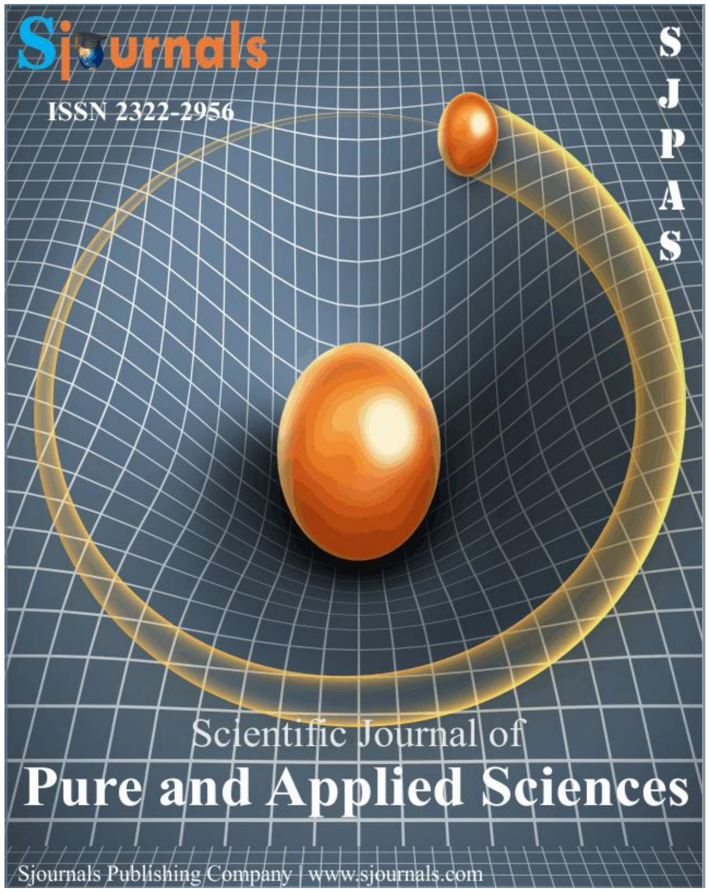
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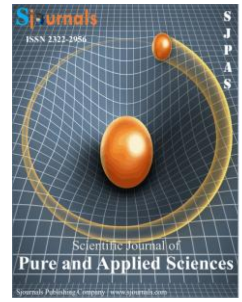

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Review article

Impact of political stability on the macroeconomic variables and FDI of Pakistan

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A R T I C L E I N F O

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A B S T R A C T

In this paper we have discussed the vital role of political stability on the link between macroeconomic variables and FDI. For this purpose we have used a data of year 1991 to 2011. In this empirical analysis we have used ADF test for the checking the stationary of the data and other software's are SPSS and eviews. This result of this study have made sure that import, BOP, export and GDP growth rate have significant impact on the FDI inflows in the Pakistan and inflation has a negative impact on the FDI based on this research has proved that political stability is crucial for the expansion of foreign direct investment.

1. Introduction

Foreign Direct investment has on the most famous source of getting investment from other countries. The use of this reserve has major aspects of construction assets in developing countries. The role of foreign direct investment has been consider widely as a growth enhancing factor in the developing Khan (Ahn et al., 1998) countries. FDI is measured as major structure of manufacture in scene of technological progress, unemployment reduction, talent improvement, market competition and great outflow of exports. The possible compensation of FDI is its use the local raw material; introduce the technique of administration and advertising. Simplicity the right to use of new technology. The biggest advantages of FDI are to do not pay off principal and interest amount. History tells us that FDI in Pakistan is more in dictatorship as compare to civilian Governments. This is because Foreign has more trust on dictatorship as compare to civilian Government.

The Previous done studies on this topic “Impact of Foreign Direct Investment on Pakistan economy” .For example Farkas (Aizenman and Noy, 2005) result show that there is positive relationship between Foreign Direct Investment on Pakistan economy. Hameed and Bashir (Akhtar, 2000) show us that FDI lead toward economic growth.

