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The Impact of Foreign Invesment on Import Export of Pakistan

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ABSTRACT

The aim of this study is to show the relationship between foreign investment and economic growth. Framework is used to show impact over the period of 1986 to 2013. The result of these tables show that there is positive relationship between foreign investment and economic growth. We also examines that there is lack of sources in Pakistan .We have used secondary data for this study. This study will reveal that foreign investment is playing important role to fulfils requirement of sources .On the other hand, foreign investment has important role for the development of Pakistan economy. Most importantly, the Pakistan has chosen investor friendly policy. Foreign investment has two types 1) mixture of green field investment and 2)privatization proceeds .We propose a mechanism that foreign investment determine the political risk. Foreign investment also play important role to maintain a BOP of host country .In this study also show that which policies is important for the development of country 1) reduce political risk 2) foreign investment .This study also shows that Sri Lanka has rate of foreign investment is low then other Asian countries .Market access and modern technology is a main components of foreign investment .However, productivity can be improve by foreign investment (1997) the ratio of foreign investment in Pakistan is 0.2%. The main reason of poor performance in Pakistan is that basically Pakistan is a agriculture country and we have poor industries skills .For the development of country there is need to investment 35% to 40% in a year .In this study also shows that terries has negative effect on foreign investment of Pakistan .State bank of Pakistan regulates foreign investment inside and outside the Pakistan. Economy of every country depends upon circle of a foreign investment .For a strong country there is need of a strong economy .In this study we also examine that foreign investment growth rate is increasing then international trade. For the development of economic growth there is needed to invest 35 to 40% in GDP. Foreign investment has different shapes like.1) foreign loans 2) foreign direct investment3) portfolio. In the last year the exports of Pakistan is 12.9billion and import was 18.7billion. Japan has a vast export market for Pakistan. Economic development can be increase with foreign trade e .g raw cotton clothes and wheat is the main products of Pakistan.

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Introduction

In this paper we examine the effect of foreign investment with respect of Pakistan and its economic growth and shows that there is a strong relationship exit. In the world stable economy of any country plays an important role for its progress. Foreign investment is a combination of Greenfield investment and privatization proceeds. The foreign investment growth rate is increasing day by day then international trade. In this paper examine that foreign investment products a complementary effect on the growth in host country. For the development of economic growth there is needed to invest 35 to 40% in GDP. Foreign investment has different shapes like.1) foreign loans 2) foreign direct investment3) portfolio. Foreign investment is useful to developed various industries of Pakistan like textile sector etching the world sari lank has low foreign investment rate than other Asian countries. According to modern study policies of government has impact on the foreign investment decisions .Absence of corruption and economic stability could attract multinationals to invest without any incentives .Pakistan should form board grouping like manufacture and non manufacture2)the amount of foreign equity must be less than 0.1 million 3) government should avoid such places for investments alcoholic beverages .State bank of Pakistan regulates foreign investment inside and outside the Pakistan.

Many developing like Pakistan choose investor friendly policy. This study also examines that Terries has negative effect on foreign investment. Foreign investment provides the sources to developing countries like capital, modern technology and skill management. commercial bank has main role in the development of Pakistan economy in 1986s, most countries provide conveniences like tax relaxation .There was a surge of noncommercial bank private capital inflows to developing economics in 1990s, trade of Pakistan is depend upon on the circle of foreign investment. Pakistan is poor in economy therefore Pakistan is enabling to build physical capital. The main purpose of inflow of foreign investment is to determine the financial accounts of the BOP statement and with the help of data it has proved that initial effect of inflow of foreign investment on BOP is positive, the current account balance is an important indication of any economy. On the economic s growth there is a main role of exchange rate. Current position of foreign is not according to merit .State bank of Pakistan shows deprived result of foreign investment .With the passage of time situation is going depressed day by day. Foreign trade is helpful to

product that commodities which have less rate than others. Market scope will increase with the help of foreign trade .There is a inverse relationship between production of goods and average cost .with the help of foreign trade we can take that products which has qualitative and quantitative terms. Economic development can be increase with foreign trade e .g raw cotton clothes and wheat are the main products of Pakistan and for the establishment of these products we need a technical knowledge from the outside the country .Without foreign trade it will be very expensive .In the last year the exports of Pakistan is 12.9billion and import was 18.7billion. Japan has a vast export market for Pakistan. Due to lack of political stability the foreign investors do not want to invest more. Global recession is also reason for worsened the situation. Falki (2005) analyzed that foreign investment and GDP has negative relationship. Tiwaria and matascu (2011) studied that foreign investment has positive impact on real demand According . According to root (1994) has predicted that foreign investment and international trade are complements. Phongpaichit (1990) by using a panel data the role of foreign investment is promoting growth. Agosin(2000)in Africa foreign investment and domestic investment has a neutral relationship .Pradhan(2001)economic growth and per capita income has insignificant effect on foreign investment. Fry (1992) in Asian countries foreign investment and are complementarily. (1992)shabir this study has shown relationship between economic growth and foreign private investment is going to down due to unfair business. Foreign investment is a phenomenon of debt trap. This study shows that how a resources utilizes in a company and examine the impact factor on growth. **Objectives**

♦ What is impact of foreign investment on host country?

