# CHAPTER 1

## Introduction:

Over the past era, foreign direct investment has considered as compulsory channel for economic growth, particularly between developing countries. The status of Foreign Direct Investment (FDI) can be estimated with the channel of transferring new techniques and skills in the process of production, enhancing competition among foreign as well as local processes, imports, exports, and economic growth rate (Hermes & Lensink 2003).

Foreign direct investment has become most indispensable external resource as a source of flow for the developing countries in the passage of time and also a crucial part and partial of capital information in such countries. The role of FDI has been recognised as a growth augmenting aspect for the developing economies (Khan 2007).

The result of FDI in the domestic economy are expect to be expand exports, grow up the economy through technology transfer, create employment opportunities. There are some benefits of FDI as it provides a way which we exploit and better use of raw material locally presents modern ways of management as well as marketing. Foreign inflows are utilized for financing deficit in current accounts. Another advantage of FDI is it doesn't generate repayment of principal and interest (Falki, 2009).

Over the past years these countries, Asia, Africa and Latin America have implemented board-ranging reforms economically, like foreign trade liberalization, investment in domestic markets as well as privatization of public companies. It has had an outcome on the stream of foreign investment cash flows (Tambunan, 2005).

The share of amount of developing countries in world FDI inflow and outflows has significantly increased from 17.4 per cent in 1985-1990 to 26.1 per cent during 1995-2000. For Pakistan, this investment has increased from $245 million to $4,273 million in 1990 to 2006 (Falki, 2009).

Long run economic growth is correlated with welfare with the amount of financial development. Therefor the importance of financial development is more pronounced in past few years. Magnitude, profundity, access, competence and permanence of financial system are gauges to assess financial development. A robust financial system gives guarantee for the

accumulation of high capital, trading, hedging and insurance services etc which facilitates FDI and technology innovation. The strong financial development points to reduction of poverty, high return on investment, income inequality, promotion of good governance, economic growth and welfare (Raza, shahzadi, & Akram, 2014).

The financial system enriches the resource allocation in an efficient manner. The process of technological diffusion associated with FDI can be improved with the help of more developed system (Hermes & Lensink, 2003).

The significance of financial system cannot be ignored as improved system is a prerequisite for fast economic growth and welfare. At one hand, the improved financial sector intensifies the accessibility of financial services, inflow of capital and strong credit allocation in economy. In contrast to it, it helps to advance growth rate of GDP. The credit provided to this sector can be reserved as presence of financial development (Raza et al., 2014)

The credit to private sector can be taken as presence of financial development. However, human development is the ultimate objective of financial development but in recent years the debate about economic development has taken new turn. Usually country development performance measured by GNP (Gross national product). Even though recognizing this as unit measure of economic development, some economists strongly argue that it doesn't distort the level of development (Levine, 1997).

On the other hand, various social and physical conditions depend on country's level of development like the availability of health care, proper living and access to modern medical information are the various conditions to check development in country (Sen, 1998).

Studies of human welfare encompassing the factors such as literacy, life expectancy and GDP using United Nations Human Development Index (HUMDEVI)  (Croos, F. B, 1992).

Human welfare rate has been gradually enlightening since 1990 for twenty-nine selected south Asian countries. When the income inequality is augmented, then financial sector as well as human welfare automatically increases in SSA and vice versa (Paul, 2011).

 Now a day there is many problems in Pakistan that's why the economic strength and growth rate are weakened. Main reasons of the problems are political instability, bombing attempts, insufficient interest of political leader's, low production and load sheading these factors influencing the export of Pakistan. The main problem of economic growth effected by low export rate in Pakistan. On the other hand, imports rate has increased due to low production.

The rates of imported goods are relatively higher than local produced goods. Ahmed & Khalil (2014).

In host country, if there is an appropriate carrying capacity of the advanced technology then foreign direct investment (FDI) provides economic growth and it plays a crucial role in the method of economic development is a technology distribution. Contrary to the traditional framework of growth, where technology change was set as an inexplicable residual, the previous literature emphasized that dependence of the growth rate on domestic technology comparatively to the rest of the world. By the catch-up process in the technology level, growth rate in developing countries is explained. In backward countries, the economic growth rate is subject to the adoption method and implementation of novel technology which is used in developed countries (De Gregorio, & Lee, 1998).

The income circulation can affect an economy's capability to adapt to external shocks when the ability to gain credit depends on income. Basically, when income plays a role in contact to credit, the income circulation contains information of individuals who are credit reserved and cannot smoothly utilized. If credit circulation increased abundantly then the lower class is leave out from credit market and not be able to smooth consumption, greater discrimination is related with more difference in consumption and productivity. In distinction if credit is inadequate that both lower and middle classes are credit controlled, a more unequal distribution of income resulted in smoother consumption and GDP (Lyigun et al., 2004).

In developing countries there is significant suggestions among foreign direct investment (FDI) and economic growth relationship. foreign direct investment (FDI) is likely to increase host economic progress, its shown that the level which FDI is growth attractive factor to depend on country appearances. Mostly, foreign direct investment (FDI) considered to promote economic growth when host countries accept human capital, advance education system, liberalization trade regime and continue macroeconomic constancy (Zhang, 2001).

The objective of this study is proof assessment, comprising of high-income, middle-income and low-income economies, on the impact of bank concentration on financial growth in 68 countries. The empirical findings of this study suggest that the concentration of the banks is not a statistically important determinant of financial growth. Real profit and institutional efficiency are perhaps the most influential determinants of financial growth. Nevertheless, when the study is done on the basis of different rates of income, the findings indicate that increased concentration of banks is more likely to support financial growth in lower-middle-

income and low-income economies, which means that the impact of bank concentration on financial growth is subject to economic development (Law & Abdullah 2006).

Financial planners and advisors are becoming increasingly aware of the need to take human resources into account when designing optimal portfolios for individual investors. Yet human capital is not just another pre-endowed class of assets; it presents a significant risk of mortality in the form of loss of potential profits and salaries in the event of the death of the wage earner. This mortality risk is overvalued by life insurance and human capital affects both maximal asset allocation and life insurance demand. But traditionally, independent analyzes of asset allocation and life insurance decisions have been performed. This study establishes a centralized human capital structure that enables individual investors to collectively make certain decisions (Chen, P et al, 2006).

In recent literature, association among economic growth and financial development has established significant consideration. Many studies have examined this relationship equally (theoretical as well as experimental levels). Mainly the researchers tried to research that whether financial growth directs to enhanced growth performance and vice versa. Some other researches concentrated on finding the network of transmission among growth and financial intermediation. To check the link between economic growth and financial development, a number of studies examine this connection, but only a few studies check the relationship among income inequality and financial development at one side; however, inequality reduction and financial development on the other side. The prediction is still uncertain of the effect of financial development on income inequality. It is mostly recognized that strong financial status can proposed more growth and improvement of an economy. A financial system, which is characteristically strong, functionally varies and shows productivity, is important for national purpose of encouraging a market-driven, prolific and modest economy. Then this will uphold advanced level of investment and economic evolution with its depth and attention so, A strong financial system is essential for national objectives. Over two networks, strategies are focused to passing a strong, but vibrant financial sector development. First, these strategies make credit economical, increase business activities, and create best available devise provide to financial requirement and requirements of many members and part of the society, improve the well-being of the poor and produces employment chances. Secondly, the strategy of availability credit at economical cost can upkeep to the economically fragile families by permitting for investing in education, health, augmenting life of their children and generate and improve formation of the human capital economy,

which result to improve the circulation of income in the economy (Madhu Sehrawat A K Giri 2015).

Commonly, economic growth is defined in terms of capital, labor force, production, and employment. Such actual or "healthy" aspects of growth have become the subject of attention in economic literature to the financial aspects being ignored in contrast. And at some points in the economic system, growth is related to debt problem and subsequent accretions of financial assets elsewhere. The "institutionalization of saving and savings," which diversifies sources for the flow of loanable funds and multiplies varieties of financial statements, is also followed. Growth often means a change in the market prices of financial claims and in certain terms of trade in loanable funds, as a cause or effect. Production requires both finance and the product (Gurley, J. G., & Shaw, E. S. 1955).

In general, the study's key finding is that as economic theory suggests, the FDI has a positive and important effect on economic development. And FDI plays an significant role in Eurozone economic development. For this purpose, the macroeconomic stability and reduction of market inequalities, both of which are important to create a suitable environment for attracting FDI, is appropriated to continue for all Eurozone entering countries. Possibly, many important structural reforms in different sectors need to be implemented for some of the Eurozone countries, in order to further boost the competitiveness of their economies and to increase the attractiveness of foreign investors for each country individually and for the eurozone as a whole, countries as individuals and the eurozone can be expected to return to high growth levels together (Pegkas, P. 2015).

permits credit-constrained business persons to initiate their private business in advanced financial sector. As an outcome, many varieties of intermediate goods increase and, generate more demand for finished products. The productivity of financial sector helps to fulfilling this improved demand through cost constrain. An economy, with supplementary established institutions and financial markets, is inclined to have expressively advance rate of economic growth and generous proliferation of FDI. Therefore, financial institutions' development conditions to get positive spill-overs from FDI (Shahbaz and Rahman 2017).

Following the global financial crisis, Asian economies 'standing and significance have significantly improved due to their greater than anticipated resistance to financial crisis. Asian economies are increasingly developing and its increasing influence can be seen from the fact that out of the world's top 5 economies (in terms of GDP by PPP) 3 are Asian. Asia,

with the exception of Japan, South Korea, Hong Kong and Singapore, is currently experiencing massive development and industrialization led by China and India – the world's two fastest-growing global economies (Agrawal, G., & Khan, M. A. 2011).

In addition, in worldwide business FDI plays a dynamic and developing role. Through FDI a firm can approach many things like new techniques, provide opportunity to learn modern methods of business, marketplace, channel of advertisement, economical production services, financing and easy access to new technology etc. Similarly, FDI offers a host firm or country with investment funds, assets, procedures, administrative technologies and management skills. The major benefit of FDI as well as resources by means of their externalities is the implementation of novel (foreign) technology. It can be possible through licensing agreements, commencement, rivalry of resources, employee training and knowledge and export spillovers (Shahbaz and Rahman 2017).

Over the years, Pakistan has trade deficit which means that imports of our country remain higher than exports so, that's why imports has a leading role in the external sector of Pakistan. The country vigorously looks for overseas investment as well as resource inflows. There are different investment liberalization creativities started by the government of Pakistan in different years such as in 1992, 1997 and 2000. Such initiatives have gradually undone the country towards FDI for proposing broad range of incentives for enticing novel foreign capital inflows. The Government of Pakistan also introduced successfully, broad-based macroeconomic improvements and organizational adjustment programmes over the period of 1999 to 2002. Rather than this reinvestment posture, FDI rests somewhat modest (Shahbaz and Rahman 2017).

The mostly discussion on the relationship among finance development and economic growth till date is no general supposition, but the precision on this matter is vital because of development strategy has considerably different consequences. Literature confirms that an effective financial system definitely encourage investment by simplifying exchange of goods and services, mobilizing savings, sufficient capital business opportunities, differentiating and reducing risks and recognizing mobilizing savings and so on. The system surely helps enhancing best division of resources and thereby, playing vital role towards economic growth in its development cycle. However, finance-growth connection could have imperative impact on the reduction of poverty (Pradhan 2017).

Direct association among financial development and poverty mitigation starts from the availability of accessible financial instruments, services and organizations for poor the families. In developing countries, financial development can also play a vital role and contribute indirectly to poverty reduction, mostly through its impact on economic development. Most of the discussion concludes that financial development has essentially focused on its association with economic development. This paper suggests that when a country achieved economic growth then they definitely lead to poverty alleviation. On the other side for poverty reduction economic growth may not be an appropriate condition, for example if income inequality increase because of finance development then the upper class of a society can enjoy positive impact of economic growth without any benefit to its poorest families so, in this method the high entities will become more and more stabilized and the entities with low income are become in poorer as compare to previous economic condition (Pradhan 2017).

From 1978 to 2000, empirical research into finance and development in China found that in every area of China there is a strong relationship between finance and economic growth. Financial development accelerates economic growth, and economic disparity can be partly explained by financial development. Initial level of financial growth will explain part of potential economic results. The relation of financial marketing to economic growth is very similar. Opening up financial capital will encourage financial growth. China will try the best way to open up its financial market (Ziming, Z. L. W. 2002).

Effective financial theory suggests that the financial system can facilitate settlement and payment, consolidate and distribute capital and mitigate risks. By effectively performing these three core roles, a secure and productive financial system will significantly promote a country's national economic development. As per this theory, our financial system's stability and efficiency are investigated by seeing if the three tasks above are fulfilled. Evidence shows that while our financial system is capable of mobilizing social savings to the greatest degree, enabling the settlement and payment of various transactions, yet the savings-to-investment ratio is very small, capital allocation works very weakly and risk shabby diverting and transfer capacity. Thus, in order to make our financial system better, attention should be paid to widening the savings-to-investment transition ratio;innovating financial instruments and technologies;establishing a highly efficient financing framework and strengthening the corporate governance and knowledge disclosure process (Yansong, D. Z. L. 2004).

The researchers are of the opinion that financial stability and macroeconomic growth are closely related. Financial policies have a direct effect on adjustments in the demand/supply of funds and the cost of funds that, in return, affect the level of income, repayment capacity and credit needs of households/companies and other economic sectors. Similarly, the macroeconomic strategies have an effect on financial firms and markets through an inflation rate, exchange rate, and interest rate shift that affects their profitability / performance. Thus, to examine financial-macroeconomic growth, the present study examines the interlinkages between financial growth indicators and macroeconomic variables. Raza et al., (2014)

In Asian countries financial liberalization help to make financial system better organized and create flexibility of monetary policies and has improved the efficiency. In early 1960s one or more restrictive financial procedure in almost all Asian countries the financial system was categorized with selective credit distribution control, interest rate principles, taxes on financial institution, government ownership of financial institution etc. but such procedures have either less or completely indifferent as deregulation, market orientation and internationalization of banking and finance have advanced at a quick step since the early 1980s. Habibullah & Eng, (2007)

Financial development comprises prescribed and institutional measures that lower the cost of transaction and information which is connected with assessing and monitoring developments and dealing with risk. Mostly economists concern about income circulation because we as individual care about income circulation so, who delivers these services it doesn't matter. In literature Various studies recommend that an individual's welfare depends on relative income, not simply on the individual's income. If the process of the financial system effects income supply, this will affect public well-being beyond poverty contemplation. Therefore, financial policies not be simply judge by total efficiency effects it must be judged in term of their distribution effects. Definitely, I will make the more challenging claim that financial policies mostly reflect encounters over income distribution, not disagreements about efficiency. Levine (2008)

Through literature review, a health service is a major issue surrounding FDI. It is considered that the insight taken is one among the advancement and protections of health, mainly of low- as well as middle-income class areas, and therefore, related with the 'import' instead of the 'export' of FDI. In this measurement, the movement of worker and commercial market presence are usually not involved; therefore, the general level is probable far higher. E-

commerce and tele-medicine is a technical opportunity, which makes travel easier without limitation of boundary in making movement of patients and its possible experts. So, individually these matters are explored in some penetration, countries must be taking a step and thinking about the risks as well as benefits of commercialization of their health sector, instead of considering the level of foreign investment. Smith (2004)

In international economy foreign direct investment (FDI) has made understanding about the importance of its elements for researchers and policy maker. For attracting FDI population health might be important, in this discussion there are some objectives. If a country has good health system then it is evidence, which shows that health is an essential factor of human capital which increases workers' efficiency and enhances economic growth. There is likelihood of high level of human capital involved in the workforce, keeping other things being constant, for enabling a country more vulnerable for the foreign investments. In contrast, the cost of production may discourage FDI for the investors and large burden of infectious diseases can also lessen down inflows of FDI to a said environment if investors are not sure of their personal health or for the health of their staff members. Aslan, Bloom, & Canning (2006)

Regional trade and investment agreements (RTAs) are normally meant for the advancement of international integration and economic growth. Through FDI, trade and rivalry with domestic firms' RTAs can change the scale as well as scope of production. This can affect several things like job opportunity, job security, the conditions of doing work, income and may have additional significances for the atmosphere by pollution and other climatic alterations. Intake of food, tobacco products and beverages also affect when changes toward production through increased foreign investment in local production and improved local competition, or via changing incomes and demand. Through increased imports, RTAs can impact consumption, import of food, alcoholic beverages, soft drinks, and tobacco so they augment competition in international imports which may also direct domestic firms towards lower prices. Second, trade also increases Foreign Direct Investment (FDI) and consequent competition with domestic firms' RTAs can modify the scope and scale of production. Third, RTAs have particular sections which can influence health-services and health policies. These policies found rules of public procurement, investor safety and dispute settlement actions that affect the capability or readiness of governments to present new policies or principles that keep health for instance labelling of food and tobacco. Barlow, Mckee, Basu & Stuckler (2017)

Considering this dichotomy in these countries 'economic status, it will be important to know what the FDI's effect on their development is. The role Foreign Direct Investment has long been the subject of much debate throughout the growth cycle. While this argument also provided a wealth of insight into the relationship between FDI and growth, there is very little empirical analysis of the issue, due in part to the lack of a conceptual framework and a coherent theory to be tested. The present research aims to investigate the effects of the FDI on China and India's economic growth through the implementation of the proposed growth model. In the second part of the paper, with the help of literature review, they developed a relationship between growth and FDI. We have discussed the previous research done on this and linked topics in the third chapter. Fourth portion of this paper consists of the data source and the methods used. Fifth section demonstrates the results of the applicable tests and their discussion and finishes our discussion by ending the entire meaning of the paper at the last sixth section Agrawal, G., & Khan, M. A. (2011).

