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Review article

Impact of macroeconomic variables on the inflows of FDI and agriculture sector of Pakistan

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A R T I C L E   I N F O

A B S T R A C T

Pakistan is famous due to its agriculture sector, due to this reason we have analyzed the different determinants on the progress of FD I. For this purpose, we have taken data from the year 1998 to 2008 an applied the OLS model. We have taken, the results that trade and GDP both have a positive association with the FDI inflows and agriculture sector and Government debt and exchange rate has the negative relationship whereas inflation has the positive relationship. This paper suggests that government should make policies to for the promotion of agriculture sector.

1. Introduction

1.1. History of the agriculture sector

Pakistan is known as the prosperous country from the natural resources and its climatic zones. Most of the studies have proved that agriculture has the crucial role in the evolution of Pakistan. Agriculture sector provides the food, fibers, and the best way of the foreign exchange earnings. Industries can be improved due to development in the agriculture sector. It is seen that geographical area of Pakistan is 79.7 million hectares. It has found that cropped are of goods are 12.7 million, which is very impressive. In Pakistan, there is rainfall due to this

rationale every year farmers need water near about 261 to 500 mm. There is not making policy against such type of the tribulations. Supplement water is beneficial for agriculture production. Most of the lands of Pakistan are being affected due to the famine of the water. Every fast growing economy depends on the agriculture sector. At the time of independency the rate of population was near about 33.5 million.GDP near about 25 % dependent on the agriculture sector. In the composition of GDP, it has the main role. Production is the paramount manner of to enhance the economy. In the language, of finance foreign direct investment is known as the one country do investment in another country. According to different scholars' foreign direct investment has the main role in the development of the economy. Foreign direct investment has the crucial way for the attracting of capital. In Pakistan the ratio of foreign direct investment is low due to terrorism. Most of the studying are showing that foreign direct investment has always positive impact on the growth of Pakistan. Foreign direct investment is the best way to increase the liberalization of trade-in this paper, we have analyzed the impact of agriculture sector on the development of Pakistan. This paper gives the overview of impact of main factor in the development of economy. In this paper, we have also discussed the all the aspects of foreign direct investment. We also explain that how MNC companies and local companies have a role in the inflows of FDI. We also presented the role of Government policy in all aspects of FDI. For the last 8 years, Pakistan is facing the problem of FDI inflows. Foreign direct investment is also known own as the famous source of collecting the investments. All the studies have proved that it is the backbone of any economy. Our study has shown that there is no need to pay interest on the amount of foreign direct investment. History shows that in the world Pakistan is more common in the world.
FDI in different countries:

|	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
All developing countries	10,200	14,600	22,200	27,000	33,736	41,325	50,368	73,136	87,025	99,671
All low-income countries	2,649	3,902	5,675	8,229	4,683	7,228	13,847	31,618	38,411	43,406
China	1,975	2,414	3,195	4,393	3,488	4,367	11,157	27,516	33,788	37,600
Nigeria	177	604	378	2,882	599	713	898	1,346	1,958	1,440
India	119	213	92	352	163	142	152	274	621	1,850
Pakistan	104	128	187	310	245	258	336	355	423	649
Angola	115	118	132	300	-336	667	289	303	351	500
Sri Lanka	31	61	47	30	44	47	124	196	167	196
Ghana	5	6	6	25	16	21	24	126	234	246
Viet Nam	–	–	9	5	15	33	25	26	200	151
Bangladesh	3	4	3	–	4	2	5	15	12	126
Total of above countries	2,416	3,446	4,041	5,977	4,234	6,234	13,002	30,149	37,649	42,345
% of all low-income countries	94.8	90.7	86.5	85.3	90.5	86.4	93.8	95.4	97.0	97.8
Of which China	73.7	60.8	68.4	48.5	74.6	60.5	80.7	87.1	87.0	86.5
Of which the rest	21.3	29.8	18.2	36.9	15.8	26.6	13.4	8.4	10.2	11.3
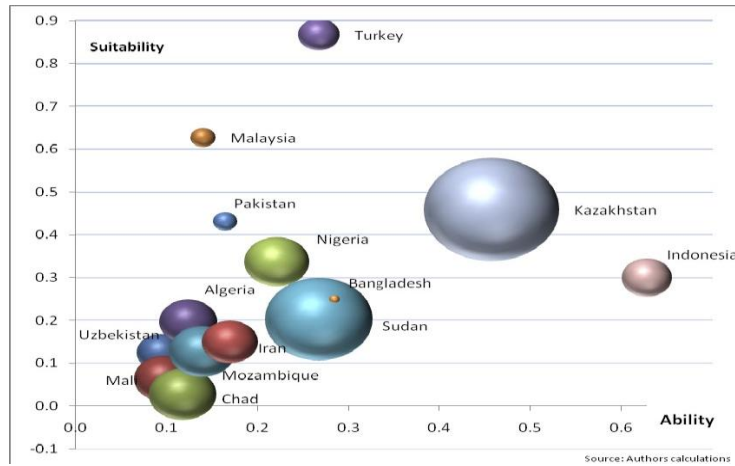
Fig. 1.

1.2. Objectives

1) Impact of inflation on the FDI and agriculture sector of Pakistan.
2) Impact of trade on the FDI inflows and agriculture.
3) Impact of Government Debt on the inflows of FDI and agriculture.
4) Impact of exchange rate on the inflows of FDI and agriculture.

