



SPCRD GLOBAL
PUBLISHING
Sustainable Solutions

REAL

**Review of Education,
Administration and Law**

Journal homepage: <http://real.spcrd.org>

ISSN (Print): 2708-1788

ISSN (Online): 2708-3667

Role of Governance, Trade, and Tourism in Foreign Direct Investment in Pakistan

^a Areeba Fatima, ^b Noreen Safdar, ^c Naureen Afzal

^a PhD Research Scholar, Department of Economics, The Woman University Multan, Pakistan

Assistant Professor, Department of Economics, The Woman University Multan, Pakistan

Email: noreen.safdar@wum.edu.pk

Lecturer, Institute of Management Science, The Women University Multan, Pakistan

Email: naureenafzal@wum.edu.pk

ARTICLE DETAILS	ABSTRACT
History: Accepted 06 August 2022 Available Online September 2022	<i>The Primal objective of this research is to reveal the role of governance, tourism, and trade in the stimulation of FDI inflows in Pakistan. These forces have been integrated for empirical methodology after a detailed examination of past studies. The study took data set for selected variables from World Development Indicators (WDI) and World governance indicators (WGI) for the past two decades (2000-2021). Except for governance, tourism, and trade, this research incorporates macroeconomic stability and financial development as the stimulators of FDI inflows in Pakistan. In statistical data estimation, after using the ADF test, the ARDL technique is applied based on the variable's cointegration order. Both short and long-run estimates of ARDL confirmed the statistical significance of all studied variables that are governance (GOVEF), tourism (LTRSM), trade (TD), gross savings (GS), and broad money (BM). Bound test and CUSUM disclosed that there is long-run cointegration and the examined model is statistically significant and stable. Overall findings disclosed that GOVEF and trade are positively correlated, while LTRSM confirmed a negative association with FDI inflows for the case of Pakistan. Governance effectiveness is one of the key determinants of FDI inflows, especially for the case of developing economies like Pakistan. Policy makers needs to introduce polices for improving environment for tourists. As, in case of Pakistan, hospitality industry still needs a boost up, that in turn stimulate FDI.</i>
Keywords: FDI, Governance, Trade, Tourism, Pakistan, ARDL	
JEL Classification: E22, G34, O24	
DOI: 10.47067/real.v5i3.241	
© 2022 The authors. Published by SPCRD Global Publishing. This is an open access article under the Creative Commons Attribution-NonCommercial 4.0	

Corresponding author's email address: noreen.safdar@wum.edu.pk

1. Introduction

An increase in the inflows of foreign direct investment will help developing economies (like Pakistan) in transition from developing to developed ones. FDI inflows also reckon a static role in removing or in reducing the poverty level. Furthermore, FDI inflows render a static role in generating employment and also advocate a static role in forming, implementing, and improving employment-related policies. Researchers have already discussed that FDI inflows are directly linked

with technological spillovers. In the case of developing economies (like Pakistan) FDI inflows play a crucial role in economic development. However, the current inflow of FDI has not reached its actual (required) extent. Hence, there is a need to enhance FDI inflows in Pakistan. And for this, the researcher tries to employ those forces or factors that will help in the stimulation of FDI.

Foreign Direct Investment inflows occupy a conspicuous place in an economy. A bulk amount of research has been done about FDI dimensions, elements, and about its impact on economic growth. Mainly, these researches confirmed that macroeconomic stability, demographic factors, governance, tourism, trade, infrastructural development, financial stability, political stability, stock market and equity flow, financial development, technology, exchange rate, market size, industrial structure and development, globalization, trade liberalization, exports, inflation, wages, market uncertainty, education, govt. expenses, labor force, external debt, distance, population growth, property rights & privatization, urbanization, terms of trade, human capital, environmental degradation, import substitute, terrorism, poverty, Institutional quality, demand, consumption, income level, international organization and some other factors as the determinants of FDI inflows.