In this research I want to study the impact of FDI on economic growth of Pakistan from 1980 to 2013. For this research my variables were foreign direct investment, Inflation and Gross domestic product. The other part of this research paper is planned as follow. Literature view is mention at section 2, methodology is in section 3 and 4 section tells us about Data analysis and empirical result is given and section 6 include conclusion. The boarder area of this study is to investigate the GDP and other factors of economy which affect Foreign Direct Investment? In the age of 21 century it has developed that FDI is based on the different economic factors like capital inflows. According to different researchers FDI is the way of the attractive the domestic investors. According to Awan khan (Ahn et al., 1998) in the developing countries there are many much choices for the development of foreign investors as increasing rate. Many developing country are offering lucrative package for the foreign investors .For instance china, Russia and India are working on it. They are offering low tax rate, liberalized trade policy and are providing a moral security system .according to world development report (2011) foreign direct investment is reflect the main crucial of the economic growth. Since 1990 s foreign direct investment is the act as the boon for the developing country industrialization. It is very interesting topic to compare trade and investment in the international business in the whole world. Moreover, from the last few decades the Pakistan s economy rate was fluctuating. In 1991, Pakistan economic GDP growth rate was 7.57% and in 2000 Pakistan growth rate has down till 2.1%. Pakistan foreign rate has lopsided in every year. With the increase in import the country s export has increased rapidly. Government of Pakistan is facing the problem of adverse BOP.

2. Motivation of the study

The present study is basically reflects the economic growth scenario of Pakistan which is undertaken by the Pakistan policy makers. It is the disheartening chapter of the Pakistan economic that due to natural factor like flood the growth rate decreases very badly. Due to this factor Pakistani currency was devalued. Since 2007 the Pakistani currency was decreasing devalued. By the way Pakistani currency condition are worst then India, Malaysia and china. Pakistani policy makers have needed to make friendly investment policies to maintain their currency level.

Since from last 10 years the inflows had been increasing in the same case the level of FDI was low in Pakistan. According to UNCTAD (2007), thus India has consider as attractive country then china and Russia. This thing has proved that Indian policy makers have attractive destination for the foreign investor. Pakistan needs to learn from the Indian political markers about their vision. It is a important factor to empirically investiage impact of marcoeconomic variables on the economic growth and political stability of Pakistan.

3. Determinants of FDI inflows

Akhtar (Akhtar, 2000) has conducted a study that FDI is the dependent variable and import, export and exchange rate is the independent variable. wang (2009) has observed that FDI and foreign direct investment of 12 Asian countries. Awan (Ahn et al., 1998) has shown the determinants of FDI and also detected that inflation rate has a significant impact on the FDI inflows. Shahzed et al (Akinboade et al., 2006) impact of macroeconomic variables on the GDP and growth rate.

	World	Developed countries	Developing countries	Asia	ASEAN	Pakistan
1991- 2001	769,122	591,856	182,364	87,502	34,391	3082
2002	717,574	671,483	319,721	111,866	19,701	84
2003	816,128	647,778	156,528	93,009	15,507	898
2004	659,576	466,573	272,033	207,278	27,364	849
2005	810,755	596,145	375,032	256,622	35,666	2524
2006	958,697	611,283	316,444	210,572	39,091	3521
2007	1,411,018	940,861	412,990	274,291	51,243	5410
2008	1,833,324	1,247,635	499,747	320,489	60,514	5140
2009	15,294,653	10,616,230	4,441,301	608,492	173,976	3720
2010	17,950,498	12,263,733	5,060,116	769,542	220,008	2206
2011	19,140,603	12,501,569	5,951,203	916,972	260,980	1739

3.1. GDP growth rate

After review the GDP growth rate foreign investors take decision about the investment. In the economic literature growth rate and FDI inflows are very common topic. According to Martinez-zarzoso (Awan et al., 2011) has shown result that high level of growth rate indicates a high level of production. According to Martinez-Zarzoso[4] has proved that high level of income attractive a lot of investors towards home country. Different researchers are consider GDP growth rate as an indicator of economic performance. Qaiser (Ataullah et al., 2004) has observed that Pakistan growth rate was down in 2001-2011 due to different macroeconomic variables which have influence on the FDI of Pakistan.

This hypothesis is prosed after the empirically investigated

H1: there is significant relationship between GDP growth rate and FDI.

4. Exports

Exports are consider is as a improvement in the BOP of the country. A few researchers have proved that volume of export is the best way to attractive a FDI inflows. Jayachdran and Seilan[9]have investigated the relationship between import, export and FDI period of 1970-2007. this study proved that there is causal relationship between these variables. Liu et (Biglaiser and De Rouen, 2011) has investigated the relationship of import export in china. Hall and Milne (Brada et al., 2005) have found the positive relationship between foreign trade and FDI.

H2. there is positive relationship between exports and FDI inflows.

5. Balance of payment

In the previous studies it has cleared that for the FDI inflows there is need to improve the balance of payment. According to Majeed and Eatazz (2009) has shown that there is negative relationship between inflation and BOP.

H3. the relationship exists between BOP and FDI inflows.