This paper suggests that in countries with very large financial industries there is no substantial link between the financial reach and the economic development.They note, in particular, that there is a clear and stable relation between financial complexity and economic development in countries with low and medium financial sectors, but we also demonstrate there is a threshold (where we estimate to be around 80–120% per GDP) above which finance begins to have a negative effect on economic growth. We demonstrate our tests to be reliable when using various data forms and estimators. We also show that our findings are consistent with the Finance's "vanishing effect" stated by various writers using recent evidence. They do so by demonstrating that if a definition omitting the quadratic term is misspelled and the "real" relationship is actually quadratic, the linear downward bias would intensify as more and more results are related to countries with especially broad financial sectors. Arcand, Berkes, & Panizza (2015)

In the world economy, the health care sector is rising while the importance is minor for data on FDI in the sector of services. Over the past years, the prospective for trade and globalization has quickly expanded. Cost burdens linked with the aging of inhabitants, the fast growth of inventions and novel technologies have untied the dispute for a faster globalization of health care markets and services. In the sector of health, FDI factors are similar to other sectors: country risks, norms, cultural distance, corporate governance, range of socio-economic development and accessibility of value inputs. Market-pursuing inspirations and policies control private actions of firms in health care facilities, however

efficiency-seeking companies also yield benefit of the increasing trade of many products. Even in recent years, many researches and publications on markets in health care and rise the private sectors it is surprisingly hard to find regular comparative indication on forms of ownership in health care. Practical work on FDI in host countries recommends that foreign direct investment (FDI) is an imperative source of capital, balances domestic private investment and play a vital role to economic growth and technology transfer. Total burden on government resources could reduce by availability of private capital. Improvements may be balance by the draining of brain as among all the resources, the best is human resources, which may create a two-tiered health care system. Regrettably the statistics of health care sector state that it has inconsequential significance on FDI in services and comprehend world-wide data on health care, community work and veterinary activities. Consequently, it is more thought-provoking to consider the part of multinational companies working in this sector. Organisations classified with the title of ''health'' cover all those organisations involved in the management of hospital, medical equipments, laboratory activities, etc. Franc (2007)

According to the 2005 Human Development Report (United Nations Development Programme 2005), human development must be the first objective through foreign assistance, it's a general agreement. In 2000, administrations met many countries under the platform of United Nations and contracted the prosperity statement, assurance to free our fellow children, men, women from the wretched and extreme poverty. These goals are attained by the assistance of development. (United Nations Development Programme 2005)

The sum of total aid given to the health acre section has risen more than twice therefore, in the past few years; this aid has been usually acknowledged in the community focusing on donations. Such as, during 1999-2004, financial assistance to the health care sector increased from 1,930 million dollars to 4,435 million dollars. OECD (2007)

In less developed countries millions of children are facing health problems and insufficient nutrients Because of this reason, the children of under developed countries cannot go through schooling years as compare to developed countries. Recent research Shows that the time spend in school and the learning capabilities of students has remarkably decreased by these factors. Due to these reason government must think of new policies which can improve children health status as well as education outcomes. For economic growth given the priority to education is a key point to improve the quality of life in developing countries. In less

developed countries children generally have worse condition of health and education as compare to developed countries. This condition shows that in less developed countries have not proper access to health and education facilities because of low income. Glewwe & Miguel (2008)

In international progress the best relation is positive connection among health and income per capita. Higher income gives great opportunities to use many of goods and services which can better health, nutrition, purchase clean water and quality products etc. Higher productivity of labours depends on health conditions of the populations, if people have good health then they put 100% effort on their work, because of physical and mental fitness. Health status also affect the absenteeism of worker. More investment in skill development are generally reap by the healthier educated people or we can say that they can earn strong and longed incentives because over longer periods investment they are going to gain more benefits. Bloom & Canning (2000)

The trade finance relationship is contingent on the assessment of the long run and short run estimations, whether their arrangements are impermanent or everlasting. Furthermore, the findings of this study suggest that in spite of the trade liberalization obstructs financial development in short term time run, which coexists with the findings of negative short-run impacts and the positive long-run impacts. Trade liberalization's cost and its risk aspects which leads to higher financial development in the long run time period (Kim, Lin, & Suen, 2010).

The most important financing of research and developmental (R&D) programmes, Arrange for a hypothetically relevant pathway to connect finance to economic development. Nevertheless, there is no compelling proof that financial assets are tremendously abundant that affect extensive U.S. research and development (R&D) from uncertain foundations by multinationals: stock issues and cash flow. In this research study, they estimated the dynamic research and development (R&D) framework for high technology organizations and resulted substantial impact of external equity and cash flow for young firm and also for the firms that are not matured yet. For young firms, the economic coefficients are typically huge and sufficient that some supply shifts of finance can clarify utmost of the intense research and development (R&D) flourishing in 1990, This, in effect, suggests a considerable link among growth, finance and development. New publicly traded companies in the high-tech sectors in

the United States (U.S.) finance research and development (R&D) spending almost exclusively through internally or externally also handling (i.e. problems of public interest and it can be cash flow). For some firms like these, tilted and extremely tentative returns, and privation of indemnity value and information problems value prospectively mark debt a deprived equity substitute of financial resources. In addition to it, Young high-tech companies use corporate finance in a characteristic way and result in the problem standard as their bordering source of capital. When any of these companies tend to need funding limitations, perhaps exogenous differences in the source of either internal funding or external equity financing will bring about improvements in R&D.

Changes in the availability of finance may lead to some macro-economic significance, if some companies carry out a large fraction of aggregate research and development (R&D) which will lead to changes above mentioned. In generalization, the flourishing in the equal supplies of finance resources shall lead to enhancement in research and development (R&D) programmes. (Brown, Fazzari, & Petersen, 2009)

In recent years India and China witnessed strong economic growth. Development is due in part to the introduction by each nation of free trade policies in the 1990s, and the consequent rise in international capital flows to both nations. After the 1990's, China and India as the world's two biggest developed countries have also experienced strong economic growth. China's obviously getting well. In 1975, China was on a par with India in the gross domestic product, but its gross domestic product per capita was 33 per cent lower ($146 versus $220). But over the years China expanded faster than India and in 1984 it exceeded India in terms of gross domestic product per capita. Now, there's a big gap, after 26 years. China is well ahead of India and has left Japan behind to become the world's second-largest economy. China's per-capita gross domestic product and GDP are about three times that of India (Agrawal, G., & Khan, M. A. (2011).

The impact of public financing on the insurance coverage, human wellbeing expenses and other factors on health consequences are scrutinized within health production models which are being estimated used 1960-1992 data across 20 Organization for Economic Cooperation and Development (OECD) countries. Rate of deaths annually, are set up to be contingent on the blend of health care expenses and the sort of health assurance exposure. Intensifications in the publicly sponsored share of health disbursements are inter linked with increases in death rates. Increases in inpatient and ambulatory assurance coverage are related with

reduced death rates. The effects of GDP, age structure and health expenditures on the annual death rate are comparable to those in afore mentioned studies., alcohol use, female labour force participation, tobacco use fat consumption, the and education levels of public are also significantly related to the overall annual death rates. Lower mortality rates are somehow are associated with the Intensifications in the income inequality, suggesting that the undesirable association between disparity and health outcomes suggested by some aforementioned studies does not continue when a more complete model is estimated. The consequence that intensifications in public financing increase mortality rates are vigorous to a number of variations in conditions and samples. Thus, as the countries upsurge the level of their health expenses, they may need to evade cumulating the quantity of their outflows that are publicly funded (Berger & Messer, 2015).

As a latent substitute, compulsory education can be viewed as the second most appropriate selection. The circumstance that this specific method of involvement has been applied in all of the countries which are self-governing of other features, such as the politically aware environment, suggests that it should association several positive elements that are widely collective by people. To consider the financial features of this opinion. They associate the self-motivated distribution of our over lying generations model without interference with a model where compulsory elementary schooling is financed by a comparative tax on remuneration income (Eckstein, 1994).

For the economic and non-economic reasoning abilities are significant success of individuals and civilizations. IQ-measures from Lynn and Vaananen was supplemented and meliorated by data from international student assessment studies, for international analyses, the collection of data from different countries. The reasoning level of any given nation is highly interrelated with the nation's educational level. In international evaluations, it can also exhibit a highly positive connection with the gross domestic product (GDP). However, in cross-sectional studies, the causal relationship between the intelligence and a country's prosperity is problematic to determine. In longitudinal analyses with numerous samples of different countries, education and reasoning abilities are tend to be more significant as developmental factors for gross domestic product (GDP) than the economic autonomy. Education and intelligence, these two variables are more relevant to economic wellbeing than vice versa i.e. non relevant to each other, but at the any country's level the influence of economic wealth on reasoning development is still considerable. (Rindermann, 2008)

One of the most emerging ways emerging economies have to develop quicker and catch up with developed economies is most often is argued as one of the most beneficial way is, Foreign Direct Investment (FDI), from which most of the foreign direct investment FDI activities come from developed nations. However, for any emerging economy foreign direct investment FDI can have numerous unexpected and even adverse consequences. As such, it is enormously significant for strategy makers to understand those boundaries and probable effects of foreign direct investment (FDI), particularly in the context of sustainable economic development. Foreign direct investment (FDI) is a double-edged sword that must be controlled with care. The subsequent research study proposes an introduction to the literature of the subject with some opinions of the author concerning some of the impending significances of foreign direct investment (FDI). Exceptional importance is on four characteristics: foreign direct investment (FDI) and economic growth, foreign direct investment (FDI) and other capital flows, foreign direct investment (FDI) and the balance of payments and foreign direct investment (FDI) and financial stability (Margeirsson, 2015).

Over recent past decades, foreign direct investment (FDI) has been a subject of theoretical study. Focusing on the determinant's factors of foreign direct investment (FDI), as well as on the impact of the foreign direct investment (FDI) inflows on the host country's economy, there are frequent scientific hypothetical and experiential articles. (Metaxas, 2016). Whenever, we have talk about the progress of emerging countries like South Africa, India, Brazil etc. in their circumstances it would be problematic to keep the vigorous role of foreign direct investment (FDI) aside in the growth of the economy. Foreign Direct Investment (FDI) has become the battlefield for emerging financial market, in the current scenario of the world. Every developing country tries to get more and more foreign direct investment (FDI) from developed countries in their own country, which has caused a continuous and remarkable growth in global foreign direct investment (FDI). Taking in view as Indian context, in the year 1991 a new economic policy was introduced along with consequent amounts of liberalization have foreshadowed a new period in which foreign direct investment (FDI) plays a critical role in accompanying domestic assets. According to the liberalization of foreign direct investment (FDI) policy declared in July 1991, the involuntary approvals were restricted to various sectors. In January 20, 1997, the administration had further liberalized the foreign direct investment (FDI) policy. Thereafter, the list of involuntary approvals had been expanded to more sectors. In current scenario, the automatic approval of foreign direct

investment FDI is given in almost all the activities/subdivisions except a few stated cases, which necessitate approval from the government of a country (Singhal, 2016).

Foreign direct investment (FDI) can be a cause of valued technology and know-how while development linkages with local businesses, by the direct resources financing it supplies which can help to jump start an economy. Over the past few decades, established countries as well as some emerging ones have progressively offered encouragements to appeal foreign businesses to their economies. Owing to the equipment and know-how embodied in foreign direct investment (FDI), alongside the absolute foreign investment, the host economies are anticipated to possibly be benefited from these investments through knowledge spill overs. Various channels, such as the introduction of new processes, technology transfers, and managerial skills to the domestic market, can cause the above-mentioned spill overs, whereas, further production improvements can be realised through regressive and advancing associations between foreign and domestic corporations. Foreign direct investment (FDI) can simply contribute to capital accumulation together with these technological enhancements. The foreign capital introduced into the host economy can help contribute to physical capital establishment, while employee training can contribute to the local skill development in the country. Describing foreign direct investment (FDI) in other words, foreign direct investment (FDI) can subsidize to the development determination of a country by the factor build up, physical as well as human capital and through the improvements in the total factor productivity (TFP). Nevertheless, the experimental evidence of foreign direct investment shows that neither of these benefits can be presumed (Alfaro, Kalemli-ozcan, & Sayek, 2009).

Moreover, to the incredible degree that considerable FDI comes through all the initial public offerings, it is important not only for extremely well-functioning stock markets but also for easy loan repayments to be available. Well-functioning stock markets around the world play a significant role in establishing linkages for both domestic and foreign investors by boosting the spectrum of source materials of finance for all type of business owners. To sum it up, one can speculate that somehow the scale of the financial institutions ' growth can sometimes be a deciding factor in determining how international firms exist in isolated enclaves with no ties to anything other than the domestic economy(beyond hiring labour).Or, whether they are the key ingredients for  opportunities which policy makers have repeatedly stated about these firms need to be   as well as other technology transfer.(Alfaro, Chanda, & Kalemli-ozcan, 2004).

However, the division among international multinational corporation (MNC), and national firms completely ignores the fact that the latter include "global" firms without foreign branch activities and domestic multinational corporation (MNCs) with headquarters (HQ), in our case, in the United States of America(USA.).In that kind of environment, inward FDI could mitigate the regional demand for skilled labor in a developed host nation.This may also arise when international associates ' activities in the host country are substantially less knowledge intensive than that of the privately held company's Headquarters (HQ) services from their countries of origin.In addition, international affiliates in countries of origin like that of the United States of America (USA) , in which the Headquarters  (HQ) activities of several other domestic MNEs have historically influenced demand for skilled labor, may decrease the comparative demand for skilled jobs (Chintrakarn, Herzer, & Nunnenkamp, 2011).

Any changes in factors that contribute to economic growth will also seem to have a greater impact particularly in comparison to developed countries in less developed and developing sectors of the economy. From the above context, it can also be anticipated that less advanced countries with about same development extend in the financial sector would experience greater potential effects from in the FDI compared with developing countries with similar levels of development in the financial sector. Likewise, developing countries will experience increased growth effects from FDI than developed countries with almost the same developmental level in the financial sector. (Nair, 2014)

They find that this negative effect stems from the adverse effect of the law on the effect of leakage which transfers financial resources from the inefficient state sector to the efficient private sector. Although our findings offer a partial explanation for the paradoxical coexistence of weak law and rapid economic growth in China, we do not assume refuting the presumption that somehow the law's effectiveness promotes economic development. Less so do we mean to diminish the role of the rule of law. Therefore, our findings are better viewed as evidence illustrating the nature of formal legal system interplay and informal self-agreements in a skewed climate that is marked by financial repression. Lu (2009)

Such findings help to explain the connection among finance and financial development. A series of recent exponential growth frameworks incorporate capital market imperfections and to provide a theoretical basis for a causal relationship between finance and development. A huge research indicates that various financial stability macroeconomic indices are correlated with the nationwide economic development, and significant progress was made in

establishing causality in that relationship. Their study enhances these findings through using microeconomic data to analyse a crucial element that more closely links finance and growth. Focusing on the explosive Research and development boom of the 1990s, we are uncovering an empirical impact of finance on Research and development, the central technological behaviour of most contemporary endogenous growth models. These findings also reinforce the belief that economics, capital stability and financial markets structural structure are essential factors that drive economic growth. Brown,Fazzari, & Petersen(2009)

Price discrepancies, on the other side, may motivate manufacturers to divide the manufacturing process, put complicated and expensive production stages in significantly low-wage countries, as well as the more capital-intensive production stages (research and development(R&D), assembly headquarters facilities, etc.) in industrialized developed countries. This kind of patterns of investment and financing are known as vertical FDI.The relationship among trade and FDI is an important difference between any of these two patterns: horizontal FDI tends to eliminate trade while vertical FDI prefers to build trade. Logical Economic reasoning indicates that vertical FDI is much more widespread between all the developed industrialized and emerging developing counties, whereas horizontal FDI has become more prominent among many of the industrialized countries.In reality, hybrid trends are anticipated, where multinationals plan for the both horizontal and vertical combination (Aizenman & Noy,2006).

