

## Abstract

Present study analysis the causal links of FDI with trade in Pakistan and China using time series data of both countries from 1972 to 2016 duration.. The sources of data are World Bank and Ministry of Finance Pakistan. The impact of FDI on trade in case of Pakistan and China have been analyzed by employing ARDL Model as variables have mixed order of integration i.e.,  $I(1)$  and  $I(0)$ . The results show that there exists the relationship of co-integration among the variables. In the first model, the relationship between the trade and FDI, employed labor force, Inflation, and current account deficit exist. The results show that there exist the relationship among trade volume, exchange rate, FDI and employed labor force. It is evident from the results that the co-integration can be confirmed from the F-stats, which is going to exceed the upper bound limit. The value of estimator of FDI for trade which shows that there is significant and positive impact of FDI on trade which means FDI is going to increase the trade in case of Pakistan. While the impact of exchange rate on trade is also positive and significant. Inflation has also positive impact on the trade. the short run impact indicate that exchange rate has positive associated with trade. The size of the economy proxies by the RGDP is also has significant and positive impact on the trade in case of Pakistan. The mixed findings revealed by the past studies, in addition to the findings of this study. The coefficient of foreign direct investment is 3.2143 which show positive impact of FDI on trade for Pakistan. The coefficient of  $CEt-1$  is (-.39822) for short run model, means that it will take half of the ear around to reach lng run from short run. The coefficient of FDI in case of china is positive on trade (TR). Beside this the impact of inflation is also positive and significant. The impact of ER for the export of china is also positive and significant. The research findings show that the relationship between these two can be treated as complimentary as well as substitute. But depending on the circumstances, these can be treated as compliment as well as substitute. The government should focus on macroeconomic environment, like that of exchange rate, current account, the size of the economy, and the FDI in order to increase the trade in the both counties, and to formulate the policy to enhance the bilateral trade among the countries.

# Chapter 1

## Introduction

Resource transfer from developed to under-developed economies has remained a main source of capital formation and growth generation. Theoretically and empirically the literature about FDI and trade is, still, inconclusive regarding the association of complementarity or substitutability between FDI and trade. An endless experimental work on FDI and trade appears that being dependent on the circumstances, FDI and exchange of goods and services (trade) may have positive affiliation as well as negative affiliation implies both trade (exchange) and FDI are substitutes.

Contrary in the direction of this, the literature too specifies that FDI and trade may be associated positively or a negatively with one another. FDI and exchange of goods and services (trade) are viewed as basic for economic integration and a position intended for the portability of wealth, work and different merchandise crosswise over outskirts. Exchange and FDI both develop and increase the economic independence many-sided quality between particular economies. For strategy making it is really fundamental to comprehend the financial perspectives associated with FDI and exchange of goods and services (trade) and furthermore the cooperation between them.

There are two major elements in globalization dynamics such as foreign direct investment and multinationals having specific effect on the factors' mobility and world trade. FDI growth was much faster than the exports despite of strong trade liberalization during the recent decade. These solid flows have assumed a vital part in adjusting the self-assuredness of a few governments towards FDI.

Several governments decided to adopt active policies to attract FDI instead of restrictive policies. Foreign direct investment is a crucial element for all nations and especially for developing nations as it influences many macroeconomics indicators such as income, , employment, prices, production, imports, exports, balance of payments, economic growth, and the wide-ranging well-being of a beneficiary nation. It enables globalization and boost GDP growth of economy by funds transfer, techniques and high-

tech spillovers as suggested by Ponomareva (2000). On the other hand output and productivity of a country can be expected to increase by encouraging indigenous investors and to motivate the growth and dispersal of expertise via FDI as suggested by Sekkat and Varoudakis, (2004). Foreign investment flow may contribute towards building a sturdy trade and industry associations amongst commercial and emerging states as pointed out by Erdal and Tatoglu (2002).

In under developed nations where talented laborers are utilized by the multinational and enhanced exchange volume that starts from the vertical FDI should the extension of the interest for the gifted specialists and consequently accordingly improving the arrival to human capital. Because of increment consequently to human capital there will be an expansion in the supply of talented specialists which will possibly expand FDI in future

This study views that conduit as simply a single part of amalgam of multifaceted links between trade and FDI that is an important issue which require investigation while, On the empirical grounds, study finds a significant basic to emphasis on recognizing two-way strong positive responses between trade and FDI.

### **1.1 Statement of the Problem**

Trade impact is one of the real impacts of outside venture which is specifically on a nation's exports. FDI may stimulate exports by amassing wealth (capital) to speed up rate of export growth, assisting transfer of latest and innovative expertise and introducing novel export products, providing entrance to profitable markets and cooperating for imparting technical education, skill and training for domestic workforce and updating skills related to mechanic, commerce and management (Temiz and Gökmen, 2009).

Contrary to that, FDI might also have adverse influence on GDP growth of a nation and also its exports. Flow of FDI towards a an economic sector can produce a crowding out effect on national investments by replace domestic savings, transferring outdated and insufficient technical know-hows, instead of improving opportunities or provision of factors of production. In such circumstances, foreign investment inflows have no part in exports and it too unable to deliver any backing to develop dynamic

competitive advantages of the host nation. An extra impact of FDI inflows influences a country's imports at both early venture and task stages.

At the early venture arrange, the import of all equipment, plants, apparatuses fitting equipment and technical experts take a part to increase in adjustment of imports while, during the phase of operation, inputs' nature, types of output, spill-over of productivity and form of association with other part performers of the firms may govern the course of FDI towards import. However, if foreign investment utilizes indigenous underdone sources and supplies and additional factors inputs, then it might have no significant impact on import. Contrary to that, if foreign investment utilizes imported raw sources and supplies as inputs such as, social capital, skills and additional resources, then this might have positive impact on the import (Hailu, 2010).

Foreign Investment may be a powerful mechanism of development, particularly for emerging nations because it facilitates the capially poor countries such as most of the African states, to increase wealth, generate work opportunities, improve the productive ability, enrich the expertise of native workers via transfer of technology and managerial knowledge and experience, and support in assimilating the domestic with international economy. By global economic integration, FDI may affect the trade balance of the nations. FDI invasion has a key part in defining the excess or shortage in the financial & capital account in Balance of payments statements. We can state that the at first FDI has positive effect on BOP yet in the medium term this direct impact could turn into either positive or negative with the increase in investor's export, output, transitional commodities' imports and provisions, and also initiate to oust earnings. For this reason, the part of FDI in GDP growth is still questionable.

FDI flows can adversely affect the country's growth prospects in case of substantial rise in reversal flows like payment of profits and dividends and substantial tax or concessions obtained by Multi-National Enterprises (MNEs) from the host country. If anticipated affirmative spill-over sound effects of transfer of technology are diminished then these undesirable special effects can be multiplied because the transferred technology is unsuitable for the factor proportion of host country and other possibility is due to the excessively constricting intellectual property right. FDI-financed corporations or firms

start exporting their products after installing and running their capital equipment as these are usually export-oriented firms. These firms or companies may have a tendency to export a grander quantity of their produce as compared to their local or domestic counterparts because of comparative advantage of these firms over the others in their understanding or acquaintance of international markets, effectiveness and proficiency of delivery conduits, and their capability to regulate & react to varying configuration and varying aspects of international markets.

There are a few examinations with respect to the issue of components deciding trade (exchange of goods and services). Various philosophies have dissimilar conclusions regarding fundamental factors dynamics of trade balance and also regarding the magnitude and sign of the association between fluctuations in trade balance and their causing factors. Financial aspects hypotheses show that both investment and trade are correlative and not alternatives in the event that if trade is on the basis of comparative advantages between the countries. Be that as it may, trade and venture may considered as alternatives if the (trade) exchange of goods and service is based on outright focal points between the two nations, as organizations supply various sources via FDI or sends out (exports). Consequently, extent of complementarity between exchange (trade) and FDI stays as an exact inquiry. Certain exact examinations, for example, investigations of Culem (1988); Ethier and Horn (1990); Ozawa (1992); Ruggiero (1996) and Wei, et al. (1999), were found to recommend that universal exchange of goods (trade) and foreign investment venture both are supplements of each other because businesses receive benefits from differences in factor price through vertical production integration across the border. Despite what might be expected, some different scientists like Brainard, (1997); Brouthers, et al. (1996); Goldberg and Klein (1997) presented that higher exchange costs because of bigger exchange deterrents and delivery cost may prompt level cross-fringe generation extension and consequently, animate universal venture. Keeping in an insight the above perceptions, it is conceded that worldwide exchange of goods and services and investment are pretty much substitutes. Similarly, factor portability at global level including FDI may substitute exchange and subsequently additionally decrease the exchange different wares. Mundell (1957) talked about that item and elements developments are no less than a substitute to some degree. Bigger exchange boundaries

energize factor developments and higher confinements to factor developments may empower international exchange. This substitutability or complementarity might be consequent of negative or positive association between universal exchange and FDI.

Linkage of trade and FDI is bidirectional. These investigations found a solid response sort of association between FDI streams and trade, particularly in modern merchandise. There are not at all like inspirations in regards to the effect of FDI on universal trade or exchange. There are two regular classes of such inspirations: factor-chasing and showcase chasing (Root 1994). Market-chasing FDI takes after request and enter outside business sectors through favorable deals potential while, Market-chasing investmetn can ensure an inverse relationship with BOP adjust of host nation (Aizenman and Noy ,2005 & Culem,1988).

Since in accordance with a study by Graham and Krugman (1989) conglomerates of foreign firms (In United States of America) demonstrated a specious tendency to send out goods and services marginally in a smaller amount and import meaningfully larger than firms in USA maybe more than two times to such an extent. Factor-chasing FDI contains conduct of MNEs proposed to accomplish access to crude materials and areas or minimal effort zones. FDI (empowered by the journey for crude materials) can be utilized to create items with regular assets that are insufficient or under-provided in the nation of origin. Generally, such kind of FDI expands trades between the host country and the sources providing nation, and additionally to other third nations (Root, 1994). FDI supported by the destinations of least cost production gets advantages of elements of production having ease i.e., shabby work and FDI being a bit of an entire worldwide sourcing approach, prompting an ability to trade the different items between the under developed host country and other nations of the world together with MNEs' nations of origin. In such way, the host nation can have the capacity to help up sends out (export) and to recuperate its exchange adjust (Phongpaichit, 1990).

During early nineties, the status of Pakistan was amongst the some leading countries in the area for market creation. Pakistan has not just a vital top score of completion of financial development during 17th century yet in addition this can possibly repeat the past. Pakistan delights in certain economic fundamentals. It has frequently

originated with pro-investment strategies. Pakistan has commenced a scheme of liberal monetary changes comprising exchange advancement; deregulation and privatization which brought a fully market-oriented system in the economy. Both the domestic and foreign investments are usually subject to similar guidelines yet except for couple of delicate regions i.e., resistance generation, broadcasting and managing an account. Be that as it may, measures up to speculation open doors for both outside and local entrepreneurs are being given by the new investment Policy (Akhtar M. H.2001 and Saeed K. A,2003).

Different experimental studies have provided unlike inferences on FDI and foreign trade linkage. Upon my insight, different examinations have been done on FDI and Trade on different nations and squares of nations. For example, Zhang and Song (2000), conclude that improvement in the FDI level have positive link with performance of export of China. Many studies have also investigated a positive association between FDI and trade execution of host nations (Cabral, 1995; Blake and Pain, 1994).

An interrelated literature explores the causal connection of trade with FDI in the perspective of change issues. In light of sensible structure set up by Porter (1990), Ozawa (1992) articulated an all-inclusive theory relating to causal linkages between competitiveness and economic development creating international trade and FDI. Trade flows happens on account of enhanced similar favorable position, which, hence, is impacted by FDI.

Standout amongst the most infamous highlights incline toward globalization lately has been the expanded significance of outside direct venture far and wide. The diverse strands of hypothetical and observational examinations are expected to exist for exploring the connection of Foreign Direct Investment (FDI) with development together in in developed and under developed nations. FDI is accepted like a throbbing actualize intended for the development of business and pay, mechanical progression, financial advancement parallel to enhance salary conveyance or destitution decrease particularly for the under developed nations such as Cote d'Ivoire. As indicated in the extensive agrarian economies by Mason and Baptist (1996), it is just the agribusiness area mediations which serve to diminish neediness. What's more, it requires work serious

financial development in the host nation so FDI may convey to profitable business age. As Moran (1998) features a vital certainty which suggested that presentation to outside competitiveness undertakes crucial part in expertise up degree.

FDI is well-thought-out as an imperative machinist in building up association of exchange (trade) advancement and financial expansion resisted by Taylor (1998) and Wacziarg(2001).Furthermore, the investigation of Atkinson and Brandolini (2003) stated that exchange advantage won't be acknowledged if nations venture makes residential wage imbalance. The effect of FDI on neediness and some more social objectives of improvement be influenced by primarily numerous variables, for example, the host nation strategies and foundations, the nature of venture, the type of the administrative structure, the adaptability of the work showcase, and numerous others (Mayne, 1997).

Exchange transparency in case of FDI which has risen as one of the fundamental contentions between market analyst and arrangement producers in clarifying the development marvels in under developed nations as suggested by Dawson (2006), Dutta & Ahmed (2001) and Ruiz Estrada Yap (2006). The constructive commitment of exchange transparency in the direction of development originated from the thought like advancement builds specialism and partition of the work subsequently enhancing efficiency and fare ability and additionally monetary execution. What's more, with more prominent proficiency because of exchange receptiveness, a large number of the developing nations took action accordingly with the fare drove systems. General perception indicates that exchange receptiveness has a beneficial consequence in the direction of fiscal development. The discovery about the nations was that the greater exchange transparency reasonably beat their economy differentiated with the less unlocked nations (World Bank, 1993).The investigations made by Lloyd and MacLaren (2000) and Jonsson and Subramanian (2001) for the Asian countries bolstered a comparative conclusion that the quick development was to a great extent caused by Asian nation's receptiveness. Notwithstanding, the exact proof is somewhat not consistent. Conversely, a few researchers like Harrison (1996) and Rodriguez& Rodrik (2001) supported the transparency drove development nexus.



FDI assumes an imperative part in advancing fares of host nations. It advances sends out by encouraging the host nation access to clients in worldwide, territorial and home-nation markets. What's more, have nations some of the time additionally get advantages of campaigning MNCs' exercises in their nations of origin in lieu of great action of exports from their offshoots abroad as occurred if there should be an occurrence of US, China and so on.

FDI likewise helps in enhancing efficiency of work compel by giving preparing to the nearby workforce and updating specialized and administrative abilities. These exercises advantage the nation's fares through change in efficiency of the work constrain. This is particularly valid for send out arranged interests in cutting edge innovative abilities.

FDI has both immediate and backhanded impact on have nation's fares. The immediate impacts allude to sends out by outside associates themselves. The aberrant impact incorporates overflow MNCs' impact on nearby corporations' exports undertakings (UNCTAD, 2002). The nation's exports are specifically influenced by FDI in following ways:

Various underdeveloped nations increment their labour intensive production exports and innovation concentrated items through gathering and preparing of middle of the road and incomplete items imported from home nation. For instance, China turned into an overwhelming exporter of work serious items (toys, shoes, garments, and brandishing merchandise) and some innovation concentrated items (apparatus and types of gear, including electronic circuits, programmed information handling apparatuses, and cell phones) (UNCTAD, 2002). Normally, such exports are sorted out inside vertically coordinated universal creation organize of MNCs (Zhang and Markusen, 1999).

In a significant number of the import substituting items like home machines and cars items, FDI consolidates its propelled innovation with the accessible shoddy work of the creating nations and delivers and fares the items at globally focused costs. Exports of new work concentrated last items: By giving connects to conclusive purchasers in various

nations including the nation of origin, FDI helps in expanding fares of work and innovation escalated last results of the host nations (Zhang,2005).

Owing to the trade agreements abroad, promoting aptitudes and prevalent innovation according to item types and ways and more prominent common knowledge, MNCs may prefer export potential over home-grown firms in preparing privately delivered crude resources and sending out the unchanged. It is particularly valid initially in advancement when the nation did not have the benefits. (Zhang, 2005) FDI likewise improves the creating nations (have country's) fabricating sends out through overflow consequences for nearby firms' trading exercises. (Zhang (2005)

The advantages achieved by domestic organizations by learning, watching, and impersonating exports exercises of the outside associates through the way of constructing utilization of the framework of conveyance, correspondences and budgetary exercises.

The overflow impact includes FDI's impact on aggressiveness of residential company's exports and dispersion of fresh advances. By way of conveying their propelled item procedure innovation, administration, and advertising skill, MNCs can expand rivalry in business sectors and power neighborhood companies to embrace additional effective techniques.

The overflows can be identified with linkage amongst outside and neighborhood companies. On the off chance that fare arranged remote backup's increment their buy of contributions from nearby firms as the auxiliary develops, the fares of the nation expands (UNCTAD, 2001 and 2002).

Present writing has demonstrated about FDI choices which rely upon an assortment of attributes of the host nation for example conversion scale, size of showcase and potential, transparency, p solidness in terms of politics, hazard, work costs, exchange costs, speculation costs, exchange shortfall, human capital, charge, expansion, spending shortage, household venture, outer obligation, government utilization and vitality utilize (Bloningen 2005). A financially favorable condition is probably going to be a magnet for remote organizations, prompting inflows of FDI (Kumar 2002). The part of quality of institutions, physical foundation, levies on imports, macroeconomic strength and

governmental security on inflows of FDI are normally positive (Trevino et al. 2002). Moreover, financial development of a host country performs emphatically on FDI inflows (Trevino et al. 2002; Grosse and Trevino, 1996).

Dunning (1993) contends to contract chasing, cabinet chasing, effectiveness chasing and vigorous supply are rousing essentials of inflows of DFI. The more particularly "lease chasing" assumed procedure contains outside companies observing for less costly variables of generation and assistances of development. For instance, FDI rationale regarding "Market chasing" comprises isolated organizations sending out or introducing fresh markets and keeping in mind the completion goal to increase agreements. It is the option for businesses to confront exchange limitations like expensive carriages and guidelines of cause. The "effectiveness chasing" administrations require to develop few countries to function as larger markets. Certain critical factors in that rationale are zone, direction of the government and blessings. Eventually, "key resource" justification is recognized with keeping up inaccessible companies' worldwide situation and aggressiveness.