6. Imports

Different studies have proved that a country which has high imports that is useful for FDI. According to Geweks (1982) has found that there is positive relationship between imports and FDI in USA. Aizenman and noy (2005) have found that for the measurement of import it is important to measure the inflows of FDI.

H4. the relationship exists between imports and FDI inflows.

7. Inflation rate

Inflation rate tells about the good economic fundaments rate of I flation is consider crucial fator which has influence on the FDI inflows. hign rate inflation means lesser FDI inflows. according to Akinboade (2006) low rate inflation means internal economic stability. according to Awan et al (2006) have concluded that caused by positive significant impact on FDI.

H5: the relationship exist between inflation rate and FDI.

8. Political stability and FDI

Political stability has vital role in the development of business environment of the country. Political risk is totally depends upon the political stability. According to shahzad et al (Brooks et al., 2003) political stability has role to enhance the probability of FDI inflows. It is understood that political stability is not beneficial for the development of economic s development. According to World Bank report (Frazier et al., 2004) political instability has impact on the previous FDI.

H6: political stability control the relationship between GDP and FDI

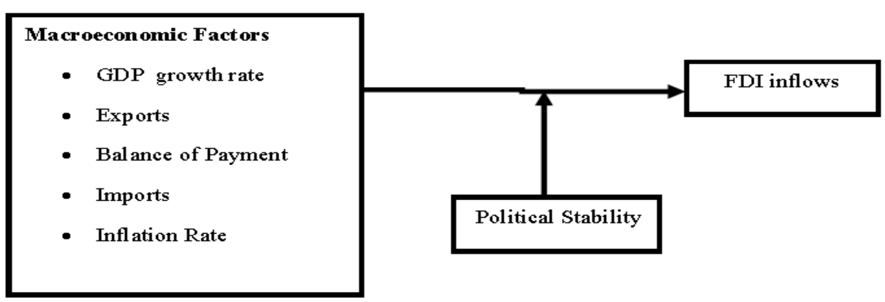
H7: political stability control the relationship between export and FDI

H8: political stability controls the relationship between inflation rate and FDI.

H9: political stability controls the relationship between import and FDI.

H10: political stability controls the relationship between BOP and FDI.

9. Research framework and variable measurement



10. Literature review

This is one of the hottest topics for Researcher to study. Many researchers have examined the relation between FDI economical growths. Accounting model Frame work is used by many researchers to analyzing the effect of FDI on national economy. The review of previous literature in the field of FDI and economic growth is given below. M. Azam khan and Nadeem-ur-Rehman Khattak (Geweke, 1982) conducted a study on effect of economic variables on foreign direct investment. Date ranged as of 1971 to 2005 and held variables such as market size, domestic investment, trade openness, return on investment, external debt taxes and foreign direct investment. They use linear regression model, method of least square, Augmented Dickey Fuller test and Error

Correction. There finding show that market size, domestic investment, trade openness, and return has shown positive significant sign. External debt and taxation show negative significant sign.

H. Younus. Amir sohail and Azeem (Hall and Milne, 1994) analyze the impact of foreign direct investment on economic growth of Pakistan. The study use date from 2000 to 2010. The result show that FDI and GDP has positive relationship. Two-stage least squares method of simultaneous equation estimation is used. Government should concentrate on polices of attracting FDI and trade liberalization in Pakistan to gain more from foreign investment. A. Iqbal, Parvez Iqbal, Waqasa Akram and M. Umar Farooq (Husain, 2009) demonstrated the impact of foreign direct investment and export on economic growth. The secondary cover the date from 1973 to 2010. There variables were FDI, exports, terrorism and political instability. They use Time serious, Johnson VAR-based co-integration approach, vector error correlation model, Augment Dickey and Fuller (ADF) test is used to analyze the date. The Empirical finding revealed that export, FDI and exchange rate has positive impact on economic growth in Pakistan and terrorism and political instability has negative impact on economic growth.

D Saqib 1, Maryam Masnoon 2 and Nabeel Rafique (Iqbal et al., 2010) has given contrasting evidence on impact of Foreign Direct Investment on economic growth of Pakistan. The Date spanned was period of 1981 to 2010. The variables were Debt, Trade, Inflation, Domestic Investment and FDI. There methodology include squares method and Augmented Dickey Fuller Test. The result show that Debt, Trade, Inflation have negative impact on GDP. Pakistan economy has negative impact on FDI while Domestic investment benefitted its economy. Folki (Javed et al., 2012) conducted a studied on the impact of FDI on economic development of Pakistan. The date ranged from 1980 to 2006 and held various variables such as Domestic variable, labor force and foreign investment capital. They use endogenous theory of growth and regression model. There result show that FDI had negative effect on gross domestic product. Abbas et al. (Brada et al., 2005) analysis the influence FDI and CPI on the GDP of SAARC member nations. The date ranged from 2001 to 2010. The multiple regression mode is used to analysis the date and there result show that positive relation between foreign direct investment and GDP while negative relationship between Consumer price index.

