Measures Of Foreign Direct Investment In Pakistan

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Abstract

Foreign direct investment (FDI) is an integral part of an open and effective international economic system and a major catalyst to development. Yet, the benefits of FDI do not accrue automatically and evenly across countries, sectors and local communities. National policies and the international investment architecture matter for attracting FDI to a larger number of developing countries and for reaping the full benefits of FDI for development. The challenges primarily address host countries, which need to establish a transparent, broad and effective enabling policy environment for investment and to build the human and institutional capacities to implement them. The aim of this research is to find the factors that affect FDI in Pakistan. For this purpose, a secondary data has been collected for the period from 1991 to 2013 from various published reports of Economic Survey of Pakistan, FBS and World Bank Reports. A multiple linear regression model has been designed by taking Inflation rate, Domestic Investment, Interest rate, Taxation rate and Foreign Direct Investment as Independent variables while Gross Domestic Product is used as dependent variables. Overall results concluded that all independent variables have significant impact on economic growth of Pakistan. This study also highlighted major challenges faced by foreign direct investment. Finally, the study gave policy implications for attracting FDI in Pakistan.

Keywords: Foreign Direct Investment, Economic Growth, Pakistan

INTRODUCTION

Foreign Direct Investment (FDI) has become a major factor that affects the economic growth of a country. FDI refers to the investment in different public and private projects from outside the country. Due to increase in FDI, government can increase their financial reserve and enhance the productivity of all associated departments. The amount invested by foreign or internal investors in the developing programs plays an important role for economic development. Now days, government of every country tries to increase more FDI value to complete all development programs in time. FDI includes either individuals or companies investment made in different sectors of the economy which ultimately increase the value of FDI helps to generate more jobs and transfer of advance technology from one country to another country. The role of FDI is much important in both developed and under developing countries like Pakistan. In this concern, the investors are much satisfied because they earn more than they expect which is considered as mutual advantage in international trade.

Pakistan is facing serious problems of capital inflow like other countries. A saving investment gap has become a big problem. Foreign direct investment improves the process of economic growth by adopting new technology, employment, generation and productivity enhancement. In 1988, the government of Pakistan introduced new policies in the country which were designed for trade liberty, tax concession, credit services, suitable tariff cut back and foreign exchange. While in 1900, the government focused on other developing sectors like agriculture & communication to develop the role
of the FDI in the country but due to some political turmoil the FDI was reduced as compared to other developing countries.

Saving and investment are necessary an increase in capital formation high-ceilinged. The targets due to poor per capita income from the developing countries the level of saving is below. (Khan, 2007). Through trade in shape of increase in exports and transformation of other domestic resources a gap between desired levels of both savings and investment can be fulfilled. Therefore, liberal policies to overcome the trade barriers for encouraging investment the host country need to develop. Economic activities FDI promotes, host country dire need to reduce raw material for the final goods foreign investor. The policies they adopt should attract the FDI both directly influence on the decision of foreign investors for investment the trade polices of host country and strong infrastructure.

In before time 1990s attracts foreign investment and initiated economic reforms to improve the business activities government of Pakistan (Anwar, 2002). Nominal tariff and friendly foreign exchange control polices, fiscal benefits and trade liberalization along with trade included the economic based (Awan, 2002; Aqeel & Nishat, 2004; Khan & Khan, 2011). After that, government started restrictions on capital inflows and out flows. In 1990, the government of Pakistan initiated some polices to improve activities and attract foreign investment, but after some period of time, government stated restriction on capital influence and outflow. In 1994 capital transaction restriction were introduced for investment and Pakistan rupee court bilk was settled on current investment once transaction. Role on interbank foreign exchange market was highly remarkable for resolve of foreign exchange.

The foreign investors were bound to keep 100% equity in industrial projects without any prior approval. In 1994, capital transaction restrictions were relaxed for investment and foreign borrowing and Pakistan Rupee convertibility was settled on current international transactions. An interbank foreign exchange market plays important role for determination of foreign exchange (Khan, 2008; Khan & Khan, 2011). High economy increase in capital and investment is highly appreciated in developing countries due to poor capital income. Trade is a path that can fulfill the gap between the desired level of saving and investment. Foreign capital inflow can rise through FDI. FDI plays an important part in this case. Most countries should develop policies to settle down test barriers for encouraging investment. FDI promotes economic activities trade policies of the host countries, are the best way to tackle foreign investor for investment so policies should be attractive enough.