This paper discusses whether there is a level over which the financial complexity would no longer have a positive impact on growth. They use various statistical methods to demonstrate that financial complexity tends to have a detrimental impact on production growth as credit exceeds 100 per cent of gross domestic product in the private sector. Our findings are consistent with financial depth's "vanishing effect" and are not motivated by endogeneity, instability in exports, banking crises, poor operational efficiency, or disparities in banking regulation and supervision. Arcand, Berkes et al.(2015)

There seems to be no question that in the recent wave of globalisation, foreign direct investment (FDI) has become an important feature. The involvement of foreign direct investment in developing countries around the world has been universally recognized as a productivity accelerating variable. FDI may spur economic growth through a number of networks within the host country.In fact, FDI also contributes to the transition of technologies to international corporate affiliates throughout the host countries by contact between

multinational corporations and domestic manufacturers, consumers and relocation of workers.(Nasser & Gomez, 2009).

The following robust findings have been developed by our empirical project: enhancing the productivity of rule alone in a system with financial regulation does not lead to overall economic growth; however, it has a relatively large negative impact on economic development by reducing the share of private investment in economy. We observed that this negative impact stems from the adverse impact of the law on the effect of leakage which transfers financial resources from the inefficient public sector to the efficient private sector. Although our findings provide a partial explanation of the contradictory coexistence of weak law and strong economic growth in China, we are not refuting the presumption that the law's effectiveness encourages. Economic development. Less so we think the function of the rule of law decreases. Rather, our findings are better viewed as proof of the co-operation. To demonstrate the difficulty of formal legal system interaction and informal self-help frameworks in a skewed world marked by economic repression. (Lu, 2009)

This study resulted that the energy sector has a crucial part and partial in either the financial sector's development in Asia and also that expansion of energy consumption could also be a driving force behind all of the financial advancement of the region. An energy efficient sector could also lead to the development through a well-functioning financial sector. Secondly, policymakers also have to be conscious that financial services industry changes are unlikely to lead to that of an increase of energy consumption in Asia. To look at it another way, developing a technologically advanced financial system will still not automatically lead to energy sector growth. Furuoka (2015)

The literature is divided into all those strategies which pursue "broad structural" explanations for economic growth as well as those who seek "political economy" reasons for just the creation of financial systems across time and all-over other countries. The previous research work emphasizes on structural and cultural characteristics which are defaulting and essentially permanent and also has considerable success in describing differences throughout the cross section of nations. Nevertheless, it is called for most of those nations, irrespective of the ' unfavourable ' heritage organizations, have successfully tested their financial systems during the last few generations.(Girma & Shortland, 2008)

A very well-managed and well-developed financial sector essentially allows sufficient money and resources to also be allocated to that of the energy sector, while maintaining a good

balancing act among both energy consumption and consumption. Including in parts of the world with limited financial capital effective management of the financial system essentially allows a more successful use out of financial resources. At the very same time, excessive energy consumption increases could also be negatively affecting economic and social development. For example, a few other Asian countries faced supply problems of energy infrastructure due to some kind of economic and technological growth, which posed significant barriers to success in their development projects. An effective financial system encourages consumers to buy more, leading to higher, products and energy consumption. The above means that financial growth indirectly increases the expansion of energy consumption by increasing the level of income for consumers. Although subsequent empirical studies primarily were using the homogeneous panel data methods to investigate the wealth management-energy nexus, there have been strong reasons for choosing the large and diverse panel data approach more appropriate for Asia.(Furuoka, 2015)

As indicated by the second causal linkage found in this research paper, increasing consumption of energy may lead to either an improved performance in the financial services sector. In the other words, a causality test from those in the energy consumption to the financial development has been detected by the panel. Which makes it more likely the consumption of energy is indeed an important factor in determining of the Asian region's financial development. (Furuoka, 2015)


## 1.2 Problem statement

Impact of FDI on financial development, GDP etc. appreciated most of the time, but on the other hand human welfare was completely ignored. Unfortunately the basic and most important topic was considered minor and no one gave true attention which it deserved. As FDI is beneficial for financial development and GDP etc. it also has positive effect on human welfare. This study illustrates the effect of foreign direct investment which is significant. FDI diminishes unemployment and poverty, brings technology and modernism in country, therefor elevates living standard of the society.

This devotion on the impact of foreign direct investment and financial growth on human wellbeing an empirical investigation for the south Asian states. It is studied from previous researches, came to the conclusion that foreign direct investment has appeared as the most valuable origin of outer resources movements from many years for the development of

countries and has become important part of capital development in these states, in spite of their stake in global distribution of FDI proceeding to remain small or decreasing. The position of foreign direct investment (FDI) has been largely known as a growth enhancing factor in emergent states (Khan, 2007). It has been mentioned by previous researches comprising Sen (1999), Kakwani and Pernia (2000), Thirlwall (2006), and UN HDR (2013) that the use of gross domestic product (GDP) growth in the calculation of living standards is not appropriate for estimating all human welfare. This is possible to have income development without the improvement of the conditions of poor. Also, it is feasible to uncover the condition where standard of life enhanced more than the growth rate experience. When a country face very low growth rate, yet as Kakwani and Pernia (2000) have also proposed, if the growth is fair, with the fit restructuring of wealth, it can be contemplated as a fair calculation of changing in overall economic aid. This analysis also uses the changing essence of financial progress changing to check a long and short run relation among financial development and human welfare. The financial system improves the efficient allotment of resources and in this sense, it improves the assimilative capacity of the state with respect to FDI inflows. In certain, a more enhanced system can take part to the development of technology related to FDI Hermes and Lensink (2003). It would be a typical research for the south Asians states to effect on FDI on human welfare is not studied yet.

## 1.3 Research questions

This study furnishes general view of the impact of foreign direct investment and financial development on human welfare. Following the research question will help the researcher to obtain the target of this study

- How Does the FDI impact human welfare?

- How does the financial development impact human welfare?

## Hypothesis:

Hypothesis 1:

Ho: FDI has insignificant effect on School Enrolment

H1: FDI has significant effect on school enrolment

Hypothesis 2:

Ho: FDI has insignificant effect on life expectancy

H1: FDI has significant effect on life expectancy

Hypothesis 3:

Ho: FDI has insignificant effect on Per capita income

H1: FDI has significant effect on Per capita income

## 1.4 Objectives of the study

The main determinations of this research study are to examine the impact of foreign direct investment (FDI) and financial development on human welfare in south Asian countries.

The objectives of this study are as follow:

1) To construct the financial development Index for South Asian countries.
2) To find out the impact of foreign direct investment (FDI) on human welfare.
3) To find out the impact of financial development on Human Welfare.

## 1.5 Significance of study

In the theoretical context of this study: previously there has not been founded any study about to check quality of life in depth and secondly, there is no study about construct financial development index. Thus nine proxy variables were used in this study to create financial creation through PCA (Principal Analysis of Components).

Over the past eras, foreign direct investment has considered as compulsory channel for economic growth, particularly between developing countries. The FDI status can be estimated with the technological transfer channel for using novel skills and techniques in the process of production, upsurge competition among the local as well as foreign procedures, exports, imports, and rate of economic growth. Hermes & Lensink (2003).

It is necessary to identify it for the benefit of readers and for the development of shared understanding formerly any conversation can be begun about foreign direct investment. A basic common understanding meaning can be translated as "Foreign Direct Investment (FDI) states to country A's long-term presence in country B. This typically includes executive involvement, joint partnership, knowledge transfer and skills. Various organisations interpret

FDI differently, with the IMF (International Monetary Fund) providing the most agreed one. IMF describes the foreign direct investment as "Acquisition by non-resident owners of at least 10 percent of ordinary shares or voting rights in a public or private company. Personal investment entails a vested stake in a company's management which requires income reinvestment. Agrawal, G., & Khan, M. A. (2011).

In international economy foreign direct investment (FDI) has made understanding about the importance of its elements for researchers and policy maker. For attracting FDI population health might be important, in this discussion there are some objectives. If a country has good health system, it acts as evidence showing that health is an essential factor of human capital. This human capital can play a crucial part in increasing workers' efficiency and enhancing economic growth. Keeping other things being equal, high involvement of human workface in the capital development is expected to enable a country in appearing attractive for foreign investors. In contrast, there is costly production, which may discourage FDI. An immense burden of contagious diseases may also reduce FDI inflows to a given environment if investors have doubt for their personal health or that of their staff. Aslan, Bloom, & Canning (2006)

the study proved the existence of long run interaction among income injustice and financial sector development in India and standard error removal mechanism used in short term interaction. The study proved positive impact of economic growth, financial sector development and inflation on income injustice during both short run and long run. Openness of trade is considered as a best tool for reducing inequality between rich and poor. Authors (2015) The empirical study shows that the inflows of foreign capital have the positive impact on the economic growth of Pakistan. The development of financial sector and the public investment increases the economic growth. Inflation and human capital contribute to the economic growth. The current study suggests that the Government of Pakistan must have to undertake the financial reforms to increase the domestic financial sector's efficiency to increase the economic growth of the country. Ardl, A., (2017)

However, What's more impressive about their FDI performance is the gap. From the start, both in terms of net inflow and as a percentage of GDP, China has been able to attract more FDI than India has. Over the past decade, China has established itself as the top recipient of foreign direct investment (FDI) between developing countries. The World Prospectus Report 2010-2012, published by the United Nations Conference on Trade and Development

(UNCTAD), showed that China has maintained the title of the most important FDI destination in the world once more. Elsewhere, India overtook the US to claim second position in the survey as the US economy continues to struggle. China has earned significant FDI compared with India as has already been mentioned. While India earned higher FDIs than China before the 1980s but because of China's 1978 liberalization policy, the tables turned in favor of China. China has been at the top of the emerging world in terms of FDI inflows and thus economic growth since the late eighties and during the nineties. So, the reasons why China has risen faster than India through the use of FDI need to be investigated. Agrawal, G., & Khan, M. A. (2011).

Today the world is experiencing the immense impact of globalization, which has totally redefined how we used to do business. None of the key consequences of globalization is that there has been tremendous increase in global foreign investment. This rapid development took place in tandem with a substantial rise in international trade. We coined the term 'Global Village' to indicate that the distance is no longer a barrier, yet trade frontiers became blurred. In the process of globalization, foreign direct investment is an important factor, as it intensifies the relation between nations, regions and businesses. Global trading is also part of this cycle and is increasing overseas equity flows and direct investment. Globalization presents developed nations with an unparalleled ability to pursue speedier economic development through trade and investment. International trade expanded faster than foreign direct investment in the span of the 1970s and hence foreign trade became much more important than most other international economic activities. In the mid-1980s, as world foreign direct investment began to climb sharply, this situation shifted drastically. The world foreign direct investment has increased its significance in this era by moving technology and developing marketing and networks for productive production and selling internationally (Shujiro Urata, 1998).

Finance takes crucial part in the development of economy as well as its human capital, however the development of economy is based on the development of its human capital so these two are closely associated with each other. The role of financial markets it to generate "value" for the economy. This value is signalled from the rise in the stock prices of the share, the size of loan and the volume of guarantee. The agreements in the financial market are time crucial subject to the risk involved with the increase in the time duration. Those transactions are proceeded which assures that the risk is counterbalanced. The organizations, accepting risk, require the assurance as subject phenomenon of the society. On the other hand, human

capital development is based on the contribution of finance to let it do with its utmost capacity for increasing the level of production by moving and gaining power for switiching utilization of funds with low returns to the high returns. Such shift in power enhances the mechanism of savings and investment which may facilitate liquidity, enhance value and manage risk. Nwosa, I. P. et all., (2011)

# CHAPTER 2

## Literature review

Borensztein, De Gregorio, & Lee (1998) tested the effect of FDI on economic growth in a cross-country regression framework by fetching the data of industries located in sixty-nine developing countries for about the recent twenty years. FDI is the significant functional item for the advancement in technology and paying more to growth than domestic investment. Though, the productivity of FDI gets higher when the host country has minimum beginning stock of human capital. In consequence, the FDI shows growth in economy when the host country has an enough absorptive competency of improved technology available.

Borensztein, De Gregorio, & Lee, (1998) study focuses on effects functioning across industries as the study is based from firm-level data existed in Lithuania. It proves the positive productivity took place from FDI through the contacts of foreign partners and their native providers in upstream sector. The data gives traces that the spillovers are linked with the projects of allied domestic and foreign tenure, but not completely owned foreign investment.

Borensztein *et al.,* (1998) explored the impact of FDI on economic wellbeing in a cross-country regression method using statistical data on FDI inflows from industrial nations to sixty-nine developing countries for the passage of previous twenty years. Several data sources on FDI have been used in this paper such as two publications of International Monetary Fund (IMF) provided data on net foreign direct investment and gross foreign direct investment (International Financial Statistics, and Balance of Payments Statistics, respectively). Net FDI applies to net outflows, while total FDI relates only to the country's inflows, i.e. foreign direct investment. An OECD publication (Geographic Distribution of Financial NetFlows to Emerging Economies) refers to gross FDI in emerging economies originating in OECD member countries.

Hermes & Lensink (2003) used quarterly data from 1996 to 2011 to analyse the association between financial growth, foreign direct investment (FDI) and financial well-being in Sri-Lanka. For analysing the relationships, Johansen's co-integration methodology along with vector error correction (VEC) model are utilized. The results exhibit that there is a long-term stable associative relationship between financial equilibrium and economic well-being and there exists a two-directional causal link. In addition, economic well-being and financial development are causing foreign direct investment (FDI), but there is no strong evidence that FDI is leading towards economic well-being. Furthermore, the basic aspect of our findings suggests that Sri Lanka's economic growth depends on financial betterment rather than foreign direct investment (FDI).

Wezel, T. (2004) This research examines the factors critical to the position decisions of global German banks between 1994 and 2001 in selected developing markets in Central and Eastern Europe, Latin America and Asia. The focus is imposed on evaluating macroeconomic and financial sector risk factors along with bank-client integration measures and market characteristics of host countries. Results suggest that non-bank FDI exerted a significant pull impact on FDI flows in banking, as did highly developed capital markets and low national risk. The study does not consider any especially important results for per capita GDP or trade linkages. A strong case can be made for a variable taken from the literature on "early warning indicators" which measures the support of short-term bank deposits by foreign currency reserves.This financial crisis vector turned out to be strongly negatively correlated to FDI flows in nearly all regressions. Disaggregation of the study by country shows that the variables at work vary from one continent to another. Comparing pre- and post-Asian-crisis phases, it is observed that in the latter sub-sample, both variables of country risk are gaining

importance, with the effect being particularly pronounced for measuring financial vulnerability.

Sharma & Gani (2004) described the impact of foreign direct investment (FDI) on central Asia, Afghanistan, and Pakistan's economic wellbeing in particular. They collected the data from the secondary source for this study. The study showed that FDI inflows are increasing in some countries. In 1992, Pakistan's FDI inflows were $258.43, while Afghanistan's inflows were nothing at that time. It was estimated in 2007 that Pakistan's inflows were US$ 4374 million.