In this investigation we center on exchange transparency as a noteworthy factor influencing FDI inflows. Despite the fact that transparency can be viewed as a social or financial marker, we are just worried with the monetary (exchange) receptiveness's measurement. Exchange receptiveness instigates send out arranged FDI; while exchange limitation pulls in "levy bouncing" FDI's goal is to exploit the household platform (Kosteletou and Liargovas 2000).

Hypothetically, exchange limitations and transparency might influence inside FDI either decidedly or adversely. A few arrangements on exchange transparency may deliver a critical effect in drawing in FDI. For instance, through the execution of organized commerce understandings (FTA), a few Latin American nations have possessed the capacity to draw in more noteworthy streams of remote direct speculation. FDI encourages sends out, import substitution and exchange inputs. Then again, according to Raff (2004) in particular circumstances, FTA do not quickly influence FDI, regardless of the reality that FDI would have well-being making strides. This may happen, on the

grounds that harmony outer levies are too low to incite as recommended by Goldberg and Klein (1998)

Markusen and Maskus (2002) and Dunning (1993) discussed that FDI or on the grounds numerous states of stabilities and nations are trapped in situations which do not strengthen FDI. Some considerations have discovered constructive connection in transparent trade and FDI. Seim (2009) located an adverse connection amidst FDI inflows and receptiveness level of nations experiencing significant change. In different terms, the connection between exchange receptiveness and FDI inflows is exceptionally perplexing, needs watchful clarification and may rely upon the qualities of every situation. Hypothetically, exchange transparency' impact on FDI inflow differs as per inspiration in lieu of taking part in FDI exercises.

This examination is an addition to the examination of exchange receptiveness, estimated by eight distinct factors known as determinants of FDI inflows in various underdeveloped countries which generally to developed countries are additionally in troublesome position to draw in FDI.

## **1.2 Significance of the Study**

Emerging literature for developing countries has predicted the presence of two-way causal link of FDI inflows with trade. Nevertheless, clearly aggregate measures of both FDI streams and exchange candidness may cover vital transformations between different constituents of both measures. It is sensible to presume a strong FDI and trade linkage for various goods and probably there may be bi-directional causal link. However, the effect of exchange on FDI may be diverse for nations in various phases of advancement and budgetary inflows and surges of FDI may likewise respond verily with diverse forms of trade flows. The present research examine intends to investigate primer answers to such inquiries with the help of an experimental assessment of these relationships in comparison with Pakistan and China.

### **1.3 Objectives of the Study:**

Present examination means to investigate possible causal linkages amongst FDI and exchange of goods and service (trade). Certainly, this exploration examine proposes another illumination with respect to a positive relationship amongst FDI and exchange, and would exhibit that the data is reliable with the existence of such response. Using the econometrics models and some statistical inferences, the study will attempt to draw attention to whatever the developing countries going through quick advancement in its cost-effectiveness will appreciate developing inflows of FDI and consequently enhancing its worldwide exchange in goods and services (international trade).

The major aims of the present research are;

- I.** To explore the causal links of FDI with trade in Pakistan and China using national data of both countries.
- II.** To assess at the influence of FDI on Export and Import of Pakistan and China
- III.** To examine the reverse causality i.e. impact of trade on FDI in Pakistan and China
- IV.** To suggest some policy implications regarding FDI and Trade expansion in both countries. A consideration of these implications would assist government to go with its policies for trade and investment.

### **1.4 Organization of the Study:**

Present work has been displayed in six Chapters. The background of the study, problems statement and objectives are presented in chapter one. Review of various relevant studies has been made in chapter two while, chapter three gives theoretical and conceptual framework. The information regarding data, model and estimations technique have been provided in chapter four. Results and discussions regarding the causal links of trade and

FDI have been discussed in chapter five. The conclusions, suggestions and policy implications have been presented in chapter six, the last chapter of the study.

## **Chapter 2**

### **Causal Links between Foreign Direct Investment and Trade in Pakistan and China: A Literature Review**

#### **2.1 Introduction**

Emerging research on trade and the multinational firm perceived conflicting connection between overall exchange of goods and services (trade) and FDI aimed at a continuous assessment. Trade grindings (business approach, separation and transportation cost, and so forth.) urge outside makers to "hop" trade boundaries by reproducing comparable plants in different marketplaces. Such venture plans are suggested as even FDI (Blonigen, 2005). Interestingly, gaps of costs can ask manufacturers to part in manufacturing methodology, putting work genuine periods of age in small remuneration awarding nations, as well as extra capital raised periods of produce, congregation, head office administrations, and so on.) in industrialized nations. Such venture designs are known as vertical FDI [Hanson, Mataloni, and Slaughter (2001)]

An imperative distinction between these two examples manages the relationship amongst Trade (exchange of goods and services) and FDI: even FDI have a tendency to to back up trade, while perpendicular FDI has a tendency to generate exchange. Money related perception advocates vertical FDI as a more typical thing amid the technologically advanced and underdeveloped nations while horizontal level or flat foreign investment remain further unavoidable amid technologically advanced economies. By and by, one expects cross breed designs, where multinationals decide on both vertical and flat or

horizontal blend. The vast majority of the exact literature researching FDI designs centers around cross country variation [See, for detail, Blonigen (2005); Feenstra (2003)].

## **2.2 Review of Literature**

Various recent researches have inspected the observationally identifiable communications between money and capital related inflow and trade (Albuquerque, Loayza, and Serven, 2005; Do and Levchenko, 2004). Utmost obvious of the work is the dispute regarding greater inflows of FDI which will provoke greater trade volume and distinctive favorable circumstances, for instance, extended proportions of total factor efficiency development or greater yield growth rates. The association of trade with FDI was observed up to date in different examinations. Fukasaku et al. (2000) exhibit regarding the economies in perspective of exchange by utilizing bivariate vector error correction models and found a constructive outcome of FDI on exchange. The close association had been also found by Dunning et al. (2001) amongst FDI and exchange advancement in Taiwan and Korea.

The connection amid superficial FDI and exports was tentatively tested and the pointed out the imminence of long-run Granger-causality amongst outward FDI and trade with respect to the economy of Spain which have essential approach proposals aimed at the advancement strategies and techniques (Bajo and Montero, 1994).

According to Dollar (1992) and Jun and Singh (1995) the economies abusing trade potential seriously furthermore may entice further outside direct venture. Devouring inspected outside direct investment and BoP position in Malaysia, Phang (1998) fights that nations highlighting more noteworthy trade potential and exchange do pull in more outside



FDI than others and proposes exchange (trade) course of action supporting progression of those regions fit for drawing basic inflow of FDI to encourage convey development.

Numerous authors such as Swenson (2004), Rose and Spiegel (2004), Do and Levchenko (2004) and Lane and Milesi-Ferretti (2008), presented the fact regarding FDI inflow that higher imperative FDI inflow makes a greater exchange and an expansion in growth proportion. The expense ricocheting FDI has a barren adverse influence on the occupied corporations' exports from USA. According to Dritsaki, M., Dritsaki, C., and Adamopoulos, A. (2004) association among Trade, FDI and GDP improvement in Greece in the period 1960-2002 has a long -run harmony association. They found a causal association among FDI, GDP improvement and trade in Greece (Blonigen et al., 2004).

The exports and FDI relation estimated by worldwide speculations .Two disparate perspectives have aroused to set up connection amongst universal exchange and FDI. Anybody can see FDI and exports are substitutes or alternate. On the base of Heckscher-Ohlin-Samuelson, two nations, items and components display exhibited that the distinction in near favorable position is the premise of exchange (R. Mundell (1957). Without factor portability, exchange between two nations happens to a level at which factor value has a tendency to even out in the two nations, in supreme and in relative terms. Be that as it may, when capital is permitted to transfer unreservedly over nations like from the rich to a poor nation and difference in factor costs are decreased then distinction in near cost may be decreased and eventually eliminated. Consequently exchange may be decreased and can be substituted totally by FDI which assumed that FDI reaches just where there the host nation has relative inconvenience. These FDI's arrive just to supply residential market of host nations and thus assumes no part in expanding sends out. Thus with the residential generation FDI supplant imports.

The conclusion that both exchange merchandise and factors fill in like alternatives may be gotten by hypothesis such as H-O factor enrichment in view of allocative

effectiveness in a static system described with superbly focused markets, indistinguishable steady comes back to scale creation work and without transportation cost.

Notwithstanding, the sweeping statement of this suggestion has been addressed in an incompletely aggressive worldwide market, blemished rivalry, and contrasts in mechanical changes that clarifies the likelihood of intra-industry exchange (Grossman and Helpman, 1991; Krugman, 1979) in light of economies of scale and is good to clarify vertical FDI.

Goldberg and Klein (1997) presented that higher exchange costs because of bigger exchange deterrents and delivery cost may prompt level cross-fringe generation extension and consequently, animate universal venture. Keeping in an insight the above perceptions, it is conceded that worldwide exchange of goods and services and investment are pretty much substitutes. Similarly, factor portability at global level including FDI may substitute exchange and subsequently additionally decrease the exchange different wares.

A vital hypothesis which builds up correlative connection amongst trade and FDI is like a display of flying Geese, which is a term, by Akamatsu in the 1930s and brought into the scholarly world in the 1960s. As per that model, keeping in mind an end goal to lessen the price of generation and hold its intensity, area of creation can be moved by MNCs from high work cost home nation to low work charge having nation. MNEs increment the supply of export limit of the host nation by utilizing the host nation's copious factor, the. Besides, exchange of FDI which carries innovation, capital types of gear, administrative ability and enhance profitability and aggressiveness of the homegrown companies consequently increment in exports and its intensity and of the host nations. Vernon (1966) likewise clarified a constructive part of FDI in advancing exports as suggested by its Product Life Cycle (PLC) hypothesis. Author contended that innovation goes through four generation phases.

Theories phases are development, development, development & decay. During the 3<sup>rd</sup> phase of development, enhancing companies, so as for lessening expenses and shield themselves from mirroring contenders, begin creation in outside nations and fare a piece of generation to home nation. In the last stage, item and innovation ends up develop and

institutionalized, and winds up available to nearby imitators that on account of the low work cost end up universal contenders. This prompts increment in fare of the host nations. For this situation stream of exchange might be switched. The first developing may migrate creation promote into have nations and reimport the item to the nation of origin. Kojima (1973, 1985) found by using Vernon show at industry level that whenever FDI in the nation at starting point has near burden and the host nation has relative preferred standpoint, at that point this sort of speculation has exchange making impact suggesting that the host nation's fare will increment.

Various underdeveloped nations increment their labour intensive production exports and innovation concentrated items through gathering and preparing of middle of the road and incomplete items imported from home nation. For instance, China turned into an overwhelming exporter of work serious items (toys, shoes, garments, and brandishing merchandise) and some innovation concentrated items (apparatus and types of gear, including electronic circuits, programmed information handling apparatuses, and cell phones) (UNCTAD, 2002). Normally, such exports are sorted out inside vertically coordinated universal creation organize of MNCs (Zhang and Markusen, 1999).

As indicated by New Trade Theory, the detachment of various phases of generation in various nations (vertical FDI) would well on the way to effect exchange creation impact and expecting no exchange price, contends if decision of area of generation offices depends on relative factor costs and asset blessings, at that point, vertical FDI would cause exchange creation impact as exports of completed item from offshoot organization to parent organization and intra organization exchange in impalpable administrations from parent organization to subsidiary organization (Helpman ,1984 and Helpman and Krugman,1985). On the basis of nearness benefits, likewise proposed a constructive connection amongst exchange and FDI. Similarly, due to the contrasts of sentiment regarding the connection amidst the FDI inflow and exports, observational examinations additionally give blended outcomes to various nations Brainard, 1993).

There are a few examinations with respect to the issue of components deciding trade (exchange of goods and services). Various philosophies have dissimilar conclusions regarding fundamental factors dynamics of trade balance and also regarding the magnitude

and sign of the association between fluctuations in trade balance and their causing factors. Financial aspects hypotheses show that both investment and trade are correlative and not alternatives in the event that if trade is on the basis of comparative advantages between the countries. Be that as it may, trade and venture may considered as alternatives if the (trade) exchange of goods and service is based on outright focal points between the two nations, as organizations supply various sources via FDI or sends out (exports). Consequently, extent of complementarity between exchange (trade) and FDI stays as an exact inquiry. Certain exact examinations, for example, investigations of Culem (1988); Ethier and Horn (1990);

While inspecting, co-operations amidst internal FDI, sends out and fiscal development of Singapore, South Korea and Taiwan could not discover some proof of causative connection amongst exports and FDI on account of South Korea and Taiwan. Owing to Singapore, unidirectional way of causation was found from exports to internal FDI (Khan and Leng, 1997).

The causation amidst internal FDI, fiscal development and trade in China by utilizing quarterly information from 1981 to 1997, He discovered bidirectional causation connection between internal FDI and exports. Balamoune –Lutz (2004) found comparative outcome for Morocco for the period 1973 to 1999 (Liu et al (2002).

The share of FDI in send out advancement of MENA nations such as Egypt, Morocco Turkey and Tunisia from 1970 to 1995 by Soliman, M.,(2003).Using gravity approach, author observed a positive connection amidst FDI inflow and exports; notwithstanding, a unimportant relationship has been found for the situation FDI and offer of assembling send out in complete stock fares.

Furthermore, the connection between FDI sends out and fiscal development in Egypt, Omen Jordan from 1981 to 2000 was analyzed by Metwally (2004) by utilizing a synchronous condition demonstrates. Outcomes of the study recommends merchandise's exports and ventures are emphatically impacted through internal FDI in the above mentioned economies.

A cross segment investigations about 186 enterpriseswhich finished up a positive connection amongst FDI and fare development in China. The impact was bigger in labor

escalated ventures as compared to capital involved businesses. Author also concluded that FDI has more export advancing impact as compared to residential capital (KH.Zhang (2005)).

The causation amidst internal FDI and Export execution in case of Mexico by utilizing the test of granger cause was estimated by Pacheco – Lopez (2005). The outcome showed a bi-directional causal link between internal FDI and exports execution.

A.M.M. Abdel Rahman (2007) made a causality test and indicated that FDI does not Granger cause exports in KSA (Kingdom of Saudi Arabia) yet trade development Granger cause FDI development. Another study of Turkish economy estimated a causal connections amidst internal FDI, sends out and financial development from 1987 to 2002. The association of FDI driven trade development was not found in Turkey (Alici and Ucal, 2003).

The relationship amongst exports and FDI in case of Cameroon was analyzed by A.M. Njong (2008). He Utilized data from 1980 to 2003 and discovered a constructive FDI effect on send out via increment in limit of supply and overflow impacts.

A panel data Granger causality of nine recently industrialized nations of Asia was analyzed by Won et al (2008 and discovered two way causation between internal FDI and exports growth. The communication amongst FDI and exchange has turned out to be convoluted with the pattern of monetary combination, while the significance of the connection amongst exchange and FDI has expanded throughout the years. Despite the fact that analysts have hypothetically and experimentally considered the connection amongst exchange and FDI, it is still under verbal confrontation.

innovation escalated last results of the host nations (Zhang,2005).

Owing to the trade agreements abroad, promoting aptitudes and prevalent innovation according to item types and ways and more prominent common knowledge, MNCs may prefer export potential over home-grown firms in preparing privately delivered crude resources and sending out the unchanged. It is particularly valid initially in advancement when the nation did not have the benefits. (Zhang, 2005) FDI likewise

improves the creating nations (have country's) fabricating sends out through overflow consequences for nearby firms' trading exercises. (Zhang (2005)

The advantages achieved by domestic organizations by learning, watching, and impersonating exports exercises of the outside associates through the way of constructing utilization of the framework of conveyance, correspondences and budgetary exercises.

The overflow impact includes FDI's impact on aggressiveness of residential company's exports and dispersion of fresh advances. By way of conveying their propelled item procedure innovation, administration, and advertising skill, MNCs can expand rivalry in business sectors and power neighborhood companies to embrace additional effective techniques.

The overflows can be identified with linkage amongst outside and neighborhood companies. On the off chance that fare arranged remote backup's increment their buy of contributions from nearby firms as the auxiliary develops, the fares of the nation expands (UNCTAD, 2001 and 2002).

Present writing has demonstrated about FDI choices which rely upon an assortment of attributes of the host nation for example conversion scale, size of showcase and potential, transparency, p solidness in terms of politics, hazard, work costs, exchange costs, speculation costs, exchange shortfall, human capital, charge, expansion, spending shortage, household venture, outer obligation, government utilization and vitality utilize (Bloningen 2005). A financially favorable condition is probably going to be a magnet for remote organizations, prompting inflows of FDI (Kumar 2002). The part of quality of institutions, physical foundation, levies on imports, macroeconomic strength and governmental security on inflows of FDI are normally positive (Trevino et al. 2002). Moreover, financial development of a host country performs emphatically on FDI inflows (Trevino et al. 2002; Grosse and Trevino, 1996).

Dunning (1993) contends to contract chasing, cabinet chasing, effectiveness chasing and vigorous supply are rousing essentials of inflows of DFI. The more particularly "lease chasing" assumed procedure contains outside companies observing for less costly variables of generation and assistances of development. For instance, FDI

rationale regarding "Market chasing" comprises isolated organizations sending out or introducing fresh markets and keeping in mind the completion goal to increase agreements. It is the option for businesses to confront exchange limitations like expensive carriages and guidelines of cause. The "effectiveness chasing" administrations require to develop few countries to function as larger markets. Certain critical factors in that rationale are zone, direction of the government and blessings. Eventually, "key resource" justification is recognized with keeping up inaccessible companies' worldwide situation and aggressiveness.

In this investigation we center on exchange transparency as a noteworthy factor influencing FDI inflows. Despite the fact that transparency can be viewed as a social or financial marker, we are just worried with the monetary (exchange) receptiveness's measurement. Exchange receptiveness instigates send out arranged FDI; while exchange limitation pulls in "levy bouncing" FDI's goal is to exploit the household platform (Kosteletou and Liargovas 2000).

Hypothetically, exchange limitations and transparency might influence inside FDI either decidedly or adversely. A few arrangements on exchange transparency may deliver a critical effect in drawing in FDI. For instance, through the execution of organized commerce understandings (FTA), a few Latin American nations have possessed the capacity to draw in more noteworthy streams of remote direct speculation. FDI encourages sends out, import substitution and exchange inputs. Then again, according to Raff (2004) in particular circumstances, FTA do not quickly influence FDI, regardless of the reality that FDI would have well-being making strides. This may happen, on the grounds that harmony outer levies are too low to incite as recommended by Goldberg and Klein (1998)

As per the conventional Hecksher-Ohlin suspicion, exchange and FDI have a substitute relationship (Mundell 1957). Also, a few examinations (Caves 1957) expect that fare and FDI can be common choices regarding entering remote markets, inferring that there is a substitutive connection amongst fare and FDI. Dark (1998) additionally

contended that market-chasing FDI and exchange are substitutes, while effectiveness looking for FDI and exchange are corresponding. In others thinks about the intentions in FDI were separated into three classifications; the even inspirations.

