Political Determinants Influencing Foreign Direct Investment Inflow in Pakistan

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Numerous research, economic theories, and real-life examples suggest that political variables significantly impact foreign direct investment (FDI) inflow. This research proposes to assess the impact of political factors of FDI inflow in Pakistan by applying the autoregressive distributed lag model simultaneous integration (ARDL) technique from 1990 to 2017. The dependent indicator is FDI, while the regressors are government effectiveness, regulatory quality, and political stability. The empirical evidence recommends that all political variables are significant in the short run and long run as they have an immense effect on FDI inflow in Pakistan. These outcomes will help policymakers devise a strategy to ensure that economic growth and policies for such political factors help boost FDI inflows to the host economy.

Keywords: FDI, ARDL, political determinants

FDI has been extremely important in propelling the economic growth of emerging economies, often being hailed as a vital element that spurs development in underdeveloped nations (Khan, 2007**).** it not only accommodates employment opportunities by increasing the production volumes of the host country but also allows mobility of intangible assets —such as technologies, processes, products, corporate strategies, and management skills—from developed to developing nations. This transfer fosters more backwards and forwards linkages with the global economy (Ho & Rashid, 2011). Moreover, a study by (Kumar 2022) states that there is a positive significant correlation between FDI, economic growth and regional integration between the SAARC nations. FDI inflows, particularly from developed economies, usually have a favorable impact on the economic growth of developing economies by augmenting production capacity and labor productivity through technological diffusion (Borensztein et al., 1998).

In general, FDI inflows are perceived to positively influence the economic growth of the hosting nations. However, the realization of widespread benefits from FDI inflows necessitates a well-functioning political system, effective government, and high-quality regulatory frameworks. Conversely, countries under authoritarian regimes, often characterized by underdeveloped political systems and markets with minimal competition, tend to attract less technology-focused foreign investment, skewing more towards market-focused investments. Consequently, the potential benefits to the overall economy are diminished. Political instability, defined as a propensity for governmental collapse potentially due to conflicts or intense inter-party competition, can deter FDI (Alesina et al., 1996). Similarly, political risk can adversely influence the investment decisions of multinational companies (Dunning, 1993; Hailu, 2010). Factors such as forfeiture, property damage, production interruptions, threats to personal safety, and production restrictions, often stemming from frequent shifts in regulatory or macroeconomic environments, impede an investor's operational efficiency (Daniels et al., 2002). A multitude of developing countries, plagued by political insecurity and weak governance—often a byproduct of frequent governmental changes—face an increased probability of policy framework alterations. Given that foreign investors weigh political risks and instability when making investment decisions (Dunning, 1993; Moosa, 2002), they are often hesitant to invest their capital in unstable environments. Barro (1991) and Fosu (1992) have respectively concluded and corroborated that political instability is negatively correlated with economic growth, particularly noting its detrimental impact on the investment environment by diminishing current FDI inflows and decelerating economic growth.

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Kurul and Yalta (2017) contend that certain institutional aspects are more influential in attracting higher volumes of FDI. Their empirical analysis, encompassing 113 developing nations from 2002 to 2012, reveals that institutional parameters, notably those related to corruption control, government efficacy, and the presence of voice and accountability mechanisms, exert a positive impact on FDI influx. Amal, Tomio, and Raboch (2010) utilized data spanning from 1996 to 2008 to analyze the influence of macroeconomic and institutional factors on FDI in Latin America. In terms of governance indicators, they explored political stability, government effectiveness, regulatory quality, rule of law, and corruption control. While it was discovered that FDI was greatly positively impacted by political stability, government effectiveness was observed to exert a significant negative effect. Other governance attributes exhibited a less pronounced impact.
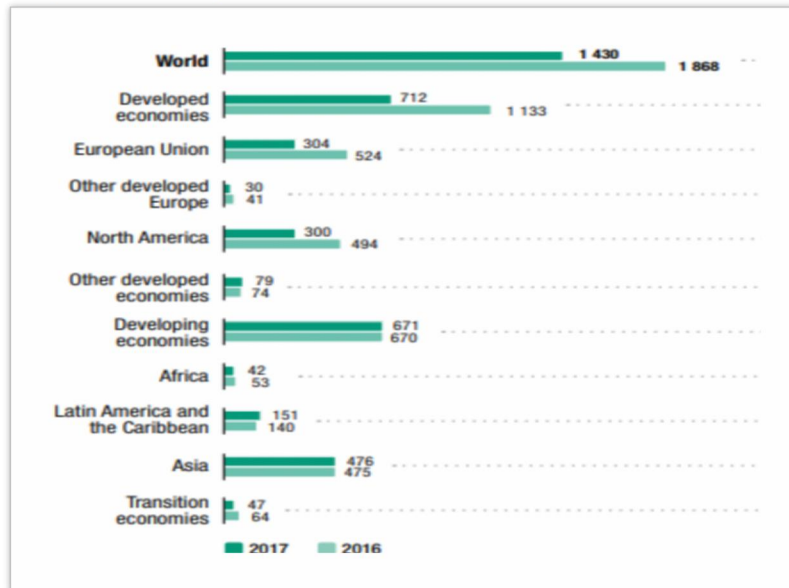
**Figure 1: FDI inflows by region, 2016-2017 (Billions of Dollars)**
Source: UNCTAD