◆To determine the impact of exchange rate on foreign investment.

♦ How can we attract the investors towards our country? This study shows that Pakistan has

Large amount of foreign investments inflow

Research aim

The aim of study is to show the relationship between foreign direct investment and trade of the Pakistan .There is positive relation between foreign investment and trade .where we take foreign direct investment is the independent variable and trade is the dependent variable.

The aim of study is

≻ To show the relationship of Foreign investment and trade of Pakistan

> Foreign investment can affect the trade of Pakistan

Research problem

Pakistan has deprived rate of foreign investment rather than other Asian countries.

Literature review

Through cross border firms takes advantage of factor price also predict that both national trade and investments are complements .klein(1997)has shown in his study that trade barriers are due to result of high transaction costs. Mundell (1957) International investment is less substitute of international trade. Kreugman (1989) foreign investment motivated by the low cost location and access to raw material. In home country that traduces that has natural resources from home country to host country foreign investment increase import. Drabek and payne (1997) corruptions leads to reduce foreign investment .This study take different variables like import, export, economic growth etc .It is proved that transparency level can be increase by nation. Yabuuchi (1999) in his study shows that what effect of welfare on foreign investment is in urban sector. This study also analyze that what is effect of EPZ on foreign investment.

Agarwal(2000)relationship between foreign investment and GDP .National investors are very close relationship .This study also shows that there was negative effect of GDP in 1980. Mullick(2004) this study emphasized that what is effect of growth of Pakistan a After the terrorist effect. Falki (2005) analyzed that foreign investment and GDP has negative relationship .Tiwaria and matascu(2011)studied that foreign investment has positive impact on real demand .According to klein(1997) types of foreign investment increase exports from the host country to home country. According to root (1994) has predicted that foreign investment and international trade are complements. Phongpaichit(1990)by using a panel data the role of foreign investment is promoting growth . Agosin(2000)in Africa foreign investment and domestic investment has a neutral relationship .Pradhan(2001)economic growth and per capita income has insignificant effect on foreign investment .Fry(1992) in Asian countries foreign investment and complementarily. (1992) shabir this study has shown relationship between economic growth and foreign private According to siddiqui and salman (2000) determine that both monetary and equilibrium path impact on the real sector. This paper also analyzed the impact of interest rate of Pakistan. In a recent study, hussain (2008) shows that trade depend upon GDP growth.

Caves (1971) claimed that foreign investment and corporate income has positive effect .the host country government has effect on trade policy. Macdonald (1999) shows that short term are predictable as horizons. Brzozowski determine the volatility of exchange rate. He shows that there is no relationship between exchange rate and volatility. Tokunbo lyoyd(2000) in his study he focus on currency depreciation and exchange rate has positive relationship.

Methodology

Foreign direct investment is said to be as an important part of economic growth in the developing and under developing country .The main object of this paper is to show the impact of foreign investment on GDP, import, export and inflation .Data is collected from IMF and other websites .we have taken secondary data

FDI= GDP+ Import+ Export+ Inflation

Theoretical framework



H1: FDI impact of GDP of Pakistan

H2: FDI impact on import of Pakistan

H3: FDI impact on export of Pakistan

H4: FDI effect on inflation

Rabia Najaf et al./ Elixir Fin. Mgmt. 82 (2015) 32414-32418

Foreign investment in Pakistan				
Period	Value	% GCF		
1971-75	42	0.54		
1976-80	139	0.99		
1981-85	323	1.23		
1986-90	765	2.32		
1991-95	5010	4.76		
2001	309	3.18		
2002	384	4.08		