Hypothetically, flat FDI is intended to put creation near remote customers and along these lines stay away from exchange costs and is a substitute to exchange as in the connection between showcase looking for FDI and exchange. Then again, vertical FDI and exchange are integral since vertical FDI is driven by the separation of generation costs instead of exchange costs. At the point when these current speculations and theories are connected to the FDI inflow from East Asian nations to India, the level and vertical FDI inspirations are working at the same time. Due to high exchange cost, for example, general high duties, import prohibition on sturdy products with high taxes and lower work cost were particularly dynamic in prompting FDI to India. Subsequently, to discover the connection amongst exchange and FDI in India-East Asia nations, the approach depending on the idea of FDI would require further examination. In any case, India's FDI measurements and also the nation particular insights by FDI inspirations are extremely restricted, which is the reason we attempt to discover the causality amongst exchange and FDI in this paper.

Owing to the trade agreements abroad, promoting aptitudes and prevalent innovation according to item types and ways and more prominent common knowledge, MNCs may prefer export potential over home-grown firms in preparing privately delivered crude resources and sending out the unchanged. It is particularly valid initially in advancement when the nation did not have the benefits. (Zhang, 2005) FDI likewise improves the creating nations (have country's) fabricating sends out through overflow consequences for nearby firms' trading exercises. (Zhang (2005)

Wörz (2005) examined the connection between mechanical distribution of FDI and GDP expansion. The economists made an examination of CEECs with countries from East Asia and OECD people. Hsiao F. S., & Hsiao M. C. W. (2006) analyzed the Granger causality between FDI, GDP and exports in 8 rapidly developing countries from East and Southeast Asia .FDI straightforwardly influences GDP. FDI chose an extension in exports'



profitability as suggested by Driffield and Love (2007). There is a backwards connection amongst exchange and even FDI, in accordance with Beugelsdijk et al. (2008).

Zhang and Song (2000) tended to various effect of outside FDI (at the regular level from 1986 to 1997) on trades in China at some degree of unmistakable test specific. Using the board information demonstrate, they furthermore found that bigger measures of FDI were solid with higher common exports. It is critical that the valuable result of FDI on exchanges China has by and large been an immediate one. Sun (2001) investigated a comparative request yet in three regions of China, and he unquestionably thought about specific beginning circumstances of the specific areas by using a panel econometric model author has found that FDI influence change over the three locales on exports execution [Sun, 2001].

The causal association among trade and FDI is staggering. This requires honest to goodness thought in the direction of examining the causative associations amongst FDI and Trade. An extensive bit of the examinations found FDI and trade (exchange) relationship yet nonappearance of general assertion among the researchers exists. This proposes the association designated as nation specific. A small number of investigations have reviewed the causativeness in exports and imports of India and China, thusly; relationship of the mentioned countries in light of analysis of causality between FDI, exports and imports with ongoing information is to a great degree required. This proposes the significance of observational examinations of FDI– exchange (trade) connections for these nations. The presence of one path connection amongst FDI and Exports and FDI and imports in China has been uncovered by Liu et al., (2001).

The causative construction of FDI and trade in China was evaluated for the years from 1984-1998 and author assumed that improvement in China imports effects the improvement in inward FDI from domestic economy, which makes the improvement in trades from China home country in accordance with Liu et al., (2001). The causal association amid FDI net inflows and organization sends out (exports) in the Indian economy for the duration from 1991 to 2002 was also investigated by Srivastava and Sen (2004). The empirical consequences exhibit the closeness of short-run unidirectional granger causality exists between FDI and Services exchanges in the India in the after

headway period. The examination assumed a direct and distinct addition of FDI into the administrations exports 'growth out in the Indian economy after beginning of financial changes in the country.

Exact examinations on the connection between outward-FDI and trade (exchange) must be grasped at diverse levels, such as nations level (i.e., in perspective of bi-horizontal information of exchange volume e.g. Clausing (2000), business level (i.e., in light of cross-section industry related data e.g. Brainard (1997); Kawai and Urata (1998)), and in addition item level (i.e., in view of disaggregated data on exports e.g., Blonigen (2001).

When all is said in done, there is no accord on the trade impacts of FDI in light of the experimental research as positive and negative connections have been found in various examinations. For instance, a few investigations assistanting the proposal regarding OFDI which is a auxiliary for trades (exchange) are by Svensson (1996), Bayoumi and Lipworth (1997) and Maet al. (2000), to give some examples. To influence the compelling utilization of FDI, to have economies ought to distinguish its near favorable position and essentially FDI should supplement yet not substitute for capital resources (Samsu et al.,2008).

Grubert and Mutti (1991), who utilized reciprocal exchange information, in any case, observed that U.S. advanced home exports and imports'OFDI, Amiti et al. (2000) brought up that the connection amongst trade (exchange) and FDI is certifiably no direct one as a substitutionary association inclines to happen if a flat FDI happens between nations that are comparable as far as relative blessings and estimate, and when cost of doing trade is high.

An interrelated literature explores the causal connection of trade with FDI in the perspective of change issues. In light of sensible structure set up by Porter (1990), Ozawa (1992) articulated an all-inclusive theory relating to causal linkages between competitiveness and economic development creating international trade and FDI. Trade flows happens on account of enhanced similar favorable position, which, hence, is impacted by FDI.

In spite of a fact that the investment has diverse sources and points, the connection amongst trade and FDI is under examination. Trade and investment endeavors to elucidate the reasons of trade among countries however, FDI philosophy attempts to clear up the reasons of making firms in a foreign country and place assets into specific states (Mekki, 2005). There are fundamentally two sections of possible linkages among FDI and trade: (a) paying little mind to whether FDI is a substitute for exchange or a supplement to exchange; and (b) regardless of whether FDI causes (trade) exchange of goods and services or the other way around. As indicated in terms of professional career hypothesis, regardless of whether FDI substitutes or supplements exchange relies upon the inspiration for FDI. On the off chance that FDI is vertical where multinational firms geographically split periods of creation, this is likely going to brace exchange. If FDI is level where multinational firms convey last stock in various regions, this is most likely going to substitute for exchange. If FDI is a substitute for exchange, by then FDI addresses a distraction a long way from nearby generation and exports to remote yield and accomplice bargains. Then again, if FDI and exchange supplements, at that point the local production profits by ventures abroad (Taylor and Wilson, 2006).

Something else, vertical FDI is probably going to command emerging from intra-firm exchange inside the MNEs. Revelations that promoter the comparing association among FDI and exchange (trade) are by Brainard (1993, 1997), Lin (1995), Graham (1996), Pfaffermayr (1996), Clausing (2000), Head and Ries (2001) and Hejazi and Safarian (2001). What's more, Lim and Moon (2001) pronounced that FDI would emphatically influence home country sends out if the outside assistants were arranged in least developed or under developed economies, or in other words these were by and large novel and inside deteriorating home-based industry.

FDI out streams to under developed enormous economies like China and could provoke decrease of trade for little source nations (Lee et al., 2009).. In addition, mixed affirmation in that FDI had substitution and complementary outcomes for exchange as suggested by Goldberg and Klein (1999) and Blonigen (2001).

Aizenman and Noy (2004) assessed acknowledged measures of back related and exchange responsiveness, and exhibit that total money related and business transparency

measures are immovably associated. They tentatively separate causality and discover strong effects in the two headings. Another approach interfacing exchange and money related receptiveness is Portes and Rey (2005), showing that both overall exchange stock and in assets are cleared up by similar gravity relapses. Their work includes the piece of information streams and grindings in speaking to exchange merchandise and resources.

The geology of exchange items and asset belonging were explored by Aviat and Coeurdacie (2004). They expand the strategy of Portes and Rey (2005) and observed that the causality between complementary properties belonging and exchange items turns basically in round trip and these influences are resilient. The watched positive relationship among exchange and supports can be credited to factors in a political-economy was proposed by Rajan and Zingales (2003). An interest assembles theory of budgetary advancement whereby inhabitants negate life partner related change since it raises rivalry. In such conditions, the officeholders' confinement would be fragile as soon as an economy licenses both capital streams and cross-periphery exchange. They foresee that an economy's neighborhood fund related progression should be earnestly associated with exchange transparency, and perceive the time moving nature of this alliance (Noy, and Vu ,2005 and Blonigen and Wang,2004).

According to (Blyde and Sinyavskaya (2004). another channel, working in a similar bearing from fiance to trade, may be because of dependence of worldwide exchange on exchange credits. More unmistakable responsiveness to exchange credit inflow prompts a diminishing in the cost of a normal model used to test the relationship is a FDI-expanded gravity display, where inward and outward FDIs are incorporated as a superfluous determinant of exchange. For instance, the regular gravity demonstrates recommends that exchange amid two states or economies is settled earnestly by every nation-state's GDP, and antagonistically by the detachment between them. Following this examination, distinctive pros extended the gravity display by including people, per capital pay, exchange design, ordinary vernacular, and bona fide and social relations amongst states, which could possibly affect the power of exchange between nations. The examination is then found about OFDI and FDI as extra contributing factor of trade (exchange of goods and service with other nations) this credit and thusly grows overall exchange.

Whether trade and FDI are substitutes or supplements subsequent to control for similar favorable position (Ellingsen et al., 2006; Hejazi and Safarian, 2001)? The gravity model has likewise been broadly utilized as a part of the trade literature to analyze a few trade issues, for example, determining, for instance, the effect of liberalization of trade, a cash association and FDI on exchange streams (Frankel, 1997; Rose, 2000).

Linkage of trade and FDI is bidirectional. These investigations found a solid response sort of association between FDI streams and trade, particularly in modern merchandise. There are not at all like inspirations in regards to the effect of FDI on universal trade or exchange. There are two regular classes of such inspirations: factor-chasing and showcase chasing (Root 1994). Market-chasing FDI takes after request and enter outside business sectors through favorable deals potential while, Market-chasing investmetn can ensure an inverse relationship with BOP adjust of host nation (Aizenman and Noy ,2005 & Culem,1988).

The linkages between FDI and global exchange for underdeveloped OECD and developed nations have been looked into. Complementarity among FDI and exchange was originated at the expansive scale money related level as a result of floods between firms inside endeavors and between undertakings inside the amassing division. Relationships between FDI streams and exchange were more grounded in making than in industrialized countries. In a period of quickly developing exchange coordination nations can't pick their capital record approaches freely of their level of receptiveness to trade. This idea likewise gives a fractional inspiration to the profound trade and finance related progressions embraced by developing nations as of recent years because of the positive criticisms amongst trade and FDI (Pajot; 2000; Fontagne and and Poon 2002 and Pantulu Aizenmana and Noy, 2006)

FDI is well-thought-out as an imperative machinist in building up association of exchange (trade) advancement and financial expansion resisted by Taylor (1998) and Wacziarg(2001).Furthermore, the investigation of Atkinson and Brandolini (2003) stated that exchange advantage won't be acknowledged if nations venture makes residential wage imbalance. The effect of FDI on neediness and some more social objectives of improvement be influenced by primarily numerous variables, for example, the host nation

strategies and foundations, the nature of venture, the type of the administrative structure, the adaptability of the work showcase, and numerous others (Mayne, 1997).

Exchange transparency in case of FDI which has risen as one of the fundamental contentions between market analyst and arrangement producers in clarifying the development marvels in under developed nations as suggested by Dawson (2006), Dutta & Ahmed (2001) and Ruiz Estrada Yap (2006). The constructive commitment of exchange transparency in the direction of development originated from the thought like advancement builds specialism and partition of the work subsequently enhancing efficiency and fare ability and additionally monetary execution. What's more, with more prominent proficiency because of exchange receptiveness, a large number of the developing nations took action accordingly with the fare drove systems. General perception indicates that exchange receptiveness has a beneficial consequence in the direction of fiscal development. The discovery about the nations was that the greater exchange transparency reasonably beat their economy differentiated with the less unlocked nations (World Bank, 1993). The investigations made by Lloyd and MacLaren (2000) and Jonsson and Subramanian (2001) for the Asian countries bolstered a comparative conclusion that the quick development was to a great extent caused by Asian nation's receptiveness. Notwithstanding, the exact proof is somewhat not consistent. Conversely, a few researchers like Harrison (1996) and Rodriguez & Rodrik (2001) supported the transparency drove development nexus.

The association between Trade (exchange), GDP development and FDI in Indonesia in the period from 1990 to 2004 was explored by Pramadhan, Bissoondeal, and Driffield, N. L. (2007). There is a checked association among exchange and FDI; anyway the two variables are sensitive to development impacts. The test examine by Samsu et al. (2008) using the vector mistake redress demonstrate can't find causality in the short continue running amongst FDI inflows and exports, However, It approves the positive outcome in the long run from FDI inflows to exports. Comparable investigations likewise show that if the financial specialist and beneficiary economies of FDI shift generally with respect to asset blessings, at that point the host nation exports can be extended (Liu et al., 2001). This, thus, demonstrates FDI enhances trade performance.

Bhutto et al., (2008) found that in the course of the most recent three decades having high inflows of FDI at exceptional animated rate but exports expansion has been in progress, in any case, not at tasteful level. FDI can impact, clearly and by suggestion, the fares of encouraging a republic. Utilizing at that time arrangement information of the period from 1977 to 2005, a twofold log exhibit has been used to evaluate impact of FDI on sends out and results confirmation that the two years slacked FDI has quantifiable gigantic constructive outcome on the present exports of Pakistan. The material part like FDI is spine of exports. The identical were the circumstance with other exchanging divisions. To be sure, sends out do have a basic place in Pakistan, so Pakistan ought to figure such fiscal methodologies, as loosening up on outside exchange control, abolishment of specific cost and introduction of appropriate duty help approach for the remote speculators that attract FDI, especially resource arranged, in Pakistan.

A uni-directional connection between these variables mentioned in above paragraph has been discovered by Pantulu and Poon, (2002). Further one-route connection amongst FDI and exports was additionally been originated by a few examinations by the following economists such as Bajo and Montero, 1994; Pantulu and Poon, 2002; Liu and Graham, 2008; Srivastava and Sen, 2004. After them another time more the interconnection amongst exports and FDI has observed as two way causation if there arise an occurrence of developing nations in a portion of the investigations (Ahmed et al., 2007; Iqbal et al., 2010).

Outside FDI was viewed as a wellspring of greater GDP enlargement of the under developed economies of the world. FDI connected mechanical improvement, updated social capital, and propelled all-inclusive exchange in underdeveloped economies. To fascinate FDI, less developed economies have made investment inviting macroeconomic practices to be benefitted very best from FDI. In the same way as other developing nations, Pakistan needs capital development; there is immense hole amongst sparing and interest in the nation. Pakistan has started a few changes every now and then in different areas of the economy to support up the genuine development, to manage macroeconomic soundness and draw in FDI inflows in the nation (Bhutto et al.2008).

As per Hailu (2010), it isn't remarkable to realize African economies endeavoring to discourse their lack of remote cash. FDI is set forth toward expectation of keeping an eye on this issue. Thinking about this, the essential aims of this examination was to choose an association among trade and FDI adaptation of African economies during the period from 1980 to 2007. As a result of data heterogeneity, non-coherence and in light of the fact that the Hausman test favors it over the Random Effect show, the Least Square Dummy Variable (LSDV) relapse method is used. The adaptabilities of the twofold exports and import are certain as well as vital by greater versatilities prominent for exports (sends out) as regard to the imports. This means that Multi-National Enterprises (MNEs) in SSA are trades arranged and in addition an import subordinate. To spare cash on the uncommon outside spare, speculation arrangement makers in such economies ought to facilitate the MNEs near those regions including further fare development, import substitution and adjacent factor escalated investment.

The demonstration of a corresponding connection amongst FDI and imports (through applying gravity model approach) was made by Anwar and Nguyen (2010), yet in addition amongst FDI and exports in relationship for Vietnam. (2010) An other demonstration regarding the causal relationship in India between FDI, GDP growth and trade for the duration from 1970 to 2007 was also observed by (Jayachandran and Seilan).

Rahman (2011) expressed that Bangladesh is home to extensive untalented and semi-talented populace and needs satisfactory local business opportunity because of shortage of FDI which may promote its GDP growth. Furthermore, this nation has likewise been encountering huge increment in worldwide trade ongoing years contrasted and the situation of a decade ago. In this scenery, the creator goes for observationally seeking regardless of whether these FDI and overall exchange support or destroy GDP expansion of these economies? Taking Bangladesh information of imports, exports (sends out) and FDI over the duration from 1972 to 2007 and the test for co-coordination couldn't expel the hypothesis of no co-combination ( $r < 0$ ) among the components being alluded to and the broadsheet simply originated an outside FDI to have granger caused import anyway practically identical causality some further way remained unfound.



Kiran, Burcu(2011) researches the observational confirmation on the connection between FDI and trade in Turkey during the period 1992 to 2001 and from 2008 to 2010 by utilizing the base LM unit pull test for stationarity and Granger and Dolado-Lütkepohl tests for causality. The test has consequences in perspective of the bi-variate VAR show no affirmation of causal connection amongst FDI and exchange (Trade) of Turkey.

Acaravsi and Ozturk (2012) inspected the connotation between FDI, exports and development in EU states and find the causal association between FDI, sends outs and development in EU countries. Dash and Parida (2013) showed the bidirectional causality amongst FDI and GDP development in India. As demonstrated by the outcomes, the discoveries likewise demonstrated the connection between FDI and administrations of exports.

A prompt unidirectional causal link from exports to GDP, in a couple of economies (in Haiti, Rwanda and Sierra Leone) and from GDP to trades in various countries, such as Angola, Zambia and Chad have been observed. The causal association amongst FDI and exchange China was also explored by Liu, Wang, and Wei (2001). The researcher utilized data of China along with other nineteen home countries or locale coming soon 1984– 1998. The results presented a dormant change regarding China: the imports improvement chooses the FDI augmentation from other regions to China and addition in exchanges from China to zones or home-based state. An extension of trade chooses improvement in imports (Tekin, 2012).

While inspecting, co-operations amidst internal FDI, sends out and fiscal development of Singapore, South Korea and Taiwan could not discover some proof of causative connection amongst exports and FDI on account of South Korea and Taiwan. Owing to Singapore, unidirectional way of causation was found from exports to internal FDI (Khan and Leng, 1997).

