

Chapter One: Background of the Subject/Topic and Statement of the Problem

1.1 Background of the Study

The accumulation of some sort of assets in the hope of getting a return in the future is referred to as Foreign Direct Investment. The mechanism that is needed to support the economic growth and development of a country is provided by investment. There are two sorts of investments in which the FDI can be categorized, portfolio investment and FDI (Iamsiraroj, 2016). When it comes FDI, it is a real investment and it is considered as a medium to long term investment. The amount that is invested in the foreign enterprise by the residents of a country is known as foreign direct investment. These foreign enterprises in which the amount is invested by the residents of a country are under the effective control of them.

After the launching of market-oriented reforms in Pakistan in 2000, the country has managed to become the part of fast-growing countries in Southeast Asia along with active participation of numerous foreign investors in the Country (Iqbal et al, 2010). Furthermore, by restructuring the domestic economy government of Pakistan immediately engaged in foreign direct investments in local and global markets. The role of FDI in burgeoning the economic growth and the development of a country is imperative. The economy of developing countries highly hinges upon the FDI. These developing countries rely on FDI to support their development activities as there is a capital shortage problem in these countries (Alam, Shamim & Siddiqui, 2018). When it comes to Pakistan, which is also a developing country, the economy of Pakistan is highly dependent on FDI, and the performances of strong growth that are experienced by Pakistan highly hinges upon FDI.

Due to the FDI in the country the capacity of production is increased, which helps to increase exports and generate more employment opportunities. Therefore, capital formation in the country is increased by FDI through which the economic growth of a country is generated (Jones & Wren, 2016). Pakistan's FDI inflows started fluctuating from the time of 1990s to 2015 (Haider *et al*, 2017). According to the study conducted by Lodhi et al (2013) highlights that in year 2007-2008 in Pakistan USD 5.15 billion was invested by foreign investors however later FDI inflow of Pakistan decreased significantly between the year 2011 till 2012. Currently, Pakistan is facing some major challenges such as energy crises, political instability, high

inflation rate and unstable economic conditions that negatively affecting the FDI inflow in Pakistan. This is the reason that the main intent of the study is to evaluate the factors that affect foreign direct investment in Pakistan.

1.2 Significance of the Study

There will be a great significance in this study for various stakeholders. For instance, this study will have great significance for different policymakers like the State Bank of Pakistan and Federal Government through the findings of this study they can get great cognizance about that what factors are affecting the inflow of FDI in Pakistan. Besides, the State Bank of Pakistan and Federal government will be able to employ the findings of the research for the purpose of guideline and reference in the formulation of monetary and fiscal policy. The factors used of the study selected as GDP, FOREX (Foreign Exchange), Interest rate and corruption provides assistance to the institutions for the policy making. Hence, the above factors are related to FDI means the findings of the study are significant for the FDI officials and decision makers. In addition, this research provides great assistance to policymakers as it provides the direction where they ought to invest in an effort to attract foreign direct investment in Pakistan. Furthermore, this research will also be beneficial for future researchers for the purpose of their future research.

1.3 Aim of the Study

The major aim of the research was to investigate and explore the factors that have effects on the FDI of Pakistan and to analyse that if Pakistan still is attractive for foreign direct investment.

1.4 Research Objectives

Following are the research objectives were formulated in the study:

- To Investigate the Impact of Interest rate on FDI.
- To examine the Impact of FOREX on FDI.
- To analyse the Impact of Corruption on FDI.
- To analyse the Impact of GDP on FDI.

1.5 Research Questions

There is the following research question of this study:

- What is the concept of FDI with respect to economic conditions?

- What is the importance of FDI in Pakistan?
- What are the factors that can have an effect on FDI in Pakistan?
- What are the recommendations regarding the factors that can have an effect on FDI in Pakistan?

1.6 Statement of Problem

As compare the other parts of the world the inflow of FDI in Pakistan is very much low. The reason that why the inflow of FDI in Pakistan is very much low is important to be ascertained. For this purpose, there is a need to evaluate all the factors that cause low inflow of FDI in Pakistan, and there is also need to determine the factors that are the most significant. There is a great importance FDI in countries like Pakistan (Haider *et al*, 2017). Amongst the most impairment are urban violence, administration and bureaucracy of government, inconsistent and unreliable economic policies this is one of the major problems in Pakistan. Moreover, the other problem is the attractiveness of FDI on the sectors related to the power, a domestic dependent sector, which results in greater cost related to the foreign exchange and remittances (Ali & Malik, 2017). To cater to these problems, one of the major factors is used in this study is FOREX (Foreign Exchange Rate). FDI is most important for every country but mainly for Pakistan, it plays a key role due to the influence of some specific factors such as fluctuation in economy and GDP (Haider et al., 2017). There are many factors which are affecting FDI in Pakistan but in literature, only a few factors are analyzed. There are certain factors such as FOREX, corruption, and interest rate are not considered on the priority. This is the gap in the literature hence, this gap is filled through this study by providing the impact of FOREX, corruption, and interest rate along with the most common factors such as GDP and economy.

As Pakistan is more open and globalised in terms of receiving foreign direct investment, the role of FDI in the growth and development of economy cannot be overlooked. The growth of the economy, poverty alleviation, labor force participation improvement, export promotion and other imperative objectives pertaining to macroeconomics can be accomplished by the help of foreign direct investment in the country.

1.7 Delimitations

In every research, there are some limitations. There were also some limitations in this study as well that the researcher had to face. These limitations in this study we have collected data of last fifteen years from 2004 to 2018:

1.8 Structure of Study

First Chapter of this particular study highlights the introduction section that includes the detail regarding the background of the research and problem that would be resolved through this study. Furthermore, in this chapter, some major objectives of the study have been included and research questions it aims to address.

The second chapter of research includes the literature review that incorporates the in-depth discussion and analysis over different factors that affects the foreign direct investment. Furthermore, it also includes the detail regarding the significance and economic impact of FDI.

The third chapter is based on research methodology that concludes the details about the methods, approaches and strategies adopted by the researcher to conduct the research and accumulate the data systematically.

The fourth chapter of the study highlights the data analysis and discussion section that incorporates the details related to different type analysis technique used by researcher to analyze the data accumulated data in order to reach the valid conclusion. This chapter includes four types of quantitative analysis techniques that are descriptive, correlation, unit root testing and cointegrating regression analysis.

The fifth chapter of study aims to conclude and summaries the overall findings and analysis of research. Furthermore, some set of recommendations has been incorporated for the government and responsible authorities of Pakistan to increase the FDI inflow in the country.