Source: World Development

Time series analysis					
years	FDI	GDP	Exports	Imports	Inflation,
1968	2.7	135.16	678985801	1240972000	6.82
1969	3.5	143.81	740984601	1394975000	0.18
1970	4.4	149.39	747984200	1696975000	3.18
1971	0.24	168.87	778973700	1570969000	5.34
1972	0.02	173.72	757234100	1255999000	4.72
1973	0.19	148.36	1098084000	1480919000	5.17
1974	-0.07	97.99	855576200	1131186000	23.06
1975	0.06	132.02	1233200000	1722800000	26.65
1976	0.21	165.60	1450800000	2439300000	20.91
1977	0.07	188.85	15630100000	2884200000	7.15
1978	0.11	207.49	2377100000	2667423000	10.12
1979	0.19	236.65	2646700000	3393000000	6.13
1980	0.31	253.22	3107300000	4285001000	8.25
1981	0.28	294.32	3958200000	5409197000	11.92
1982	0.39	337.43	4461200000	6266601000	11.81
1983	0.22	356.51	4055881000	6187354000	5.95
1984	0.11	321.67	5419646000	6392699000	6.37
1985	0.19	337.52	5448628000	7148454000	6.08
1986	0.43	326.24	5246344000	7205458000	5.62
1987	0.34	323.17	4796228000	7330436000	3.54
1988	0.40	326.95	5414018000	7015030000	4.63
1989	0.49	365.26	6227069000	8387114000	8.82
1990	0.53	369.84	6576987000	8435975000	7.83
1991	0.62	357.74	7216943000	9150912000	9.02
1992	0.58	395.35	8725444000	8234857000	11.80
1993	0.70	412.14	9442739000	9884114000	9.52
1994	0.69	425.35	7394305000	1154219000	9.98
1995	0.82	418.11	6449778000	9882123000	12.36
1996	1.18	476.16	50132270000	12777210000	12.33
1997	1.47	484.34	70703070000	16567630000	10.33
1998	1.14	465.04	20040500000	18967600000	11.35
1999	0.82	451.30	40252210000	18900340000	6.22
2000	0.85	445.81	7668691000	14684440000	4.12
2001	0.43	511.71	8940179000	12862330000	4.36
2002	0.54	490.05	14600270000	15361300000	3.17
2003	1.15	480.75	21007710000	14073080000	3.24
2004	0.69	543.60	14917670000	13,723660000	2.94
2005	1.15	628.64	13350080000	14537310000	7.45
2006	2.02	690.86	18195690000	21841920000	9.07
2007	3.36	789.42	17418010000	29803690000	7.93

2008	5590000000.00	3.91	870.64	10320950000	31555710000	7.61
2009	5438000000.00	3.33	978.81	31056880000	39237640000	20.28
2010	2338000000.00	1.45	949.13	70808540000	33130000000	13.66
2011	2018000000.00	1.15	1016.62	83955250000	34600240000	13.89
2012	1308770000.00	0.63	1189.38	19756880000	40453580000	11.93
2013	1209000000.00	0.47	1185.16	678985800	4058657000	8.78

32417

Rabia Najaf et al./ Elixir Fin. Mgmt. 82 (2015) 32414-32418

Descriptive analysis					
Method	EXPR	FDI	GDP	IMP	INF
Mean	22.25208	0.951523	439.5715	22.66981	8.752826
Median	22.43952	0.650000	367.4400	22.77318	7.780000
Maximum	24.12633	4.200000	1189.270	27.54915	27.66000
Minimum	20.36611	-0.070000	97.88000	20.65398	0.170001
Std. Dev.	1.153561	1.097799	289.9765	1.331852	5.403218

Unit root table

Variables	I(o)
FDI	-3.588507***
EXPR	-2.928143**
IMP	-3.584745***
INF	-2.602222*
GDP	-3.584744***

	EXPR	GDP	IMP	INF
EXPR				
GDP	217.7336			
IMP	1.118244	213.0377		

Regression analysis

	Adjusted R square	F-statistic	Prob(F-statistic)	Durbin-W atson
0.518	0.432	32.388	0.0253	0.605

Variable	Coefficient	t-statistic	Prob.
EXPR	0.508	2.0056	0.04112
GDP	0.0016	1.970	0.04058
IMP	-0.1441	-0.6477	0.5208
INF	-0.0604	-2.0139	0.0397

Interpretation

In the first step we shall estimate the co efficient regression equation .we shall test that how much variables are stationary or not .For the checking of stationary variables we used the augmented dickey fuller test .in the results series are found to be stationary at level .our dependent and independent variables are significant .For example GDP significance and inflation is also significant .we have found that there is significant relationship between independent and dependent variables .Inflation has negative relationship with foreign investment .all the relationship are shown as long term.

Conclusion

In this study we focus on foreign investment import and export of Pakistan .The paper first analysis inflow of foreign investment ,international trade and economic growth of Pakistan .With the passage of time international trade and economic growth are increasing day by day .The rate of foreign investment decrease in Pakistan in 1991s and then increase after a time period .This study has shown that foreign investment has impact on import export of Pakistan .There is positive relationship between foreign investment, and international trade .Foreign investment has main role for growing Pakistan s economy .In this study has shown Pakistani growth s rate 8.5 annually and foreign investment has invested in various rural Parts of Baluchistan. Positive impact on the trade growth in Pakistan. It has analyzed that in the world government should give attending towards proving security of investment and makes the trade policy. if we control the inflation then very much chances to improve economic growth .Pakistan has remarkable economy and government should focus on GDP for the best result of economy .Pakistan has a Asian nation but cannot achieve economic growth like other Asian countries .In short foreign

investment is said to be growth enhancing element . According to World Bank report (2003) total foreign investment inflow is 37% in different developing country .Foreign investment is a important source of development .A huge amount research has proved that due to promotion of export the foreign investment rate is increasing rapidly

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