Trends of FDI in Pakistan

<table>
<thead>
<tr>
<th>Year</th>
<th>FDI as Percentage of GDP</th>
<th>Amount of FDI (In Million US$)</th>
<th>Year</th>
<th>FDI as Percentage of GDP</th>
<th>Amount of FDI (In Million US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1971</td>
<td>0.01</td>
<td>1.00</td>
<td>1992</td>
<td>0.69</td>
<td>336.48</td>
</tr>
<tr>
<td>1972</td>
<td>0.18</td>
<td>17.00</td>
<td>1993</td>
<td>0.68</td>
<td>348.56</td>
</tr>
<tr>
<td>1973</td>
<td>-0.06</td>
<td>4.00</td>
<td>1994</td>
<td>0.81</td>
<td>421.02</td>
</tr>
<tr>
<td>1974</td>
<td>0.05</td>
<td>4.00</td>
<td>1995</td>
<td>1.19</td>
<td>722.63</td>
</tr>
<tr>
<td>1975</td>
<td>0.22</td>
<td>25.00</td>
<td>1996</td>
<td>1.46</td>
<td>921.98</td>
</tr>
<tr>
<td>1976</td>
<td>0.06</td>
<td>8.22</td>
<td>1997</td>
<td>1.15</td>
<td>716.25</td>
</tr>
<tr>
<td>1977</td>
<td>0.1</td>
<td>15.22</td>
<td>1998</td>
<td>0.81</td>
<td>506.00</td>
</tr>
<tr>
<td>1978</td>
<td>0.18</td>
<td>32.27</td>
<td>1999</td>
<td>0.84</td>
<td>532.00</td>
</tr>
<tr>
<td>1979</td>
<td>0.3</td>
<td>58.25</td>
<td>2000</td>
<td>0.42</td>
<td>308.00</td>
</tr>
<tr>
<td>1980</td>
<td>0.27</td>
<td>63.63</td>
<td>2001</td>
<td>0.53</td>
<td>383.00</td>
</tr>
<tr>
<td>1981</td>
<td>0.38</td>
<td>108.08</td>
<td>2002</td>
<td>1.14</td>
<td>823.00</td>
</tr>
<tr>
<td>1982</td>
<td>0.21</td>
<td>63.83</td>
<td>2003</td>
<td>0.64</td>
<td>534.00</td>
</tr>
<tr>
<td>1983</td>
<td>0.1</td>
<td>29.46</td>
<td>2004</td>
<td>1.14</td>
<td>1,118.00</td>
</tr>
<tr>
<td>1984</td>
<td>0.18</td>
<td>55.51</td>
<td>2005</td>
<td>2.01</td>
<td>2,201.00</td>
</tr>
<tr>
<td>1985</td>
<td>0.42</td>
<td>131.39</td>
<td>2006</td>
<td>3.35</td>
<td>4,273.00</td>
</tr>
<tr>
<td>1986</td>
<td>0.33</td>
<td>105.73</td>
<td>2007</td>
<td>3.9</td>
<td>5,590.00</td>
</tr>
<tr>
<td>1987</td>
<td>0.39</td>
<td>129.38</td>
<td>2008</td>
<td>3.32</td>
<td>5,438.00</td>
</tr>
</tbody>
</table>
The FDI inflows in Pakistan are based on its term of growth, size, source and sectoral preferences. The growth of FDI was not prominent till last 1990s due to regulatory policies framework. On the other hand, FDI enhanced economic growth of the country under the shadow of trade liberal policies. Table No 1 shows about the flow of FDI that was increased by 1 million US$ in 1971 to 853.68 million US$ and between these periods (1971-2013) the flow of FDI was fluctuated the Figure No 1 shows the trend of FDI in Pakistan for the said era. Since 1971 to 1999 the flow of FDI increased with minor decrease, but after the year 1999, FDI was quickly decreased due to US strict policies were imposed on Pakistan because of nuclear tests and political and financial instability in the East Asia. But the FDI was increased in the year 2004 with the amount of 1,118 million US$ as compared to the past years and it was double with the last year 2003. After 2004, FDI was rapidly increased and reached at its peak in the year 2007 with amount of 5,590 million US$ due to government trade liberal policies for the foreign investors. The flow of FDI started its decline from the year 2008 to 2013 because of swear financial crises, security issues and specially the War on Terror became the main causes of downfall.

**Foreign Direct Investment in Telecom Sector**

The Government liberalized investment policies allowing foreign investors in the Telecommunications sector to own all the shares in a company and repatriate all of the profit such policies have attracted significant FDI. During FY2014, cellular mobile operators have invested US$ 1,789.7 million on account of acquiring 3G and 4G spectrums and deployment of advanced telecommunication networks.
The overall telecom investment reached US$1.815 million in FY2014; an almost three times increase from the level of US$600 million last year. Almost half of telecom investment was in the form of FDI i.e. telecom sector attracted over US$903 million of FDI in FY2014, 34.2% of the total FDI received by Pakistan in that period.