In 2017, Global FDI flows fell 23%, falling to $1.43 trillion, compared to $1.87 trillion in 2016 (Figure 1). Contrarily, in 2017 other macroeconomic indices, such as GDP and trade, experienced significant enhancements. This dip was mostly caused by a 22% drop in the value of net cross-border mergers and acquisitions (M&As). Even after adjusting for major one-off deals and company reorganizations that buoyed FDI in 2016, the drop in 2017 remained notable. In addition, the value of announced greenfield investment dropped by 14% to US$720 billion, which is regarded as a significant predictor of future trends (World Investment Report, 2017). In same year, global FDI inflows reached to $1.43 trillion, with developed countries, Asia, and Pakistan receiving $712 billion, $476 billion, and $2.496 billion, respectively (Figure 1).

Despite the fact that FDI's contributing components have been extensively studied in literature, the causal relationships among FDI and growth, and the effect of each deciding variable on FDI inflows, it is undeniable that these issues have inspired numerous publications. Consequently, we do not purport that our research will offer a comprehensive literature review. Instead, this research aims to conduct a selective review of literature focusing on the influence of political variables—including political instability, government effectiveness, and regulatory quality—on FDI inflow to Pakistan from 1990 to 2017. The aim of this research study is to analyze the effects of political factors, thereby contributing to an advancement in understanding the dynamic relationship between FDI and the political system.

Related literature

FDI entails a form of transnational investment where companies from one country are controlled by investors from another, exerting significant influence in the latter over the long term. FDI and financial development contributes majorly in the economic advancement of emerging economies. (Kumar et al., 2022). Moreover, FDI in South Asian countries as line graph illustrates (Figure 2) from 1990 to 2017. Over this period, India consistently attracted the highest levels of FDI, showing a significant upward trend, particularly from the mid-2000s onwards.

Pakistan and Bangladesh also experienced gradual increases in FDI, yet significantly less than in India. Sri Lanka and Nepal followed similar trends with moderate growth. Bhutan, Maldives, and Afghanistan attracted relatively minimal FDI throughout the years, with only slight increases observed. This graph highlights the varying degrees of investment attractiveness among South Asian nations over nearly three decades.
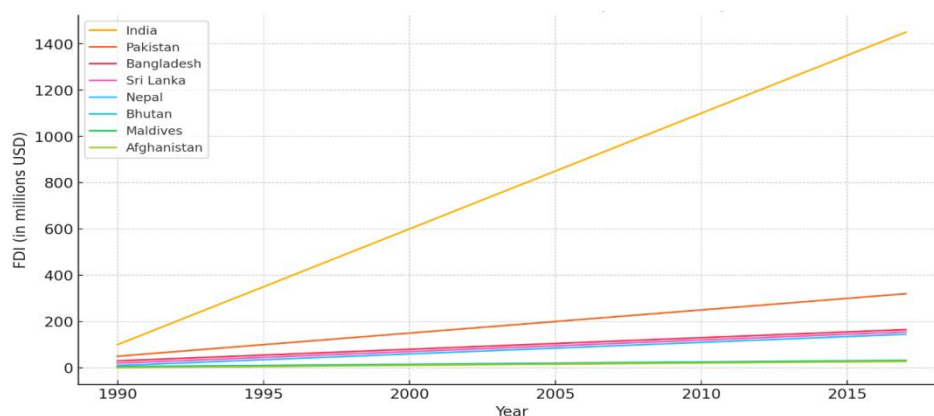
Figure 2: FDI inflows in South Asian countries from 1990 to 2017 (Billions of Dollars)