(Javorcik, 2004) investigated the impact of the FDI and inflation on GDP of SAARC countries during the 2001-2010 year. The scholar has found the relationship of FDI and GDP significant while the inflation shows insignificant relation with GDP tested through multiple regression models.

Sharma & Gani (2004) described the impact of foreign direct investment on central Asia, Afghanistan, and Pakistan's economic development in particular. They collected the data from the secondary source for this study. The study showed that FDI inflows are increasing in some countries. In 1992, Pakistan's FDI inflows were $258.43, while Afghanistan's inflows were nothing at that time. It was estimated in 2007 that Pakistan's inflows were US$ 4374 million. The amount of inflows in Afghanistan was USD 289 throughout 2007. In this study, it is concluded that electricity, communication, education, and information technology is the most lucrative field. Thus, this paper attempts to prove that FDI has the main role of providing the welfare society in the development of welfare. Therefore, this study attempts to suggest that the political instability and terrorism need to be removed and focused on physical infrastructure to enhance the government of Pakistan and Afghanistan's FDI.

Azam & Khattack, (2005) study has made an effort to examine Pakistan's FDI phenomenon and pattern. For this study, secondary statistics for the span from 1971-2005 were used. The data were obtained respectively from various issues related to the Pakistan Economic Survey, World Investment Report and World Outlook.

Tambunan (2005) studied in theory and data about the ways of impact of the existence of foreign invested firms specifically the FDI (foreign direct investment) that affects the quality of domestic firm's products. Melitz (2003) style of hetero-firms is illustrate that in the monopolistic competitive environment, where consumer is utilizing the maximum utility of high quality product, then to look for the influence of the FDI on quality of domestic products

can be acknowledged through the direct channel by means of productivity in goods and quality or the indirect channel by cut-off capability of the business entities in spite of the fact where the quality of product is not directly noticeable. Generally, the effect of FDI on the quality of domestic products can be determined by the comparative strengthen of these two-opposing effects. Moreover, the theory explains that by using the firm level data despite the fact of the foreign investment in productivity shows that 1% increase in foreign existence decreases the quality of the domestic product by ten (Melitz, 2003).

Aizenman & Noy (2006) uses linear dependency model and feedback estimation technique between multiple series of decomposition mechanisms. The scholars determined that the mass of linear feedback analysis between financial trade and FDI can be considerable for Granger causality model from FDI gross net inflows to trading openness (50%) and from trading to FDI (31%).

Buch, C. M., & Lipponer, A. (2007) This analysis was performed in two-fold form. First, they tested the international firm's latest hypotheses and, second, they examined the preference of banks between FDI and the delivery of financial services across borders. A relatively comprehensive picture of foreign direct investment and the cross-border provision of financial services by an significant community by globally involved banks was drawn from the use of data on the German banking sector. The statistics used cover the second half of the 1990s, that is, a time during which the German banking industry's transformation was completely under way. One aim of the analysis was to provide an response to the issue of whether foreign direct investment and financial services are replacements or supplements. In the first case, concise figures show that there is no foreign direct investment in countries of which German banks still do not offer cross-border financial services. Further financial services were also found to be offered to countries where banks retain international branches, and vice versa. The findings of this analysis indicate that the FDI and cross-border financial markets are complementary rather than institutional. These two ways of accessing a global market share several similar determinants, and banks offer more services to countries where they already have significant global direct investments (and vice versa). It was also observed that, in addition to the provision of cross-border financial services, more profitable and bigger banks are much more likely to participate in Foreign direct investment.

Marcin, K. (2008) examined the presence of externalities linked to foreign direct investment (FDI) in a host country by utilizing company-level panel data encompassing the Polish

business sector. The main sources of evidence are periodic balance sheets and profit-and-loss accounts of non-financial companies (F-02 forms) compiled by the Central Statistical Office (CSO) of Poland. The duty to report applies to all companies that employ minimum ten workers. The key results are that local companies profit from the involvement of foreign companies in the same sector and in downstream industries. Domestic firms' absorptive ability is highly pertinent to the size of spill overs: for R&D-intensive companies, vertical spill overs are higher, whereas firms invested in other (external) forms of intangibles profit more from horizontal spill overs.

(Falki, 2009) demonstrates the significant role of the foreign direct investment (FDI) in growth of economy as well as decreasing the poverty in Indonesia. In the literature, he briefly explained the role of FDI through three ways to alleviate the poverty. Firstly, labour intensive economic growth with export growth. Second are the innovation, knowledge and technology. Third is through the government programs or financed projects by tax revenues collected by FDI based companies. Based on the secondary data conducted only in Indonesia depicts that the role of FDI in alleviating poverty likely to support the first way while the other two ways has no evidence to prove the transferring benefits of FDI to poor so far.

Gohou & SOUMARÉ (2009) determined the impact of FDI and financial development on Malaysia's economy from an extensive time period of 1975-2014. The autoregressive distributed lag bound test has shown some interesting findings. According to those findings, the results emerged illustrates that financial progression plays a significant role regarding the mediating influence of FDI on economic wellbeing in viewpoint to co-integration analysis in Malaysia. This depicts that in well-developed financial sectors, the case of Malaysia is a considerable one; leading to further encourage FDI spill over and thus accede to economic growth.

Chee, Y. L., & Nair, M. (2010) This study looks empirically at whether the development of the financial sector is an significant precondition for foreign direct investment (FDI) to boost economic growth in the Asia-Oceania region. The research would also investigate whether the effect depends on the stages of the countries' growth. A survey of 44 countries in Asia and Oceania for the period 1996-2005 used panel data methods (fixed effects-estimator and random effects-estimator) to analyze the relationship between FDI, financial sector development and economic growth. The empirical analysis showed that FDI's contribution to economic growth in the region is enhanced by the financial sector development. This also

showed that for the region's least developed economies, the complementary role of FDI and financial sector development in economic growth is the most important. This study also addresses key strategies for enhancing the role of FDI and financial growth in developing and least-developed countries in Asia and Oceania.

Lskavyan, V., & Spatareanu, M. (2011) This research was undertaken to test the ex-ante ambiguous association between the option of FDI location and the extent of legal shareholder security of the host country for a sample of widely quoted UK companies that pursued new acquisitions in Continental Europe from 1998 until 2001. The large majority of research companies are joint ventures and are majority-owned. it was considered that, in the host nation, poor legal shareholder security decreases the probability of foreign direct investment. Nevertheless, this negative association is strengthened as the parent company's ownership concentration rises, meaning that the ownership concentration of the parent may be a proxy for the low legal shareholder security of the host nation.

Qaiser Abbas *et al.*, (2011) inspected the FDI's impact on the growth of economy in Pakistan under the period of 1980 to 2006. On the basis of theory inferred by endogenous growth, the scholar explored that the domestic capital, trade, and labor affects the relation of FDI and economic growth by utilizing the function of production. The results depict the insignificant or negative relation between the FDI inflows and GDP of Pakistan.

Agrawal, G., & Khan, M. A. (2011) With the support of literature review, the research takes care of the problem of structural change in the economy by selecting the correct time frame. They first developed a modified growth model out of the basic growth model. Such factors included human resources, gross domestic product, foreign direct investment, labour force and the development of gross resources. In all these variables, the gross domestic product was based only on variable while all other variables were independent. They found after applying OLS (Ordinary Least Square) which is used as a method of regression on statistical data,  that this study concludes that foreign direct investment enhance economic growth, furthermore it provide a n estimate that 1% increase in foreign direct investment can increase the gross domestic product of China by 0.07% and for India foreign direct investment increasing by 1% can enhance gross domestic product by 0.02%. They also found that the effect of foreign direct investment the effect on growth is more in china and the growth rate in India is not significantly associated to foreign direct investment in comparison to other variables which are commonly used to predict growth. The study also offers potential explanations behind

China's great FDI series, and the lessons that India should learn from China to use FDI properly. Many foreign investors favor China to India for investment opportunities because China is larger than India, providing quick access to export markets, policy subsidies, built infrastructure, cost-, and macroeconomic environment. At the other hand, India has a brilliant team of administration, the rule of law, a straightforward mode of operation, cultural connection and a regulatory framework.

Investment (2012) reported the results obtained from investigation of the impact of financial development, FDI (Foreign Direct Investment) and relevant imports on the economic growth proportion of Pakistan from a period ranging from 1990-2008 with the use of quarter data set. Autoregressive Distributed Lag (ARDL) is an influential testing approach used for testing the long run interactions between inequalities and variability in consumption patterns and the direction of causal relationship between variables examined by using VECM (Vector Error Correction Model) statistical tool. The main findings of the study proved the long-term existence of association between financial development, FDI and relevant imports on the economic growth proportion. All these variables have a significant positive impact on the country's economic growth. Causal Study is used which reveals two-dimensional relationship exist between the variables and indicated the presence of strong causal effect between financial sector development, economic growth proportions and FDI to associated imports.

Williamson & Williamson (2014) discussed the previous debate on the contribution of foreign direct investment in the promotion of economic sector. The present fluctuations have changed the focus from economic growth to human development with timely investigation on effectiveness of foreign investment in the promotion of human growth and development. This study focuses on empirical investigation for testing the hypothesis stating the positive relationship between human welfare and foreign direct investment i.e. increases in foreign direct investment significantly increases human development. The results of this study show ineffective association between overall wellbeing of the country and foreign direct investment. It considered it as an ineffective human development instrument. The results are proven by controlling the reverse causality effect and its robustness is proved when compared with different models.

Ni & Spatareanu, (2014) investigated the procedure followed for determining the impact of foreign investor's different level of origins on productivity of national firms in Vietnam. The scholars focused their attention on the calculation of production factor known as (TFP) Total Factor Productivity, which is the basic foundation of our analysis. This analysis is made on

panel data with panels covering the time period of 10 years ranging from 2002 to 2011. The data for panels is collected by General Statistics Office consisted of all industrial forums and financial sectors through Vietnam Enterprise Annual Survey at organization level. The main objectives for survey study involve collection of business data required for compilation of domestic accounts, gathering of recent information for completion of business books and determining the sample units for further business-related sample surveys. The final and the main objective is the up-gradation of statistical databases for relevant enterprises.

Khakan, N., & Rabia, N. (2016). re-examined the connection between African regions' FDI flows and poverty reduction. The FDI net cash inflows per capita and the Human Development Index (HDI) of UNDP, respectively, were used as key FDI and health safety variables. Their analysis confirms the significant positive relationship between Africa's net inflows of FDIs and poverty reduction. Nonetheless, this particular interaction among the relationship between African countries and between Africa and other parts of the world is quite different. While the partnership, for example, remains optimistic and important for Central and East African economic populations. It is non-significant in Northern and Southern Africa and uncertain in Western Africa. To many specifications of the model, their results are robust.

Anwar & Sun (2016) have examined the effect of FDI on the development of human to fill the gap for the period of 1975 to 1999 for the countries which have low and middle income. It is measured by the index is used for the human development. The results of regression for the low- and middle-income countries with the model of fixed effects show the positive impact of FDI on the development of human.

Demir (2016) explored bilateral foreign direct investment flows, effects the gaps of institutional development, which has originated between different countries and somehow these effects are depends on which direction the FDI flows. The data for the period of 1990-2009 shows the result of 134 countries and other institutional development measures. It suggested that the flows of Foreign Direct Investment in any directions i.e. North to South or South to South are insignificant country. Also, the scholars find different proofs which show that the FDI flows for South-South may harm the development of institutions in the countries which are rich in natural resources while there is vice-versa for the flows of North-South. However, the overall results show no well-built evidence which effects the FDI flows from the developed or the developing countries to the developing countries.

Alzaidy, Naseem, Niaz, & Lacheheb, (2017) investigated the causal association between foreign direct investment (FDI) as best source of foreign aid, financial betterment, and economic wellbeing. Panel data is collected from four specific Northern African regions (Tunisia, Morocco, Algeria, and Egypt) over the period of 1980-2011. This study shows a shift in trend from the standard cross-sectional analytical mechanism and enforces direct channel for the effective inflows obtained through foreign direct investment, which can stimulate the host country's economic development. By using the panel data analysis approach known as the General Method of Moment (GMM), large number of previous studies has emerged regarding significant positive relationship between FDI and economic wellbeing. This study also finds substantiation that an important prerequisite for FDI having a positive significant influence on economic wellbeing is the betterment of the local financial system. This study's policy implications appeared obvious. Therefore, improvement efforts are required to be guided by changes at the local level to ensure standard financial system development for optimizing the level of FDI's presence.

Gurley, J. G., & Shaw, E. S. (1955). Sadorsky, P. (2011). In this study the effect of financial growth on energy use was examined in a sample of nine frontier economies in Central and Eastern Europe. Several different financial stability indicators were analyzed including variables relevant to the banks and stock market variables. The empirical findings, obtained from complex panel demand models, demonstrated a positive and highly significant relationship among financial development and energy consumption when evaluating financial development using parameters such as deposit money bank assets to GDP, financial system deposits to GDP, or liquid liabilities to GDP. Among the three variables studied on the stock market, only one stock market turnover has had a favorable and statistically important effect on energy consumption. There was analysis of both short run and long run elasticities. The consequences of such energy policy results have been discussed.

McKinnon and Shaw (1973) the recent research on economic creation suggests that economic growth is a beneficial function of actual income and the real interest rate (that is often negative during economic oppression circumstances). A higher real interest rate raises the amount of savings that the financial services industry is to medium. Once loans are assigned on the basis of assumed mission productivity (rather than being randomly allocated under credit food shortages) and a heavy rate of interest discourages expenditure in significantly higher-return projects, quicker economic development outcomes.

Jalilian & Kirkpatrick (2002) conducted empirical investigation on the relationship between financial development and economic growth. The research shows that finance has a significant and positive impact on growth. This particular study expands the line of research by analysing the relation that financial development of low-income countries brings to poverty depletion. The findings published support the claim that development policy for the financial sector will lead to achieving the poverty reduction goal in developing countries. The World Bank CD-ROM World Development Indicators 2000 takes data obtained by Data on macro variables. The NBER website Penn World tables on Purchasing Power Parity profit estimates supplement the data set from the World Bank. Data on multiple financial development indicators have been extricated from IFS CD-ROM of the IMF.

Iyigun *et al.,* (2004) investigated the strength of association between inequality in income levels and variability in the aggregate growth in consumption levels. The results proved the negative relationship between inequality and overall variations in consumption and growth patterns. Countries with low income indicated the presence of higher inequality among variations in growth patterns of consumption. In case of high-income countries, the scenario is different and indicates a positive relationship between inequality and overall variations in consumption and growth patterns. The results from previous studies also considered financial development as moderator for influencing relationship between inequality and variability in consumption patterns. The study also documented results that proved variability in GDP growth rate as influencing factor on income inequality, but the results obtained are not robustly related to other strategies followed for sample selection and estimating procedures.

Alesina *et al.*, (2005).Examines whether changes in the financial supply may describe a large proportion of the R&D boom in the 1990s, and subsequent decline. We study data on company level stands for 1,347 publicly listed, high-tech companies from 1990 to 2004. Using a GMM approach to estimate complex R&D models, when we break down the data between young and mature companies, we find very strong differences. The point estimates are quantitatively small for the financial variables and statistically marginal for large companies. Variables determining the exposure to both internally and externally equity funding has important scientific and economic consequences for young businesses, Scientifically and in economic terms. Such findings, along with the observation because there was no increase in R&D for existing companies, are associated with a shift in the supply of finance and are difficult to reconcile with a demand-side argument. The economic

consequences for new, strong-tech firms alone are important enough to explain most of the average R&D period from 1994 to 2004.

(Demetriades, 2006) examined openness, institutions and financial development using dynamic data panel strategies and data from forty-three developing countries between 1980 and 2001. They provided evidence showing that openness as well as institutions are the significant causal factors for the financial development. Openness is especially potent in fostering financial growth in middle-income countries, in the matter of trade and capital flows, however much fragile in low-income countries. This study results turned out to be robust towards alternate measures of financial and trade openness along with method of estimation and sample time.