Yousaf et al. (Brooks et al., 2003) studied the economic impact of foreign direct investment in Pakistan. The time period of study was from 1973-2002. There variables was export. Import and FDI. Co. Integration and error correlation technique was used. The result show that FDI has positive impact in import short and long run and negative impact on export in short run but also positive relation in long run. N. Zeb, Fu Qiang and Sundas Rauf (Frazier et al., 2004) demonstrated the role of foreign direct investment in economic growth of Pakistan. The Date spanned was period of 1972-2012. FDI and trade openness, political instability and terrorist attacks were variable of this article. Least square method has been use to check the effect of variables on GDP of Pakistan. FDI has positive significant effect on Pakistan economy. M. ShahidanShaari, Nor Ermawati Hussain, and Mohd Suberi bin Ab. Halim (Geweke, 1982) examine the impact of foreign direct investment on the unemployment rate and economic growth in Malaysia from 1980 to 2010. There variables were GDP, unemployment and FDI. The ordinary least squares method is used to test the date. There result indicates that FDI reduce the unemployment rate and increase the domestic Product. FDI increase the economic growth of Malaysia. A. Muhammad Gudaro, Imran Umerand Salamn Ahmed Sheikh analysis the impact of foreign direct investment on Pakistan economy. The date spanned was period of 1981 to 2010. FDI, CPI (Inflation) and GDP were variables of this study. They use multiple regression model to evaluates their variables. According to result, GDP has positive significant impact on FDI and GDP has negative impact on CPI. Policy proposals were advice to attract FDI in Pakistan.

Ismail and Latif (Hall and Milne, 1994) examined the impact of Foreign Direct Investment on unemployment rate and economic growth in Turkey. There variable were FDI, export, one auto regression technique of variance decomposition and impulse employment, and GDP for period of Jaunary, 2000 to April 2007. They applies vector auto regression technique of variance decomposition and impulse response function to analysis the variables. There finding show that FDI is unable to reduce unemployment rate and exports have positive impact on GDP. They study did not support export-led model and economic growth is not solution for unemployment Turkey. B. Muhmmad Louzi and Abeer Abadi (Husain, 2009) study the impact of foreign direct investment on economic growth of Jordan. GDP, FDI, Din (domestic investment) and Tb (Trade liberalization) were their variables. The study is based on time period from 1990 to 2009. The Co integration and error correction were used to test the date. FDI has positive impact on economic growth along with GDP, Din and Tb. M.Yousaf, Zakir Hussain and Naisr Ahmed analysis the economical evaluation foreign direct investment in Pakistan. The Data ranged is 1973-2004. There variables were FDI, import, export, gross domestic product, and GDP deflator. They evaluate the date through unit root test, Co integration technique and error correlation. The result indicates that FDI positively impact import short run and long run. Export impact negative in short run and positively in long run.

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

Arshad Muhammad (Iqbal et al., 2010) studies the impact of foreign direct investment on trade and economic growth of Pakistan. The date ranged from 1965 to 2005. They use four variables FDI, import, exports and GDP .The co-integrating VAR frame work is used. There result show that there are two long run relationships between GDP. Import GDP. In second long run relation both import and export affect FDI but GDP is not significant affecting and FDI has no significant effect on domestic investment. Q. Abbas. Salman Akbar, Ali Shah. Hafiz Ammabullah. and M. Akram Naheem (Javed et al., 2012) explore the impact of foreign direct investment on gross domestic product for period of 2001 to 2010. GDP were considered as depended variable and FDI and inflation were considered as in depended variable. They applied multiple regression model. There results indicate that positive and significant relationship between GDP and FDI while insignificant relationship between GDP and FDI.

11. Data analysis and results

To analysis the impact of marcoeconomic variables on the FDI and impact of political stability on the development of the economy.

12. Unit root tests

First of all we shall evaluated the time series date because we want to avoid the spurious regression .and we shall analysis that nature vice variables are stationary or not. In the procedure we have used the augmented dickey filler test in table no 2. we have found that all the macroeconomic variables are stationary.

Table 2
ADF unit root test result using the trend and intercept.

