

1 Impact of Foreign Direct Investment on Gross Domestic Product

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Abstract

7 This paper investigates the impact of foreign direct investment on Growth (GDP) of SAARC
8 countries. This relationship is tested by applying multiple regression models. The change in
9 GDP is taken as dependent viable while FDI and inflation are considered as independent
10 variables. The data used for this is ranging from year 2001 to 2010 of SAARC Countries. The
11 result shows that the overall model is significant. There is a positive and significant
12 relationship between GDP and FDI while an insignificant relationship between GDP and
13 inflation.

14

15 *Index terms*— GDP, FDI, CPI, SAARC .

16 **1 INTRODUCTION**

17 DI refers to net inflows of investment in an economy of a country. It is the sum of equity capital, reinvestment
18 of earnings, long term and short term capital. It usually involves participation in management, joint ventures,
19 transfer of technology and experience. GDP refers to the market value of all final goods and services produced
20 within a country in a given period. It is often considered an indicator of growth and standard of living for a
21 country. Inflation when the price of most goods and services continues to rise upward. It is measured by the
22 consumer price index (CPI). SAARC the South Asian Association for regional cooperation is an organization
23 of south Asian nations. It was founded in December 1985 and dedicated to economic, technological, social
24 and cultural development by emphasizing collective self reliance. Pakistan, India, Bangladesh, Nepal, Bhutan,
25 Maldives and Sri Lanka are its founding members. Afghanistan joined the SAARC in 2005. Its head quarter
26 is in Kathmandu, Nepal. The SAARC region is the home of fifth humanity with vast natural and human
27 resources. It has the potential of becoming a vibrant region in the world by its resources like manpower,
28 technological, agricultural and mineral assets further it has an attractiveness for tourism and historical art
29 and cultural civilization.

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33 The University of Lahore. ??2000) founded that the increase in FDI inflows in South Asia were associated with
34 a many-fold increase in the investment by national investors, suggesting that there exist linkage effects between
35 FDI and GDP the impact of FDI on GDO growth is found to be negative prior to 1980, mildly positive for early
36 eighties and strongly positive over the late eighties and nineties.

37 **2 LITERATURE REVIEW**

38 Jyun-Yi, Wu and Hsu Chin-Chiang (2008) they examine whether the FDI promote the economic growth by using
39 threshold regression analysis. The empirical analysis shows that FDI alone play an ambiguous role in contributing
40 to economic growth based on a sample of 62 countries covering the period from 1975 to 2000 and find that initial
41 GDP and human capital are important factor in explaining FDI. FDI is found to have a positive and significant
42 impact on growth when host countries have better level of initial GDP and human capital. Laura Alfaro at el
43 (2003) they examine the various links among FDI and GDP growth. They explore whether countries with better

44 financial systems can exploit FDI more efficiently. Using empirical analysis using cross-country data between
45 1975 and 1995 shows that FDI alone (2010) they founded that in SAARC FDI from outside is more important
46 than in intra regional investments in most the countries (the only exception is Nepal) where Indian investments
47 dominated. The concept of some region can be applicable to increase intra regional FDI. The FDI has a significant
48 impact on GDP of SAARC countries. Muhammad Zahid Awan et al (2010) they found that FDI in Pakistan
49 is considered as a vital source of external capital flows to meet saving-investment gap and exportimport gap as
50 well. They examine the overall impact of FDI inflows into the economy of Pakistan by using annual time series
51 data for the period of 1971 to 2008. They concluded that debt servicing and GDP found statistically insignificant
52 and it seems that these variables have no significant impact on FDI inflows into Pakistan. FDI plays
53 ? plays

3 III.

4 DATA AND METHODOLOGY

56 The aim of this research is to examine the impact of FDI ON GDP In SAARC. This paper also examined the
57 trend of foreign Direct Investment inflows with respect to GDP growth and inflation of SAARC. For this we
58 collect the Data of FDI, Inflation and GDP from the SAARC countries for the period from 2001 to 2010.

5 HYPOTHESIS AND PURPOSE OF THE RESEARCH

60 In this research we want to know that the growth of the SAARC country depends on FDI and inflation or not
61 so we develop following hypothesis.

6 GDP depends upon FDI and inflation

63 Assumption: Intercept and slope coefficient are constant over time over country .

64 V. In table we have regression statistics of our proposed model. The results suggests that the overall model is
65 significant at level of significance because its p value is 0.00 Further, the R-square of this model is at a higher node
66 i.e., 0.800, which suggest that the only 20.% variation in this model is unexplained while the remaining variation
67 of this model is explained by FDI and CPI. Moreover the CPI has a positive impact on GDP but insignificant
68 so we ignore CPI and make analysis between GDP and FDI. While making country wise analysis we find that
69 overall impact of FDI on GDP growth positive and significant but only Maldives shows inverse impact of FDI on
70 its GDP because of negative FDI Figure in some years also the p value of Nepal above the significant level but
71 the model is positive in respect to the GDP to FDI.

7 RESULTS GDP VS FDI AND CPI

8 GDP

9 GDP

75 India is a large economy having strong industrial and agricultural development which makes India at the top of
76 the SAARC countries in respect with GDP and growth. Pakistan is at 2 nd position in SAARC with respect to
77 GDP then Bangladesh, Sri Lanka, Nepal, Maldives and Bhutan respectively at the GDP Chart in SAARC.

78 FDI in SAARC countries increased heavily from the years 2000 and above as the growing infrastructure and
79 investment opportunities in the whole region especially in Indian emerging markets and attractive investment
80 opportunities force external investors to invest in Indian economy secondly Pakistan also have a good attraction
81 and positive investment facilities for foreign investors. After that Bangladesh and Sri Lanka also have a positive
82 attraction for foreign investments. This increasing trend continue till 2007 and 2008 but as the world economic
83 conditions and slump in American and European Markets the investment inflow decrease in all over the world
84 which also effect the SAARC so the top countries like India and Pakistan also show a huge decline in FDI from
85 2007 to 2010.

10 VI.

11 CONCLUSION

88 Growth of any country depends upon investments, increasing assets and infrastructure. Foreign Direct investment
89 in an economy shows that there is a good trend of investment which ultimately results in increasing the GDP
90 and growth of the country as we have found in our research that increasing trend of FDI also increases the GDP
91 of the

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Figure 1:

Nuzhat Falki (2009) examined the Impact of FDI on Economic Growth of Pakistan. She collected the data of FDI from the Handbook of Pakistan Economy-2005 published by the State of Pakistan and the World Bank Development indicators-2008 from 1980 to 2006 with variables of domestic capital, foreign owned capital and labor force. With the help of endogenous growth theory and applying the regression analysis she concluded that FDI has negative statically insignificant relationship between GDP and FDI inflows in Pakistan. Anokye M. Adam & George Tweneboah (2009) examined the Foreign Direct Investment and Stock Market Development in Ghana's they collected the data of market capitalization as a proportion of GDP, Ghana cedi-

Figure 2:

Figure 3:

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