Girma & Shortland, (2008) However, it really is noteworthy that financial impoverishment is a characteristic of many authoritarian governments, and especially unstable policies. Hence, the position of both the political structure in resolving the requirements of various interests in the phase of decision making. The emphasis is on the influence of democratic indicators, documenting the degree by which a small caste dominates the power resources and the extent of flexibility of the system on shifts in monetary growth. Over the period of 1975 to 2000, panel data was utilized from developed and developing countries of all over the world and examined several various aspects of financial growth. They track both legal basis and intracellular forces that influence financial growth and check whether all the value of democratic systems changes over different periods of time. The results indicate the statistically significant results of both the degree of autonomy and sustainability of the political process to the pace of long-term growth. There was also some indication which future economic growth is favourably affected by efforts to democratize a government. To a large degree that democratism hinders the impact of powerful individuals and lobby groups by expanding political involvement, results offer additional evidence for the hypothesis that perhaps the advancement of financial markets is hindered by tight establishment political structures.

Girma & shortland (2008) Remarkably, unlike the literature on the growth impact of trade volume ratios, findings from observational studies of trade controls vary considerably from the theoretical studies projections. Although the theoretical growth studies did not provide any definitive proof on the nature of trade barriers growth effects, particularly for developing countries, a large majority of empirical studies concluded that a substantial and negative relationship exists between trade restrictions and development. Whereas our observations are

much closer to the theoretical analysis expectations and clearly refute the findings of previous observational research. We conclude, that our findings cast considerable doubts on the traditional view, indicating a strong and negative relationship between trade barriers and development. In other words, all trade barrier indicators used in the analysis are strongly and favourably correlated with growth except for limits on current account payments which are negatively but insignificantly correlated with growth. Consequently, our findings provide significant evidence for the hypothesis that trade barriers can promote development, especially in developed countries under certain conditions. It is important to remember that we have no intention of creating a clear and straightforward causal correlation between trade barriers and development in this report. Rather, our main purpose is to demonstrate that there is no such association between restrictions on trade and production. On the counter, this relationship depends for the most part on other country characteristics. In other words, trade barriers will favour a nation depending on whether it is a developed or developing nation, whether it is a large or a small country, and whether a country has a competitive advantage in those covered sectors.

Girma & Shortland, (2008) The literature on the economics and politics helps us to understand the distributional consequences of economic growth for the different economic sector initiatives. Narrow political industrial élites have access to resources via relationship banking in financially poorly developed economies. In contrast, the scarcity of arms-length financing limits the exposure of prospective competitors to investment funds and hinders investment in commodity markets. Consequently, it's also hypothesized that sometimes a group would prefer a low degree of financial growth, while others might profit from increased significant exposure to finance. Consequently, it's also hypothesized that sometimes a group would prefer a low degree of financial growth, while others might profit from increased significant exposure to finance. The power and influence of just the winners and losers of both the restructuring of the financial market decides therefore the degree of financial growth stability. Modifying development patterns are described by relative strength shift changes (via financial or legislation shocks).

Klomp, J., & De Haan, J. (2009) This research was performed using complex models to re-examine CBI's impact on financial volatility during the period 1985–2005. They proposed an alternate estimate of financial uncertainty, which is based on a factor analysis of different financial uncertainty metrics. This measure covers not only banking problems but uncertainty in other areas of the financial system as well. They concluded a significant negative

association exists between CBI and financial uncertainty. If we differentiate between political and economic freedom, the results show that this negative association is caused primarily by political rather than economic equality. Under different susceptibility checks, their result appears robust. We do consider countries where the central bank has a clear financial supervisory role have lower rates of financial uncertainty. Other economic parameters that influence financial instability are high GDP growth that substantially decreases financial instability and shifts in the currency exchange rate and liberalization of the capital system that boost financial instability; Increasing financial uncertainty is often political turmoil and lack of law and order.

Nasser & Gomez (2009) used pooled data collected from 15 countries of Latin America over a period ranging from 1978 to 2003. This paper explores the impact of development in financial market on FDI net inflows by analysing the strength of association between FDI and the extent of stock market movement and the banking system. The study findings include: (1) FDI is significantly as well as positively related with the amount of trading (a critical indicator representing the stock market movement) (2) FDI is significantly as well as positively related with the extent of private credit (PC) provided by the banking system, and (3) the impact of trading and PC on independent macro-economic variables such as economic openness to foreign direct investment, inflation, technical gap and level of infrastructure is considerable. Such findings prove that FDI is targeted towards financially stable and institutionally sound countries. Overall results describe the most important variables in understanding Latin American countries' FDI inflows, which are considerable for establishing regional economic policy.

Ewah, Esang, & Bassey, (2009) this study shows a connection between capital market efficiency and economic growth and development, market capitalisation, money supply, total stock investment, government development stock, and interest rate. As market capitalization can also be observed, government development stock and interest rate are significant capital market parameters capable of controlling Nigeria's economic growth. It is because, if it is well invested and not misapplied to unprofitable sector which does not even have the potential to induce growth, a large capital market expands the prospect of growth and also government development stock. The interest rate also serves as a measure of what's happening on the stock market. Similarly, supply of money and total in-stock transactions are potential growth that induces macroeconomic variables capable of boosting Nigerian economic growth. However the present study clearly shows that Nigeria's economic situation

has low absorptive capacity that seems to be financial capital cannot be absorbed productively to stimulate economic growth and development. Moreover, the market is defined by market volatility and excessive government regulations.

Lu, S. F., & Yao, Y. (2009) The private investment share is the only measure of financial progress having a consistently optimistic and strong impact on economic growth. The significant positive linkages observed in cross- analyses between other indices of financial stability and economic growth does not show up. The short time span covered by our study may be responsible for these results. In the literature, average growth levels of 20 to 30 years are studied while we only research data on the growth of 10 years. Nevertheless, since the early 1990s, our findings have mirrored the Chinese fact, that is, the private sector has become the driver of China's overall economic growth and the state sector has become a burden of its growth.

Gimet & Lagoarde-segot (2011) analyzes as well as explores the relationship of financial development and income distribution. The data of study has been analyzed by taking 49 countries for the period of 1994 to 2002 and by using the Bayesian structural vector autoregressive (SVAR) model. They discover a substantial interconnection running from financial division development to income distribution. In accumulation, the banking sector seems to apply a stronger influence on inequality. Lastly, the relationship gives the impression of depending on the features of the financial sector relatively than on its size.

Hoi, C. M., & Hoi, L. Q. (2012) conducted a study to analyse the link between income injustice and financial sector development of India by using data set ranging from 1982 to 2012. Unit root tests are applied for stationarity analysis including: ADF test, Ng-perron, KPSS and DF-GLS. By using ARDL bound co-integration estimation approach, the study proved the presence of long run interaction between income injustice and financial sector development in India and standard error removal mechanism used in short term interaction. The study proved positive impact of economic growth, financial sector development and inflation on income injustice during both short run and long run. Openness of trade is considered as a best tool for reducing inequality between rich and poor.

Sghaier & Abida (2013) argued that improving the recipient country's financial system is a significant pre-requisite for FDI to have a significant influence on economic well-being. A persistent and development in financial system highly contributes significantly to the FDI-related technological diffusion process. This paper empirically investigates the role played by

the financial system's developmental role in strengthening the significant link between FDI and economic wellbeing. Pertaining to this paper's empirical analysis, it strongly suggests that this is the scenario and case in this particular situation. Of the 67 data-set countries, 37 have a sufficiently established financial system to allow FDI making a significant role to economic wellbeing; specifically in Asia and Latin America.

Nair (2014) empirically looks at whether the improvement of the financial sector is a significant prerequisite for FDI to fuel economic wellbeing in the region of Asia-Oceania. The study also analyses whether the effect depends on the multi-level stages of the country's growth. This study conducted a survey of 44 countries in Asia and Oceania over a period ranging from1996-2005 using panel data analysis instruments (fixed effects-estimation and random effects-estimation) to determine the link between FDI, financial sector betterment and economic wellbeing. The empirical analysis found that FDI's major contribution to economic wellbeing in the area is strengthened by the financial sector development. It also found that for the region's least developed economies, the significant contribution of FDI and financial sector growth and development in economic wellbeing is the most considerable. The paper also addresses crucial approaches for improving the contribution of financial development and FDI on economic development and growth in emerging and least-developed countries in Asia and Oceania.

Journals (2014) used GDP as an independent variable. The gap of this research is found by searching different researches which have been conducted in the previous years. Most of the recent researches covered the time period from 2000-2012. From the period of liberalization, the foreign direct investment has received more importance.  So, in this research paper, the researchers have focused from the 1991-2015. The basic objective of this research is to see that after liberalization, how foreign direct investment affects the GDP of India. There is a very important role played by Foreign Direct Investment in the development of India. It is not important or taken as a source of capital, but it is also used to strengthen the infrastructure, transfer of the technology, by increasing the productivity or creating more opportunities for the employment and, by increasing the competitiveness of domestic economy. The Indian Government have to liberalise the policies of FDI to make the investors of the market user friendly. The tables and other statistical tools are used by the researchers, which show that Indian Government is encouraging the Foreign Direct Investment in the country. So, United Nations states that because of all these rules and policies, India is maintaining its rank in the top three positions of global investment.

Timsina, N. (2014) This study looks at the effect of commercial bank credit to the private sector on Nepal's economic growth from supply side perspectives. The research used the data from the time series for the period 1975-2013 to apply the Johansen co-integration method and the Error Correction Model. The empirical findings show that bank credit to the private sector has only long-term positive consequences on Nepal's economic development. Nonetheless a feedback effect from economic growth to private sector credit was observed in the short term. Empirical findings suggest that policymakers should concentrate on long-term policies to foster economic growth — modern banking sector creation, efficient financial market, infrastructure to improve private sector credit that is instrumental in fostering long-term growth.

Berger & Messer (2015) analyses the impact of financing modes for health care expenses in public sector, coverage of insurance expenses and the other tools related to health care outcomes. These variables are analysed through specific models using panel data from 20 OECD countries over a period ranging from 1960-1992. Excessive death rates are strongly dependent upon combination of health care expenses in public sector and coverage of insurance expenses. The findings prove that the variations in sampling frames and specifications resulted in the robustness of results indicating excess of expenses in public sector and financing causes increase in death rates.

Xd, Hh, Shen, & Lee (2015) re-studied the association between per capita growth in real GDP and financial development among 48 countries. The findings of this study proved as the interesting historical record regarding the positive impact of stock market growth and insignificant impact of banking sector development on over-all economic growth. This study also documented about the lack of assurance regarding their impact as a multiple of financial and economic variables. The study sample comprises a period of 25 years ranging from a period of 1976-2001. This study also uses different variables with growth and macroeconomic variables including: (INFLA) inflation and real GDP per capita income as dependent variables and adopted from IMF publication of (IFS) International Financial Statistics. Other explanatory variables include liabilities incurred, lending proportion and 3 stock market development variables adopted from Database of Financial Structure and Economic Development (FSEDD). However, spread, growth and consumption variability variables are adopted from World Development Bank Publishing of WDI (World Development Indicator) report.

Ayadi, *et al.,* (2015) Different econometric requirements of the financial sector-to-economic growth relationship in the SEMC were evaluated in this research during the period 1984–2010, but showed only robust ones. They implemented many FD steps to compensate for the impact of both volume and price, and to protect the whole financial sector. Their findings indicate that, in many parameters, credit to the private sector and bank deposits are negatively linked to growth. Credit distribution issues as well as inadequate financial oversight and control within the SEMC are present. The scale of the stock market and liquidity play a role in growth, especially when institutional efficiency is poor. Investment leads to economic development, whether domestic or in the form of foreign direct investment. Significant growth drivers are strong structures and low inflation. Initial Gross domestic product has a constant, and dramatically negative, growth effect. Poorer nations catch up with the wealthy nations.

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Furuoka (2015) Between 1980 and 2012, this researcher examined interactions between the financial development and resource consumption in Asia. The results of the panel cointegration test indicated a long-term co integration association among financial growth as well as power consumption in the region. Most significantly, the conclusions generated from the heterogeneous panel cause and effect experiments showed that from power consumption to financial growth throughout the regions there was asymmetric causality but perhaps not vice-versa. Financial advancement did not appear to have triggered the development of consumption of energy in Asia according to some of the findings. Alternatively, a rise in energy use would likely lead to improvements throughout the financial sector. This literature review has tended to focus on the Asian region and then used financial and energy data from the time series spanning the period from 1980 to 2012. Future inquiries using expanded sources of data will indeed improve the current understanding of both the intersection of finance energy.

Ardl, A.(2017) research shows that how the foreign capital inflows and domestic development of financial sector effects the economic growth of Pakistan. By taking the annual data of the World Bank and also the economic survey of Pakistan from the period 1971 to 2008, there are some testing approaches which are bounded by the ARDL for the co-integration and also the Error Correction Model, which is employed for the long and short-term relationship. The empirical study shows that the inflows of foreign capital have the

positive impact on the economic growth of Pakistan. The development of financial sector and the public investment increases the economic growth. Inflation and human capital contribute to the economic growth. The current study suggests that the Government of Pakistan must have to undertake the financial reforms to increase the domestic financial sector's efficiency to increase the economic growth of the country.

Parker & Wong (1997) study's basic purpose is to explore the determinants of the expenditure household health in Mexico. The analysis of this study shows the co-variation in the household monetary healthcare expenses by using the demographics and economic data of the household. The scholars pay attention that how the household income affects the health expenditure with the elasticity of the expenses of healthcare with the groups of different income level. By using the Mexican National Survey of income and the Expenditure of 1989, the scholars found that the healthcare expenses of Mexican household are very sensitive to change according to the income level of different groups and it is more difficult for the low income level. It shows that in the period of economic crises, the household decreases the cash expenses on the healthcare proportionately.

In particular, Feyrer (2001) indicates that while the distribution of capital-output ratios is one-peaked and the distribution of educational rates is almost ßat, the distribution of residual production has been more and more twin-peaked. Such research clearly indicates that technology is the core driver behind rising inequalities in cross-country wages. The theory suggests that any nation with more than a certain crucial degree of financial advancement will converge to the global technology frontier growth rate, and that all other countries will have a distinctly lower long-run growth rate. The present data supporting these and other consequences is interacted with financial intermediation in the context of a cross-country growth regression with a strong and substantial negative coefficient on initial per-capita GDP (relative to the US). Moreover, we find that other variables reflecting education, geography, health, culture, culture, and institutions do not influence the importance of the relationship between financial intermediation and initial per capita GDP, and do not display any independent impact on convergence in the regressions. Our results are rigorous in extracting outliers and alternate sets of selection, assessment methods, and financial growth measures.
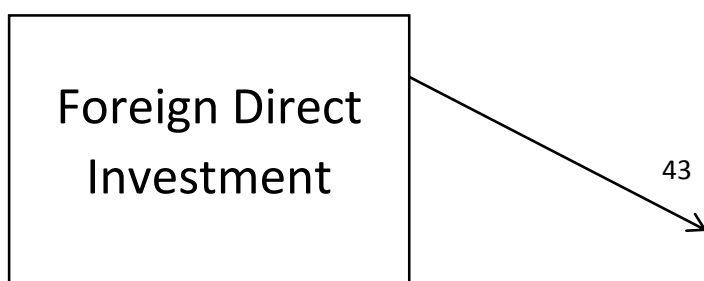
Mayer & foulkes, (2002) show a significant number of observational studies have found that the large income gaps that have arisen are largely due to productivity gaps rather than to the education and capital accumulation disparities cited by the neoclassical development hypothesis.
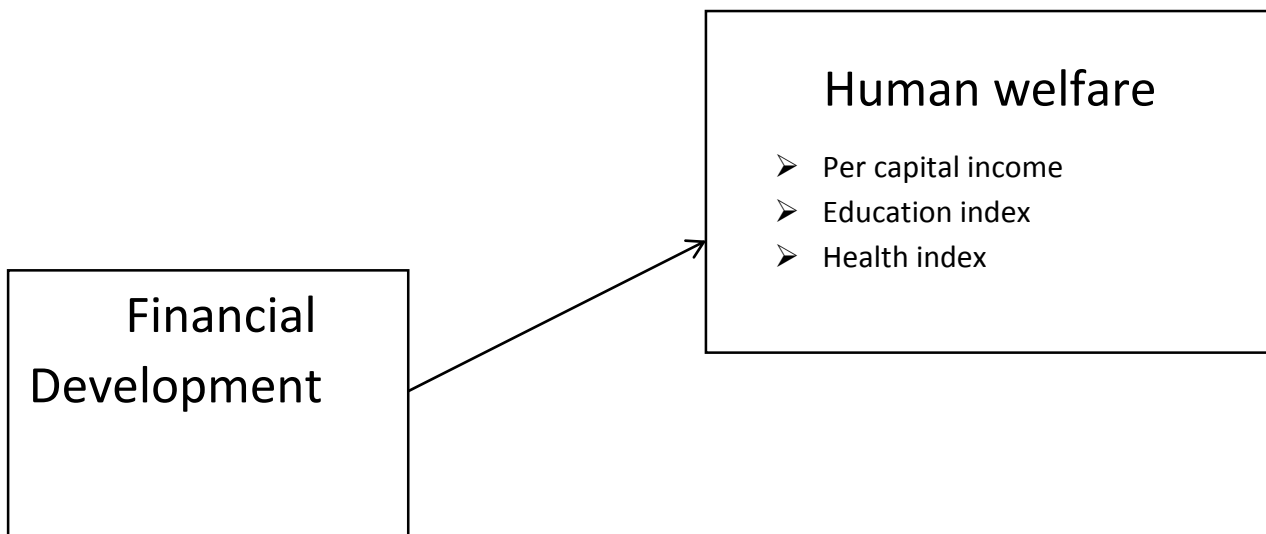
Wang. et all,(2011) survey covers total 69 countries and all factors are calculated over twenty years ranging from 1970–1979 and 1980–1989 as in BDL, 1998. They found that there is still the complementarity between inward FDI and schooling, but in the current study, the schooling threshold is less than the standard threshold calculated in study. The findings of study affirm the value of quality of education and indicate that with improvement in education quality, it does not require as much schooling as was identified in for incoming FDI to have a positive impact on host country economic wellbeing.