From all these determinants selection of only major or primal factors is a difficult and time-consuming task. However, the researcher integrates all study's details like examined country, its resources, characteristics, etc. From them, researchers focused on developing economies and converted attention toward Pakistan's economy. The researcher finalized governance, tourism, and trade by keeping in mind, the state, environment, resource availability, and business activities of Pakistan. Empirical studies (Particularly in the case of Pakistan's economy) mainly disclosed that governance, trade, and tourism are those forces that in all cases significantly contribute to FDI inflows. Henceforth, in this research, the primal focus was on the role of governance, trade, and tourism in FDI inflows for the economy of Pakistan. However, along with these three factors, macroeconomic stability and financial development have been utilized. As macroeconomic stability and financial development also confirmed their empirical significance in literature.

The key targets behind this research are to examine the interrelationship between governance, foreign direct investment, trade, and tourism for the economy of Pakistan. Central concentration of this research was on the role of governance, trade and tourism in FDI inflows for the economy of Pakistan. Pakistan as a developing economy, combating with multiple challenges including political instability.

Empirically, Foreign Direct Investment inflows affirmed a static place in an economy. past empirical studies effectively reflected that there are plenty of social, economic, macroeconomic, political, institutional, and international market variables that directly or indirectly stimulates foreign direct investment, not only for the economy of Pakistan but also for the case of developed and developing economies. Hence, after examining all of them, now we have finalized governance (political stability), tourism, and trade as key determinants of FDI inflows for the case of Pakistan's economy.

2. Literature Review

Akbar and Ahsan (2015) empirically examined foreign direct investment inflows in Pakistan's economy. The main focus of this paper was on the trend of FDI inflows. Time series data have been collected between 2000 and 2008, for the economy of Pakistan, gathered from world development indicators. Multiple regression estimates disclosed that trade openness, GDP growth, and dictatorship regime were the main drivers of FDI in Pakistan. However, foreign debt, terrorism, exchange rate,

domestic capital formation, and political instability confirmed a negative association with FDI. In the end, researchers suggested that improved infrastructure, political stability, and trade liberalization will stimulate FDI inflow in the case of Pakistan's economy.

Ali & Malik (2017) highlighted key determinants of foreign direct investment in the case of Pakistan's economy. This research was a time series data analysis, which utilized time series data over the period 1991 to 2015. The examined variables of this research, and the data set has been collected for FDI inflows, inflation, economic growth, interest rate, and exchange rate. Correlation and Multiple regression were occupied as statistical analysis approaches. Results disclosed that GDP growth and FDI are positively correlated, an increase in GDP will cause an increase in FDI inflows. Besides, researchers suggest the formation of attractive policies for foreign investors.

Sokang (2018) investigated causal association between FDI and economic growth for the case of Cambodia economy. Time series data has been collected over the time frame of 2006-2016. Correlation and Multiple regression was occupied as statistical analysis approach. This paper examined causal association amid foreign direct investment, economic growth, inflation, and exchange rate. Estimates of Multiple regression replicated that there's long run association between the examined factors. Furthermore, results disclosed that GDP growth and FDI are positively correlated, an increase in GDP will cause an increase in FDI inflows. Zhuang et al. (2021) documented about the environmental impact of FDI outflow (infrastructure-driven), technological innovation, and tourism development. For empirical examination, 54 belt and road countries. A cross sectional autoregressive distributed lagged model estimation approach was utilized by the researchers. Time series data has been collected for selected regions over the time frame 2003-2018. Examined variables of this research were CO₂ emissions, tourism development index, FDI outward stocks, GDP, industry value added, and technical innovation. Statistical estimates showed that FDI cause environmental degradation. Furthermore, results confirmed the presence of environmental Kuznets curve.

Azam and Haseeb (2021) explored crucial determinants of foreign direct investment in Bangladesh, Russia, India, China, and Sri-Lanka (BRICS) economies. Main focus of this research was on role of energy (renewable and non-renewable) resources. Time period considered by researchers ranges from 1980 to 2018. Cross sectional autoregressive distributed lag model (CS-ARDL), fully modified OLS (FMOLS), common correlated effects of mean group estimation (CCMG), and dynamic OLS were the statistical analysis approach. Except Inflation rate all other variables confirmed positive affiliation with FDI, and all are statistically significant. Furthermore, renewable energy usage will cause high effect as compared to utilization of non-renewable energy resources.