Key elements influencing investment decisions in a place include political stability and risk attached with it (Dunning, 1993; Moosa, 2002). Production limits that impair a business's efficacy or efficiency, as well as government measures that result in property damage, employee injury, or forced asset acquisition, provide challenges (Daniel et al., 2002). To draw in FDI and give investors' confidence, political stability is essential. Political instability can put lives in danger and jeopardize even the most profitable enterprises, a fact that is highlighted by several cases around the world when ignoring this element has come at a heavy cost (Jegathesan, 1995).

Political stability is an index comprise of corruption, law and order, bureaucracy quality, democratic accountability, and government stability. Pakistan's political instability, notably between 1988 and 1996, characterized by frequent government changes and stark policy and plan variations, has historically discouraged foreign investment. Numerous studies, including those by Harms and Ursprung (2002), Jensen (2003), Jakobsen and de Soysa (2006), and Busse and Hefeker (2007), indicate that politically developed nations with robust institutions tend to attract more FDI flows. Busse (2004) demonstrates that this correspondence was more pronounced in the 1990s compared to the 1970s and 1980s, making the beneficial link among democracy and FDI flows more evident. Conversely, Moon (2015) explores the time frame of dictatorships and domestic institutional commitment, identifying scenarios that elucidate variations in dictatorships' ability to attract FDI. Utilizing an Error Correction Model (ECM) across all authoritarian countries from 1970 to 2008, he found that nations with better property rights protection under autocratic regimes attracted more substantial FDI inflows. Consequently, Moon argued that the government type is less significant to foreign investors than the specific institutional qualities of the host country.

Kaufman, Kraay, and Zoido-Lobaton (2007) consolidated a repository of numerous transnational governance factors into six primary variables: Voice and Accountability (VACR), Political Stability and Violence (PSR), Government Performance (GER), Quality of Governance (RQE), Rule of Law (RLR), and Control of Corruption (CC). Studies by Kim and Trumbore (2010) Asiedu (2011), indicate a robust long-term relationship between corporate governance measures and FDI. While results may not always establish a significant correlation between governance variables and FDI, most studies confirm the importance of this relationship, suggesting that governance improvement can foster foreign capital and create optimal conditions for the flourishing of multinational companies.

Studies have indicated that the effectiveness of institutions in safeguarding market participants' interests plays a pivotal role in drawing foreign investments, as noted by (Masharu & Nasir,2018). This influx of foreign capital is identified as a major factor in the while undergoing economic development, a sentiment echoed by (Acemoglu et al., 2002; Williamson and Kerekes 2011). A study examines the institutional and political aspects of FDI in the economies of Brazil, Russia, India, China, and South Africa (BRICS) between 2000 and 2010. It emphasizes the favorable correlation between FDI flows in the BRICS nations and regulatory quality and government effectiveness. Government efficacy is determined by the standard of public services, the expertise of civil servants, the level of political pressure independence, the quality of policy formulation and execution, and the legitimacy of the

government's adherence to its policies. Comparably, the capacity of the government to create and carry out the appropriate laws and policies to support and enable the growth of the private sector is referred to as regulatory quality (Jadhav & Katti, 2012).

Research indicates that the quality of the institutional and regulatory quality can diminish business operation costs and enhance corporate profitability, which in turn affects foreign investment attraction. This correlation is evidenced in the works of (Corcoran & Gillanders 2015; Jandhyala 2015: Sabir et al., 2019; Trevino et al., 2008).