Haq (2012) looked at the effect of the project on economic growth of Pakistan. The data used in this study was gathered from 1981 to 2010 to assess the relationship among gross domestic product as dependent variable. On the other hand, public investment, private investment, and foreign direct investment are used as independent variables of this study. The statistical technique used in this study is multiple regression technique, which is used to analyse the strength as well as association of relationship among variables. Therefore, it is suggested that all independent variables (IV) were concluded to have a major and positive impact on economic growth. The Granger causality test identified the two-way relationship between gross domestic production and foreign direct investment & public investment, whereas the unidirectional relationship between gross domestic production and private investment is found. It is proposed that Pakistan made greater efforts in the short term to draw as much FDI as possible to the foreign-exchange sectors. Equally critical to draw FDI are stability of political situation in the country and adequate law and order situation.

## 2.1 Theoretical framework:

The theoretical framework is shown in figure 1 below which illustrates that the main determination of this research study is to investigate the impact of foreign direct investment and financial development on human welfare.

Foreign Direct Investment

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┌─────────────────────────┐          ┌──────────────────────────────────┐
│                         │          │          Human welfare            │
│       Financial         │          │                                  │
│     Development         │─────────▶│    ➢ Per capital income          │
│                         │          │    ➢ Education index             │
│                         │          │    ➢ Health index                │
└─────────────────────────┘          └──────────────────────────────────┘
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## CHAPTER 3

## DATA AND METHODOLOGY

To achieve the objective of targeted research, this chapter will describe data, type of data, research methodology and result estimation techniques. Main intention of this research is to estimate the impact of foreign direct investment and financial development on human welfare in south Asian countries.

Panel data methodology begins by applying panel unit root tests. Next, techniques of panel data Pedroni (2004), Johansen Fisher, Fully Modified Ordinary Least Square (FM-OLS) are applied to analyse link between variables.

To find the overall impact of FDI and financial development on human welfare, four models are developed. First model describes the impact of financial development and FDI on human welfare. Second model discuss the impact of financial development and FDI on per capita income. Third model explain the impact of financial development and FDI on school enrolment and fourth model shows the impact of FDI and financial development on human development index.

**3.1 Data:**

We wanted to collect data from south Asian countries namely Afghanistan, Bhutan, Sri Lanka, India, Pakistan, Bangladesh, Nepal and Maldives. We collected data from countries but the collected data was not credible to apply statistical analysis on that some figures were missing and not properly arranged so, On the basis of data availability we used data from four countries (Pakistan, India, Nepal and Sri Lanka) which was reliable enough to analyse. The study covers time period from 1990 to 2016. In this study Secondary data was utilized while, the data collected by State Bank of Pakistan (SBP), World Governance Indicator (WGI), Economic Survey of Pakistan (2012-2013), Pakistan Bureau of Statistics (PBS), and united Nation Development Program (UNDP) reports.

Panel data is utilized when the behaviour of multiple cross-sectional units is analysed over various periods of time. Considering the nature of this research, panel data will be used. Panel data also limits the issues such as heterogeneity by controlling the impact of unobservable effects of variable (Reppas and Christopoulos, 2005). Moreover, it also provides more informative data with enhanced reliability, efficiently.

**3.2. Data types in panel data**

There are two kinds of panel data.

**3.2.1. Micro panel data**

This is type of panel data where time duration (T) is lesser then number of entities (N) i.e. N>T. The Issue of stationarity is removed in micro panel data. In micro panel, cross sectional units are not Inter-related as their number is randomly chosen.

**3.2.2. Macro panel data**

Here, number of entities (N) is smaller than the observation time period (T). Because larger time period (T) and number of entities (N) are involved, there are problems of stationarity, causality and co-integration found in macro panel data.

Two more varieties of panel data are balanced and unbalanced panel. For balanced panel whole data is present while for unbalanced panel some of data might be missing. The under-considered research study uses Macro panel data as the type of panel data.

**3.3. Data Sources**

Source of data, as described in earlier stated Models, for data of life expectancy, real GDP, GDP per capita, population growth, FDI are taken from World Development Indicators (WDI) online resource and Data of HDI human development reports of UNDP.

## 3.4. Methodology of panel data:

Panel data is superior than time series data owing to following facts

(i) It has less collinearity between variables, is more reliable and efficient because panel data has bigger sample size.

(ii) To see the impacts of unobservable variables, which are related with independent Variables, scholars are given the opportunity to incorporate time and country specific effects in panel data. (Reppas and Christopoulos, 2005).

### 3.4.1 Proposed Econometrics Methodology:

### 3.4.2 Principal Component Analysis:

Principal Component Analysis (PCA) is a commonly used statistical technique for dimension reduction and clustering visualization on mass spectrometry data. In fact, the main component analysis would use an orthogonal transformation to classify the key components that are similar to a linear variation of protein levels and linearly un-correlated to each other. Much of the data volatility from specific samples is required to compensate for the identified principal components. The PCA will then use the key component found to identify sample or protein subsets that are responsible for the plurality of differences between groups and thereby minimize the data element. The participation of proteins to the key components defined will be analyzed, and the proteins with a high contribution to the main components are essential and have a significant impact on the data distribution. In addition, the data from every sample can be approximated to represent the relative variability of the multi dimensional data in a scatter plot of the two main components. The samples with some identical characteristics will be placed in the scatter plots opposite each other. Therefore, the

key component will divide the samples into subgroups, where available, and to classify the sample subsets that could be correlated with various phenotypes under analysis. Notice that the PCA can't typically reliably identify specific borders in the data between various clusters or subsets. The combined use of the PCA with clustering approaches will help us understand the scale, validity and distribution of the clusters. Due to unavailability of single absolute terms index in the literary works to determine financial advancement, we use Principal Component Interpretation on the basis of four pillars of financial growth described above to generate new FINDSAC variable. The Principal Component Analysis (PCA) usually involves a complex mathematical method that somehow converts a total number of (possibly support) associated variables into (less) a number of uncorrelated variables called principal components. The principal component parts are, exactly equivalent and these are also negatively correlated.

### 3.4.3 Panel Regression Techniques:

In order to cope with heterogeneity or individual effects that can or cannot be perceived, the study will use panel regression technique to analyze individual consequences (country-specific), time effects or maybe both.

In order to get data analysis, the panel data analysis does have some benefits, like those of greater degrees of freedom as well as sample inconsistency over cross-sectional data analysis or in the time series data analysis. In addition, the data analysis panel will make it possible to let us simultaneously analyze the dynamic relationships of a large number of entities as well as significantly reduce multicollinearity underlying issues if individual time series are modeled.

### 3.5. Techniques for Estimation:

In assessing relationship between different variables, first step is to assess the stationarity of the given variables and this is done by using different unit root tests:

### 3.5.1. Unit Root Tests in Panel data:

Testing integration of the variables is the first step in panel data methodology. To estimate which variables are stationary or not, different unit root test is used to check stationarity of

variables. In stationary series covariance, constant variance and constant mean are present for each lag in the given data. In the first step if the series is non-stationary, to make it stationary difference of variables is taken. Natural integration order of variables is suggested to use rather than taking first and second difference to sort the series stationary which can direct to the likelihood of absence of long-term relationship (Vuranok, 2009).

Different panel unit root tests are following:

Levin Lin Chu test (2002)

Hadri (2000)

Augmented Dicky-Fuller (ADF)

Maddala and Wu test (1999)

Im Pesaran Shin test (2003)

In this study, Augmented Dicky-Fuller test is used to assess the stationarity of the variables.

### 3.5.2. Panel Co-integration:

After checking the order of integration of variables and applying the unit root test question arises, that co integration is present among the variables and if there is no co integration is present between these variables. Latest test of panel co-integration, to test presence of stochastic trend in long run in variables or not, are more powerful as compared to traditional tests.

If there are some variable with integration order 1 then following co-integration assessment techniques are used:

 Johansen Co-integration (1998)

Pedroni Co-integration (1999)

### 3.5.2.1. Pedroni Co-integration (1999)

 Pedroni used different test in analysis of panel data for co-integration, these test permit heterogeneity considerably. Pedroni made null hypothesis, he didn't assume any co-integration and cross section. If in the panel null hypothesis, co-integration is present than that hypothesis is not accepted. Pedroni test allowes to modification through different units of

panel for co-integration vector for dissimilar regressors. Furthermore, it gives proper critical values in multifaceted regression (Pedroni, 1999). Pedroni suggested this regression panel model.

In order to assess the co-integration among different variables in panel, seven types of co-integration statistics are proposed by Pedroni. Among these seven tests, the first four tests are on merging laterally in dimensions in first category. The co-integrations statistics are called group mean in second category. The bases of next three tests are pooling literally among dimensions. Over long period, distortions in magnitude and high power is very small in these seven statistics models which are explained by Pedroni. Major drawback of Pedroni's test is just that, it only handles just one co-integrating vector.

### 3.5.2.2. Johansen Co-integration (1998)

Maddala and Wu (1999) and Johansen based on multivariate framework presented Fisher test for co-integration. Two methods are suggested by Johansen in this test. First is likelihood ratio trace statistic that is used for time series when there is non-stationarity. Next method is maximum Eigen values statistics that is used to detect the co-integrating vectors. The purpose of running this test is to figure out co-integrated vector greater than one and the system methods are based on it. This gves best results if the time duration is longer and cross-section units are smaller ((Hlouskova and Wagner, 2009). the fact that it can be used for both balanced and unbalanced panel is another benefit of this test. Hence, Pedroni and Fisher test are applied in this research.

### 3.5.3. Co-integration regression estimation in panel data

After the verification of co-integration between variables, the computation of co-integrating parameters is the next step. then ideas furnished by OLS are considered prejudiced and erratic when co-integration is found to exist in variables. This is the reason why multiple methods for calculation are suggested. One of example is Dynamic OLS proposed by Chiang and Kao (2000). These are especially useful for small samples of co-integrated panel.

### 3.5.4. Specification of Models

Four models are formed to find out the general influence of Foreign Direct Investment on Human Welfare. First model describes the impact of foreign direct investment and financial development on Index. Second model discuss the impact of foreign direct investment and financial development on school enrolment. Third model explain the impact of foreign direct

investment and financial development on per capita income and fourth model shows the impact of FDI and financial development on human development index.

**Data Analysis Software and Statistical Methods:**

**Model -1: Health Index**

$$HI_{it} = \beta_{1i} + \beta_2 X_{1it} + \beta_3 X_{2it} + \beta_4 X_{3it} + \varepsilon_{it}$$

**Model -2: Per Capita Income**

$$PCI_{it} = \beta_{1i} + \beta_2 X_{1it} + \beta_3 X_{2it} + \varepsilon_{it}$$

**Model -3: School Enrollment**

$$SCE_{it} = \beta_{1i} + \beta_2 X_{1it} + \beta_3 X_{2it} + \beta_4 X_{3it} + \varepsilon_{it}$$

**Model -4: Human Development Index**

$$HDI_{it} = \beta_{1i} + \beta_2 X_{1it} + \beta_3 X_{2it} + \beta_4 X_{3it} + \varepsilon_{it}$$

**Model 1: Impact of Financial Development and FDI on Health Index (Life Expectancy)**

Here, is dependent variable, is control variable and are explanatory variables. β is the coefficient of explanatory variable that describes the strength and direction of influence on human welfare. Additionally, i denotes the group identifier (i.e. countries), and t symbolizes the time span (i.e. years from 1990 to 2016). Likewise, is error term that is the unobservable country effect fixed over time.

Y= Human Index

X1 = Financial Development index

X2 = foreign Direct investment

X3 = Population Growth

X4 =GDP

**Theoretical justification of the variables used in the Model-1:**

**Gross domestic product (GDP):**

Real GDP is used as control variable in this model. As GDP rises life expectancy also rises. Data of GDP is GDP (constant 2010 US$). There is positive link between GDP and life expectancy. Similarly, the outcomes of Turan (2009). Cervellati and Sunde (2011).

**Population growth (PR):**

Population rate is used as a control variable in this model. Data of population rate is population growth (annual %). Negative relation found between population rate and HDI. Similar to the results of Sapkota (2011) and Kelley and Schmidt (1995).

**Foreign direct investment (FDI):**

FDI is a control variable in this model. Measure the Data of FDI from Foreign direct investment, net inflows (BoP, current US$). significant link between FDI and per capita Upreti, (2015).

**Financial Development**

However, if there is issue of heterogeneity in cross sections then Dynamic OLS is unable to provide precise and accurate results. To resolve such hitches complete modified OLS is suggested by by Pedroni (2000; 2001).

**Model 2: Impact of Financial Development and FDI on Per Capita Income**

In the data analysis below there is dependent variable, is control variable and are explanatory variables. β is the coefficient of explanatory variable that describes the strength and direction of influence on human welfare. Additionally, i denotes the group identifier (i.e. countries), and t symbolizes the time span (i.e. years from 1990 to 2016). Likewise, is error term that is the unobservable country effect fixed over time.

Y= Per capita income

X1 = Financial Development index

X2 = foreign Direct investment

X3 = Population Growth

**Theoretical justification of the variables used in the Model-2:**

**Population growth (PR):**

Population rate is used as a control variable in this model. Data of population rate is population growth (annual %). Negative relation found between population rate and HDI. Similar to the results of Sapkota (2011) and Kelley and Schmidt (1995).

**Foreign direct investment (FDI):**

FDI is a control variable in this model. Measure the Data of FDI from Foreign direct investment, net inflows (BoP, current US$). significant link between FDI and per capita Upreti, (2015).

**Financial Development**

However, if there is issue of heterogeneity in cross sections then Dynamic OLS is unable to provide precise and accurate results. To resolve such hitches complete modified OLS is suggested by by Pedroni (2000; 2001).

**Model 3: Impact of Financial Development and FDI on School Enrolment**

Now, there is dependent variable, is control variable and are explanatory variables. β is the coefficient of explanatory variable that describes the strength and direction of influence on human welfare. Additionally, i denotes the group identifier (i.e. countries), and t symbolizes the time span (i.e. years from 1990 to 2016). Correspondingly, is error term that is the unobservable country effect fixed over time.

 Y=School Enrolment

X1 = Financial Development

X2 = foreign Direct investment

X3 = Real GDP

X4 = Population Growth

**Theoretical justification of the variables used in the Model-3:**

**Foreign direct investment (FDI):**

FDI is a control variable in this model. Measure the Data of FDI from Foreign direct investment, net inflows (BoP, current US$). significant link between FDI and per capita Upreti, (2015).

**Financial Development**

However, if there is issue of heterogeneity in cross sections then Dynamic OLS is unable to provide precise and accurate results. To resolve such hitches complete modified OLS is suggested by by Pedroni (2000; 2001).