Khan et al. (2022) highlighted role of institutional quality in stimulating FDI inflows and reducing carbon emission. For empirical estimation, thirty-nine (39) belt-road initiative and one hundred seven (107) developing economies were selected. Time series data has been collected from the period 2002-2019, for selected countries. Researchers utilized both dynamic and static panel model. Findings disclosed that institutional quality significantly stimulates FDI inflows. However, impact of institutional quality (ratio of change) varies among different panels. Furthermore, regulatory quality, and rule of law were found as poor governance indicators, for all panels. While, control over corruption, and voice & accountability were found weak represent of Governance in belt-road economies.

Li et al. (2022) considered role of regional institutions and institutional linkage in determining FDI outflows. This paper, occupied Chinese firms for empirical examination. Researchers declared this

paper as the first paper, which considered role of regional institutes and institutional linkage (Confucius institutions) in one frame work. Empirical and statistical estimates confirmed that regional institutes and institutional linkage significantly determine FDI outflows. Moreover, they suggested that in order to alleviate negative effect (costs & risks attached in business), resulted from distance between host and China country, effective Confucius institutes operations needed.

3. Data and Methodology

Foreign direct investment is the dependent variable, of this research. While, governance, trade, tourism, gross savings, and broad money are the independent variables of this research. For data collection, time series data is selected from the period 2000 to 2021. The reason behind gathering of data from 2000, is that the data for Governance indicators is not available. The data set available at World Bank starting from 2000. Henceforth, researcher comprehended all data series examination from 2000 onward. Data for foreign direct investment inflows (FDI), trade (TD), tourism (LTRSM), gross savings (GS), and broad money (BM) has been collected from World development indicators. While data set for governance has been collected from World governance indicators.

4. Model Specification

Plenty of researches has been done before for examining determinants of foreign direct investment. However, in this research, our goal is evaluate the role of governance, trade, and tourism in stimulation of FDI inflows to Pakistan. By keeping this in mind, researcher developed the following econometric model for measuring association between the examined factors of this research:

$$FDIt = \beta_0 + \beta_1 GOVEFCt + \beta_2 LTRSMt + \beta_3 TDt + \beta_4 GS_t + \beta_5 BM_t + \epsilon_t$$

Here, above symbols represent:

FDI = Foreign Direct Investment's

GOVEFC = Government Effectiveness

LTRSM = Log of Tourism Arrival

TD = Trade

GS = Gross savings

BM = Broad money

ϵ_t = Error term

In simple words, foreign direct investment (FDI) is influenced or determined by GOVEFC, LTRSM, TD, GS, and BM.

5. Results

5.1 Augmented Dickey Fuller Test

In the blow illustrated table, statistical estimates of unit root (augmented dickey fuller) test has been exhibited. Primal objective of this estimation is to reflect the stationary of the examined variables data. Here, we checked that is there any variable, possessing unit root (non-stationary) or not. ADF employees the null hypothesis, which states that there's unit root, while in alternative hypothesis it states that there's no unit root in the examined data series. The reason behind using

this test has been already discussed in detail in the previous chapter-4. Now, in this chapter, our only focus is on its statistical exhibition. In the above table, firstly dependent variable of this research has been tested against unit root, which is FDI.

Here, FDI, does not confirmed statistical significance for stationary at level or at I(o) cointegration, FDI is insignificant at level. However, FDI become significant at first difference, or at the cointegration order of I(1). At level, probability value is 0.06 and 0.09, and the t-statistics value is also greater than 2. Henceforth, FDI is statistically significant at 1%. After FDI, independent variables stationary has been checked one by one. In the above exhibited table, GOVEFC also does not confirmed statistical significance for stationary at level or at I(o) cointegration, GOVEFC is insignificant at level. However, GOVEFC become significant at first difference, or at the cointegration order of I(1). At level, probability value is 0.00 and 0.00, and the t-statistics value is also greater than 2. Henceforth, GOVEFC is statistically significant at 1%. However, LTRSM does confirmed its statistical significance for stationary both at level and also at first difference. At level and first difference, probability value is 0.00 and 0.00, and also the t-statistics value is greater than 2. Henceforth, LTRSM confirmed its statistical significance for stationary at level and at first difference (I(o) & I(1)). Besides, TD, does not confirmed statistical significance for stationary at level or at I(o) cointegration, TD is insignificant at level. However, TD become significant at first difference, or at the cointegration order of I(1). At level, probability value is 0.00 and 0.00, and also the t-statistics value is greater than 2. Henceforth, TD is statistically significant at 1%.