Assessing Pakistan's Economic Position: FDI Contributions and Political Dynamics

Pakistan's economic structure is intricately woven with both local and global elements, making it a distinct entity in the worldwide economic arena. The inflow of FDI into Pakistan has been inconsistent, swayed by the nation's geopolitical positioning and the internal political climate. Major contributors to Pakistan's FDI are nations such as China, primarily due to projects like the China-Pakistan Economic Corridor (CPEC), alongside the USA and EU countries. Predominantly, these investments target sectors like energy, telecommunications, and infrastructure (State Bank of Pakistan, 2021). Over time, the pattern of FDI in Pakistan has ebbed and flowed, mirroring regional upheavals and spells of economic openness.

Politically, Pakistan has experienced various forms of governance, ranging from military to democratic regimes. This evolution has shaped both local and international perceptions of the nation's stability. Despite recent endeavors to solidify its political framework, issues of transparency and governance persist (Transparency International, 2022). The prevailing political instability in Pakistan has been identified as a significant factor contributing to policy and decision-making ambiguities. This situation necessitates a thorough investigation into viable approaches that can bolster economic stability and foster growth in the region, as highlighted in the works of Mengyun et al., (2018) Irshad (2017). Hayat (2019) conducted a research study of Pakistan's economic trajectory from 1951 to 2014, juxtaposing periods of democracy with those of dictatorship. The study's conclusions posited a superior economic outcome under dictatorial regimes compared to democratic ones. Concurrently, Qadeer and Jehan (2021) pursued a similar inquiry, assessing the influence of political systems on Pakistan's economic growth. Their research reinforced the notion that autocratic governments yielded more favorable results in the concept of economic growth, inflation control, and debt management.

Similarly, Anwar et al., (2020) did a thorough study on the impact of key macroeconomic variables on Pakistan's economic growth during democratic and authoritarian regime. The argument centered on the positive long-term influence of variables such as remittances, exchange rates, and exports on economic growth. Interestingly, their findings suggested that the economic achievements in nondemocratic eras did not surpass those observed under democratic governance in Pakistan. On the global stage, Pakistan's diplomatic ties are influenced by its crucial geographical location, managing relationships with major powers such as the U.S. and China, and navigating its intricate ties with India. The country's transparency level remains a point of ongoing debate, with prevalent concerns about corruption and administrative inefficiency affecting both its domestic and international economic interactions (World Bank, 2022). Collectively, these aspects delineate Pakistan's economic outlook, unveiling a mix of potential opportunities and challenges within the sphere of global economics.

Method

Data Description and Sources

The empirical study analyzes the impact of political variables on FDI inflow in Pakistan from 1990 to 2017. The dependent indicator in the model is FDI/GDP, and the independent indicators are a log of Government effectiveness, a log of Political Stability, and a log of Regulatory Quality. The data was gathered from the World Bank's World Governance Indicators Database.

Table 1
Variable Description and Data Source

Variables	Meaning	Data Source
FDI	Foreign direct investment, net inflows/GDP	World Bank's World Development Indicators
GE	Government Effectiveness: rank	Worldwide Governance Indicators
RQ	Regulatory Quality: rank	Worldwide Governance Indicators

PS	Political Stability and Absence of Violence/Terrorism: Number of Sources	Worldwide Governance Indicators

The model applied in this research to estimate the effect of political determinants on FDI inflow in Pakistan gives the following quotation:

$$FDI_t = \beta_0 + \beta_1 LGE_t + \beta_2 LRQ_t + \beta_3 LPS_t + \varepsilon_t$$

Model Specification
T = Time period.
LN: denotes the logarithm.
B0, β1, β2, β3: coefficients, β0: A constant value representing FDI unrelated to independent variables.
FDI: Foreign direct investment, net inflows in GDP at time t.
LGE: the log of Government effectiveness at time t;
LRQ: the log of Regulatory quality at time t.
LPS: the log of Political Stability and Absence of Violence/Terrorism at time t:
εt: random variable of the estimated regression.

Random variables represent the effect of other variables and measurement errors not included in the model.

Political stability (PS)
Political stability is attributed to the public's perception of the government's potential to be rocked or toppled by violent or unconstitutional means (such as politically motivated violence and terrorism). Or stable political systems preventing significant changes in political governments over extended period of time. It was taken by the Number of Sources of Political Stability and Absence of Violence/Terrorism.