The causation amidst internal FDI, fiscal development and trade in China by utilizing quarterly information from 1981 to 1997, He discovered bidirectional causation connection between internal FDI and exports. Balamoune –Lutz (2004) found comparative outcome for Morocco for the period 1973 to 1999 (Liu et al (2002).

A cross segment investigations about 186 enterprises which finished up a positive connection amongst FDI and fare development in China. The impact was bigger in labor escalated ventures as compared to capital involved businesses. Author also concluded that FDI has more export advancing impact as compared to residential capital (KH.Zhang (2005). The share of FDI in send out advancement of MENA nations such as Egypt, Morocco Turkey and Tunisia from 1970 to 1995 by Soliman, M.,(2003).Using gravity approach, author observed a positive connection amidst FDI inflow and exports; notwithstanding, a unimportant relationship has been found for the situation FDI and offer of assembling send out in complete stock fares.Furthermore, the connection between FDI sends out and fiscal development in Egypt, Omen Jordan from 1981 to 2000 was analyzed by Metwally (2004) by utilizing a synchronous condition demonstrates. Outcomes of the study recommends merchandise's exports and ventures are emphatically impacted through internal FDI in the above mentioned economies.

Worldwide socio-economic condition is changing rapidly in the midst of 2000 and onwards in developing and heightening overall relationships in return and FDI. Distinctive countries are currently supporting monetary changes for achieving quick and maintained development. The degree for transnational generation has exhausted because of decrease of the hindrances to global trade and the different territorial coordination assertions between the diverse nations. This paper looks at the causal connections in India and China in FDI and trade. To take a gander at the causal association among FDI and trade analyzing the data from 1976-2011 by apply Granger causality test. A unidirectional causality was found from FDI to imports and FDI to exports in China, in any case, bidirectional causality among imports and exports usually exist while, a bi-directional causality among FDI and imports; FDI and exports; and exports and imports have been found in India which is opposite to the results of China (Sharma and Kaur, 2013).

Belloumi (2014) explained that the connection between FDI, exchange and development in Tunisia and found the long run relationship. While, no causal links amongst FDI & GDP expansion and GDP expansion & trade (exchange). The discoveries bolstered the FDI and trade Tunisia. Alam et al. (2016) demonstrated the commitment of trade receptiveness with FDI on future in short and long keep running in Pakistan. The

outcomes demonstrated the noteworthy relationship of FDI and trade development and furthermore featured the consequence of FDI and trade in the long run.

### **2.3 Concluding Remarks**

The causal connection amongst trade and FDI is mind boggling. This requires genuine consideration towards examining the causal connections amongst FDI and Trade. The vast majority of the investigations have discovered FDI and trade's causal connection. Anyway there exists nonappearance of general agreement among the financial analysts which proposes this association to be nation particular. Several investigations have reviewed the causality among sends out (exports) and imports of India and China, consequently, the examination of these countries in view of testing for causality between FDI, sends out (exports) and imports with ongoing information is to a great degree required. The review proposes the significance of observational examinations of FDI–exchange (trade) connections for these nations. The presence of one path connection amongst FDI and Exports and FDI and imports in China has been uncovered by Liu et al., (2001).

Different experimental studies have provided unlike inferences on FDI and foreign trade linkage. Upon my insight, different examinations have been done on FDI and Trade on different nations and squares of nations. For example, Zhang and Song (2000), conclude that improvement in the FDI level have positive link with performance of export of China. Many studies have also investigated a positive association between FDI and rade execution of host nations (Cabral, 1995; Blake and Pain, 1994).

To influence the compelling utilization of FDI, to have economies ought to distinguish its near favorable position and essentially FDI should supplement yet not substitute for capital resources (Samsu et al.,2008).

FDI out streams to under developed enormous economies and could provoke decrease of trade for little source nations (Lee et al., 2009). In addition, mixed affirmation in that FDI had substitution and complementary outcomes for exchange as suggested by Goldberg and

Klein (1999) and Blonigen (2001). These conclusions proposes the significance of experimental examinations of FDI– trade connections for these nations

## **Chapter 3**

### **FDI and Trade: Theoretical and Conceptual Framework**

#### **3.1 FDI and Exports**

Both the trade and FDI are complementary to each other as well collectively helpful, progressively inseparable as dual verges in practice of globalization and economic integration (Ruggiero 1996). Moreover, FDI inflows can encourage the exports of local national regions through spill-over effects and industrial linkage, particularly via backward linkages, procuring the domestically manufactured midway factors inputs to yield exports. This influence generates long-lasting demand incitement for local or national firms and encourages the exports. Financial inflows are anticipated to influence the supply side host country's exports (Haddad & Harrison, 1993). Foreign investment can augment export-based output which provides additional progress in export performance. It was also argued that export provides incentives for improvement in production that fascinates more foreign investors to undertake FDIs.

Capital accumulation and labour mobilization accelerates exports and increase in exports leads to growth of an economy by enabling mobilization of the labour and capital formation. Economic literature suggests a bi-directional causation between productivity and trade. According to advocates or economists of export -led growth, firms inclines to pick up and adopt latest technologies in order to meet the requirement in competition with foreign firms and the foreign market through exports and similarly they too learn by performance and compete with foreign competitors by experiments which are innate for manufacturing and sales of export goods. Moreover, growth of manufacturing as a

consequent of exports diminishes the prices per unit of production and hence enhancing productivity. Besides these effects, country is also provided with foreign exchange through exports. Foreign exchange often remains rare during initial phases of growth and development and empowering a state to import intermediate goods and capital goods. So, on account of a collection of sources, productivity can be enhanced by growth. The inverse causality from output progression to exports is likewise innately forthright. The progression of productivity develops a nation's worldwide competitiveness, quality and price, and in that way increases its exports.

Since FDI can be clarified by an assortment of contending or supplementing hypotheses, (for example, neoclassical exchange hypothesis, blemished rivalry, Dunning's OLI system, new exchange hypothesis and amusement theoretic structures), an extensive variety of potential impacts exists and can be tried different things with in observational examinations keeping in mind the end goal to locate the real results of FDI. Factor value balance is the significant outcome of capital portability as indicated by the Neoclassical exchange hypothesis, however outside venture can likewise profit of the nation in which the investment happens) via a bigger stock of capital, expanded duty incomes for governments of host countries, creation extension, expanded work profitability, higher wages, expanded business, innovation overflows and adjust of installments impacts.

Models seeing FDI as speculation connected to defective rivalry demonstrate the advantageous impacts of FDI by exchanging administrative or managerial aptitudes, while arrangement of remote members can likewise expand rivalry and enhanced advertise execution of the monopolistic businesses. According to Dunning's (1993) the hypothesis of cosmopolitan undertakings, the wellbeing impacts of FDI in host nations may be hard to

characterize and rely upon an assortment of measures including innovation overflow, linkages and other overflow impacts, consequences for the market structure, work impacts, adjust of installments and exchange impacts, consequences for financial development and non-monetary impacts which thusly rely upon the political, monetary and social condition.

The new exchange hypothesis investigates the financial ramifications of expanding come back to scale, passage obstructions, item separation, flawed rivalry and transportation charges. Effect of FDI are regularly uncertain just like uncertain that FDI inflow may harm domestic companies and builds restraining infrastructure control or whether it enhances local proficiency and aggressiveness. It is some of the time hard to decide if FDI enhances the human capital and aptitudes of the household populace or in the event that it just redistributes pay. FDI could prompt the dissemination of latest innovation in the host; however, additionally conceivable thing is that it may energize the presentation of improper advances via unscrupulous publicizing. Usually misty on adjust is that it can be benefits the host by presenting latest productive strategies for commercial administration or not? It contrarily influences country through keeping it away from societal responsibility. FDI and trade rely upon middle sources' imports increment by pretty much than definite great imports diminish and on FDI whether it is market or exchange arranged appropriation situated. Notwithstanding such uncertainties, universal agreement is originated by all accounts that a definitive impacts rely upon the FDI's combination with the host country and degree of overflows as far as mechanical dispersion, work, preparing and aggressive productivity.

The determinants of FDI are a scope of monetary or political elements in accordance with Game Theoretic Frameworks. Along these lines rely upon the relative

dealing quality of the gatherings included – one ordinarily broke down case being the exchange off between expanded duty income however MNE creation and diminished expense income through impetuses offered keeping in mind the end goal to draw in the MNE in any case. The outcomes should be considered over quite a while outline and the assessment ought to happen in connection to elective venture ventures. Anyway the appropriation of additions will be vague inside a scope of conceivable results. Given the assortment of speculations and diverse hypothetical expectations on FDI's impact, the well-being result of any nation is difficult to anticipate and ought to be best resolved observationally. For such situation, total information on quarterly basis are utilized to estimate the results of FDI on total factors, for example, financial development, exchange and local speculation. The lion's share of past experimental examinations proposes that FDI should increment monetary development and fares, while the impact on local speculation and imports is indistinct. Many authors recommend that financial development might produce a fundamentally constructive outcome on FDI. Be that as it may, in various investigations the connection relies upon the host country's business condition.

Hejazi (2002), likewise appear to find bolster about the theory that FDI crowds out residential venture. It expands residential speculation, however there are additionally a few studies such as Lipsey (2000) and Kim and Seo (2003)) who did not locate recommended any strong connections, while studies such as Agosin and Mayer (2000) discovered a swarming out impact meaning that FDI lessens local venture. It is for the most part found to positively affect trades – either by expanding sends out specifically.

FDI is believed to be development upgrading basically via capital, expertise and innovation because it makes nation a beneficial by exchanging learning. It will also build



current load of information inside host nation by work preparing, aptitudes' exchange and the exchange of hierarchical and administrative practice. It may also likewise advance utilization of further boosted advances by residential companies by way of capital gathering inside local nation according to De Mello (1999).

At last, FDI was considered for trade expansion and household speculations expansion via innovative overflows and subsequent efficiency increment. Principally, a few prospective manners of FDI can advance fiscal development. Such as Solow-like neoclassical development models recommend that capital stock can be consequently development in the host economy by financing capital arrangement through FDI (Brems, 1970). Honestly, in neoclassical development models with consistent losses to capital, there is a short-run development impact of FDI as nations travel towards another unfaltering government. In like manner, FDI effect on development can be indistinguishable regarding household venture. Interestingly, FDI is by and large thought to be more gainful than household speculation in endogenous development models, since it supports joining of latest advances in the creation capacity of the host country (Borensztein et al., 1998).

FDI-associated mechanical overflows balances impacts of consistent losses to capital and preserve the economy on an elongated haul development way. In addition, endogenous development models infer that it may lead to long-run development through expanding existing supply of learning in host country by work preparing and expertise acquiring, through presentation of selective administration hones and categorized plans on the other. So, capital gathering and information overflows, may assume an imperative part of FDI in financial development.

### **3.2 FDI and Imports**

There are inadequate research works regarding the impacts of FDI on imports. The imports of a nation are affected by FDI at the early phase of investment as well as at the operation phase. At early phase of investment, import of apparatuses, tools, fitting services and technologists, professionals altogether contribute to the rise in import balance. The firms with FDI have extraordinary inclinations to import intermediate goods and services and capital not easily accessible from inside the host country. While during the later investment phases the course of consequence of FDI on import and in a country is determined by the nature of inputs, type of outputs, productive efficiency, spill-over and other role players. FDI might not have adverse and significant impact on imports in case of using resident raw resources and other factors of production.

Then again, FDI have decidedly impacts imports if there should arise an occurrence of depending on imported factor input sources, for example, crude material, specialized experts and different resources.. The association between import and FDI can be of both positive negative types depending upon the situation of an economy. If there is complementary relation between output and imported products, it might support import and would have beneficial outcome. In any case, it has negative in case of its concentration in import substituting industries because the goods will be now producing by foreigners in the host country which being were imported earlier.

The consequences of FDI productivity on import and FDI spill-over on import might be analyzed altogether. The applied association of imports with cost-effectiveness (output)is more complex as compared to relationship of exports with productivity. The rise

in consumer products' imports may encourage native import-substituting industries to revolutionize and reorganize themselves for contending with foreign firms; hence, imports can augment efficiency in production activities. It may fascinate foreign firms too for performing investment actions to market supply. These MNEs having capability in supplying the both markets i.e., foreign as well as host countries' market formerly, are now apt enough to mobilize input factors to the host country and involve them in process of production. In such situation, indigenous supply from MNEs' production facilities would discourage imports. With the same logical situation, the household firms may contribute more to the import substitution impact prompting decrease in import on account of positive technical skills, human capabilities and other overflow impacts from outside businesses to nearby ventures. An additional conduit of FDI influence is reliant on the type of association with various esteem chain levels in the business.

In an arrogant reconciliation, FDI may be occupied with additionally handling of a mostly prepared yield of a domestic organization that used to be conveyed for also taking care of in a foreign association. This period methodology might reduce the things additional quality which makes this functioning at the nearby marketplace and would contrarily influence import and export. FDI may endeavor age of a thing, which is a commitment for another creation amenity in a retrogressive compromise. In the middle product a good was an import good; such sort of reconciliation would negatively affect import. FDI might positively or negatively affects trade keeping in view all these possible headings of results.

### **3.3 Universal Hypothetical Models and Experiential Studies on FDI and its consequences**

Since FDI can be cleared up by an arrangement of battling or supplementing speculations, (for example, neoclassical exchange hypothesis, flawed rivalry, Dunning's OLI structure, new exchange hypothesis and amusement theoretic systems), an extensive variety of potential impacts exists and can be explored different avenues regarding in observational investigations so as to locate the real results of FDI. Factor value adjustment is the real outcome of capital portability as indicated by the neoclassical exchange hypothesis; however outside speculation can likewise profit the Host (i.e. the nation which is receiving investment) via a bigger stock of capital, expanded duty incomes for governments of host country, creation extension, expanded work efficiency, higher wages, expanded business, innovation overflows and adjust of installments impacts. Models seeing FDI as investment connected to blemished rivalry demonstrate that FDI might has invaluable influence by the exchange of administrative or innovative capacities, whereas establishing remote subsidiaries can likewise build rivalry and enhance advertise execution of the monopolistic enterprises they are situated in.

As indicated by Dunning's (1993) the hypothesis of multinational endeavors and the welfare impacts of FDI in Host nations are more hard to characterize and rely upon an assortment of measures including innovation overflow, linkages and other overflow impacts, consequences for the market structure, work impacts, BoP adjustment and exchange impacts, impacts on financial development and non-monetary impacts which thus rely upon the political, financial and social condition.

The new trade hypothesis investigates the financial ramifications of increasing return to scale, passage boundaries, item separation, flawed rivalry and transport costs. The

after effects of FDI are every now and again unclear. Therefore, it is dubious whether the inflow of FDI drives out national firms and grows syndication control or whether it upgrades private proficiency and force. On occasion, it is hard to choose if FDI upgrades the human capacities social capital and of the local populace or on the off chance that it simply redistributes pay. FDI could prompt the dissemination of new innovation in the host, however it is additionally conceivable that it could empower the presentation of unseemly advances through manipulative publicizing.

Usually vague on adjustment regarding benefiting the host by presenting new proficient strategies for business administration, or whether it contrarily influences economy through evading collective responsibility. Impacts of FDI on exchange rely upon whether input sources (intermediate (increment by pretty much than conclusive great imports diminish and on whether FDI is market or fare arranged and creation or appropriation situated. Notwithstanding about such uncertainties, common understanding starting from the writing is by all accounts that definitive impacts rely upon the coordination of FDI with investment receiving country and the level of overflows as far as innovative dissemination, employment, technical education and competitive proficiency.

In Game Theoretic Frameworks, FDI's determining factors may be an extent of administrative or monetary components and in this manner rely upon the relative haggling quality of the parties included – one generally broke down case being the exchange off between improved duty incomes. However MNE generation and lessened duty income through rousing powers advertised through a definite completion goal to draw in the MNE in the principal place. The outcomes should be considered over quite a while outline and the assessment ought to happen in connection to elective investment ventures. Anyway the

appropriation of additions will be vague inside a scope of conceivable results. Given the collection of hypotheses and diverse hypothetical forecasts upon the influence of FDI, and well-being result for an economy is hard to envision and must best be resolved observationally. For this circumstance, add up to quarterly information are used to test the results of FDI on total factors, for example, economic development, trade and domestic investment. The dominant part of past experimental investigations proposes that FDI ought to increase economic improvement and exports, while its influence on local investment and imports is vague.

### **3.4 For what reason Should Regional Integration Agreements Matter for FDI?**

Having talked about the primary adapted models of multinational action, we are currently prepared to address the channels through which RIAs can influence FDI. Since the issue is a mind boggling one with a few applicable measurements (vertical versus flat FDI, insiders versus pariahs in a FTA, and so forth.) it is advantageous to pick one of these measurements as an approach to compose the exchange. As opposed to beginning from the vertical/flat qualification, we will arrange the dialog beginning from the insider/outcast nature of the source nation in the host nation's RIA. The reason is that the reciprocal character of our information enables us to segregate specifically between these two cases. It isn't as clear to recognize the thought processes in speculation with any accuracy, albeit a few attributes of the source and host nations can give helpful indications about the primary inspiration for FDI streams between every nation match. All through the exchange, we need to remember an impediment of our FDI database: It just incorporates FDI from OECD nations to an assortment of host nations (both OECD and creating). In this manner, we won't have the capacity to take a gander at FDI between creating nations.

## **Chapter 4**

### **An over view of Pakistan and China's Economy**

#### **4.1 Introduction**

Pakistan's relations with China are of impressive significance. The two nations have developed as key accomplices by the mid-1950s. It is additionally intriguing to take note of that the establishment of this relationship was created amid the high Cold War strain crosswise over Asia. Amid this period the two nations additionally relaxed their ties with significantly more profound vital reasoning on numerous assorted and convoluted issues. It is additionally a relationship to perceive how ideologically and socially extraordinary countries could fabricate an enduring model of kinship. The shared and exceptionally helpful connection amongst Pakistan and China faces numerous difficulties. This circumstance has not exclusively been created out of differing assessments and perspectives that China has created with different countries in the district, it is additionally a result of rising meeting and collaboration between huge numbers of these countries and China. Both China and Pakistan need to re-arrange their shared needs to manage some of the developing difficulties in the locale. Pakistani strategy creators must assess the development of the new Chinese initiative and their vital, political, and monetary approaches. This will outline a much genius dynamic arrangement towards China. In the common conditions, key organization between them must turn into a monetary relationship. Respective exchange should have been extended. Speculations are in the underlying stage. Gwadar Port exchange to China has been producing new monetary openings.