Furthermore, GS, does not confirmed statistical significance for stationary at level or at I(o) cointegration, GS is insignificant at level. However, GS become significant at first difference, or at the cointegration order of I(1). At level, probability value is 0.00 and 0.00, and also the t-statistics value is greater than 2. Henceforth, GS is statistically significant at 1%. As like FDI, GOVEFC, TD, and GS, broad money (BM) also confirmed its statistical significance at first difference I(1) and insignificant for level I(o). In sum, except all LTRSM all other examined variables are cointegrated of order-1. Henceforth, researcher decided to apply ARDL, as it requires cointegration of both order (o) and order (1).

Variables	Level		1 st Difference		Conclusion
	Intercept	Intercept & Trend	Intercept	Intercept & Trend	
FDI	-2.4403 (0.1441)	-2.7666 (0.2238)	-2.8708* (0.0666)	-2.8427* (0.0997)	I(1)
GOVEFC	-1.2212 (0.6450)	-2.2359 (0.4474)	-5.5337* (0.0003)	-5.4127* (0.0016)	I(1)
LTRSM	-2.5910 (0.1138)	-3.3481* (0.0887)	-6.1730* (0.0001)	-4.8857* (0.0047)	I(o) & I(1)
TD	-1.9766 (0.2939)	-2.1763 (0.4773)	-4.6990* (0.0015)	-4.8972* (0.0046)	I(1)
GS	-1.4327 (0.5467)	-2.4754 (0.3351)	-4.8572* (0.0011)	-4.7694* (0.0059)	I(1)
BM	-1.7609 (0.3881)	-2.1728 (0.4791)	-3.9506* (0.0074)	-3.9211* (0.0306)	I(1)

Note: “ * ” exhibits significance at 1% for the examined variable

5.2 Auto-Regressive Distributed Lagged Model (ARDL)

Here, researcher displayed ARDL estimates for both short run and also for the long run.

5.2.1 Short-Run Estimates of ARDL

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(FDI(-1))	-1.0045	0.2428	-5.5918	0.0007
D(GOVEFC)	-0.5822	1.5473	-3.2380	0.0742
D(GOVEFC(-1))	2.0181	0.0031	6.2884	0.0994
D(LTRSM)	-0.8475	0.5554	-8.0997	0.0101
D(LTRSM(-1))	-1.4101	0.1077	-11.8246	0.0534
D(TD)	0.0326	1.0700	15.1004	0.0312
D(TD(-1))	0.0811	0.0527	9.3402	0.0521
D(GS)	1.5362	1.3183	7.2515	0.0008
D(GS(-1))	-0.5435	2.0818	-3.1783	0.0202
D(BM)	-0.1457	0.0054	-4.1092	0.0043
D(BM(-1))	-0.3220	1.0631	-5.8692	0.0835
CointEq(-1)	-0.1452	0.4157	7.0016	0.0344
$\text{Cointeq} = \text{FDI} - (0.6443 * \text{GOVEFC} - 0.1278 * \text{LTRSM} + 0.0464 * \text{TD} - 0.0235 * \text{GS} - 0.1005 * \text{BM} + 18.2631)$				

Source: Authors own calculations using Eviews-9

In the above exhibited table, estimates of short run co-integration gained from ARDL analysis has been illustrated. This table, basically reflects impact of governance, tourism, and trade on FDI inflows of Pakistan. However, it is to be noted that we can't rely only on short run estimation, as in short run time duration is short. Hence, there influence is also not stable. Therefore, in this table, researchers only check cointeq. value. This value replicates that either there's long run cointegration between the examined variables or not. Here, we need this value to be less than one, that's the only requirement. As we see, in the above table, this value is less than one and also statistically significant. Hence, researchers can conclude that there exist long run association between the examined variables.