Regulatory Quality (RQ)
It describes a government's ability to develop and enforce sound rules and laws. This facilitates and fosters the growth of the private sector. This is reflected in the rating scores for quality of supervision.

Government effectiveness (GE)
The initial impression of the quality of government service is referred to as Government Effectiveness. The level of self-reliance from political pressure and the quality of government personnel, the government's ability to keep its word to specific programs, and the quality of policy formulation and implementation. Government effectiveness rank has been taken.

Model Specification
Unit Root Tests
Every indicator must wait a certain amount of time (known as the lagged gap) for its enactment to show up in the dependent element, influenced by cognitive, political, technological, and constitutional aspects. For instance, when raising investment, there ought to be a time limit before the consequences of the boost can be seen in a hike in GDP.

The content of the single root is related to the instability of the time series for a variable, so tests for a single root are essential to evaluate the cohesion of the time series data for the examined indicators and the extent to which they are linked. Even though there are various tests for a single root, we will focus on the accuracy and prevalence of the following two tests.

Augmented Dickey–Fuller test (ADF)
$$\Delta Y_t = a_0 + a_1 t + a_2 Y_{t-1} + \sum_{j=1}^{p} a_j \Delta Y_{t-j} + \varepsilon_t$$

where:
t: the year, j: the time-lapse, p: the number of lagging gaps, Yt: the variable to be tested's year t value, aj, a2, a1, and a0 are model parameters that have been estimated. t: the random error variable's value per year t.
Depending on the model, series duration, and significance level, we distinguish the computed value τ of the parameter (a2) to the tabular value.

Phillips and Perron (PP) test
The Phillips-Perron test is more generic than the ADF test because it assumes the time series is created by the autoregressive integrated moving average (ARIMA) process and uses the nonparametric correction technique to deal with sequential correlation.

$$\Delta Y_t = a_0 + a_1 t + a_2 Y_{t-1} + \varepsilon_t$$

The Phillips-Perron test is carried out the same way as the prior ADF exam. Many statisticians think that the PP test is superior to the ADF test by means of accuracy and precision, mainly if the sample size is modest. When the findings of the two tests disagree or are inconsistent, it is preferable to rely on the ADF test results. We move on to the following step, which involves determining the extent of a long-term link among the time series of variables and their joint integration.

ARDL Cointegration Test

The Autoregressive Distributed Lag (ARDL) technique distinguishes itself from conventional integration testing methods, offering several advantages. Firstly, it can be applied to variables irrespective of whether they are integrated of order zero (I(0)) or order one (I(1)), utilizing either levels or a combination of levels. Secondly, unlike most traditional integration methods that necessitate large samples, ARDL provides robust results even when the series of integration of all research variables is not the same and the number of observations is relatively modest. Thirdly, it facilitates the evaluation of both long-term and short-term components within a single equation, rather than requiring two separate equations. The ARDL approach is implemented in three steps as a working method: In the first phase, an integration test is performed in the Unrestricted Error Correction Model (UECM) using the formula below:

Assume that Y (dependent variable) and X (independent variable) have a connection.

$$\Delta Y_t = a_0 + \sum_{i=1}^m \beta_i \Delta Y_{t-i} + \sum_{i=0}^n \theta_i \Delta X_{\tau-i} + \lambda_1 Y_{t-1} + \lambda_2 X_{t-1} + \eta_t$$

The long-run coefficient connections are represented by λ_1, λ_2, whereas the short-run connection data is represented by β and θ. The symbol Δ represents the initial discrepancies between factors, whereas m and n denote the lags of the elements. It's worth mentioning that the number of lag periods for the parameters does not have to be the same as the number ($m \neq n$), η the random error limit has a constant variance and an arithmetic mean of zero, and there are no self-continuous relationships among them. The boundary-by-procedure test determines whether the two factors have a long-term connection. Pesaran et al., (2001) utilize the F test (Wald test) to determine the long-term equilibrium connection between factors and to test the hypothesis of non-complementary of the factors against the presence of co-integration.