1.3. Problem statement

Impact of different factors on the growth of FDI and agriculture sector.

1.4. Literature review

Wafure Abu and Nurudeen, Impact of inflation rate of the agriculture sectors of south Asia. For this purpose they have taken the data from 1998 to 2008 and applied the OLS model. This study has proven that inflation and agriculture sector have a negative relationship. Tatonga Gardner Rusike, Influenced of trade openness of the agriculture sector of Nairobi. For this purpose they have taken the data from 1995 to 2005 and applied the classical regression model. This study has proven that inflation and agriculture sector have a negative relationship.

Pantelidis, T., Nikolopoulos, E., Observed of exchange rate of the FDI inflows of Tehran. For this purpose they have taken the data from 1992 to 2009 and applied the Regression and Pearson correlation method. This study has proven that inflation and agriculture sector have a negative relationship. Masuku, M.B., Dlamini, T.S., Analyzed of corporate tax rate of the agriculture sector of Kenya. For this purpose they have taken the data from 1992 to 2009 and applied the VAR model. This study has proven that inflation and agriculture sector have a negative relationship.

Azam, M., Examined of foreign capital of the agriculture sectors of India. For this purpose they have taken the data from 1998 to 2008 and applied the Johansen's co-integration and vector error correction model. This study has proven that inflation and agriculture sector have a negative relationship. Mohamed, S.E., Sidiropoulos, M.G Observed of exchange rate of the FDI inflows of Sri Lankan. For this purpose they have taken the data from 1992 to 2009 and applied the Co-integration and Vector Error Correction Method (VECM). This study has proven that inflation and agriculture sector have a negative relationship.

Hashim et al. Analyzed of inflation rate of the agriculture sectors of Colombo. For this purpose they have taken the data from 1998 to 2008 and applied the Multiple Regression techniques. This study has proven that inflation and agriculture sector have a negative relationship. Khan, R.E.A., Nawaz, M.A., Observed of bop of the agriculture sectors of China. For this purpose they have taken the data from 1998 to 2008 and applied the Vector Error Correction Model (VECM) and Augmented-Dickey Fuller Unit Root Test. This study has proven that inflation and agriculture sector have a negative relationship.

Rehman et al. Examined of trade of the FDI inflows of Nairobi. For this purpose they have taken the data from 1995 to 2005 and applied the classical regression model. This study has proven that inflation and agriculture sector have a negative relationship.

2. Methodology

In this paper, we have collected the data from 1998 to 2008. For this purpose, we have applied the OLS model for analysis the relationship between FEI and some other factors.

2.1. Equation

LnFDI = β_0 + β_1LnGDP + β_2Inf+ β_3Trade+ β_4GovtDebt + β_5Exch + Ut
 Where: LnFDI = FDI inflows in Pakistan's agricultural sector in million rupees
GDP = GDP in million rupees Inf = Annual inflation rate expressed as
 % Trade = Ratio of exports to imports
 GovtDeb= Government Debt in million rupees
 Exch = Growth rate in exchange rate of Rupee/$
 Ut = Representing error term

2.2. Interpretation

The table no 1 is shown that adjusted R square is near about 0.889 which is showing that the independent variable is near about 88.9%, it is also showing the variations in the agricultural sector. The Durbin Watson value is 2.267 is showing that there is no problem of mulyicollinearity. In the table no 2 the value has shown that model is significant. Table no 3 has shown that GDP is positively associated with the agriculture sector. Which means that increase in GDP will increase in FDI inflows. Morever, value of inflation is related to the inflows of FDI and exchange rate negatively related to the FDI inflows.

Table 1
Model Summary[b]

Model	R	Adj. Square	R Square	Std. Error of Est.	Durbin-Watson
1	0.98[a]	0.95	0.89	0.312	2.267

a. Predictors: (Constant), LnGDP, Inf, Trade, GovtDebt, Exch. b. Dependent Variable: LnFDI

Table 2
ANOVA[b]

Model	Sum of squares	df	Mean square	F	Sig.
Regres	8.163	6	1.633	16.797	0.003[a]
Resid	0.487	6	0.087		
Total	8.649	11			

a. Predictors: (Constant), LnGDP, Inf, Trade, GovtDebt, Exch. b. Dependent Variable: LnFDI.

Table 3
Coefficients[a]

Model	B	Unstandard. Coefficients Std. Err	Stand. Coeff. Beta	t	Sig.
(Constant)	15.4	10.2		1.51	0.18
LnGDP	4.14	1.32	2.038	3.153	0.026
Inf	0.064	0.044	0.366	1.463	0.204
Trade	0.064	0.028	0.342	2.365	0.065
LnGovtDebt	-5.32	1.62	-1.852	-3.298	0.023
Exch	-0.012	0.023	-0.078	-0.517	0.629

a. Dependent Variable: LnFDI.

3. Conclusion

In this paper, we are showing that how Foreign direct investment has the crucial role in the development of developing and under developing country. We are also exploring the factors which have an impact on the country's economy. Our study has shown that some variables have a positive impact on the economy and some have a negative impact on the country's economy. However, our study is showing that inflation has negative impact on the agriculture sector of the Pakistan. Our study is proving that inflows of foreign investment are beneficial for the agriculture sector.

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