Furthermore, if we look at the short run estimates it shows that all variables are statistically significant in short run, except for the lagged value of GS. Lagged value of FDI confirmed statistically significant estimates in short run, and confirmed negative correlation with FDI inflows. Besides, GOVEFC is also statistically significant, and its association with FDI is negative in short run. Furthermore, lagged value of GOVEFC confirmed negative association with FDI in short run, and this association is statistically significant. Furthermore, LTRSM is also statistically significant, and its association with FDI is negative in short run. Furthermore, lagged value of LTRSM also confirmed negative association with FDI in short run, and this association is statistically significant. Additionally, TD is also statistically significant, and its association with FDI is positive in short run. Furthermore, lagged value of TD confirmed positive association with FDI in short run, and this

association is statistically significant. GS is also statistically significant, and its association with FDI is positive in short run. Furthermore, lagged value of GS confirmed negative association with FDI in short run. However, this association is statistically insignificant. BM is also statistically significant, and its association with FDI is negative in short run. Furthermore, lagged value of BM confirmed negative association with FDI in short run, and this association is statistically significant.

5.2.2 Long-Run Estimates of ARDL

Variable	Coefficient	Std. Error	t-Statistic	Prob.
GOVEFC	0.6443	3.0204	6.4070	0.0003
LTRSM	-0.1278	1.3333	-2.8004	0.0201
TD	0.0464	0.0016	5.3464	0.1904
GS	-0.0235	0.4324	-6.9224	0.0000
BM	-0.1005	0.0006	-3.4562	0.0120
C	18.2631	4.1245	4.0993	0.0005

Source: Authors own calculation using Eviews-9

In the above exhibited table, estimates of long run co-integration gained from ARDL analysis has been illustrated. This table, basically reflects impact of governance, tourism, and trade on FDI inflows of Pakistan, in long run. Besides, as in long time, time duration is not so short, hence its estimates are statistically stable, significant and accurate. Therefore, analyzer can easily rely on this estimation. Mainly, for checking any empirical study, analyzers do consider long run estimates. In this table, considered dependent variable is foreign direct investment inflows of Pakistan. While the independent variables are LTRSM, TD GS, and BM. Here, researcher will explicate each independent variable association with FDI in long run.

GOVEFC has confirmed statistically significant association with FDI inflows. Furthermore, as because of GOVEFC there will be "0.6443" change in FDI. Besides, intercorrelation between these two factors is positive. The reason behind this positive association is that if government handle all his duties effectively, this effectiveness may cause a better environment for both foreign and domestic investors. And when, foreign investors integrates an economy for investment they will surely select the country which is political stable and its governance is effective in handling issues. Therefore, correlation between FDI and government effectiveness (GOVEFC) is positive. Shaikh (2010) and Azam & Lukman (2010) also confirmed that there is positive relationship between governance and FDI inflows. LTRSM has confirmed statistically significant association with FDI inflows. Furthermore, as because of LTRSM there will be "-0.1278" change in FDI. Besides, intercorrelation between these two factors is negative. The reason behind this negative association is that tourists arrival results in the form of marketing for an economy. As these tourists will report about the situation of the economy, that in turn gathers attention of foreign investors. If the considered economy is developing and its not so popular among tourists then it will cause a negative influence of FDI. Therefore, correlation between FDI and tourism arrival (LTRSM) is negative for the case of Pakistan. Ho and Rashid (2011) and Ussi & Wei (2011) also confirmed that there is statistically significant relationship between tourism (LTRSM) and FDI inflows.

Although, TD has confirmed statistically insignificant association with FDI inflows for the case of Pakistan. Except TD, all other variables of this research confirmed significant association with FDI inflows of Pakistan. Additionally, as because of TD there will be "0.0464" percent change in FDI. Besides, intercorrelation between these two factors is positive. The reason behind this positive association is that if an economy is active in international market, this will cause a wave of competition between firms. This may cause a better environment (economies of scale) for both foreign and domestic investors. And when, foreign investors integrates an economy for investment they will surely select the country which is active in international market. Therefore, correlation between FDI and trade (TD) is positive. Klasra (2011) and Azeem et al. (2012) also confirmed that there is positive relationship between trade and FDI inflows.