The second step, in the event of co integration between variables, is to estimate the long-term equation using the formula below:

$$Y_t = a_0 + \sum_{i=1}^p \partial_i Y_{t-1} + \sum_{i=0}^q \delta_i X_{t-i} + \varepsilon_t$$

Where ϑ, δ, denote the coefficients of the variables, p and q represent the slowdown duration, and ε marks the random error limit.

Before the OLS technique checks the stated model for serial or autocorrelation in random errors, the disclosure rule in the ARDL model is determined using the Akaike standard (AIC) or the Schwarz Bayesian criteria (SBC). According to Ghorbani and Motallebi, (2009), the maximum annual data should be two slow periods. The ARDL specifications for short-term dynamics can be acquired in the third step by constructing the error correction model (ECM):

$$\Delta Y_t = c + \sum_{i=1}^p \vartheta_i \Delta Y_{t-i} + \sum_{i=0}^q \delta_i \Delta X_{t-i} + \psi Y ECT_{t-1} + U_t$$

The error correction limit is ECT_{t-1}, and the coefficients of the short-term equations are those connected to the model-steady-state convergence's short-term kinematics. However, ψ denotes the error correction factor assessed at modulation velocity at the disequilibrium imbalance will be corrected in favor of long-term balance.

Finally, we would like to point out that we will be using the E-Views 10 statistics tool to compile all tests.

Results

Table 2

Descriptive Statistics and Correlation

Panel A: Descriptive Statistics

Variable	FDI	LGE	LPS	LRQ
Mean	1.211053	3.431782	1.820504	3.272321
Median	0.832159	3.410237	1.94591	3.327927
Maximum	3.668323	3.721505	2.079442	3.535545
Minimum	0.375528	3.10346	1.386294	2.875483
Std. Dev.	0.979525	0.218166	0.284408	0.1692
Skewness	1.55374	-0.02506	-0.67456	-0.7822
Kurtosis	4.043451	1.49176	1.79871	2.84107

Panel B : Correlation Matrix

Variable	FDI	LGE	LPS	LRQ
FDI	1			
LGE	0.27245	1		
LPS	0.197587	-0.60884	1	
LRQ	0.51955	-0.33727	0.578147	1

The data series for the study encompasses the years from 1990 to 2017. Descriptive statistics for the annual dataset utilized in the investigation are presented in the table above. The skewness and kurtosis statistics are crucial as they are utilized to calculate the Jarque-Bera statistic, which is employed to test for a series' normality or asymptotic characteristic. The mean and median values are found to be nearly identical, indicating that the data is symmetrically distributed. The Jarque-Bera statistics significantly accept all variables, revealing that their conditional distributions are normal.

The aforementioned table illustrates the associations among all the studied variables and the degree of positive correlation, both high and low. An increase in regulatory quality is associated with a rise in FDI, exhibiting a correlation of (0.27). Similarly, an enhancement in government effectiveness is correlated with an increase in FDI, with a correlation degree of (0.27). However, these associations might not be fully elucidated and characterized due to operational correlations potentially being influenced by coordination and differences due to a number of innate elements amongst them, which may not provide sufficient evidence of the causal relationship. Consequently, an examination will be conducted using various test methods to determine whether these correlations are valid or not.

Unit Root Test

We assessed the stability of the study indicators to determine the operational status of the autoregressive distributed lag (ARDL) test, which requires time series of the study variables to have an integration level of I(0) or I(1) or both numerous tests are available in this domain. The statistic illustrates the stability of the time series to determine and assess their level of integration, and the table below delineates the level of integration of the considered time series. Both the Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) tests were employed to assess the statics of the variables. Table 3 presents the results of these two tests.

Table 3

Unit Root Test Results

Variable	Level		First difference	
	Constant	Constant with Trend	Constant	Constant with Trend
	ADF TEST			
FDI	-2.264	-2.2094	-2.9142**	-2.6615
	(0.1929)	(0.4568)	(0.049)	(0.2611)
LGE	-1.3894	-1.3684	-3.454**	-3.3579*
	0.5653	(0.8368)	(0.0225)	(0.0889)
LPS	-1.2857	-0.9348	-3.4641**	-5.3095***
	(0.6138)	(0.93)	(0.022)	(0.0039)
LRQ	-2.0072	-2.7352	-4.1896***	-4.2189**
	(0.2814)	(0.2349)	(0.0051)	(0.0204)
	P-P TEST			
FDI	-1.747	-1.627	-2.7142*	-2.6615
	(0.3933)	(0.7429)	(0.091)	(0.2611)
LGE	-1.3894	-1.3684	-3.4261**	-3.3283*
	(0.5653)	(0.8368)	(0.0237)	(0.0934)