Completely through mankind's history, individuals procured information from their condition and get impacted by quick countries. Individuals are familiar with exchange, voyage relocate by intrusion, sending off racial impact. Country erudite and built up its life through capabilities securing and also adopting those method of life that it suits. Indeed, initially this procedure does not remain overcrowded. Diverse countries having unique socioeconomics and antiquity, receives and pick up information by mutual co-operation. The social assorted variety amongst nations influence trade in an unpredictable way. Moreover, trade enhances cultural relations among countries. Similarly, there is possibility

of high plausibility that countries having regular social properties may exchange more. In spite of the fact that exchange is based on near favorable position, accordingly with different culture, higher exchanging might be conceivable (Cyrus, 2011). The advantages from exchange could contrast from nation to nation in light of its national welfare, financial, political, territorial and vital situation. Nations have a tendency to concur upon common organized commerce assertion when multilateral progression is unattainable. All the more unhindered commerce might assist in enhancing national welfare

Pakistan and China are members in World Trade Organization (WTO) and as per Article XXIV of General Agreement on Tariffs and Trade (GATT), WTO individuals can be permitted to enter in respective or territorial assertions and they cover a huge sum by bi-lateral trade streams and have no net exchange transferal impact. These both countries have divergent monetary constructions and tightened appropriately (Shabir and Kazmi, 2007). It is difficult to state that if their specialization in merchandise depends on the hypothesis of similar favorable position where nations have a tendency to spend significant time in such specific portions of generation in which there may be near preferred standpoint. Exports from China to Pakistan can be further enhanced and their volume may be enhanced. Exports of Pakistan's item blend are extremely restricted; almost seventy percent comprise of cotton yarn.

Comparable to different countries, Pakistan is additionally changing strategies in the direction of developing endeavors in order to get a handle on picks up from exchange through plurilateral and reciprocal assentations. Two-sided relations look for commonly beneficial courses of action with the objective of lessening taxes and disposing of non-levy obstructions (NTBs). China and Pakistan have loved durable and inviting relation paying little respect to their ideological contrasts, obvious in their extremely names Table 4.1 shows ongoing exchange understandings amidst China and Pakistan with other exchanging countries on the planet particularly quick neighbors (Muhammad et al., 2015).

Financial investment expenditures and experimental confirmation have clearly settled the relations between exchange, efficiency and monetary improvement. Nations that have cumbersome inner markets have likewise picked up from integration with worldwide economy and liberalizing their economies. Add up to exports of world in 2014 added up to



US\$18.7 trillion and aggregate world imports accounted US\$ 18.73 trillion around the same time. The span of Pakistan's local market is just US\$ 271 billion out of 2015. Indeed, even a 0.5 percent share on the planet send out market implies that Pakistan's fares could move to \$60 billion rather than US\$ 30 billion in a year ago. Envision the employments that will be formed straightforwardly or in a roundabout way as a result of development in the creation and generation of exportable things. On the other hand, imports brings into the nation the exchange of innovation settled in imported merchandise and enterprises and lift the nation's generation opportunity outskirts. Consequently, it takes after that expanded exchange is in the predominant financial enthusiasm of the nation.

**Table 4.1 China and Pakistan’s FTA commitments in 2015**

Country	Framework Agreement signed	Negotiations launched	Signed but not yet In Effect	Signed and In Effect	TOTAL
China	0	6	2	14	22
Pakistan	0	5	2	10	17

Source: Asian Regional Integration Center, Asian Development Bank

#### 4.2 Major Exports of Pakistan

Pakistan's exports are exceptionally combined in commodities in pair like cotton and cotton makes, cowhide and rice and couple of more things. The initial three classifications of exports represent 70.8 percent of aggregate fares amid July-January FY-2018 with cotton and cotton make alone contributing 58.7 percent. Customarily, the commitment of these three classifications was 71.8 percent amid a similar period a year ago, and 68.7 percent amid FY 2016. The bifurcation of these things are shown in table 4.2 regarding trade in couple of things as these are the main consideration for bring down fare profit

In spite of the fact that Pakistan exchanges with an expansive number of nations, its exports are exceedingly gathered in nations. Almost fifty five percent of exports of Pakistan is exported towards ten specific nations such as USA, China, UAE, Afghanistan, UK Germany, France, Bangladesh, Italy and Spain. Moreover, the USA has biggest offer in

send out by 16 percent taken after by European nations 11 percent, in all out fares. The table 8.2 proposes that our fares to China have dropped from 9 percent in FY 2015 to 7 percent in FY 2018. The offer of fares to Afghanistan likewise saw a decrease as of late from 8 percent in 2016-17 to 7 percent amid current year, though, the offer of fares to UAE stayed stale. The exports offer to EU nations like France, Italy, Spain, and so forth remained generally dormant. Significant fare markets of Pakistan and their offer is given in Table: 4.3

**Table 4.2 Major Exports of Pakistan (Percentage Share)**

Commodity	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	July-January	
							2016-17	2017-18 P
Cotton Manufactures	49.9	51.7	53.1	54.5	55	59.4	60.3	57.9
Leather**	4.4	4.7	5.1	4.8	4.9	4.5	8.2	4.3
Rice	8.7	8.4	7.6	8.5	8.8	7.9	7.5	8.3
<b>Sub-Total of three Items</b>	<b>63</b>	<b>64.8</b>	<b>65.8</b>	<b>67.8</b>	<b>68.7</b>	<b>71.8</b>	<b>76.0</b>	<b>70.5</b>
Other items	37.3	35.2	34.2	32.2	31.3	28.2	24.0	29.5
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>P : Provisional,</b>								
<b>** Leather &amp; Leather Manufactured</b>								

Source: Pakistan Bureau of Statistics, 2017

**Table 4.3 Major Markets of Pakistan’s Exports (In Billion Rupees and Percentage share)**

Country	2014-15		2015-16		2016-17		July-January			
							2016-17		2017-18 P	
	Rs	% Share	Rs	% Share	Rs	% Share	Rs	% Share	Rs	% Share
USA	374.4	16	364.8	17	361.1	17	205.3	17	222.5	16
CHINA	219.9	9	174.0	8	153.8	7	96.7	8	96.3	7
AFGHANISTAN	198.8	8	149.9	7	133.1	6	79.0	6	95.4	7
UNITED KINGDOM	160.2	7	164.7	8	163.1	8	93.4	8	102.7	7
GERMANY	119.0	5	118.0	5	125.1	6	71.7	6	82.2	6
U.A.E	102.9	4	85.5	4	83.0	4	43.2	4	50.3	4
BANGLADESH	70.7	3	72.3	3	65.4	3	38.0	3	41.9	3
ITALY	67.6	3	67.7	3	68.6	3	38.1	3	44.2	3
SPAIN	81.7	3	84.3	4	85.5	4	49.8	4	61.7	4
FRANCE	38.2	2	36.0	2	38.8	2	22.0	2	24.5	2
<b>All Other</b>	<b>964.1</b>	<b>40</b>	<b>849.6</b>	<b>39</b>	<b>860.7</b>	<b>40</b>	<b>484.2</b>	<b>40</b>	<b>576.2</b>	<b>41</b>
<b>Total</b>	<b>2,397.5</b>	<b>100</b>	<b>2,166.8</b>	<b>100</b>	<b>2,138.2</b>	<b>100</b>	<b>1,221.4</b>	<b>100</b>	<b>1,397.9</b>	<b>100</b>

P : Provisional

Source: Pakistan Economic Survey, various issues

### 4.3 Impact of GPS Plus on Pakistan’s exports to Europe

Because of obligation free access allowed to Pakistan by EU under its GSP+ Scheme, Pakistan's fares to EU have expanded by 47.25% out of 2017 more than 2013. Pakistan's fares to EU have expanded from 4.53 billion Euros in 2013 to 6.67 billion Euros in 2017. Pakistan's fares of material items have expanded by 66.6 % in esteem terms amid a similar period.

**Table 4.4 GPS Plus Status of Pakistan**

Impact of GSP+ on Pakistan’s Exports to EU							(Billion Euros)
Partner/Period	2013	2014	2015	2016	2017	Impact over 2013 (%)	Trade Arrangement
Pakistan	4.53	5.51	6.05	6.28	6.67	47.25	GSP+ (unilateral duty free)

**Source: Eurostat**

Source: Pakistan Economic Survey, various issues

The obligation free admittance is assisting Pakistani items to contend with items beginning from Bangladesh, Vietnam and Turkey and numerous different nations. As these nations are profiting from EU's Customs Union with Turkey, FTA with Vietnam and Bangladesh being a LDC is a recipient of Everything But Arms (EBA) course of action of the European Union. Materials part has been a noteworthy recipient of EU's GSP+ conspire. Pakistan's fares of material items have expanded by 66.6 % in esteem terms in 2017 more than 2013. Pakistan's fares additionally enlisted increment as far as amount amid a similar period. The accompanying table gives a breakdown of the division astute fares from inside the materials.

**Table 4.5 Pakistan's Exports to European countries**

Sector	2013	2014	2015	2016	2017	Impact of GSP+ (%)
Textile Garments and Hosiery	1,398.6	1,830.5	2,281.6	2,467.3	2,685.2	92.00
Home Textiles	980.0	1,270.9	1,456.3	1,564.1	1,682.4	71.66
Cotton & Intermediary Goods of Textiles	738.8	765.1	792.4	805.1	840.8	13.80
Carpets	30.3	31.6	37.2	37.9	35.6	17.34
<b>Grand Total</b>	<b>3,147.7</b>	<b>3,898.0</b>	<b>4,567.4</b>	<b>4,874.5</b>	<b>5,243.9</b>	<b>66.60</b>
<b>Source: Eurostat</b>						

Source: Pakistan Economic Survey, various issues

#### 4.4 Pakistan and USA Trade

USA is a noteworthy goal for Pakistan's fares. The volume of exchange for the year 2016-17 amongst Pakistan and United States is US \$ 6,007.68 million with positive exchange adjust of US \$ 891.00 million for Pakistan. The U.S. Summed up System of Preferences (GSP), a program intended to advance financial development in the creating scene, gives particular obligation free treatment to more than 3,500 items from 128 assigned recipient nations and regions. In any case, for the 44 Least Developed Countries (LDCs), improved market get to is given by permitting an extra 1500 tax lines for obligation free treatment. On first July 2017, the US Government has included 134 levy lines into GSP conspire like travel sacks, head out merchandise identified with {HS 42 (two digits)} send out enthusiasm to Pakistan. Expansion of fares and would incorporate

new items/administrations and accomplices, expanded contribution in worldwide esteem chains, extended cooperation of little and medium-sized undertakings in universal exchange, expanded outside direct venture and also more prominent income accumulation and straightforwardness in exchange exchanges. Pakistan has entered the propel phase of operationalization of TIR (Transports Internationaux Routiers, International Road Transport) Convention which would make an interpretation of Pakistan's vital area into exchange and monetary increases. Holders beginning from Pakistan would have time and practical access to their last goals. In this manner offering improved chances to our businesspeople to prosper and grow their business activities in the area.

#### 4.5 Imports Markets of Pakistan

Pakistan's imports are for the most part packed in a couple of business sectors. Pakistan imports from nations like China, Saud Arabia, UAE, and Indonesia constitutes in excess of 50 percent of the aggregate imports. Amid current monetary year, offer of imports from China has diminished from 32 percent in last financial year to 25 percent amid July-January 2017-18. Be that as it may, offer of imports from U.A.E, has fallen by 2 percent amid July-January 2017-18 when contrasted with same period a year ago. Change in Pakistan's import design is appeared in (Table 4.6,)

**Table 4.6 Major Markets of Pakistan's Imports**

Country	2014-15		2015-16		2016-17		July-January			
							2016-17		2017-18 P	
	Rs	% Share	Rs	% Share	Rs	% Share	Rs	% Share	Rs	% Share
CHINA	1,053.0	23	1261.9	27	1584.3	29	973.4	32	917.2	25
UAE	681.9	15	572.7	12	774.5	14	438.0	14	445.1	12
SAUDI ARABIA	365.5	8	237.2	5	227.7	4	120.7	4	188.6	5
KUWAIT	250.9	5	139.5	3	141.9	3	80.9	3	97.0	3
INDONESIA	209.6	5	222.7	5	240.4	4	124.8	4	159.1	4
INDIA	172.2	4	185.8	4	178.2	3	92.3	3	95.3	3
U.S.A	180.7	4	185.3	4	267.9	5	139.9	5	163.6	4
JAPAN	170.6	4	190.3	4	217.4	4	122.6	4	148.6	4
GERMANY	97.5	2	97.6	2	114.3	2	67.3	2	74.3	2
MALAYSIA	96.3	2	96.5	2	100.2	2	57.7	2	75.0	2
<b>All Other</b>	<b>1,366.0</b>	<b>29</b>	<b>1,469.2</b>	<b>32</b>	<b>1,692.9</b>	<b>31</b>	<b>819.9</b>	<b>27</b>	<b>1,290.5</b>	<b>35</b>
<b>Total</b>	<b>4,644.2</b>	<b>100</b>	<b>4,658.7</b>	<b>100</b>	<b>5,539.7</b>	<b>100</b>	<b>3,037.5</b>	<b>100</b>	<b>3,654.3</b>	<b>100</b>

P : Provisional

Source: Pakistan Economic Survey, various issues

#### **4.6 Foreign Direct Investment**

Outside speculation grabbed pace from a year ago's levels, with both direct and portfolio venture adding to the additions. Net FDI inflows rose 4.4 percent to US\$ 2.1 billion in July-March FY2018, against US\$ 2.0 billion of a similar period a year ago. While, China kept on having a noteworthy offer (representing 55 percent of in general inflows), critical FDI from different nations like the Malaysia and UK was additionally seen for the current year.

Going ahead, with a specific end goal to draw in outside interest in different segments, Pakistan needs to enhance its situation in working together as the nation falls behind a large portion of its territorial associates. The World Bank's Doing Business Report 2018 positioned Pakistan 147 out of aggregate 190 economies, behind Bhutan (75), India (100), Nepal (105), Maldives (136), Srilanka (111), just in front of Bangladesh (177) and Afghanistan (183). As far as segments, the power segment pulled in the most elevated net FDI of US\$ 711.1 million in accordance with CPEC-related sectoral action. So also, as framework extends under CPEC likewise in process, the development part observed net FDI of US\$ 525.4 million. Oil and gas investigations pulled in net FDI of 154.6 million

#### **4.7 portfolio venture abroad**

In portfolio venture, net inflows added up to US\$ 2357 million in July March FY2018, when contrasted with US\$ 631 million posted a development of 273.5 percent amid a similar time of a year ago. The administration effectively issued Sukuk of US \$ 1.0 billion and Eurobond of US \$ 1.5 billion in universal capital markets at moderately generally safe premium showing the certainty of outside financial specialists on execution of Pakistan's economy. These inflows not just counterbalance the outpouring of remote assets from residential value advertise, yet in addition helped the legislature to resign a portion of its outer business borrowings. Outside offering weight seen by the rising value markets amid end-2016 (because of US decisions and expectation of Fed rate climb), facilitated since the beginning of 2017. Specifically, descending pattern in a portion of the Asian value markets amid second quarter of FY2017 was turned around in second quarter of FY2018. Be that as it may, China and Pakistan were not among the recipients of this

solace. China's changes seemed to have set off the value auction in November 2017. The Pakistan Stock Exchange (PSX), upheld by neighborhood speculators, beat the developing value showcases in second quarter of FY2017. Be that as it may, the force picked up until May 2017 started to lose steam, when the neighborhood financial specialists ventured back for the most part because of the nation's approaching political vulnerability. All the more as of late, Pakistani values are back on the radars of remote financial specialists, driven by two noteworthy advancements in Dec 2017. In the first place, the nation effectively raised US\$ 2.5 billion through issuance of Eurobond and Sukuk at moderately aggressive rates. Besides, the rupee-dollar conversion standard change in December 2017 and March 2018 appears have pulled in outside speculators, who had put their ventures on hold. In the mean time, open streams kept on ruling outside portfolio interest in Pakistan. A monstrous inflow of US\$ 2.5 billion in second quarter of FY2018 more than balance net outside surges of US\$ 90 million in the nation's value showcase.

**Table 4.7 Foreign Investment (\$ Million)**

	FY 2016	FY 2017 R	July-March	
			FY 2017 R	FY 2018 P
<b>A. Foreign Private Investment</b>	1985.6	2234.0	1658.7	2000.8
<b>Foreign Direct Investment</b>	2305.3	2746.8	2005.0	2094.1
<b>Inflow</b>	3165.2	3451.0	2522.3	2631.1
<b>Outflow</b>	859.9	704.2	517.3	537.0
<b>Portfolio Investment</b>	-319.7	-512.8	-346.3	-93.3
<b>Equity Securities</b>	-319.7	-512.8	-346.3	-93.3
<b>Debt Securities</b>				
<b>B. Foreign Public Investment</b>	-8.8	262.1	977.5	2450.5
<b>Portfolio Investment</b>	-8.8	262.1	977.5	2450.5
<b>Total Foreign Investment (A+B)</b>	1976.8	2496.1	2636.2	4451.3

Source: State Bank of Pakistan, 2017

#### **4.8 Pakistan's Trade with China and Other Neighbors**

There is expanding acknowledgment in Pakistan that territorial exchange could be an essential driver of development for the nation. In any case, that discussion is concentrated on Pakistan and India trade. Whereas, without a doubt, trade with India might

contribute to huge lifting of economy of Pakistan and the trade can be similarly critical with different neighbors. We suggest taking a gander at the ignored part of local exchange and demonstrating that advancing exchange with whatever remains of Pakistan's surrounded countries might have a huge effect on the nation's development positively throughout following decade and even further period. Exchange with India and exchange with alternate neighbors are two sides of a similar coin—advancing exchange with both would have gigantic cooperative energies. The general effect on Pakistan's economy could well be to raise the pattern development rate for the following decade or so by 2 to 3 rate focuses over the authentic pattern development rate of 5 percent for every annum.

Oil based commodities) essentially with the US and Europe. This was the situation for quite a while; however it has changed in the most recent decade. In 2010, around 25 percent of Pakistan's fares and 35 percent of imports were from neighboring nations (UAE, China, Afghanistan, India, and Iran); as a gathering, these neighbors are currently are more imperative for Pakistan's exchange than North America or Europe (Table 1). The way that exchange amongst Pakistan and its neighbors has expanded so quickly, notwithstanding the absence of advance in formal local financial assentions, for example, the South Asian Association for Regional Cooperation (SAARC), the SAARC Preferential Trade Agreement (SAPTA), South Asia Free Trade Area (SAFTA), and Economic Cooperation Organization (ECO), is characteristic of the potential and progression of exchanging with neighboring nations.