	Variable	1st Diff	2nd Diff	Lagged
1	FDI	0	S	2
2	GDPGR	0	S	1
3	Exports	0	S	1
6	Inflation	S	-	1
7	Imports	0	S	1
8	BOP	S	-	1
9	PSI	S	-	1

6.2 Regression Analysis Results for Predictor Power.

13. Regression analysis

After the regression analysis we have found a satisfied result regression analysis by using SPSS 18.0. it is used to compare the predictive power of all marcoeconomic variables. Table no 3 concluded that GDPGR (β=0.289, t=3.068, $p<0.05$, export (β=1.307, t=2.352, $p<0.050$), imports(β=2.091, t=3.362, $p<0.05$) and BOP (β=2.091, t=3.362, $p<0.05$). All these result have supported the hypothesis which we were derived before. in the case of Pakistan inflation was not significant determinants of FDI.

Rate was not significant determinants of the FDI inflows in the case of Pakistan.

14. Hierarchical regression

At the analysis stage the hierarchical analysis were reported. First in this paper we have analysis the impact of political stability on the above mention relationship. They have following the method of Frazier, tix and Barron in this model have analyzed the interaction between marcoeconomic variables. And have tested business environments and political stability for the purpose of testing the moderating effect. Table no 4 have shown that GDPGR and BOP were significant and FDI significant at the 0.05 level.

Table 3
Examining variables' predictive power.

Variables	Beta	T value
GDPGR	0.289**	3.068
Exports	1.307**	2.352
INFRATE	-0.203	-1.855
Imports	2.091**	3.362
BOP	0.363**	3.192
F value		11.983
F Sig.		0
R^2		0.921
Adjusted R^2		0.894
Durbin Watson		2.354

***: p< 0.01; **: p< 0.05.

Table 4

GDPGR	0.289**	3.068	0.253**	2.800	0.216**	3.055
Exports	1.307**	2.352	1.863**	3.258	0.232	0.285
INFRATE	-0.203	-1.855	-0.025	-0.178	-0.037	-0.278
Imports	2.080**	3.362	1.885**	3.270	-0.065	-0.068
BOP	0.363**	3.192	0.398**	3.807	0.226	1.1638
7PSI			0.724	2.062	0.223	0.822
GDP_PSI					0.389**	3.888
Exports_PSI					0.924	2.158
Infrate_PSI					0.114	0.942
Imports_PSI					-1.514	-2.349
BOP_PSI					0.298**	2.319
F value		34.52		35.6		45.2
F Sig.		0		0		0
R2		0.93		0.938		0.983
Adjusted R2		0.894		0.913		0.97
R2 change		0.94		0.18		0.045
Significant F change		0		0.057		0.025

***: p< 0.01; **:p< 0.05.

15. Discussions and conclusion

In this study we have pertained data from years 1991 to 2011 which are relation to FDI inflows in Pakistan. Hierarchical multiple linear regression was imply for testing the hypothesis .some hypotheses are supported by the results. H1, H2, H4 and H5 are supported while other H3 are not supported. Results have proved that political stability is important foreign direct investment in Pakistan .all the results have create that GDP and BOP almost based on the countrys established. For any economy continuous growth of GDP is well sign. Which will helpful to attractive foreign investors towards FDI. GDP growth rate is v convenient tool for the FDI inflows. Export is also consider the way to attract the foreign investment. This is best choice for Pakistan policy makers to provision export oriented FDI. Pakistan government should provide very virtuous varieties for high tech companies that they invest more in their country. All the Pakistan policy makers should learn lesson from other countries like India and Malaysia. There are additional benefit for export oriented FDI like innovative technology, stronger exchange rate, super knowledge management. It is very peak time that that Pakistani investors are increasing export and decrease the export. In this situation Pakistan exports are lower. Strong BOP has also role to increase FDI. This study is also based on the political stability for the stability of marcoeconomic. These are the following factors which have impact on the economy like BOP, trade policy, infrastructure. According to world report Pakistani political stability is not satisfied then other countries like china and Pakistan. Pakistan government should make such laws which protect the foreign investment that laws will demonstrable on the political stability. In this study we have discussed a empirical parameters .we have discussed that Pakistan policy makers should make FDI policy for the attract the investment. There are two sectors of policy maker's sectors 1positive sector 2) negative sector. Positive sector is that in which FDI inflows are boost. Negative sector is that in which in which FDI sector is need to overruled. There must be approval procedure to see the FDI policy. Different developing country like Pakistan there is need to sponsor its policy towards FDI inflows. One of the most import opinion about this research that to examine in particulars the moderating impact of political immovability on the business environment.

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