**Table No. 1.2: Year Wise Telecom Investment in Pakistan**

<table>
<thead>
<tr>
<th>Year</th>
<th>2008-09</th>
<th>2009-10</th>
<th>2010-11</th>
<th>2011-12</th>
<th>2012-13</th>
<th>2013-14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cellular</td>
<td>1,229.75</td>
<td>908.8</td>
<td>358.6</td>
<td>211.8</td>
<td>570.4</td>
<td>1,789.7</td>
</tr>
<tr>
<td>LDI</td>
<td>276.75</td>
<td>183.1</td>
<td>108.7</td>
<td>16.2</td>
<td>1.9</td>
<td>1.8</td>
</tr>
<tr>
<td>LL</td>
<td>57.37</td>
<td>22.5</td>
<td>18.2</td>
<td>5.0</td>
<td>16.1</td>
<td>14.2</td>
</tr>
<tr>
<td>WLL</td>
<td>82.11</td>
<td>23.0</td>
<td>7.6</td>
<td>7.3</td>
<td>11.9</td>
<td>10.0</td>
</tr>
<tr>
<td>Total</td>
<td>1,645.98</td>
<td>1,137.51</td>
<td>493.25</td>
<td>240.3</td>
<td>600.3</td>
<td>1,815.6</td>
</tr>
</tbody>
</table>

Note: 2012-13 figures are revised. PTCL, Telecard, Witrile and Worldcall are for three quarters of FY2014. Wateen figures not received.

PTA auctioned spectrum in April 2014 for 3G and 4G cellular mobile services from which significant further FDI was received. The auction concluded with a total value of US$ 1.11 billion. By the end of FY2014, US$ 965 million of the auction proceeds have been paid by the operators with the balance of US $147.5 million plus markup @LIBOR+3% per annum receivable in five equal annual installments in the next five years (PTA Annual Report, 2014).

**Objective of the Study**

The main objectives of the research are the follows

1. To find the factors that affect FDI.
2. To discuss the trend of FDI in Pakistan.

**LITERATURE REVIEW**

Manzoor et al. (2014) investigated the different variables including GDP, inflation, corruption, political stability, regulatory quality, internet roads, telephone lines, skilled labor force,
unemployment, exchange rate, export, imports, Interest rates and terrorism used to measure the foreign direct investment in Pakistan. Two countries Pakistan and China used different data to calculate the foreign direct investment value. The result showed that in Pakistan the FDI was linked with the economic dimensions like increased inflation, increased poverty, business risk, better infrastructure and the human capital.

Younus et al. (2014) examined that FDI has a significant importance in monetary growth. Most of the countries face a problem of investment which is required for better development of developing programmers. The governments of Pakistan try to increase more FDI value in the country but it could not achieve the target as settled. The Pakistan encourages the overseas investment in all sectors of economy. This study analyzed that there has been positive association between economic development and foreign direct investment in the Pakistan.

Bayar (2014) concluded that FDI value increased globally over the past three decades. The study analyzed the data from 1980-2012 which investigated the association between local assets and FDI of Turkey. The paper also determined that the foreign direct investment is helpful for local investment. Turkey tried to enhance FDI inflows. The result has been calculated by using co-integration and bound test.

Talat and Zeeshan (2013) concluded that FDI was significant source to increase the financial reserve or savings of the country. FDI value of country increases the exchange rate of the currency. The market size variables, inflation rate, exchange rate stability, incentives and trade openness provided to investors on foreign direct investment. The paper also determined that the foreign direct investment is helpful for local investment. Turkey tried to enhance FDI inflows. The result has been calculated by using co-integration and bound test.

Iqbal et al. (2013) concluded that China has much better economic position or have more attraction for FDI as compared to India. FDI has positive force on monetary development of the Indian & Chinese economy. FDI positively affected the GDP development rate of these countries that leads to increase in their per capita income. Due to a few reasons the Chinese receive the more inflow as compare to Indian. China adopt the different upbeat loom to attract more Foreign direct investment the China provide the short labor charges, positive investment incentive, potential foreign market that factor playing significant role for attract of the foreign direct investment.

Hussain (2012) explored the different factor or elements which played role in economy development it’s also concluded the market size of the economy as a strong factor to calculate the FDI. Developing countries by increase FDI value can enhance financial reserve or saving. This empirically research and its objective was maximize the profit. The study created that the market range was the mainly significant determinant of FDI to the developing countries. The FDI was independent variable and the GDP, market size, info and tariff was dependent variable. The result showed positive effect.