**Table 4.8 Pakistan's Trade in 2010**

Country	Exports		Imports	
	USD billion	% Share	USD billion	% Share
Neighbors*	5.4	25.2	13.1	34.9
North America	3.9	18.2	2.1	5.6
Europe	5.0	23.5	4.8	12.8
East Asia (excl. China)	1.2	5.4	6.3	16.8
Pakistan's total	21.4		37.5	

\* China, UAE, Afghanistan, India, and Iran.

Source: United Nations Statistics Division, *LDN composite*.

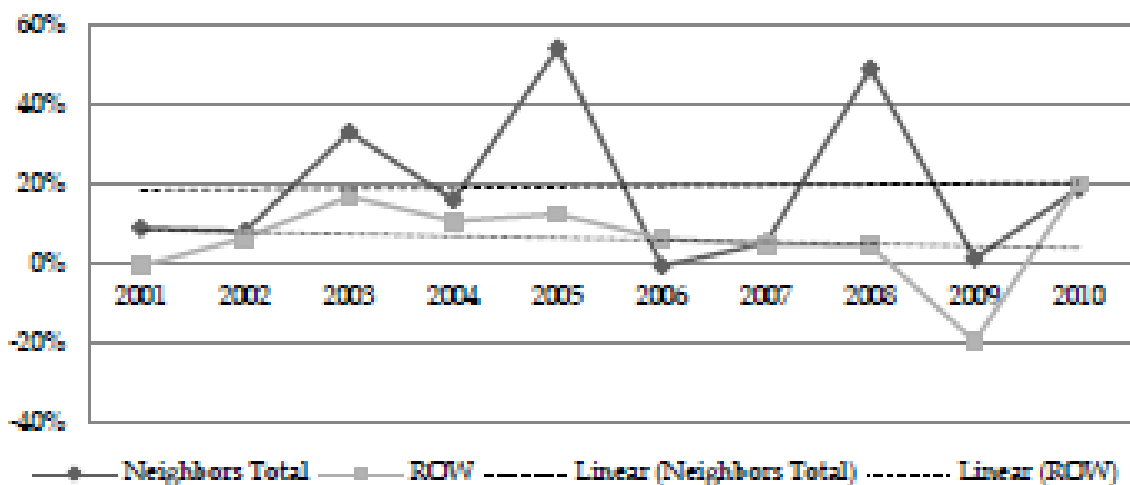


## 4.9 Growth Rates of Pakistan's Exports

We center basically around trades. This isn't to suggest that imports are not essential, but rather just that, truly, poor fare execution has been Pakistan's Achilles' foot sole area and the principle explanation behind the nation's stop-go development encounter since the 1970s. Along these lines, it is basic for Pakistan to enhance its fare execution, and to do that it must differentiate its fares both regarding items and markets. We demonstrate this had just begun occurring in the most recent decade (2000– 10) because of developing exchange with its neighbors. We likewise contend that these neighbors could give the dynamic and possibly vast fare showcases that may help settle Pakistan's memorable fare difficulty and fill in as one of the drivers of its development for the following decade or more.

In the most recent decade, albeit total fares to neighboring nations varied significantly, they developed at a normal of in excess of 19 percent for every annum contrasted with just 6 percent to whatever is left of the world (Figure 1). Subsequently, its neighbors' offer in Pakistan's aggregate fares expanded from short of what one tenth to around one fourth in 2010, when three of the world's five best fare markets for Pakistan were neighboring nations.

**Figure 4.1 Trends in Pakistan's exports to its neighbors and ROW\***



\* ROW = exports to world - exports to neighbors

Source: United Nations Statistics Division, UN database.

In the most recent decade, fares to every single neighboring nation developed more quickly than to whatever remains of the world, yet fares to Afghanistan developed speediest (Table 2). Therefore, Afghanistan's offer of Pakistan's fares expanded six-overlap, making it the third most vital fare advertise on the planet for Pakistan in 2010. The following most quick development in trades was to Iran, however this was from a little base and, thusly, ads up to fares to Iran were still moderately little in 2010. The fare offers of the UAE and China both expanded by around 2.5 times amid this period and, by 2010, they were the second and fourth most imperative fare advertises on the planet, individually, for Pakistan. In spite of the fact that fares to India expanded more gradually than to alternate neighbors, they became speedier than fares to whatever remains of the world and, accordingly, India's fare share relatively multiplied amid this period.

**Table 4.9 Export shares of neighbor countries, 2000-10**

Country	2000		2010	
	USD million	% Share <sup>a</sup>	USD million	% Share <sup>a</sup>
UAE**	304.5	3.3	1,782.9	8.3
Afghanistan	124.0	1.3	1,684.7	7.9
China	244.6	2.7	1,435.9	6.7
India	65.0	0.7	275.0	1.3
Iran	16.6	0.2	182.2	0.9
Neighbors' total share	754.8	8.2	5,360.7	25.2
Pakistan's total exports	9,201.1		21,413.1	

<sup>a</sup> As a percentage of Pakistan's total exports.

\*\* Data for UAE is based on import values reported by UAE.

Source: United Nations Statistics Division, UN Comtrade.

In short, territorial exchange extended quickly amid the most recent decade with imports and fares from Pakistan's neighbors expanding, all things considered, by 17 and 19 percent for every annum, individually. Notwithstanding, while the development in fares to all the neighboring nations was high—going from 29 percent for every annum for

Afghanistan to 15 percent for every annum for India—the items sent out and the elements in charge of this development were very extraordinary for every nation. In this manner, it is important to look in more detail at every individual nation's understanding to get a thought of the idea of development in territorial exchange, and also the potential openings and entanglements. The following three areas analyze in more noteworthy detail the patterns in send out development in the most recent decade for China, the UAE, and Afghanistan, both at the total and ware levels.

#### **4.10 People's Republic of China**

China has been the world's quickest developing significant economy for a long time; it is currently the world's second biggest economy, after the US, the Opportunities and Pitfalls of Pakistan's Trade with China and Other Neighbors 275 biggest exporter, and the second biggest merchant of products. Its general exchange was near USD 3 trillion out of 2010, with fares and imports of USD 1.6 trillion and 1.4 trillion, separately (International Monetary Fund, 2011). China's outward remote direct venture (FDI) has additionally demonstrated a stamped increment as of late, and was USD 68 billion out of 2010 (United Nations Conference on Trade and Development, 2011).

Overland exchange ties amongst Pakistan and China were built up in 1979, after the culmination of the all-climate Karakoram Highway. In any case, a little extent of Pakistan's exchange with China is through this course, and the overland connection is seen fundamentally as improving the nation's resistance. Truth be told, Pakistan has dependably taken a gander at China to a great extent from a security point of view—as a counter to political weight from the US, bolster in a showdown with India, and as a wellspring of military equipment. China, as a developing worldwide financial power, offers monstrous chances to Pakistan, especially as a neighbor and an old partner.

Pakistan's financial reliance with China has developed quickly in the most recent decade—in 2010, the last was Pakistan's second biggest wellspring of imports and its fourth biggest market for sends out. Pakistan's fares to China developed quickly consistently, with development quickening strongly following the marking of an organized

commerce assention (FTA) in 2006. The normal yearly fare development expanded from 19 percent somewhere in the range of 2003 and 2006 to 26 percent from 2007 to 2010. Therefore, China's offer in Pakistan's fares relatively multiplied in only three years

**Table 4.10 Pakistan’s exports to China (USD Million)**

	2000		2003		2005		2007		2010	
	%		%		%		%		%	
	Value	Share	Value	Share	Value	Share	Value	Share	Value	Share
Exports	244.6	2.7	259.6	2.2	435.7	2.7	613.8	3.4	1435.9	6.7

Source: United Nations Statistics Division, UN Comtrade.

Despite the fact that total fares to China have expanded quickly, one needs to take a gander at the structure of fares to completely comprehend the progression of this change. An audit of the structure of fares uncovers two things. To begin with, the fare structure in 2010 isn't empowering, with crude materials and essential fabricates, for example, cotton fiber, chromium minerals, and cotton yarn representing right around 66% of aggregate fares (Table 4). Second, this structure has not changed much in the most recent decade—a similar six products represent more than 80 percent of fares in 2000 and 2010. Nonetheless, finished the ten years, the offers of chromium minerals and cotton yarn have expanded to the detriment of cotton textures, a change that most would see as a go in reverse.

**Table 4.11 Structure of Pakistan's exports to China (2000-2010)**

No.	Commodity	2000		2010	
		USD million	% Share*	USD million	% Share*
1	Cotton yarn, excl. thread	100.0	40.9	737.3	51.3
2	Chromium ores and concentrates	4.5	1.8	137.6	9.6
3	Cotton fabrics, woven	56.5	23.1	99.6	6.9
4	Textile fibers: cotton	10.7	4.4	75.9	5.3
5	Fish, crustaceans, mollusks	15.3	6.3	67.5	4.7
6	Leather	15.9	6.5	46.0	3.2
7	Machinery and transport equip.	0.8	0.3	45.4	3.2
8	Plastics in primary form	2.5	1.0	38.2	2.7
	Subtotal	206.2	84.3	1,247.5	86.9
	<b>Total exports to China</b>	<b>244.6</b>		<b>1,435.9</b>	

\* As a percentage of Pakistan's total exports to China.

Source: United Nations Statistics Division, UN Comtrade.

Pakistan needs to move from sending out essential wares and straightforward makes to higher-esteem included items, if trade development is to be maintained and sends out are to add to growing business and GDP in the nation. The FTA with China should give Pakistan an edge over different nations in various possibly high-development items as it gives showcase access at zero obligation for cotton textures, bed-material and other home materials, calfskin articles, sports merchandise, and foods grown from the ground among different products (Pakistan, Ministry of Textile Industry, 2008). Be that as it may, in every one of these items, Pakistani exporters have neglected to make progress on account of nontariff boundaries. For instance, Pakistan is a noteworthy exporter of towels and bed-cloth to the US and Europe, however fares of these items to China are negligible.

**Table 4.12 Pakistan-China Trade: Value understatement (USD million)**

Reporting country	2000	2003	2005	2007	2010
Imports reported by Pakistan	550.1	957.3	2,349.4	4,164.2	5,247.7
Exports reported by China	670.3	1855	3,427.7	5,831.4	6,937.8

Source: United Nations Statistics Division, UN Comtrade.

Pakistan needs to center around having these nontariff boundaries evacuated in territories that are its fare qualities, for example, cotton textures, bed-material, towels, and games products.

Other than sends out, venture from China could give a noteworthy lift to Pakistan's fare industry. As per Eichengreen, Rhee, and Tong (2007), the structure of China's fares has been changing throughout the years—from "apparel, footwear, other light makes and fills that commanded its exchange the 1980s and mid 1990s, toward office hardware, broadcast communications, furniture, and mechanical supplies in the late 1990s and computerized information handling gear and shopper gadgets as of late" (p. 202). As such, China has been climbing the esteem chain, but since of its immense work compel, it has kept on sending out work escalated items too. In any case, after very nearly 30 long stretches of quick development, the vast majority of the surplus work has now been ingested and compensation are rising quickly, especially in the waterfront belt. Therefore, exporters in China are losing aggressiveness in the more work serious enterprises and starting to take a gander at the likelihood of migrating these businesses somewhere else.

In Asia, this has happened ordinarily previously, i.e., as wages ascended in one nation, its fare industry tended to move to assembling more complex items at home and moved the work concentrated item procedures to neighboring nations. This began with industry migrating from Japan to Korea, Taiwan, Singapore, and Hong Kong in the 1970s, at that point to Thailand, Malaysia, and Indonesia in the 1980s and to China and Vietnam in the 2000s. This procedure has regularly been alluded to as "the flying geese model of Asian monetary improvement," with Japan in the cutting edge (Kojima, 2000; Kumagai, 2008).

Inferable from China's gigantic work constrain, it has taken any longer for this procedure to begin, yet it is starting to happen, with enterprises being migrated to Vietnam,

Laos, and Cambodia. As indicated by the World Investment Report 2011, "another round of modern rebuilding and redesigning is occurring in China, and some low-end, send out arranged assembling exercises have been moving from seaside China to low wage nations in South-East Asia and furthermore Africa" (United Nations Conference on Trade and Development, 2011, p. 50). Be that as it may, the Southeast Asian nations don't have enough populace to assimilate a critical segment of the work escalated industry moving from China once the procedure begins vigorously. South Asia, due to its huge populace, ought to be the fundamental beneficiary of this industry and Pakistan should intend to be the pioneer in such manner.

This is a window of chance for Pakistan, which has an expansive material area and also solid bunches in sports merchandise, careful instruments, and light designing. It in this way needs to build up a system to pull in Chinese interest in these zones. Up to this point, Pakistan's approach has been the customary one, i.e., endeavoring to draw in venture from China in import-substituting industry by giving motivations, including unique mechanical zones, and corporate wage assessment and import obligation concessions for the fabricate of buyer durables, for example, TVs, fridges, aeration and cooling systems, clothes washers, and so forth. This procedure has flopped before and it is probably not going to improve this time since it will just draw in speculation for get together plants creating for the residential market.

Pakistan's system should plan to draw in Chinese venture into send out businesses, especially those work escalated enterprises that are probably going to move out of China in the following 10 years and that are additionally Pakistan's qualities, for example, articles of clothing, materials, cowhide and footwear, careful merchandise, cutlery, and games products. The methodology should be produced in organization with bigger exporters and the agents of fare relationship in these ventures. Once such a technique is created, the legislature should use its long-standing association with the Chinese government to gather the last's help in actualizing the key components of the procedure.

What's more, Pakistan ought to grab the open door given by China's drive to quicken improvement in its western regions. The Karakoram Highway gives the most brief overland course to the ocean for these areas, and China has shown an enthusiasm for updating the expressway to deal with substantial activity. If Pakistan somehow happened to

organize this task and control the development of Islamic aggressors traverse into China, the subsequent travel exchange through Pakistan could give a gigantic lift to financial movement. It would draw in Chinese venture into the northern locales of Pakistan and make open doors for the fare of Pakistani items to western China.

Any discourse on Pakistan's monetary relations with China would be inadequate without any less than a short take a gander at the import side. Pakistan's imports from China have developed significantly from about USD 0.55 billion out of 2000 to USD 5.25 billion out of 2010. China's offer in Pakistan's aggregate imports has expanded from under 5 percent to more than 14 percent amid this period. This isn't astonishing since China's fares to whatever remains of the world have likewise developed quickly, but since of Pakistan's security reliance on China, the administration tends to deliberately ignore to infringement on imports from the last mentioned. This has given a chance to arrangement between corrupt Pakistani shippers and Chinese exporters to misclassify imports from China and downplay their incentive to dodge import obligations and assessments. Therefore, the real increment in imports has been considerably more prominent than that demonstrated by official figures.

Despite the fact that there is no real way to assess the full degree of tax avoidance, one can get an unpleasant thought of the undervaluation by looking at the estimation of "imports from China" announced by Pakistan and "fares to Pakistan" revealed by China in the UN Comtrade dataset. Fares detailed by China surpassed imports revealed by Pakistan by 32 percent in 2010 (Table 5). The underreporting is presumably significantly more noteworthy since sends out are accounted for on a free-on-board (f.o.b.) premise and imports on a cost-protection and-cargo (c.i.f.) premise, and the cost of "protection and cargo" is for the most part somewhere in the range of 10 and 20 percent of the import esteem (see World Bank, n.d.). Indeed, even with a preservationist 10 percent modification for protection and cargo, the underreporting comes to 45 percent. Hence, genuine imports from China in 2010 were in the scope of USD 7 billion to 8 billion.

The issue isn't just the misfortune in government income, yet in addition the effect of this "out of line" rivalry on local industry. The fast development in imports from China



has devastated various enterprises in Pakistan; for the most part, these have been businesses that were overwhelmed by little to medium firms creating for the nearby market. This was not on the grounds that the foreign made items were of better quality—in view of episodic proof and individual experience, they are much of the time of exceptionally low quality and regularly impersonations of built up neighborhood brands—but since they were to a great degree modest because of the avoidance of expenses and import obligations. Little nearby makers were not able rival these items on the grounds that the successful levy (counting deals assess) on the last item foreign from China is, by and large, significantly lower than the compelling tax on the crude materials utilized by little producers in Pakistan. Little makers need to purchase crude materials from business merchants, who need to pay the statutory rates of obligations and a 16 percent deals impose on the obligation paid estimation of imports since they are not qualified for the concessions that extensive producers appreciate under Pakistan's infamous Statutory Regulatory Order administration (Pursell, Khan, and Gulzar, 2011).

Be that as it may, the effect of Chinese imports has not been all negative. There has been a gigantic buyer pick up in enterprises where Pakistan did not have any nearby assembling, for example, cell phones. Pakistan would have never accomplished the tele-thickness that it has, if just "full" obligation paid and deals assess paid telephones were accessible in the market. In the bike business, which was very ensured and had an oligopolistic structure, Chinese imports have prompted tremendous maker and purchaser picks up. The opening up of the bike business by expelling passage confinements on the gathering of bikes and permitting the import of parts and segments from China in 2006 brought about an emotional development spurt in the business. The residential generation of bikes ascended from under 600,000 of every 2004/05 to more than 1.6 million out of 2010/11 (Association of Pakistan Motorcycle Assemblers, 2010). One reason for the expansive increment in size of the local market for cruisers was most likely the decrease in their cost in genuine terms (by around 40 percent) somewhere in the range of 2006 and 2012.3

In this way, a sensibly planned and actualized exchange approach—for instance, one that dispenses with the qualification amongst business and modern shippers of crude materials and parts—would not just alleviate the negative effect of imports on the neighborhood business, yet in addition significantly enhance its prospects. Unmistakably, the vehicle business in Pakistan is a prime contender for "bike industry write" opening up to imports from China and India.

