

## Impact of macroeconomic variables on the inflows of FDI and Agriculture sector of Pakistan.

### Abstract:

Pakistan is famous due to its agriculture sector, due to this reason we have analyzed the different determinants on the progress of FDI. For this purpose, we have taken data from year 1998 to 2008 and applied the OLS model. We have taken the results that trade and GDP both have 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 is suggesting that government should make policies to for the promotion of agriculture sector.

**KEYWORDS:** Agriculture sector, progress, OLS, GDP, FDI, government debt.

ISSN CODE: 2456-1045 (Online)

(ICV-MDS/Impact Value): 2.31

(GIF) Impact Factor: 1.272

Copyright@IJF 2016

Journal Code: ARJMD/AS/V-3.0/C-1/July-2016

Website: www.journalresearchijf.com

Received: 16.07.2016

Accepted: 21.07.2016

Date of Publication: 31.07.2016

Page: 01-05

### INTRODUCTION

#### 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 provide the food, fibers, and 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 area 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 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 on the development of economy. In this paper, we have also discussed the all the aspects of foreign direct investment. We are also explaining that how MNC companies and local companies have role in the inflows of FDI. We are also presentation the role of Government policy in all aspects of FDI. From the last 8 years, Pakistan is facing the problem of FDI inflows. Foreign direct investment is also known as the famous source of collecting the investments. All the studies have proved that it is the backbone of any economy. Our study is showing 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.

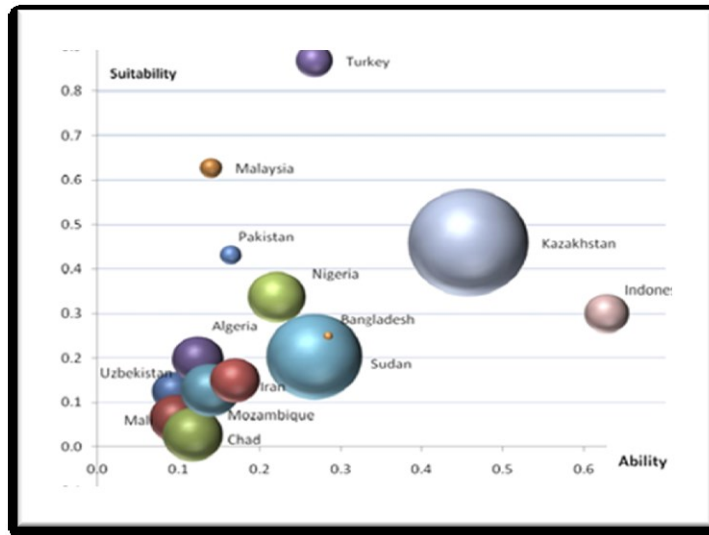


Name of the Authors:

**Rabia Najaf<sup>1</sup>, Khakan Najaf<sup>2</sup>**

*Department of Accounting & Finance, University of Lahore, Islamabad Campus*

**FDI in different countries:**



**Figure no. 1**

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
<b>All developing countries</b>	10,200	14,600	22,200	27,000	33,736	41,325	50,368	73,136	87,025	99,671
<b>All low-income countries</b>	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
<b>Total of above countries</b>	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

**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.

**Problem statement:**

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

**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 proved that inflation and agriculture sector have 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 proved that inflation and agriculture sector have 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 proved that inflation and agriculture sector have 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 proved that inflation and agriculture sector have 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 proved that inflation and agriculture sector have 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 proved that inflation and agriculture sector have negative relationship.

Hashim, S. 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 proved that inflation and agriculture sector have 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 proved that inflation and agriculture sector have negative relationship.

Rehman, C.A. 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 proved that inflation and agriculture sector have negative relationship.