**Gross domestic product (GDP):**

In this model, real GDP is utilized as a control variable. As GDP rises life expectancy also rises. Data of GDP is GDP (constant 2010 US$). There is positive link among GDP and life expectancy. Similarly, the outcomes of Turan (2009). Cervellati and Sunde (2011).

**Population growth (PR):**

In this model, population rate is also utilized as a control variable. Data of population rate is population growth (annual %). Negative relation found between population rate and HDI. Similar to the results of Sapkota (2011) and Kelley and Schmidt (1995).

**Model 4: Impact of Financial Development and FDI on HDI**

Here, is dependent variable, is control variable and are explanatory variables. β is the coefficient of explanatory variable that describes the strength and direction of influence on human welfare. Additionally, i denotes the group identifier (i.e. countries), and t symbolizes the time span (i.e. years from 1990 to 2016). Also, is error term that is the unobservable country effect fixed over time.

Y=Human development index

X1 = Financial Development index

X2 = foreign Direct investment

X3 = GDP

X4 = Population Growth

**Theoretical justification of the variables used in the Model-4:**

**Gross domestic product (GDP):**

Real GDP is used as control variable in this model. As GDP rises life expectancy also rises. Data of GDP is GDP (constant 2010 US$). There is positive link between GDP and life expectancy. Similarly, the outcomes of Turan (2009). Cervellati and Sunde (2011).

**Population growth (PR):**

Population rate is used as a control variable in this model. Data of population rate is population growth (annual %). Negative relation found between population rate and HDI. Similar to the results of Sapkota (2011) and Kelley and Schmidt (1995).

**Foreign direct investment (FDI):**

FDI is a control variable in this model. Measure the Data of FDI from Foreign direct investment, net inflows (BoP, current US$). significant link between FDI and per capita Upreti, (2015).

## 3.6 Financial Development

However, if there is issue of heterogeneity in cross sections then Dynamic OLS is unable to provide precise and accurate results. To resolve such hitches complete modified OLS is suggested by by Pedroni (2000; 2001). This modified version not only resolves the problem of heterogeneity and endogeneity in small samples but also gives more accurate and unbiased results. In this study as an independent variable, we are using financial development. In the current survey-based data analysis, Impact of financial development of major South Asian countries i.e. Afghanistan, Bhutan, Bangladesh, India, Srilanka, Nepal and Pakistan is being estimated on human welfare of common citizen of these countries. Financial development in developing countries could be righteously defined as the development of the financial sector in developing countries and emerging markets appears to be part of the development strategy for most of the private sector to stimulate economic growth, expand the economy and reduce poverty which will strengthen the economy.

To calculate the impact of financial development on the wellbeing, nine proxy variables are being used in this study. We can define a proxy variable as an easily quantifiable variable which is used for a variable that is not measurable or is being difficult to quantify. The proxy

parameter used in this study is something that is not in itself of considerable interest but has a close causal relationship with the interest factor. In this study proxy variables are merged and financial development through principal component analysis is measured. This also identify the gap in this study, in previous studies financial development has not been measured by using nine proxy variables, in previous studies no literature evidence of this study is found.

They provided evidence showing that openness as well as institutions are the insignificant causal factors for the financial development. Openness is especially potent in fostering financial growth in middle-income countries, in the matter of trade and capital flows, however much fragile in low-income countries. This study results turned out to be robust towards alternate measures of financial and trade openness along with method of estimation and sample time. Dimitriades (2006)

## 3.7 Proxy variables of Financial Development

- Bank Concentration measured in percentage
- Bank deposit to GDP measured in percentage
- Central Bank Assets to GDP measured in percentage
- Domestic Private Credit (M2) to GDP measured in percentage
- Liquid Liabilities to GDP measured in percentage
- Domestic Credit by Banking sector measured in percentage
- Deposit Money Bank Assets to GDP measured in percentage
- Life insurance premium volume to GDP measured in percentage
- Non-Life Insurance premium volume GDP measured in percentage

### 3.7.1 Bank Concentration (BC) (%)

The bank concentration, to be measured in percentage, measures the proportion of the three main banks' assets with total assets of banking sector. (Bank Scope) (Clarke et al., 2006, Peachey and Roe 2006, Chinn and Ito 2008, Noureen, 2010)

### 3.7.2 Bank Deposits to GDP (BD) (%)

The ratio of bank deposits to GDP measures those movable deposits which are acknowledged by commercial banks as well as other financial institutions for instance time, saving deposits and demand in proportion to the GDP. (IMF, 2012)

### 3.7.3 Central Bank Assets (CBA) to GDP (%)

The proportion of central bank assets with the GDP measures the claims of central bank on the real and domestic non-financial sector to be assessed using the deflation method. (IMF, 2012) (Allen 2011, Ausrine Lakstutiene 2008, Siklos 2010,)

### 3.7.4 Domestic Private Credits (DPC) (M2) to GDP (%)

The ratio of domestic private credits to GDP is measured as the credit given by financial institutions to the private sector as a financial resource to the GDP share (World Bank, 2012). (King and Levine 1993, Levine and Zervos 1998, Demirguc-Kunt and Levine 2008, Huang 2010, Antzoulatos 2008, De Gregorio and Guidotti 1995, Kulfk 2002, Ngugene and Abimbola 2013)

### 3.7.5 Liquid Liabilities (LL) to GDP (%)

The ratio of liquid liabilities to GDP is measured as the sum of M0, M1, M2, travellers' checks, and commercial paper, overseas time deposits in foreign currency, and mutual funds shares and market funds of residents to the GDP share. Deposits and currency kept in the central bank are considered under M0. Electronic exchanges and moveable deposits bank are considered under M1. Deposit funds, time funds, deposits of foreign currency exchanges, deposit certificates, and contracts of securities repurchases are considered under M2. (World Bank 2012). (Goldsmith 1969, Levine 1997, Demetriades and Hussain 1996, Rousseau and Watchel 2000, Beck et al 1999, Huang 2010, Noureen 2010, Saci and Holden 2008, Ngugene and Abimbole 2013)

### 3.7.6 Domestic Credit by the banking sector (DCB) (%)

The ratio of domestic credit lend by the banking sector to GDP share is the proportion of credit issued by banking sector and extended to the general government and private sector. It also involves credit to the non-financial sector of public under the umbrella of investments made in the securities of government covering short as well as long term loans to not only banking, but also non-banking institutions along with state owned enterprises to the GDP share. However, this ratio does not include credit score given to the central government". (World Bank 2012) (Baltagi et al., 2009, Honhan 2004, Beck 2007 and Cihak 2007)

### 3.7.7 Assets (DMB) to GDP (%)

The ratio of assets to GDP is measured as total assets seized by deposit money banks (DMBs) to the GDP share. (IMF, 2012) (Hellmann et al., 1996, Levine and Zervos 1998, Beck et al 2000, Huang 2005, Noureen 2012)

# Chapter 4

# Data Analysis and results Discussions

**Table 4.1. LLC Test Panel Unit Root Results**

| Variables | LLC test (At Level) | P-value | LLC test (At First Difference) | P-value |
|-----------|---------------------|---------|--------------------------------|---------|
| LFD | 0.59977 | 0.7257 | -3.70655 | 0.0001 |
| LGDP | 0.64520 | 0.7406 | -4.92068 | 0.0000 |
| LPG | 4.31301 | 1.0000 | -5.59407 | 0.0000 |
| LPCI | 1.50777 | 0.9342 | -5.81947 | 0.0000 |
| HDI | 0.19895 | 0.5788 | -12.6999 | 0.0000 |
| LFDI | 2.98137 | 0.9986 | -14.9756 | 0.0000 |

**Table 4.2: ADF Test Panel Unit Root Results**

| Variables | ADF test (At Level) | P-value | ADF test (At First Difference) | P-value |
|---|---|---|---|---|
| LFD | 14.7045 | 0.9984 | 73.9782 | 0.0001 |
| LFDI | 7.55007 | 1.0000 | 168.290 | 0.0000 |
| PG | 18.0580 | 0.9886 | 92.2177 | 0.0000 |
| HDI | 9.97086 | 1.0000 | 142.334 | 0.0000 |
| LGDP | 8.50275 | 1.0000 | 92.8681 | 0.0000 |
| LPCI | 1.62168 | 1.0000 | 122.353 | 0.0000 |

These two tables indicate that all the variables are non-stationary at first level.

## 4.2. Model-1: Impact of Financial Development and FDI on Health Index (Life Expectancy)

### 4.2.1. Pedroni Panel Co-integration Results

To check cointegration in the variables in this model Pedroni (1999, 2004) test was used. In this model result was not significant, showing absence of cointegration in all the variables Financial Development FDI, GDP Population and LLF

**Table 4.3: Pedroni Panel Co-integration Results**

| Models | Statistics | P-value | Statistics | P-value |
|---|---|---|---|---|
| Panel *v*-statistics | -0.730128 | 0.7673 | 0.284800 | 0.3879 |
| Panel δ-statistics | 3.025600 | 0.9988 | 2.535773 | 0.9944 |
| Panel pp-statistics | 2.490440 | 0.9936 | 1.181429 | 0.8813 |
| Panel adf-statistics | 3.209928 | 0.9993 | 0.940335 | 0.8265 |
| Group δ-statistics | 4.122677 | 1.0000 | | |
| Group pp-statistics | 1.300308 | 0.9033 | | |
| Group adf-statistics | 0.923997 | 0.8223 | | |

### 4.2.2 Johansen Fisher Panel Co-integration Results

To study the presence of cointegration among variables test by Johansen Fisher is used. The results are presented in the table. Co-integration technique developed by Johansen Fisher is also used to study the presence of cointegration among variables. The results estimated with the help of Johansen Fisher cointegration technique are reported in Table. Cointegrating vectors shown significant with Trace statistics in addition to Maximum Eigen statistics.

**Table 4.4: Johansen Fisher Panel Co-integration Results**

| No. of CE(s) | Statistics | P-value | Statistics | P-value |
|---|---|---|---|---|
| | Trace Stat | | Max Eigen Stat | |
| **None** | 730.6 | 0.0000 | 446.8 | 0.0000 |
| **At most 1** | 412.4 | 0.0000 | 255.5 | 0.0000 |
| **At most 2** | 238.2 | 0.0000 | 148.9 | 0.0000 |
| **At most 3** | 138.1 | 0.0000 | 114.7 | 0.0000 |
| **At most 4** | 71.02 | 0.0002 | 71.02 | 0.0002 |

Johansen Fisher used to check the cointegration in variables. As in present study when there is long time span and small number of cross sectional units then Fisher test is better from Pedroni test. (Hlouskova and Wagner, 2009). Results of Fisher test in tables are reported. Trace statistics in addition to Maximum Eigen statistics show 4 cointegrating vectors. The existence of four cointegrating vectors approves the long run relationship among variables.

### 4.2.3. Results of Fully Modified OLS

**Table 4.5: Results of Fully Modified OLS**

| Variables | Coefficients | Stand error | t-statistics | P-Value |
|---|---|---|---|---|
| **LFD** | 0.128504 | 0.012231 | 10.50641 | 0.0000 |
| LFDI | 0.054122 | 0.012328 | 4.390171 | 0.0000 |

| | | | | |
|------|----------|----------|----------|--------|
| LPG | 0.038903 | 0.007276 | 5.346694 | 0.0000 |
| LGDP | 0.055478 | 0.005460 | 10.16115 | 0.0000 |

**Explanation:**

In the above table independent variable are Financial Development ( LFD), Foreign Direct Investment, Population growth and GDP.I increase in LFD causes increase in life expectancy (LLE) above table shows that One percent increase in LFD causes 0.1285 percent increase in LLE. Probability value of LFD is 0.0000 which show null hypothesis is rejected and alternative hypothesis is accepted that indicate that LFD has significant on LLF in Long run. Established that the effect of FDI and Financial Growth on human welfare is significant and positive.

The co-efficient value of FDI shows that positive effect on Life expectancy. One percent increase in LFDI causes 0.0541 percent increase in LLE. Significant probability value shown by LFDI that on life expectancy there is a significant effect of LSG.

Control variables are GDP (LGDP) and Population growth also show positive and significant effect on LLF in long run. The result of FDI in the domestic economy is expected to be expanding exports, grow up the economy through technology transfer, and create employment opportunities. There are some benefits of FDI as it provides a way which we exploit and better use of raw material locally presents modern ways of management as well as marketing. Foreign inflows are utilized for financing deficit in current accounts. Another advantage of FDI is it doesn't generate repayment of principal and interest Falki (2009). Long run economic growth is correlated with welfare with the amount of financial development. Therefor the importance of financial development is more pronounced in past few years Raza, shahzadi. &; Akram (2014).Studies of human welfare encompassing the factors such as literacy, life expectancy and GDP using United Nations Human Development Index (HUMDEVI). Croos (1992)

Difference between Foreign direct investment and financial development is 0.074382. Comparison of foreign direct investment and financial development showed that the coefficient value of population growth is 0.0389 and gross domestic product is 0.0554 then coefficient of foreign direct investment 0.1285 is greater than the coefficient of population growth and gross domestic product which means that effect of FDI is greater than population

growth and gross domestic product on life expectancy just like the result of Balasubramanyam, et al., 1996; De Mello, 1999.

## 4.4. Model-2: Impact of Financial Development and FDI on Per Capita Income

### 4.4.1. Pedroni Panel Co-integration Results

To check cointegration in the variables in this model Pedroni (1999, 2004) test was used. In this model result was not significant, showing absence of cointegration in all the variables Financial Development FDI, Population growth and LPCI

+iTable 4.6: Pedroni Panel Co-integration Results

| Models | Statistics | P-value | Statistics | P-value |
|---|---|---|---|---|
| Panel *v*-statistics | -1.334562 | 0.9090 | -1.124080 | 0.8695 |
| Panel δ-statistics | 1.885124 | 0.9703 | 1.717169 | 0.9570 |
| Panel pp-statistics | 0.977263 | 0.8358 | 0.595390 | 0.7242 |
| Panel adf-statistics | 2.359292 | 0.9908 | 1.281740 | 0.9000 |
| Group δ-statistics | 3.338730 | 0.9996 | | |
| Group pp-statistics | 1.748499 | 0.9598 | | |
| Group adf-statistics | 2.459705 | 0.9930 | | |

### 4.4.2. Johansen Fisher Panel Co-integration Results

To study the presence of co-integration among variables test by Johansen Fisher is used. The results are presented in the table. Co-integration technique developed by Johansen Fisher is also used to study the presence of co-integration between variables. The results estimated with the help of Johansen Fisher co-integration technique are reported in Table. Co-integrating vectors showed significant with Trace statistics in addition to Maximum Eigen statistics.

**Table.4.7: Johansen Fisher Panel Co-integration Results**

| No. of CE(s) | Statistics | P-value | Statistics | P-value |
|---|---|---|---|---|
| | | | **Max Eigen Stat** | |
| **None** | 253.8 | 0.0000 | 179.8 | 0.0000 |
| **At most 1** | 116.2 | 0.0000 | 84.87 | 0.0000 |
| **At most 2** | 65.83 | 0.0009 | 57.13 | 0.0078 |
| **At most 3** | 42.28 | 0.1558 | 42.28 | 0.1558 |

Results of Fisher test in tables are reported. Trace statistics in addition to Maximum Eigen statistics show 3 co-integrating vectors. The existence of three co-integrating vectors approves the long run relationship among variables.

### 4.4.3. Results of Fully Modified OLS

**Table 4.8: Results of Fully Modified OLS**

| Variables | Coefficients | Stand error | t-statistics | P-Value |
|---|---|---|---|---|
| **LFD** | 0.449029 | 0.065032 | 6.903947 | 0.0000 |
| **LPG** | 1.305774 | 0.163413 | 7.990618 | 0.0000 |
| **LFDI** | 0.160301 | 0.032258 | 4.969270 | 0.0000 |

**Explanation:**

In the above table independent variable are Financial Development ( LFD), Foreign Direct Investment and Population growth .increase in LFD causes increase in LPCI above table shows that One percent increase in LFD causes 0.4490 percent increase in LPCI in long run. Probability value of LPCI is 0.0000 which show null hypothesis is rejected and alternative hypothesis is accepted that indicate that LFD has significant on LLPCI in Long run.  The co-efficient value of FDI shows that positive effect on LPCI. One percent increases in LFDI

causes 0.160301 percent increase in LPCI in long run. Significant probability value shown by LFDI that on life expectancy there is a significant effect of LSG.