#### **4.11 Uneven Road to the Liberalization**

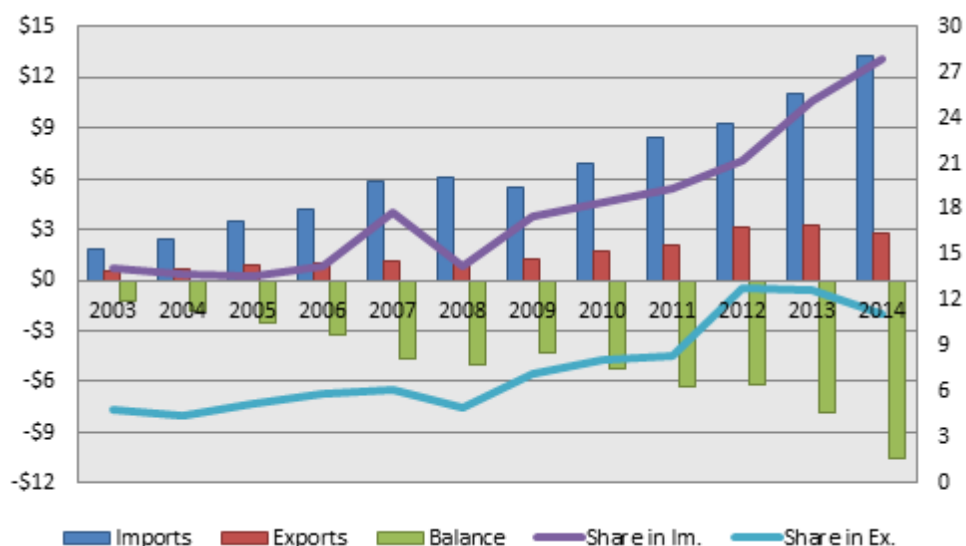
The facilitated commerce's street amongst Pakistan and China was documented through levy deterrents hurled by the two nations. Above all else, economy of Pakistan is significantly reliant greatly on universal exchange as compared to the economy of China as a result of nearby market requests are higher than the neighborhood supply of merchandise in the nation. The Pak-China and China-ASEAN FTAs are regularly regarded as commentaries in many exchanges of Pakistan Trade arrangement, inferable from the good looking measure of exchange they cover. The significance of these understandings to Pakistan exchange strategy goes a long ways past their exchange scope, in any case. The understandings set a few points of reference for Pakistan exchange strategy and furthermore give a few exercises to the guest banter over the irregularity exchange of the two-sided FTAs. Above all else, the Pak-China and China-ASEAN are clear cases of the utilization of exchange strategy particularly respective organized commerce assertions as methods for seeking after remote approach goals.

The overall fare designs are moving quick because of diminishing in exchange obstructions and mechanical advancements that have prompted picks up in efficiency and progressive in near favorable position designs in worldwide economies. Asian economies for instance China and ASEAN countries are appreciating an extraordinary development in changing circumstances over the globe. Pakistan likewise has tremendous potential for hoisted development anyway the political terrorizing, financial air and absence of modernized innovations are impediments in the method for progression (Naseem, 2009). Because of progressively adjusting worldwide patterns of exchange, China on multi-following its provincial and multilateral exchange transactions in 1990 and underscored the financial factors more readily than political to build up its exchange advancement.

Exchange is a standout amongst the most imperative channel through which China has modified from a shut autarkic economy to an open globalized one. It is likewise ending up truly evident that the balance of financial power is moving far from created nations to creating nations. Economy of China has overwhelmed a few created countries to wind up the biggest sending out country and has outperformed Japan to end up the second biggest economy on the planet.

Pakistan and China share broad genial relationship. To augment this bond, a facilitated commerce understanding (FTA) was marked in 2006, which happened in 2007. This Agreement was isolated into two stages: Phase I, which closed in December 2012, China kill/reduce taxes on 6418 product offerings, and Pakistan made the comparable on 6711 product offerings over a time of five years. For stage II transactions/exchanges moving since July 2013, to accomplish the FTA's fundamental goal to expel taxes on no less than 90 percent of whole items (together as far as duty lines and exchange volume), it is imperative that the Government of Pakistan uses this chance to build up Pakistan's entrance to the Chinese markets. The objective for respective exchange of \$15 billion (before the finish of Phase II) was concurred as a major aspect of the first FTA alongside the target of enhancing monetary relations between the two nations through exchange. As of the finish of 2013, reciprocal exchange broke even with over \$9,278 million, when contrasted with \$3,421.96 million out of 2006 before the FTA being actualized. The understanding focused on reciprocal exchange of 20 billion dollars amongst Pakistan and China toward the finish of Phase II. Add up to exchange of Pakistan and China under FTA quickly expanded from US\$ 3.5 billion out of 2006 to US\$ 16 billion of every 2014. China was a best bringing in accomplice of Pakistan with an offer of 20.2% of Pakistan's aggregate imports in 2014 (Muhammad and Qi, 2015). Figure 1 shows the exchange amongst Pakistan and China when understanding. Exchange between two nations developing since 2007 and exchange adjust additionally climbs which isn't good for Pakistan.

**Figure 4.2 China Pakistan trade under FTA (Before and after) by China. (US\$ Billions)**



**Source:** Author’s own calculations based on ITC & UN COMTRADE statistics

China has gotten generous preferred standpoint subsequent to consenting to the organized commerce arrangements (Qi et al., 2014). China has built up win-win connections in its focused on showcase by giving regular advantages to its partners. Figure 1 demonstrates a diagram with sound beneficial exchange for China due to quickly increment in fares to Pakistan however a negative adjust for Pakistan. This is the disturbing circumstance for Pakistani partners and Government to talk about with Chinese authorities for lessening the duty at most extreme level. Moreover, China figured out how to sends out along 57 percent of his product offerings in which it had inclination under FTA, alternately use was a unimportant 5 percent adjacent to lines in which Pakistan had figured out how to arrange concessions. The FTA amongst China and South Korea will formally come into drive beginning 20 December 2015. Under the arrangement, the two nations will take out levy on in excess of 90 percent of very exchanged products inside 20 years after the execution (Hua Xia, 2015). That is the thing that Pakistan looks for from China, an end of duty ought to be on exceptionally exchanged merchandise not at the restricted products.

### **5.11.1. Strengths**

The quality of the FTA from Pakistan's point of view lies in the development of the general fares to China that have demonstrated impressive advance since the authorization year, a reality that can't be marked down. Execution of fares along every concession class has been predictable, despite the fact that one can challenge that the estimation of fares are not critical when contrasted with imports from China or even Pakistan's fares to the world.

Close by, China's approaching items into Pakistan have increased unparalleled force moving by US\$ 13 billion dollars from 2006 to 2014. This sudden ascent in imports from China can be related to bring down costs of Chinese items, exchange preoccupation as a result of low transportation costs and the lower taxes that are forced by Pakistan on Chinese items. This has subsequently made China, Pakistan's best import accomplice. On the positive side, bring down duty from Pakistan for China's esteem included items has implied that neighborhood makers could import hardware at sensible costs and figured out how to hold and even increment generation at times. The quality of the FTA depends upon the open doors it regards to give later on to Pakistan and the entryways it has opened for exchange which Pakistan could conceivably profit given that it differentiates its generation organization and expands its ability while China gives it focused duty concessions by means of further exchange transactions.

### **5.11.2. Shortcomings**

Given the distinction in sizes of the two economies, their development in world exchange, the huge hole in the level of modern advancement, and the generally unbalanced commitment of exchange made by every nation, the method of reasoning behind a FTA was to fortify relations by giving further access into each other's business sectors. Such anyway couldn't be accomplished. The FTA had only 35.5% (2,681 of 7,550) duty disposal product offerings (where upwards of 1400 items did not record any fares whatsoever in 2012), 15% in no concession and 15% with minor concessions. Notwithstanding the restricted scope of this FTA, different FTAs marked by China with more than eight nations and areas give powerful concessions, making Pakistan's items immaterial by outline, in the Chinese markets. The ASEAN nations appreciate levy disposal scope of more than 90%

exchanged products. A large number of these items harmonize with what Pakistan spends significant time in and sends out as appeared in the RCA examination of this investigation.

We have seen that while fares to China developed by and large, huge development was seen in fares of items that lay outside the structure of the FTA. This seems to invalidate the point of an unhindered commerce assention where numerous items were misleadingly included into tax concession records yet had no potential in exchange to use these concessions. Truth be told, many best fares to China generally speaking had a place with the no concession ensured rundown of China or were outside the

FTA zone out and out, in light of particular levies offered to ASEAN nations, Pakistani items couldn't contend in China's to a great degree forceful market even in items that Pakistan exchanges around the world. Also, different reasons, for example, high duty concessions and hence adaptable per unit estimating, item accessibility, straightforward entry and more prominent traditions alleviation have influenced neighborhood makers to lose to Chinese items in their own particular market.

### **5.11.3. Opportunities**

China as of late has made responsibilities to put US\$46 billion in Pakistan. The China Pakistan Economic Corridor (CPEC) contains numerous advancement bargains, which are equal to around 20 for every penny of Pakistan's yearly GDP (Andrew, 2015). This will be China's pervasive outside direct speculation arrangement to put resources into Pakistan. By and large, the financial passage venture attempts to contribute somewhere in the range of 17,000 megawatts of power creation at a cost of around \$34 billion. Whatever is left of the riches will be spent on transport, framework, together with overhauling the railroad line connecting the port megacity of Karachi and the northwest city of Peshawar (Saeed, 2015). China assumed control over the operational control of a vital profound water seaport of Pakistan that will end up being a significant financial center point for Beijing and a key military station. The port situated in a previous angling town of Gwadar in the region of Baluchistan was subsidized by China with about US\$ 2 billion however was a business disappointment since it opened in 2007. Presently marked over to China, it will be controlled by a Chinese organization for a long time. This obviously gives an exchange

passageway between the two nations to additionally support Pakistan and China relations. Truth be told, this gives Pakistan a key planning to renegotiate the FTA on commonly gainful terms. Moreover, with the two nations setting out on new government terms, a more profound accentuation would be set upon exchange and enhancing worldwide financial ties, particularly for Pakistan.

Talking from Pakistan's fares viewpoint, renegotiations ought to be made along the FTA whereby the understanding ought to get items that have been featured in this investigation which were given no concession or excluded in the assentment at everything except rather demonstrated massive capability of exchange. Also, special medications, not only concessions in levies are required for these items. The potential fares for Pakistan are evaluated to be more than US\$ 10 billion in current the year. A few of the items that make out of Pakistan's best fares to the world are generally foreign by China from the world yet a significant number of these don't get access into China's business sectors. Such items are additionally included as they should be brought into the structure of the FTA while evacuating excess items that have no expectation in exchange. Furthermore, RCA examination gives a rundown of items along which Pakistan has relative preferred standpoint over China particularly in material area.

As per the Pakistan Economic Survey 2012, items, for example, urea (composts HS 31) have nearby generation offices yet remained underutilized without fuel because of extensive volumes were transported in. Also, creation have diminished for iron and steel (HS 71, 72, 73) and elastic items both of which were foreign made from China. Items that have adequate creation limit incorporate those in material, wood, paper and board were likewise foreign made. Careful and medicinal instruments which are trade items have underutilized limit notwithstanding numerous material items like knitwear, readymade pieces of clothing and towels. Introducing productive apparatus and hardware and giving a wellspring of continuous power are two noteworthy advances that must be taken instantly. Assets ought to be infused in centered territories to instigate extension in the mid and long haul. Expanded limit will consequently fill in as a main thrust to a more ideal exchange terms and levy concessions.

#### **5.11.4. Dangers**

China exchanges an assortment of items running from crude to semi to completed items giving innovative hardware and electrical items, while additionally represent considerable authority in crude materials, for example, yarn, iron and steel, natural synthetic compounds, composts, plastics and elastic. While making market for itself in Pakistan, China does not give any huge special treatment to Pakistan even in items that it is bringing in from the world in huge volumes (cowhide crude material, material items, cotton, synthetic substances and copper articles and so forth). The duty concessions conceded to Pakistan are in truth irrelevant. The fare execution and its proportion with China's imports from the world are cautioning signs to Pakistan and its future exchange relations with China. In spite of the fact that China and Pakistan guarantee inviting social, political and monetary ties, it is obvious that without aggressive levies, Pakistan will additionally lose showcase into China later on regardless of fidelities despite what might be expected. Additionally, if Pakistan does not enhance its fares, its execution with China will in the long run wind up dormant. This combined with encourage income misfortunes because of taking off duty concessions of high potential import items from the two countries would have little to infuse again into the economy or increment generation limit, this being one of only a handful couple of wellsprings of income for the nation.

Exchange irregularity is as of now a reason for worry with China due to the developing imports that may even be antagonistically influencing the neighborhood maker. In the previous couple of years, upwards 10 instances of hostile to dumping have been documented by neighborhood makers against Chinese items to the National Tariff Commission and in this way against dumping obligations as high as 71% have been exacted upon them. Remiss security of immature enterprises from widespread Chinese fares is one of the dangers of high duty concessions and expanding damage to nearby ventures.



## **Chapter No. 5**

### **DATA AND METHODOLOGY**

#### **5.1 Introduction**

A reliable source is very important for the empirical analysis and validity of the results. Many studies have estimated the causal association of FDI with trade using time series data and using econometrics techniques. OLS, ARDL is used for the time series data, while Co-integration techniques are used for the analysis.

In this chapter we have provided data and methodology with the aim of exploring the causal connection of FDI with trade in case of Pakistan and India. The remaining chapter is consists of the following chapters: In Section 4.1 the data sources and description is made. In the Section 4.2 and 4.3 definitions and descriptive analysis of the variables is made. Section 4.4 talks about the unit root tests with different assumptions. Section 4.5 and 4.6 describes about the methodology i.e., ARDL used for the estimation of the results. Section 4.7 concludes the entire chapter.

#### **5.2. Data and Description of variables**

The present study analysis time series data obtained through a secondary source. Such as Pakistan Economic survey, State bank of Pakistan and Ministry of finance are the main source of data. is also used for the data. A Handbook of Statistics of Pakistan Economy has also been used for finding of some of the variables. The data on same variables also have been obtained from Labor Force Survey (various issues) and World

Development Indicators. The study time period is 1972-2016. In the following the data and definition are given:

### **5.3. Definitions of the variables**

The variables that are used in the analysis are given in the following to estimate the causal links amongst FDI and trade in case of Pakistan and China.

#### **GDP:**

This is Gross domestic product (GDP) which is total values of all final goods and services produced in a country evaluated at market prices within a given period.

#### **Nominal Exchange Rate (NER)**

This is a rate at which one currency is traded or the other.

#### **Current Account Deficit**

It is defined as when the total imports of the country are exceeded from the total volume of exports of that country. The volume of services as well as the transfers are also included in that definition.

#### **Gross Fixed Capital Formation**

It can be stated as the capital of the country needed for the production of goods and services in an economy.

## **Foreign Direct Investment**

It is the flow of capital from one economy to another economy which is owned by the multinationals firms' outside the country. It is the total amount of capital equity, reinvestment from earnings, long-term and short-term capital as shown in the balance of payments

## **Trade**

Trade is the sum of exports and imports measured in millions of rupees.

### **5.3.1. Data Description**

The variables can be described as:

RGDP = Real Gross Domestic Product (Million PKR)

INF = GDP deflator)

ER = Exchange Rate

CAD = Current Account Deficit (Million PKR)

FDI = Foreign Direct Investment (Million PKR)

ELF = Log of Employment Status (percentage of Total Labor Force )

TR = Trade (Export + Experts) (Million PKR)

## 5.4 Descriptive Statistics

Table 4.1 indicates the descriptive statistics of the variables in Pakistan case. Value of the Mean of the variables shows their average. The means value of the RGDP is observed of the value 1527262, TR has its means value of 63158. ELF takes the mean value of 3.396. INF means value is 11.32021. The mean value of the ER is 32.49. while the value of FDI is 47438. Current account deficit (CAD) has its value of 2382.

**Table 5.1a Descriptive analysis of variables (Pakistan Case)**

<b>Variables</b>	<b>RGDP</b>	<b>TR</b>	<b>ER</b>	<b>FDI</b>	<b>INF</b>	<b>CAD</b>	<b>ELF</b>
<b>Mean</b>	1507067	30.91	32.49	47438	10.3202	2382	10.4
<b>Median</b>	446005	30.06	23.8	5854.9	9.06211	1607	10.66
<b>Maximum</b>	5670768	47.09	85.19	380893	25.4368	15662	12.27
<b>Minimum</b>	33495	17.9	8.68	-62.37	2.463	85	8.041
<b>Std. Dev.</b>	199185	8.2	23.22	95320	5.579	2809	1.255
<b>Skewness</b>	1.0772	0.26	0.683	2.381	1.3086	3.17	-0.276
<b>Kurtosis</b>	2.38311	2.021	2.157	7.454	4.32679	14.64	1.7737
<b>Jarque-Bera</b>	8.1609	1.96	4.187	69.09	13.991	278	2.8663
<b>Probability</b>	0.0168	0.37	0.123	0.00	0.0009	0.00	0.2385
<b>Observations</b>	39	38	39	39	39	38	38

The variance measure the deviation of a series from the means values of that series. The standard deviation is known as the positive square root of the variance. The standard deviation of GDP, TR, ELF, ER, FDI, CAD, INF are 4234321, 243421.1, 02.27, 22.2236, 95320.4, 0.328, 323.5462, 28032.54 respectively.

While the Kurtosis and Skewness defines the shape of the distribution. The skewness is zero which shows the symmetric distribution. It is obvious from the table 4.1a that the variables are only positively skewed excluding the four variables in the analysis.

**Table 5.1b Descriptive analysis of variables (China Case)**

<b>Variables</b>	<b>RGDP</b>	<b>TR</b>	<b>ER</b>	<b>FDI</b>	<b>INF</b>	<b>CAD</b>	<b>ELF</b>
<b>Mean</b>	5345040223	120.91	30.43	523423	11.3202	22423234	10.4
<b>Median</b>	8724346001	123.00	42.23	532422	9.26211	32423525	10.435
<b>Maximum</b>	2384902384	550.23	85.10	335242	23.4368	15666456	12.353
<b>Minimum</b>	4938920843	618.9	87.44	94.33	23.463	6544	8.3453
<b>Std. Dev.</b>	3242383200	44.32	23.43	53.324	3.579	4643	1.3453
<b>Skewness</b>	2.23022	0.43	.0322	2.332	1.2326	3.6454	-0.24363
<b>Kurtosis</b>	3.432221	2.123	6.423	8.4	4.3432	14.75474	1.3453
<b>Jarque-Bera</b>	12.432493	1.231	5.534	32.3209	13.991	27465	2.863
<b>Probability</b>	0.003232	0.08	0.3124	0.00	0.0532	0.000995	0.2354
<b>Observations</b>	39	39	39	39	39	38	38

In case of china the stats shows the mean value, variance, and co-variance of the series. Kurtosis is an indicator to show the shape of distribution. And if the value greater than 3, it's called leptokurtic, and the probability distribution is not normally distributed.