GS has confirmed statistically significant association with FDI inflows. Furthermore, as because of GS there will be "-0.0235" percent change in FDI. Besides, intercorrelation between these two factors is negative. The reason behind this negative association is that as savings increases, it will replicate low investment. Furthermore, low investment will cause negative influence on foreign direct investment inflows. Therefore, correlation between FDI and gross savings (GS) is negative for the case of Pakistan. BM has confirmed statistically significant association with FDI inflows. Furthermore, as because of BM there will be "-0.1005ss" percent change in FDI. Besides, intercorrelation between these two factors is negative. The reason behind this negative association is that as in an economy flow of money accumulates at a point in liquid form, nor gone in investment. Then, it will cause low investment and low investment will cause negative influence on foreign direct investment inflows. Therefore, correlation between FDI and broad money (BM) is negative for the case of Pakistan.

5.3 Bound Test

Estimated table of Bound test has been displayed in the following section, which signifies long run association between examined factors.

Table: Bound Test Results Co-Integration

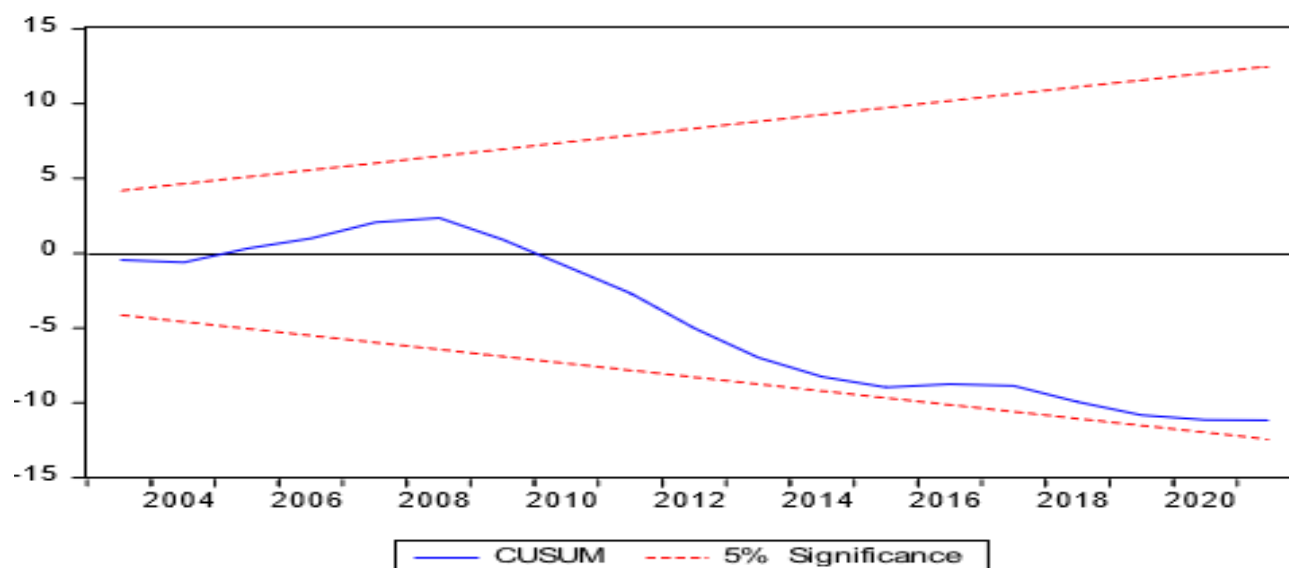
Test Statistic	Value	k
F-statistic	10.5243	5
Critical Value Bounds		
Significance	Io Bound	I1 Bound
10%	2.11	2.33
5%	2.24	3.49
2.5%	3.69	3.98
1%	4.41	4.79

Source: Authors own calculation using Eviews-9

In the above diagram, estimates of bound test are exhibited using Eviews-9. Here, we check that either F-statistics critical value is higher than both lower bound and upper bound or not? In the above table, it is crystal clear that f-statistic value that is "10.5243" is greater than upper bound value that is "4.79" and also from the lower bound value that is "4.79". As we see, F-statistics critical value is higher than both lower bound and upper bound values. Lower bound and upper bound are the critical regions set in this estimation technique. So, now, we can reject the null hypothesis, which

states that there is no long run conintegration between examined variables. Besides, we can accept the alternative hypothesis which states that there is long run conintegration between examined variables. Above table, also replicates that the presence or existence of long run co integration is confirmed at 1% level of significance.