Rasheed et al. (2012) explained the measured factor GDP, Taxes, Transport storage etc of Foreign Direct Investment. The study determined that all the factors like GDP, Taxes etc have strong affected on GDP of the country. Every unit increase in the above factors changed the real GDP of the country. This was empirical research and it was used error correction model. The dependent variable was FDI and GDP, not direct taxes, transportation storage space and statement, exchange rate and trade expenses and communication are independent variable.

Khan & Nawaz (2010) investigated the Foreign Direct Investment in the Pakistan. In this Pakistan aim to increase the investment GDP ratio by attracting Foreign direct investment. The foreign investors mostly from the developed dynamic centers are enhancing international production by investing in resource abundant economies. Their research was empirically used OLS regression model. FDI is dependent variable GDP, Exchange rate, Export good, custom duty on independent. The economic measured which support Pakistan economy to increase the overall GDP of the country. The government should make a paradigm shift in its investment policy to attract foreign direct investment. The analyzed data described or discovered the indicators of economic measured of FDI of the country. The result is that GDP growth helpful result on the inflow of FDI in Pakistan.
Yousaf et al. (2008) empirically analyzed FDI can force on the import and export in the Pakistan and also main exterior resource of support those helped to the meet obligations of the resources gap and achieve the goal. The FDI played the extremely significant part in the economic sector not only in the Pakistan but all over the world.

Ilhan (2007) reviewed the belongings of FDI in the country monetary development. In this paper showed helpful result on the monetary development and different literature is reviewed to analyze the force of FDI on GDP of impact Foreign Direct Investment on GDP of the country. Overall evidence is positive result showed. The compromise has been reach between academia and practitioners that Foreign Direct Investment tend to have important result on monetary development from end to end more than a few channel such as assets structure, knowledge convey and creature resources development.

RESEARCH METHODOLOGY

The Theoretical framework describes the association among FDI. The Inflation rate, Domestic Investment, Interest rate, Taxation rate and Foreign Direct Investment are in use as Independent variables Gross Domestic Product is in use as dependent variables. The Inflation rate and domestic investment motivate investors to invest in different sector, while interest rate and taxation rate help internal or outsider investor to participate investment in different projects. If any independent factor which in indicate above is increase then it will be directly effect on insurance company profitability

Source & Type of data

This study is based on secondary data for the year from 2091 to 2013. The data has been collected from various reports of foreign direct investment, economic survey of Pakistan, Statistical reports, State bank of Pakistan, newspapers and through website.

Model

A following multiple Linear Regression Model has been designed for data analysis.

\[
Y = \alpha + \beta_1 GDP + \beta_2 INFR + \beta_3 DOMI + \beta_4 INTER + \beta_5 TXR + e
\]

Whereas,
- **Y** = Foreign Direct Investment
- **\( \alpha \)** = Constant
- **GDP** = Gross Domestic Product
- **INFR** = Inflation Rate
- **DOMI** = Domestic Investment
- **INTER** = Interest Rate
- **TXR** = Taxation Rate
- \( \beta_1, \beta_2, \beta_3, \beta_4, \text{and } \beta_5 \) are the coefficients of independent variables
Variables

Independent Variables
The following are selected independent variables:

Foreign Direct Investment (FDI)
Foreign direct investment (FDI) is a controlling ownership in a business enterprise in one country by an entity based in another country. The FDI is used as a dependent variable.

Inflation Rate (IR)
Inflation is an unrelenting increase in the prices of goods and services. It is calculated as an annual percentage increase. The inflation rate has been used as an independent variable.

Domestic Investment (DI)
In the domestic Investment, the investors invest capitals in their own country. In other words, the country that depends on investment and production in its own country except foreign country domestic investment always increase economic growth.

Interest Rate (IR)
The interest rate is the rate paid for the use of money by the main banks of the country. When their aim is to increase the country's economy, interest rate affects on FDI as it affects on the country's economic growth.

Taxation Rate (TR)
The Tax rate affects Individuals and business earnings both.

Dependent Variables
Following are dependent variables:

Gross Domestic Product (GDP)
The completed commodities value or services which are produced or provided within a country during a definite time period is called Gross Domestic Product.

RESULTS & DISCUSSION
The following are the results which have been drawn from the analysis of data collected from the Telecom sector.