### **5.5 Stationarity of Data**

If the properties of time series properties of the data are not analyzed prior to empirical estimation, then we may have to face the problem of spurious regression. The

present study this wants to analyze empirically the impact of FDI on trade n case of Pakistan and China. To avoid spurious regression that has been gained from the OLS, we have to check the unit root results. If data turned stationary we will use OLS, and if we have mixed order of integration, we may use ARDL.

## 5.6. Econometric Issues

This section is based on the estimation techniques description. For the Unit-root (ADF) test is applied. In practice, ADF test checks the stationary of variables. If all the variables turn I(1), then the linear combination is stationary i.e. I (0).. However, if we have mixed order of integration, means I (0) or both I(1) and I(0). In this case, apply Autoregressive distributed Lag Model (ARDL) approach is applied to find the impact of FDI on trade.

### 5.6.1 The Unit Root Tests

Dickey and Fuller have introduced the lag term to remove the autocorrelation effet. The order of the lag length is made via the Akaike Information Criterion (AIC). The lag length is necessary to whiten the residuals. The ADF has possible forms as under:

$$\Delta y_t = \alpha y_{t-1} + \sum_{i=1}^p \beta_i \Delta y_{t-1} + \mu_t \quad (4.7)$$

Data as well as graph is useful to indicate the deterministic trend.

## 5.7 Auto Regressive Distributed Lag Modeling

ARDL model can be used for a single equation. It is used for the long as well short run impacts. It provided efficient and unbiased results. This method is useful for

small data Engel-Granger and Johansen is considered not to provide robust results. ARDL gives better results as compared to Johansen co-integration.

There are two steps of ARDL model. First step is to estimate the long run impacts. F-statistics is used for the investigation to see the impact of lagged values. Secondly, the short and long run impact is analyzed.

### 5.8 The Bound Test: F-Wald Test for co-integration

The VAR model of the following form can be established as narrated by Pesaran *et al.* (2001):

$$\Delta z_t = \mu + \alpha t + \lambda z_{t-1} + \sum_{i=1}^{p-i} \gamma_i \Delta y_{t-i} + \sum_{i=1}^{p-1} \gamma_i \Delta x_{t-i} + \varepsilon_t \dots\dots\dots(6.11)$$

$$\lambda = \begin{bmatrix} \lambda_{YY} & \lambda_{YX} \\ \lambda_{XY} & \lambda_{XX} \end{bmatrix}$$

In this model, VECM shows the error correction mechanism, that is used to check the long run relationship for co-integration.

### 1st Model; Impact of FDI on Trade of Pakistan

In this model, we will see the impact of FDI on trade of Pakistan. Besides these

$$\begin{aligned} \Delta(TR)_t = & \beta_0 + \sum_{i=0}^a \beta_1 \Delta(ER)_{t-i} + \sum_{i=0}^b \beta_2 \Delta(INF)_{t-i} + \sum_{i=0}^c \beta_3 \Delta(ELF)_{t-i} + \sum_{i=0}^d \beta_4 \Delta(CAD)_{t-i} + \sum_{i=0}^e \beta_5 \Delta(FDI)_{t-i} \\ & + \sum_{i=1}^f \beta_6 \Delta(GDP)_{t-i} + \beta_7 (GDP)_{t-1} + \beta_8 (ER)_{t-1} + \beta_9 (INF)_{t-1} + \beta_{10} (CAD)_{t-1} + \beta_{11} (FDI)_{t-1} \\ & + \beta_{12} (ELF)_{t-1} + u_t \end{aligned} \quad (4.4)$$

the explanatory variables are ER, INF, CAD, ELF, GDP. The model is formulated in the following.

Where  $\Delta$  the first-difference operator while  $u^t$  is a white-noise disturbance term.

RGDP = Real Gross Domestic Product (Million PKR)

INF = GDP deflator)

ER = Exchange Rate

CAD = Current Account Deficit (Million PKR)

FDI = Foreign Direct Investment (Million PKR)

ELF = Log of Employment Status (percentage of Total Labor Force )

TR = Trade (Export + Experts) (Million PKR)

For the Equation (4.4), the specification of the ARDL model, that have order  $(a, b, c, d, e, f)$ , indicate that the Trade is going to inflected by the past values.

### 5.8.1 The F-Statistics (Wald Test)

After regression of Equation (4.4), the Wald test ( $F$ -statistic) is used to check the longrun relationship. For this sake, the null and the alternative hypothesis can be formed as:

**Null hypothesis** can be written as following.

$$H_0 : \beta_7 = \beta_8 = \beta_9 = \beta_{10} = \beta_{11} = \beta_{12} = 0 \quad (\text{for no long-run relationship})$$



## 2nd Model; the Impact of FDI on Trade in case of China

The second model; that would capture the effect of FDI on Trade in China with helping variables like ER, ELF, GDP, CAD.

Here,

RGDP = Real Gross Domestic Product (Million PKR)

INF = GDP d

$$\begin{aligned} \Delta(TR)_t = & \beta_0 + \sum_{i=0}^a \beta_1 \Delta(ER)_{t-i} + \sum_{i=0}^b \beta_2 \Delta(INF)_{t-i} + \sum_{i=0}^c \beta_3 \Delta(ELF)_{t-i} + \sum_{i=0}^d \beta_4 \Delta(CAD)_{t-i} + \sum_{i=0}^e \beta_5 \Delta(FDI)_{t-i} \\ & + \sum_{i=1}^f \beta_6 \Delta(GDP)_{t-i} + \beta_7 (GDP)_{t-1} + \beta_8 (ER)_{t-1} + \beta_9 (INF)_{t-1} + \beta_{10} (CAD)_{t-1} + \beta_{11} (FDI)_{t-1} \text{ eflator) } \\ & + \beta_{12} (ELF)_{t-1} + u_t \end{aligned} \quad (4.5)$$

ER = Exchange Rate

CAD = Current Account Deficit (Million PKR)

FDI = Foreign Direct Investment (Million PKR)

ELF = Log of Employment Status (percentage of Total Labor Force )

TR = Trade (Export + Experts) (Million PKR)

### F-Statistics Test (Wald Test)

The Wald test is applied to lagged values of the dependent variables that are appeared in the second model.

**For this sake, the Null and the alternative hypothesis** for 2<sup>nd</sup> Model can be written as:

$$H_0: \gamma_2 = \gamma_3 = \gamma_4 = \gamma_5 = 0 \quad (\text{a restriction for the no co- integration})$$

$$H_1: \gamma_2 \neq \gamma_3 \neq \gamma_4 \neq 5 \neq 0 \quad (\text{a restriction for the co-integration})$$

### **5.9 Tests for Parameter Stability**

For the econometric analysis, the stability of the estimators is very important. On the basis of the stability we can interpret the results. In order to observe the stability of the tests we have Cumulative sum of recursive residuals (CUSUM) and cumulative sum of recursive residuals of square (CUSUMS) while, Breusch-Godfrey test is used for the Serial Correlation. After that ARCH Heteroskedasticity is used for the test of Heteroskedasticity. Ramsey reset is used for the specification of the selected model.

### **5.10 Choice of Optimal Lag Length**

We have to check the optimum lag length of the ARDL model. Different tests have been developed in this regards. (AIC), (SBC), Hannan and Quinn are the different test used for the analysis.

## **Chapter No. 6**

### **Impact of FDI and Trade on Pakistan and China: A Comparative Analysis**

#### **6.1 Introduction**

Present chapter discusses the results and findings of the data analyzed empirically in case of both Pakistan and china, by employing different econometric techniques. To analyze these issues this chapter is to provide the results for the policy suggestions. We have arranges the chapter in the following form. Section 6.2 presents the theory. ADF test and Bound testing procedure is given 6.3. 6.4 is preset the Long run relationship while section 7.5 gives conclusions.

#### **6.2 Theoretical Issues**

We have discussed the theoretical issues in this segment regarding FDI focusing on trade in case of Pakistan and China. FDI has both has positive as well as negative impacts on Trade. FDI can affect trade through efficiency in resource allocation.

#### **6.3 ADF Test of Stationary**

In the first hand, we have presented the results and finding of the data after checking its stationarity. For this sake, ADF test is used for the analysis.

The study applied ADF (Augmented Dickey Fuller) Test to check unit root of the following variabes; which are RGDP (Gross Domestic Product), TR (Trade), INF (Inflation Rate), INF (inflation), ER (Exchange Rate), FDI( Foreign Direct Investment), CAD (Current Account Deficit), ELF ( Employment ).

**Table 6.1a: Results of ADF Test (Pakistan Case)**

<b>Variables</b>	<b>At Level</b>	<b>With First Difference</b>	<b>Conclusion</b>
<b>RGDP</b>	0.657575	-4.096766	I(1) *
<b>TR</b>	-2.183895	-4.495211	I(1) **
<b>FDI</b>	-2.980473	-6.494041	I(0) *
<b>CAD</b>	-1.81001	-9.473825	I(1) **
<b>ER</b>	-3.750896	-7.713575	I(0) *
<b>INF</b>	-3.591988	-6.258599	I(0) *
<b>ELF</b>	0.760574	-7.167886	I(1) *

**Note:** author calculation

After the tests, it is the variables FDI and INF and LINF are stationary, while RGDP, TR, CAD, ER, ELF are the variables not stationary at level. So, the series can be made stationary after taking first differences.

**Table 6.1b: Results of ADF Test (China Case)**

<b>Variable</b>	<b>At Level</b>	<b>First Difference</b>	<b>Conclusion</b>
<b>RGDP</b>	0.3532575	-3.0326766	I(1) *
<b>TR</b>	-2.182325	-3.495211	I(1) **
<b>FDI</b>	-1.9823273	-5.494041	I(0) *
<b>CAD</b>	1.210843231	-7.233258	I(1) *
<b>ER</b>	-1.0342319	-5.702238	I(1) *
<b>INF</b>	-1.3232313	-7.473825	I(1) **
<b>ELF</b>	-3.7213213	-8.713575	I(0) *

**Note:** Authors calculation.

#### **6.4 Bounds Test for Co-integration**

The existence of the long run relationship can be found by analyzing the co-integration. Then we find the error correction model, to find the time required for the adjustment.

**Table 6.2: Results for Co-integration**

<b>Equation</b>	<b>Wald Test statistics</b>	<b>Upper Bound Critical Value</b>	<b>Conclusions</b>
1 <sup>st</sup> Model-Equation (Pakistan) <b>TR / ER, FDI, ELF, INF, CAD</b>	<b>6.785</b> <b>[0.0026]</b>	<b>3.79</b> <b>(95%)</b>	<b>Co integration</b>
2 <sup>nd</sup> Model-Equation (China) <b>TR / ER, FDI, ELF, INF, CAD</b>	<b>7.644</b> <b>[0.0543]</b>	<b>5.61</b> <b>(99%)</b>	<b>Co integration</b>

**Note:** Authors calculations.

The results show that there exists the relationship of co-integration among the variables. In the first model, the relationship between the trade and FDI, employed labor force, Inflation, and current account deficit exist.

In the 2<sup>nd</sup> Model-Equation for china case show that there exist the relationship among trade volume, exchange rate, FDI and employed labor force. It is evident from the results that the co-integration can be confirmed from the F-stats, which is going to exceed the upper bound limit.

### **6.5 Estimates of FDI and Trade in Pakistan**

We have utilized time series data for the period from the 1972 to 2016 for empirical estimation. ARDL technique is used for the estimation. The estimates are displayed in the table 6.3. Here, dependent variable is trade and explanatory variables are

used including ER, FDI, CAD, ELF. The expected way of relation of each explanatory variable with GDP is positive except external Debt and CAD.

**Table 6.3 (a) ARDL Long- Run effects of FDI on Trade (Pakistan)**

The dependent variable: Trade (TR)				
Variables	parameters	S.E	T-Ratio	[Prob]
ER	121.3	54344.7	4.432459	[.050]
RGDP	654.3	23444.7	7.55.2459	[.100]
INF	3516.7	234280.2	1.44425	[.160]
FDI	11.4543	232.1234	7.7491	[.000]
ELF	-55.8667	325.8906		-7.0888 [.000]
CAD	-7651.9536	2329.1883		-9.9424 [.000]
C	-1459348	33241.3	-4.7357	[.001]

Note: author's calculations

From the Table 6.3 it is observed that the value of estimator of FDI for trade which shows that there is significant and positive impact of FDI on trade which means FDI is going to increase the trade in case of Pakistan. While the impact of exchange rate on trade is also positive and significant. Inflation has also positive impact on the trade.

**Table 6.3 (b) The ARDL Short Run Effects of FDI on Trade (China)**

The dependent variable: $\Delta$ Trade				
Variables	parameters	S.E	T-Ratio	[Prob]
$\Delta$ ER	5435.6	53222	6.43243	[.000]
$\Delta$ INF	1321.5	234324	1.43242	[.100]
$\Delta$ FDI	3.21361	43.2323	5.41231	[.000]
$\Delta$ RGDP	-12.2131	6.2342	-6.423	[.000]
$\Delta$ ELF	-322.5299	11.3213218	-3.7645	[.000]
$\Delta$ CAD	-322.5299	11.3213218	-3.7645	[.000]
$\Delta$ C	-886324.2	12332312	-4.6537	[.000]
Ect (-1)	-.39841	21321312	-6.52342	[.000]
R-Squared	.87	R-Bar-Squared	.70	
Schwarz Bayesian Criterion		-510.5201		
DW-statistic		2.143		

Note: Authors calculations

The findings in this study, for the short run impact indicate that exchange rate has positive associated with trade. The size of the economy proxies by the RGDP is also has significant and positive impact on the trade in case of Pakistan. The mixed findings revealed by the past studies, in addition to the findings of this study.

The coefficient of foreign direct investment is 3.2143 which shows positive impact of FDI on trade for Pakistan. The coefficient of  $CEt-1$  is (-.39822) for short run model, means that it will take half of the ear around to reach lng run from short run.

### 6.6 Long- Run and Short Run Effects of FDI on Trade in Case of Pakistan and China

From the Table (5.4) it can be observed that the coefficient of FDI in case of china is positive on trade (TR). Beside this the impact of inflation is also positive and significant. The impact of ER for the export of china is also positive and significant.

**Table 6.4 (a) Long- Run effects of FDI on Trade in Pakistan**

<b>The Dependent variable: Trade (TR)</b>				
<b>Variables</b>	<b>parameters</b>	<b>S.E</b>	<b>T-Ratio</b>	<b>[Prob]</b>
ER	54342.3	563822.0	3.42242	[.050]
RGDP	4888.3	321314.7	6.55231	[.100]
INF	42138.9	12380.2	1.44425	[.160]
FDI	21.421	2112.1234	7.121	[.000]
ELF	-563.8667	222.83206	-5.2888	[.000]
CAD	-7123.952	8329.18	-1.24	[.4000]
C	-1459348	33241.3	-4.7357	[.001]

Note: Authors calculations.

We have found that inflation has positive and significant impact on TR with the value of 42138.9. Further the estimates indicate that the impact of CAD and ELF is negative and significant. The impact of inflation is significant and positive on the volume of trade, the results reveal.

**Table 6.4 (b) The ARDL Short Run Effects of FDI on Trade in China**

<b>Dependent variable: <math>\Delta</math> Trade</b>				
<b>Variables</b>	<b>parameters</b>	<b>S.E</b>	<b>T-Ratio</b>	<b>[Prob]</b>
$\Delta$ ER	5435.6	53222	6.43243	[.000]
$\Delta$ INF	1321.5	234324	1.43242	[.100]
$\Delta$ FDI	3.21361	43.2323	5.41231	[.021]
$\Delta$ RGDP	-12.2131	6.2342	-6.423	[.000]
$\Delta$ ELF	-322.5299	11.3213218	-3.7645	[.100]
$\Delta$ CAD	-322.5299	11.3213218	-3.7645	[.000]
$\Delta$ C	-886324.2	12332312	-4.6537	[.000]
Ect (-1)	-.70329	.21321312	-6.52342	[.000]
R-Squared	.87	R-Bar-Squared	.70	
Schwarz Bayesian Criterion	-510.5201			
DW-statistic	2.143			



Note: Results are based on Author's calculations using Microfit 4.1

The value of ECM  $Ecmt-1$  that is equal to  $(-0.70)$ , shows the time adjustment required to move from short run to long run. This shows that the deviation of short run from the long run required 38.42 percent adjustment.

## **Chapter No. 7**

### **Conclusions and Policy Recommendation**

#### **7.1 Conclusions**

The history shows that the impact of FDI on trade is well known. Yet till now it has not been conclusive. The research findings show that the relationship between these two can be treated as complementary as well as substitute. But depending on the circumstances, these can be treated as complement as well as substitute.

This study has made a comparative analysis for Pakistan and China. The both countries are closely linked with each other in terms of trade and FDI. So, this study tries to explain the narrative on the both countries, and will formulate the policy on the basis of results. The present study has used time series data, ranging from 1972 to 2016. Two country comparison has been made for Pakistan and China. ARDL technique has been used for the analysis.

In today's age, almost every developed or developing country is concentrating on trade in various industrial products and has defined its planned prominence. Governments are contemptuously examining and carrying out investigations for formulating valued strategies and rules for each sector. Developing countries are still in the form of unawareness and so far these have not specified due value as compared to developed countries. Pakistan is similar to other developing nations in this regard. Inadequate devotion and support is given to the manufacturing sector. There is deficiency of sustenance by the government in terms of regulations, legislature, institutional hold up and attainment of loans or financing subsidy. Under such situation, procedure and policy background and likewise guiding principle may be found helpful in backing up and

assisting in manufacturing of goods of trading industries for their progression and improvements. Paradoxically, trade and industrial policies of Pakistan are noticeably imperceptible regarding industries producing manufacturing goods and also their exports (Saba and Zafar, 2014). Pakistan's trade arrangements have improved normally. The exports and imports of Pakistan from China have increased and Pakistan's trade deficit has also increased due to increase in imports.

## **7.2 Policy Recommendation**

In this era of globalization, FDI and Trade have been important ingredients that are related with each other. It increased the workers mobility and the capital flow from one country to another. More importance has been given to the exports and imports of the countries in order to enhance the FDI among the countries. The government should focus on macroeconomic environment, like that of exchange rate, current account, the size of the economy, and the FDI in order to increase the trade in the both countries, and to formulate the policy to enhance the bilateral trade among the countries.