LPS	-1.2857 (0.6138)	-1.0896 (0.9041)	-3.4602** (0.0222)	-3.6336* (0.0553)
LRQ	-2.1099 (0.2431)	-2.7981 (0.2144)	-6.4854*** (0.0001)	-5.7859*** (0.0011)

Notes: (*) Significant at the 10%; (**) significant at the 5%; (***) significant at the 1%., and (no) not significant.

The outcomes of the unit root stability test—which includes variations with a constant, with a constant and trend, and without a constant and trend—highlight that all the time series are unstable, and the probability values of these tests are high. Other models exceed the significance threshold of 0.05 or 0.1. The remaining time series shows Stability of the first difference across models. especially According to the results of the first differential stability test, FDI is significant at the 5% level and government effectiveness (GE) is significant at the 0.1 level, and their mutual probabilities are below the significance threshold (0.05 or 0.1). The coherence of the time series, in terms of both level and first-order difference as displayed in Table 4, suggests the possibility of cointegration among these time series.

Table 4
Bounds Test Results (ARDL)

Model	F-statistic	No. of Regressors (K)
f(LogGE,PS,RQ)	17.19416	3
	Critical Value Bounds	
Significance	I(0) Bound	I(1) Bound
10%	2.72	3.77
5%	3.23	4.35
2.5%	3.69	4.89
1%	4.29	5.61

The bound test outcomes are shown in the table that indicates that f statistic value of the 17.19416 bound that is above the upper limit at the 10%, 5%, 2.5%, and 1% level of significance. However, the f-statistic value is higher than the lower threshold of 10%, 5%, 2.5%, and 1% significance level. By keeping this into consideration, We can conclude that the factors under study have a long-term link.

Table 5
Long Run and Short Run Results

Long-Run: Dependent Variable FDI				
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**p-value**
LLGE	2.013835	0.332006	6.065659	0.0037
LPS	-1.454789	0.239592	-6.07196	0.0037
LRQ	4.392167	0.5089	8.630703	0.001
C	-17.289395	2.405007	-7.18892	0.002
Short-Run: Dependent Variable LFDI				
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**p-value**
FDI 1(-1)	-0.821716	0.232452	-3.534995	0.0241
LRQ	3.64729	0.748025	4.875892	0.0082
LRQ(-1)	6.298396	0.79387	7.93379	0.0014
LRQ(-2)	-0.844048	0.525275	-1.60687	0.1834
LRQ(-3)	-1.100356	0.591092	-1.861563	0.1362
LPS	-6.530754	0.783492	-8.335441	0.0011
LPS(-1)	5.483953	1.025406	5.348081	0.0059
LPS(-2)	3.063736	1.408613	2.175002	0.0953
LPS(-3)	-4.667148	0.873714	-5.341735	0.0059
LGE	-3.00755	0.743162	-4.046966	0.0155
LGE(-1)	3.649942	0.72148	5.058963	0.0072
LGE(-2)	3.026244	0.820174	3.689759	0.021
C	-31.49637	6.365003	-4.948367	0.0078

R^2=0.99; Adjusted R^2=0.98; S.E of Regression=0.133; SSR= 0.070
F-stat= 80.05056; Prob(F-stat)=0.000356; DW=2.08236

Table 5 unveils the long-run and short-run association between the factors, as indicated by the probability associated with the t-statistics. The most of the coefficients were significantly different from zero at the 0.01 mean in

the long run. The regulatory quality coefficient (4.39) shows that regulatory quality has a strong, favorable association with FDI in Pakistan in the long run. This means that for every additional unit of regulatory quality, FDI in Pakistan will similarly increase by 4.39%. The coefficient of the present value of regulatory quality is 3.64, which has a remarkable and beneficial effect on FDI in Pakistan in the short run. Each unit increases regulatory quality, increasing FDI by 3.64%. Comparable results were found by Buckley and Casson (1985) Aziz (2018). Consequently, regulatory quality can be affirmed as a potent variable in attracting FDI inflows to Pakistan.

