizing condition at five % level of immensity. Our invalid hypothesis of no co-consolidation, i.e.,  $H_0: r = 1$  as against the elective  $H_a: r = 0$ , for most outrageous eigen regard test is expelled even at 1 percent level of tremendousness and suggests that the components are co-composed. Anyway the transient streams have conflicting results and most of the educational variables demonstrate irrelevant effect in this period. Furthermore, still, after every one of that signs of all variables are found as were ordinary.
- The backslide comes about certified that a growing size of the market impact shrewd influences inside FDI streams in Pakistan. Along these lines the experts should distinctly concentrate on growing per capita GNP by utilizing most extraordinary cutoff points of the economy. An uncommonly basic co-capable of the expense of capital, duty and establishment proposes an incredible piece of the organization (particularly, in giving money related courses of action) in propelling enthusiasm for the country. There is further need of the reasonable and engaging methodologies from the all inclusive community section to restore the sureness of the money related masters including a stable political condition.
- Adjusted R2 for the standard strategy explained  $\frac{3}{4}$  assortments in outside direct intrigue and recommends that these factors should be given real treatment by the course of action makers. It is ordinary that the precise results from this investigation paper and the effect of the speculated deterministic factors may have conveyed further perception about FDI

related activities for approach makers and authorities. An all around treatment of the wrapped up results and approach plans may have opened new musings of researching FDI organization and its ampleness for the achievement of developmental goals.

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