Table No 1.3: Result of Combined Variability of all Independent Variable with Dependent Variable

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R-Square</th>
<th>Adjusted R-Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.776*</td>
<td>.592</td>
<td>.431</td>
<td>45.22316</td>
</tr>
</tbody>
</table>

| Source: Author Calculation |

Table No 1.3 represents combined variability that is found positive, strong and significant with foreign direct investment. The value of R Square indicates that 59 percent of the variance is Foreign Direct Investment can be accounted for by Gross Domestic Product, Interest Rate, Domestic Investment, Inflation Rate and Tax Rate.

Table No 1.4: Results of ANOVA

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F-Stat</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>5</td>
<td>5889.402</td>
<td>4.0129</td>
<td>.035*</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>18</td>
<td>1720.891</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>23</td>
<td>53009.978</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| a. Predictor: (Constant) GDP, Interest Rate, Inflation Rate, Domestic Investment, Tax Rate. |
| b. Dependent Variable: FDI |

Source: Author Calculation
Table No. 1.4 represents combined association that is found positive, strong and significant with foreign direct investment, F is insignificant at .035 level which verifies that 59 percent of the variance in Foreign Direct Investment can be accounted for by Gross Domestic Product, Interest Rate, Domestic Investment, Inflation Rate and Tax Rate.

Table No. 1.5: Results of Regression Analysis

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T-Stat.</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Constant</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>86.230</td>
<td>132.836</td>
<td>.692</td>
<td>.574</td>
</tr>
<tr>
<td></td>
<td>GDP</td>
<td>8.015</td>
<td>3.576</td>
<td>.695</td>
</tr>
<tr>
<td></td>
<td>INTR</td>
<td>-1.437</td>
<td>3.382</td>
<td>-.052</td>
</tr>
<tr>
<td></td>
<td>DOMI</td>
<td>4.469</td>
<td>2.066</td>
<td>0.95</td>
</tr>
<tr>
<td></td>
<td>INFR</td>
<td>4.521</td>
<td>3.298</td>
<td>.503</td>
</tr>
<tr>
<td></td>
<td>TXR</td>
<td>-1.938</td>
<td>2.472</td>
<td>-1.01</td>
</tr>
</tbody>
</table>

Dependent Variable: FDI

Source: Author Calculation

Table No. 1.5 represents that gross domestic product produces positive impact with unit value 8.051 on foreign direct investment almost significant t-test. The interest rate produces negative impact on foreign direct investment with unit value of 1.347 with insignificant t-test. Domestic investment produces positive impact of 4.469 on foreign direct investment with significant t-test. The fifth independent variable is inflation Rate that is showing its impact value on foreign indirect investment is positive 6.521 with significant t-test. The last independent variable impact value for foreign direct investment is found negative 1.283 with insignificant t-test. On basis of this empirical result GDP, Interest Rate, Domestic Investment, Inflation Rate and Tax Rate, have significant Effect on FDI in Pakistan accepted with gross domestic product, domestic income and inflation rare and with the interest rate and taxation is not supported.

**CONCLUSION**

The empirical results show that it is an important and helpful for the decision making of the investment policy. The attractive foreign direct investment inflow increases the economic growth of Pakistan. The empirical result individually shown that all the independent variable is positive association to the foreign direct investment and the GDP, Interest rate, Inflation rate are insignificant and the domestic investment and tax rate is significant with foreign direct investment. The combined empirical results show that the variability is found positive, strong and significant with the foreign direct investment. On basis of this empirical result GDP, Interest Rate, Domestic Investment, Inflation Rate and Tax Rate, have significant Effect on FDI in Pakistan accepted with gross domestic product, domestic income and inflation rare and with the interest rate and taxation is not supported.

To increase more FDI into Pakistan, the high authorities of the respective country need to sure the stable economic position, stable political environment, moderate or single digit inflation rate, encourage the domestic or local investment, reduce the tax burden on foreign investor, interest rate, secure the law and order and state of affairs stable and stability in the government policies for the reason that these be the main factors other than discussed economic factors for the prospective investor to make the investment option.

**POLICY IMPLICATIONS**

- Policy makers should offer favorable and pleasant atmosphere to foreign investor to attract more FDI.
- For the purpose of enhancing the Foreign Direct Investment attraction the policy maker should be offer the favorable and pleasant atmosphere to the foreign investor.
- Foreign investor should be known more incentive for the move of skill to host country. This would grease the restricted enterprise.
The investor should be known more benefits to their subordination and other person those involved in the project.

In the Pakistan the import-substitution to the rule associated Foreign Direct Investment might verify good.

In this empirical study suggesting to be needed for the further clarification.

The empirical result individually shown that all the independent variable is positive association to the foreign direct investment and the GDP, Interest rate, Inflation rate are insignificant and the domestic investment and tax rate is significant with foreign direct investment.

REFERENCES