Conversely, an increase in government effectiveness by one unit leads to an increase in FDI by 2.01 in the long run. However, Government effectiveness shows a negative and major association with a -3.00 coefficient in the short run. This suggests that FDI inflow into the country will decrease with every unit increase in government effectiveness. Furthermore, the long-run coefficient of political stability, which stands at -1.45 percent, suggests a negative and significant association, suggesting that a rise in political stability would result in a fall in FDI inflow into the nation. Furthermore, with a -6.530 coefficient and significant p-values, political stability shows an adverse and significant link in the short run. This runs counter to earlier studies (Aharoni, 1966; Jensen, 2003) that emphasize the importance of political stability for FDI inflow. Schneider and Frey (1985), studying 80 developing nations, discovered that political instability in a nation resulted in a substantial decline in foreign capital inflows. The results indicate that cointegration exists between the variables for FDI and government effectiveness, political stability, and regulatory quality as the interpreted variables. The empirical findings reveal that political stability and government effectiveness are crucial drivers of FDI inflows, with consistent models. The empirical evidences indicate that in BRICS nations there are two factors, namely Government Effectiveness and Regulatory Quality, that are positively associated to FDI inflow (Pravin, 2012).

Based on the ARDL regression model, various results were also robust, including R^2, Adjusted R^2, F-statistic, and p-value. The R^2 of 0.995 suggests that the independent variables possess strong explanatory power, a notion also supported by the model's adjusted R^2 value. The F-statistic, which evaluates the overall significance of the model, indicates that all regression models are statistically significant, as evidenced by the F-statistic (80.05056) and p-value (0.000356).

Discussion and Conclusion

This research tries to elucidate the short and long-term effects of political factors on FDI inflows into Pakistan's economy between 1990 and 2017. To understand short- and long-term elasticities, the Unrestricted Error Correction approach was used, applying Pesaran et al. (2001) bounds testing technique to cointegration. Additionally, Pesaran and Shin's (1995) ARDL method was applied. The empirical evidence suggests that Pakistan's potential for FDI inflows is influenced by the LRQ, LGE, and LPS variables. Acemoglu and Simon (2005), Kaufmann and Aart (2002), Yassin, et al., (2020), Rodrik and Subramanian (2004) state that a host country's government effectiveness and regulatory quality tend to draw in more FDI. The correlation matrix revealed a robust link between LFDI and regulatory quality, government effectiveness, and political stability.The numerical research suggests that enhancements to these criteria could facilitate the attraction of FDI flows, thereby aiding the country's economic prosperity. Pakistan's challenge lies in sustaining economic progress while amplifying the flow of FDI. To lure more FDI, the Pakistani government must also optimize its economy. Policymakers must formulate a strategy to ensure that economic growth and policies for such political factors support and amplify FDI inflows to Pakistan. However, this research is not without limitations. Only three variables were investigated, all of which are deemed significant. Future studies could incorporate more variables to provide a comprehensive view of the issue. In conclusion, it is sincerely hoped that this research will serve to highlight the critical necessity for additional research on this pivotal topic.

Policy Implication: The study elucidated that all components, namely LRQ, LGE, and LPS, has a major pivotal role in attracting FDI, and comprehending these facets can empower policymakers to make more informed decisions to enhance the performance of the domestic economy. Furthermore, a conducive political environment, robust corporate governance, efficacious economic policies, and solid infrastructural measures can assist in bolstering business-facilitating dimensions, such as treaties and investment promotion organizations, to optimize the benefits derived from FDI. By meticulously understanding and strategically implementing policies that enhance these critical components, policymakers can create an environment that not only attracts FDI but also ensures that the domestic economy is positioned to reap the maximum benefits from such investments, thereby fostering sustained economic growth and development. This comprehensive approach, which blankets political stability, regulatory quality, and government effectiveness, provides a comprehensive framework for enhancing the appeal of the domestic economy to foreign investors while simultaneously ensuring that the resultant investments are channeled in a manner that substantively contributes to economic advancement.

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