**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.

**Equation:**

$$\text{LnFDI} = \beta_0 + \beta_1\text{LnGDP} + \beta_2\text{Inf} + \beta_3\text{Trade} + \beta_4\text{GovtDebt} + \beta_5\text{Exch} + \text{Ut}$$

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

**Interpretation:**

The table no 1 is shown that adjusted R square is near about 0.889 which is showing that independent variable is near about 88.9%.it is also showing the variations in the agriculture sector. The Durbin Watson value is 2.267 is showing that there is no problem of mulycollinearity.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 mean that increase in GDP will increase in FDI inflows.Moreover, value of inflation is related with the inflows of FDI and exchange rate negatively related with the FDI inflows.

**Table 1: Model Summaryb**

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

a. Predictors: (Constant), LnGDP, Inf, Trade, GovtDebt, Exch.

b. Dependent Variable: LnFDI

**Table 2: ANOVAb**

Model	Sum of	df	Mean	F	Sig.
	Squares		Square		
Regres	8.163	6	1.633	16.797	0.003a
Resid	0.487	6	0.087		
Total	8.649	11			

a. Predictors: (Constant), LnGDP, Inf, Trade, GovtDebt, Exch.

b. Dependent Variable: LnFDI

**Table 3: Coefficientsa**

Model	Unstandard. Coefficients	Stand. Coeff.	t	Sig.	
	B	Std. Err	Beta		
(Constant)	15.4	10.2	1.51	0.18	
LnGDP	4.14	1.32	2.038	3.153	0.026
Inf	.064	0.044	0.366	1.463	0.204
Trade	.064	0.028	0.342	2.365	0.065
LnGovtDebt	-5.32	1.62	-1.852	-3.298	0.023
Exch	-.012	0.023	-0.078	-.517	0.629

a. Dependent Variable: LnFDI

### 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 impact on the economy of country. Our study is showing that some variables have positive impact on the economy and some have negative impact on the economy of country. 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.

### References:

[1] Wafure Abu and Nurudeen, 2010, "Determinants of Foreign Direct Investment in Nigeria: An Empirical Analysis," *Global Journal of Human Social Science*, Vol. 10 Issue 1 (Ver 1.0), April 2010, PP. 26-34.

[2] Tatonga Gardner Rusike, 2007, "Trends and determinants of inward Foreign Direct Investment to South Africa", [eprints.ru.ac.za/1124/01/rusikemcom.pdf](http://eprints.ru.ac.za/1124/01/rusikemcom.pdf).

[3] Pantelidis, T, Nikolopoulos, E., 2008, "FDI Attractiveness in Greece", *Int Adv Econ Res* (2008) 14:90-100 DOI 10.1007/s11294-007-9106-y.

[4] Masuku, M.B., Dlamini, T.S., 2009, "Determinants of foreign direct investment inflows in Swaziland", *Journal of Development and Agricultural Economics* Vol. 1(5), pp. 177-184, November, 2009. *Academic Journals*.

[5] Mohamed, S.E., Sidiropoulos, M.G., 2010, Another Look at the Determinants of Foreign Direct Investment in Mena Countries: An Empirical Investigation. *Journal of Economic Development*, Volume 35, Number 2, June 2010.

[6] Azam, M., 2010, Economic Determinants of Foreign Direct Investment in Armenia, Kyrgyz Republic and Turkmenistan: Theory and Evidence. *Eurasian Journal of Business and Economics* 2010, 3 (6), 27-40.

[7] Hashim, S. et al, 2009, Foreign Direct Investment in Telecommunication Sector of Pakistan: An Empirical Analysis. *Journal of Managerial Sciences* Volume III, Number 1.

[8] Azam, M., Kahttak, N.R., 2009, Social And Political Factors Effects On Foreign Direct Investment In Pakistan (1971 -2005). *Gomal University Journal of Research*, 25-1: 46-50.

[9] Khan, R.E.A., Nawaz, M.A., 2010, Economic Determinants of Foreign Direct Investment in Pakistan. *J Economics*, 1 (2): 99-104.

[10] Rehman, C.A. et al. 2011, The Impact of Infrastructure on Foreign Direct Investment: The Case of Pakistan. *International Journal of Business and Management*, Vol. 6, No. 5; May 2011.