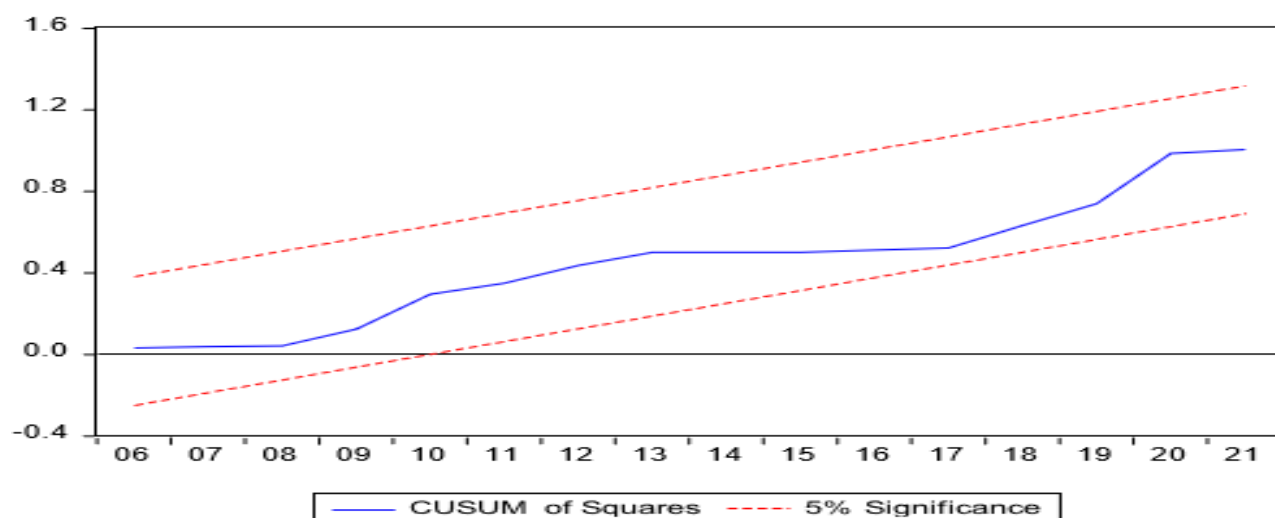
5.4 CUSUM Plot



Source: Authors own calculation using Eviews-9

Above displayed diagram, replicates CUSUM plot. Basically, CUSUM graph demonstrates that either the examined empirical model of the study is statistically stable or not? Here, blue line reflects stability or significance of the model, while the red lines are the settled limits. Therefore, by following this assessment, researcher here, examined CUSUM plot. As expected, it envisages that examined model is statistically significant and also stable. The blue line, lies between critical red boundaries. Hence, we can conclude that examined model is statistically significant and stable.

5.2 CUSUM of Square Plot



Source: Authors own calculation using Eviews-9

In this CUSUM of square plot significance level, apprehended by the researcher is 5%. Mainly, this plot, concise the scale of critical and limit it to 5%. As we see above, blue line, lies between critical red boundaries. Hence, we can conclude that examined model is statistically significant and stable and 5% level of significance.