Difference between Foreign direct investment and financial development is 0.288728. Control variables is Population growth also show positive and significant effect on LPCI in long run.

Literature confirms that an effective financial system definitely encourage investment by simplifying exchange of goods and services, mobilizing savings, sufficient capital business opportunities, differentiating and reducing risks and recognizing mobilizing savings and so on. The system surely helps enhancing best division of resources and thereby, playing vital role towards economic growth in its development cycle. However, finance-growth connection could have imperative impact on the reduction of poverty. Pradhan (2017). . In distinction if credit is inadequate that both lower and middle classes are credit controlled, a more unequal distribution of income resulted in smoother consumption and GDP. Lyigun et al., (2004)

## 4.5. Model-3: Impact of Financial Development and FDI on School Enrollment

### 4.5.1. Pedroni Panel Co-integration Results

To check co-integration in the variables in this model Pedroni (1999, 2004) test was used. In this model result was not significant, showing absence of co-integration in all the variables Financial Development, FDI, GDP Population Growth and LSE.

**Table 4.9: Pedroni Panel Co-integration Results**

| Models | Statistics | P-value | Statistics | P-value |
|---|---|---|---|---|
| **Panel *v*-statistics** | -1.298143 | 0.9029 | -1.227863 | 0.8903 |
| **Panel δ-statistics** | 1.055667 | 0.8544 | 1.299347 | 0.9031 |
| **Panel pp-statistics** | 0.384310 | 0.6496 | 0.693677 | 0.7561 |
| **Panel adf-statistics** | 2.211813 | 0.9865 | 2.003870 | 0.9775 |
| **Group δ-statistics** | 2.691384 | 0.9964 | | |

| | | |
|---|---|---|
| **Group pp-statistics** | 1.677585 | 0.9533 |
| **Group adf-statistics** | 2.974223 | 0.9985 |

### 4.5.2. Johansen Fisher Panel Co-integration Results

To study the presence of co-integration among variables test by Johansen Fisher is used. The results are presented in the table. Co-integration technique developed by Johansen Fisher is also used to study the presence of co-integration between variables. The results estimated with the help of Johansen Fisher co-integration technique are reported in Table. Co-integrating vectors showed significant with Trace statistics in addition to Maximum Eigen statistics.

**Table 4.10 Johansen Fisher Panel Co-integration Results**

| No. of CE(s) | Statistics | P-value | Statistics | P-value |
|---|---|---|---|---|
| | **Trace Stat** | | **Max Eigen Stat** | |
| **None** | 730.6 | 0.0000 | 446.8 | 0.0000 |
| **At most 1** | 412.4 | 0.0000 | 255.5 | 0.0000 |
| **At most 2** | 238.2 | 0.0000 | 148.9 | 0.0000 |
| **At most 3** | 138.1 | 0.0000 | 114.7 | 0.0000 |
| **At most 4** | 71.02 | 0.0002 | 71.02 | 0.0002 |

Results of Fisher test in tables are reported. Trace statistics in addition to Maximum Eigen statistics show 4 co-integrating vectors. The existence of three co-integrating vectors approves the long run relationship among variables.

### 4.5.3. Results of Fully Modified OLS

**Table 4.11: Results of Fully Modified OLS**

| Variables | Coefficients | Stand error | t-statistics | P-Value |
|---|---|---|---|---|

| | | | | |
|---|---|---|---|---|
| **LFD** | 2.622085 | 0.353527 | 7.416922 | 0.0000 |
| **LFDI** | 0.135958 | 0.031051 | 4.378591 | 0.0000 |
| **LGDP** | 1.54301 | 0.309821 | 4.980327 | 0.0000 |
| **PG** | 0.98045 | 0.163673 | 5.99029 | 0.0000 |

**Explanation:**

In the above table independent variable are Financial Development (LFD), Foreign Direct Investment, Population growth and GDP. Increase in LFD causes increase in LSE above table shows that One percent increases in LFD causes 2.6220 percent increase in LSE. Probability value of LFD is 0.0000 which show null hypothesis is rejected and alternative hypothesis is accepted that indicate that LFD has significant on LSE in Long run.

The co-efficient value of FDI shows that positive effect on school enrollment. One percent increases in LFDI causes 0.01359 percent increase in LSE. Significant probability value shown by LFDI that on LSE there is a significant effect of LSG.

Control variables are GDP (LGDP) and Population growth also show positive and significant effect on LLF in long run.

Comparison of foreign direct investment and financial development showed that the coefficient value of population growth is 0.98045 and gross domestic product is 1.54301 then coefficient of financial development is 2.622085 greater than the coefficient of population growth and gross domestic product which means that effect of financial development is greater than population growth and gross domestic product on life expectancy just like the resulr of Balasubramanyam, et al., 1996; De Mello, 1999.

## 4.6. Model-4: Impact of Financial Development and FDI on HDI

### 4.6.1. Pedroni Panel Co-integration Results

To check co-integration in the variables in this model Pedroni (1999, 2004) test was used. In this model result was insignificant, showing presence of co-integration in all the variables LFD, LFDI, LGDP, PG and HDI

Dependent Variables:  HDI

**Table 4.12:  Pedroni Panel Co-integration Results**

| Models | Statistics | P-value | Statistics | P-value |
|---|---|---|---|---|
| **Panel *v*-statistics** | -1.385739 | 0.9171 | -2.559522 | 0.9948 |
| **Panel δ-statistics** | 2.647700 | 0.9959 | 2.519128 | 0.9941 |
| **Panel pp-statistics** | -3.378354 | 0.0004 | -3.976868 | 0.0000 |
| **Panel adf-statistics** | -2.943354 | 0.0016 | -3.378249 | 0.0004 |
| **Group δ-statistics** | 4.332141 | 1.0000 | | |
| **Group pp-statistics** | -7.066189 | 0.0000 | | |
| **Group adf-statistics** | -2.458818 | 0.0070 | | |

To study the presence of co-integration among variables test by Johansen Fisher is used. The results are presented in the table. Co-integration technique developed by Johansen Fisher is also used to study the presence of co-integration between variables. The results estimated with the help of Johansen Fisher co-integration technique are reported in Table. Co-integrating vectors shown significant with Trace statistics in addition to Maximum Eigen statistics.

**4.6.2. Johansen Fisher Panel Co-integration Result**

**Table 4.13: Johansen Fisher Panel Co-integration Result**

| No. of CE(s) | Statistics | P-value | Statistics | P-value |
|---|---|---|---|---|
| | **Trace Stat** | | **Max Eigen Stat** | |
| **None** | 1093. | 0.0000 | 595.0 | 0.0000 |
| **At most 1** | 656.7 | 0.0000 | 364.7 | 0.0000 |
| **At most 2** | 388.6 | 0.0000 | 208.6 | 0.0000 |
| **At most 3** | 243.0 | 0.0000 | 156.8 | 0.0000 |

| | | | | |
|---|---|---|---|---|
| **At most 4** | 134.1 | 0.0000 | 110.0 | 0.0000 |

Results of Fisher test in tables are presented they showed that Trace statistics in addition to Maximum Eigen statistics show 4 co-integrating vectors. The existence of five co-integrating vectors approves the long run relationship among variables.

**4.6.3. Results of Fully Modified OLS**

**Table 4.14: Results of Fully Modified OLS**

| Variables | Coefficients | Stand error | t-statistics | P-Value |
|---|---|---|---|---|
| LFD | 0.026330 | 0.011760 | 2.239001 | 0.0258 |
| LFDI | 0.021710 | 0.006895 | 3.148899 | 0.0018 |
| PG | 0.022672 | 0.010868 | 2.086101 | 0.0378 |
| LGDP | 0.110625 | 0.005225 | 21.17365 | 0.0000 |

**Explanation:**

In the above table independent variable are Financial Development (LFD), Foreign Direct Investment, Population growth and GDP. Increase in LFD causes increase in HDI above table shows that One percent increase in LFD causes 0.026330 percent increase in HDI in long. Probability value of LFD is 0.0000 which show null hypothesis is rejected and alternative hypothesis is accepted that indicate that LFD has significant on HDI in Long run.

The co-efficient value of FDI shows that positive effect on Life expectancy. One percent increases in LFDI causes 0.021710 percent increase in HDI. Significant probability value shown by LFDI that on HDI there is a significant effect of LSG.

Control variables are GDP (LGDP) and Population growth also show positive and significant effect on HDI in long run just like the result of Sghaier & Abida (2013)

Difference between Foreign direct investment and financial development is 0.00462. Comparison of foreign direct investment and financial development showed that the coefficient value of population growth is 0.022672   and gross domestic product is 0.110625 then coefficient of foreign direct investment 0.026330 is greater than the coefficient of population growth and gross domestic product which means that effect of FDI is greater than population growth and gross domestic product on life expectancy just like the result of Balasubramanyam, et al., 1996; De Mello, 1999 and Gohou & SOUMARÉ (2009

## Chapter 5

## Conclusion:

This study is about to check the impact of foreign direct investment and financial development on human welfare. In this study secondary data was used. While, the used data collected from different sources ( like State Bank of Pakistan, Economic survey of Pakistan 2012-2013, Pakistan Bureau of statistics, World Governance Indicator and United Nation Development Program). According to the research design foreign direct investment and financial development was an independent variable and School enrolment, life expectancy, population growth, per capita income and human development index was dependent variable. Data is formulated initially in excel sheet, Smart PLS 3 and SPSS tools are used to analyse the data. The aim of the study is twofold: Firstly, to examine the impact of foreign direct investment and financial development on human welfare and secondly, to estimate the effect of foreign direct investments and financial development on human welfare in the south Asian countries over the period of 1990-2016. To fulfil the objective of this study (construct the financial development Index for South Asian countries) ran PCA (Principal component analysis) to make financial development Index. LLC and ADF for panel unit root test were

applied to check the stationarity of the data. To study the presence of co-integration among variables for long run relation test by Johansen Fisher and Pedroni (1999, 2004) is used.The empirical study shows that the long-run co-integrating relationship between FDI and human welfare is positive. . By using the Fully Modified OLS (FMOLS) method the results indicate that the foreign direct investment is a significant factor that positively affects human welfare in the south Asian countries. The empirical study presented that financial development improves the impact of FDI on human development in the region. It also showed that the complementary part of FDI and financial development on human welfare is most important for least developed economies in the region.

Foreign direct investment has become most indispensable external resource as a source of flow for the developing countries in the passage of time and also a crucial part and partial of capital information in such countries. The role of FDI has been recognised as a growth augmenting aspect for the developing economies. Khan (2007). There are some benefits of FDI as it provides a way which we exploit and better use of raw material locally presents modern ways of management as well as marketing. Foreign inflows are utilized for financing deficit in current accounts. Another advantage of FDI is it doesn't generate repayment of principal and interest Falki (2009). The strong financial development points to reduction of poverty, high return on investment, income inequality, promotion of good governance, economic growth and welfare Raza, shahzadi. &; Akram (2014). On the other hand, various social and physical conditions depend on country's level of development like the availability of health care, proper living and access to modern medical information are the various conditions to check development in country. Sen (1998) Studies of human welfare encompassing the factors such as literacy,life expectancy and GDP using United Nations Human Development Index (HUMDEVI). Croos (1992) The financial system enriches the resource allocation in an efficient manner. The process of technological diffusion associated with FDI can be improved with the help of more developed system Hermes and Lensink (2003). In developing countries there is significant suggestions among foreign direct investment (FDI) and economic growth relationship. foreign direct investment (FDI) is likely to increase host economic progress, its shown that the level which FDI is growth attractive factor to depend on country appearances. Mostly, foreign direct investment (FDI) considered to promote economic growth when host countries accept human capital, advance education system, liberalization trade regime and continue macroeconomic constancy. Zhang, (2001)

Human welfare rate has been gradually enlightening since 1990 for twenty-nine selected south Asian countries. When the income inequality is augmented, then financial sector as well as human welfare automatically increases in SSA and vice versa. Paul (2011)

The sum of total aid given to the health acre section has risen more than twice therefore, in the past few years; this aid has been usually acknowledged in the community focusing on donations. Such as, during 1999-2004, financial assistance to the health care sector increased from 1,930 million dollars to 4,435 million dollars. OECD (2007) In international progress the best relation is positive connection among health and income per capita. Higher income gives great opportunities to use many of goods and services which can better health, nutrition, purchase clean water and quality products etc. Higher productivity of labours depends on health conditions of the .populations; if people have good health then they put 100% effort on their work, because of physical and mental fitness. Health status also affect the absenteeism of worker. More investment in skill development are generally reap by the healthier educated people or we can say that they can earn strong and longed incentives because over longer periods investment they are going to gain more benefits. Bloom & Canning (2000)

Sharma & Gani (2004) described the impact of foreign direct investment on central Asia, Afghanistan, and Pakistan's economic development in particular. The study showed that FDI inflows are increasing in some countries. In 1992, Pakistan's FDI inflows were $258.43, while Afghanistan's inflows were nothing at that time. It was estimated in 2007 that Pakistan's inflows were US$ 4374 million. The amount of inflows in Afghanistan was USD 289 throughout 2007. In this study, it is concluded that electricity, communication, education, and information technology is the most lucrative field. Thus, this research attempts to prove that FDI has the main role of providing the welfare society in the development of welfare. Therefore, this study attempts to suggest that the political instability and terrorism need to be removed and focused on physical infrastructure to enhance the government of Pakistan and Afghanistan's FDI. Therefore, concluded that the above research succeeds in identifying such variables that are essential for human well being. The study shows that foreign direct investment and financial development in south Asian countries is a significant factor affecting human welfare.

## Findings and Recommendations:

Thus, it is found that south Asian countries need FDI as a strategist element of investment to sustain its economic growth and development or human welfare. FDI is required to create

jobs, to expand existing manufacturing industries and to build the new one. In addition, healthcare, education, R&D, infrastructure, commercial and long-term financial plans are also required. So, the study recommends the following suggestions:

- Policymakers should develop programs where foreign investment can be used as means to increasing domestic development, savings, and exports; as a means of technical innovation and distribution of technology, as well as providing access to the outside market.

- Government should decrease tax ratio to attract foreign direct investment because FDI in the domestic economy are expect to be expand exports, grow up the economy through technology transfer, create employment opportunities, new techniques, provide opportunity to learn modern methods of business, marketplace, channel of advertisement, economical production services, financing and easy access to new technology etc. These are the factors they stable people financially so, when people financially stabled they focus on their health, education, living style, food etc. and human development index also increase.

- The government should open doors to foreign export companies – oriented services that could increase demand for unqualified workers and low-skilled services as well as raise wage levels in those services.

- The government should pay attention to the developing Asian continent as the new economic force. The house of business transactions and try to improve trade in that area through bilateral, multilateral agreements.

- It is also suggested that the government will encourage sustainable development by FDI through further improvement of the education, health, and R&D framework, people's political participation, and citizens 'personal protection.

- The empirical findings have important implications in stimulating economic growth in South Asia countries. A range of initiatives for enhancing the financial sector, attracting FDI and developing human capital are discussed in this study. But, the recommendations made in this study were very general for the region, and not country-specific. If these recommendations were to be implemented, countries in the region should evaluate the costs and benefits of these policies prior to implementation. Future studies should focus on identifying if financial sector development is an important pre-condition for FDI to contribute positively to economic growth in various other regions such as Africa, Latin America and Eastern

Europe. Region-specific evidences will enhance policy recommendations for these regions, and at the same time, reduces the application of general policy recommendations which may not be relevant to these regions.

## Limitations and future concerns:

Future studies should concentrate on determining whether the development of the financial sector is a significant pre-condition for FDI to make a positive contribution to economic growth in various other regions such as Africa, Latin America and Eastern Europe. Regional-specific evidence will strengthen policy recommendations for these regions, while reducing the implementation of general policy guidelines that may not be applicable to those regions. In this study we wanted to use data from 8 south Asian countries but to do so there were certain factors, one of which was limited data approach data from all of these countries was not available. We only analysed data from 4 countries, data from other countries consisted of missing values this factor made that data unavailable for research study. The reason behind not using missing data was statistical analyses which were not applicable to missing valued data.

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