6. Conclusion

As we see in the literature, there are bundles of variables and groups affecting FDI inflows of an economy. However, in this study, researcher attempts to concentrate only on prominent factors that are governance, tourism, and trade. However, researcher also considered macroeconomic stability and financial development in examined model of this study. For empirical examination, Pakistan's economy is examined over the time frame 2000 to 2021. Here, researcher covered the latest data set gathered from WDI and World governance indicators. Along with descriptive and correlation matrix, unit root presence is also checked by utilizing ADF stationary test. From ADF estimates, researcher disclosed that examined variables are cointegrated of I (0) and I (1) order. Hence, there is need to use ARDL for statistical estimation. ARDL has been implemented as a statistical data estimation approach. Results collected after ARDL examination, reported that all variables of this research governance (GOVEF), tourism (LTRSM), trade (TD), gross savings (GS), and broad money (BM) are statistically significant. Not only significant, but also they confirmed an empirically static role for the economy of Pakistan. Besides, GOVEF and trade confirmed positive effect, while LTRSM confirmed negative association with FDI inflows for the case of Pakistan. Furthermore, bound test and CUSUM estimation, confirmed that the examined model of this research is statistically significant and stable. Additionally, most of this research estimates has already been confirmed from some past studies (Shaikh, 2010; Azam & Lukman, 2010; Ho & Rashid, 2011; Ussi & Wei, 2011; Klasra, 2011; and Azeem et al. 2012). However, the effect disclosed from these studies and the effect estimated in this research varies a little. As, in the presence of Covid-19 pandemic, all economic actives are influenced greatly. Hence, for considering the influence of this pandemic, researcher utilized current data (2021) for empirical examination. In the end, we can conclude that there is long run cointegration of governance, tourism, and trade with the FDI inflows of Pakistan.

7. Suggestions and Policy Implications

After analyzing role of governance, tourism, and trade in stimulating FDI inflows in Pakistan, segment, in this section, researcher tries to suggest some policy implications for improving current state. These suggestions are widely integrated after empirical examination of Pakistan's economy in this research. Hence, they will surely help in stimulation of FDI inflows in Pakistan. These polices are detailed in the following:

1. Governance effectiveness is one of the key determinants of FDI inflows, especially for the case of developing economies like Pakistan.
2. Policy makers needs to introduce polices for improving environment for tourists. As, in case of Pakistan, hospitality industry still need a boost up, that in turn stimulate FDI.
3. Financial development is also required for improving current state, and also for stimulation of FDI inflows.
4. Along with effective governance, macroeconomic stability also an active stimulator of FDI inflows in Pakistan.
5. Laws and regulatory policies associated with overseas investors needs to flourished and improved on yearly basis, for stimulating FDI inflows.

Reference

- Akbar, M., & Ahsan, A. K. B. A. R. (2015). An empirical analysis of foreign direct investment in Pakistan. *Studies in Business and Economics*, (10).
- Ali, M., & Malik, I. R. (2017). Impact of foreign direct investment on economic growth of Pakistan. Published in, 3(2).
- Azam, M., & Haseeb, M. (2021). Determinants of foreign direct investment in BRICS- does renewable and non-renewable energy matter?. *Energy Strategy Reviews*, 35, 100638.
- Azam, M., & Lukman, L. (2010). Determinants of Foreign Direct Investment in India, Indonesia and Pakistan: A Quantitative Approach. *Journal of Managerial Sciences*, 4(1).
- Azeem, S. W., Hussain, H., & Hussain, R. Y. (2012). The Determinants of Foreign Investment in Pakistan: A Gravity Model Analysis. *Logforum*, 8(2).
- Ho, C. S., & Rashid, H. A. (2011). Macroeconomic and country specific determinants of FDI. *The Business Review*, 18(1), 219-226.
- Khan, H., Weili, L., & Khan, I. (2022). The role of institutional quality in FDI inflows and carbon emission reduction: evidence from the global developing and belt road initiative countries. *Environmental Science and Pollution Research*, 1-28.
- Klasra, M. A. (2011). Foreign direct investment, trade openness and economic growth in Pakistan and Turkey: An investigation using bounds test. *Quality & Quantity*, 45(1), 223-231.
- Li, J., Qu, Y., Wang, D., & Zheng, N. (2022). The Role of Institutional Linkages and Regional Institutions in the Location Choice of Outward Foreign Direct Investment: Empirical Evidence from Chinese Firms. *Journal of Social Economics Research*, 9(1), 10-26.
- Shaikh, F. M. (2010, August). Causality relationship between foreign direct investment, trade and economic growth in Pakistan. In *International conference on applied economics*(pp. 717-722).
- Sokang, K. (2018). The impact of foreign direct investment on the economic growth in Cambodia: Empirical evidence. *International Journal of Innovation and Economic Development*, 4(5), 31-38.
- Ussi, M. U., & Wei, J. G. (2011). The location determinants for hotel foreign direct investment (FDI) in Zanzibar. *Management and Service Science*, 8, 105-112.