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The Role of Foreign Direct Investment and Political Stability in Influencing Economic Growth of Pakistan

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ABSTRACT

The role of foreign direct investment (FDI) in the gross domestic product growth (GDP) has been a passionate debate, particularly in developing countries like Pakistan, but the relationship between inflows of FDI and GDP is still controversial among the scholars. FDI depends on resident country's conditions and the attraction of FDI is linked with the financial position and political stability of country. The main purpose of the study is to find out the effect of inward FDI and political stability on gross domestic product and used data from 1996-2019 for Pakistan and used the Autoregressive Distributive lag method for data estimation. The study revealed that FDI has a positive effect on gross domestic product growth in long run, while, has a positive and significant consequence on gross domestic product growth in short run. Government expenditure, political stability, along with labor force has a positive consequence on gross domestic product. Human capital (HK) and capital formation (PK) has a positive consequence on GDP growth in long run but have no consequence on gross domestic product growth in short runs. This study concluded that FDI and political stability has an encouraging effect on gross domestic product growth. This study recommends that the government should focused on the FDI and political stability to influence the economic growth.

Keywords: *Political stability; inflow FDI, GDP, Pakistan, ARDL*

INTRODUCTION

Investment plays a central role in the GDP growth of a country. There are three types of investment i.e. public, private, and foreign but economist gives special attention to FDI. To the extent the FDI is concerned, for UDC's like Pakistan which faces regular budget deficits and is falling behind in the production of technology, FDI can fill up the gap though development of human capital, technological transfers, creation of competition in the input market and corporate revenue creation in the host country, however, a positive obstacle in the way of attracting FDI and setting on a path of sustainable growth is the

unstable political circumstances as well as unstable law and order situation of the country. At the point when the political situation in the country moved some degree towards stability, the law-and-order circumstances would deteriorate. However, the macroeconomic stability required for better GDP growth could not be accomplished for more than a few years at a time, and those few years the growth spurt have been self-evident (Qayyum et al, 2018). The role of FDI in GDP has been a passionate debate, particularly in UDC's. FDI is depends on resident country's conditions and the attraction of FDI is linked with good system of finance. During the financial crisis in a country FDI is helpful to enhance the effectiveness of the country's economy. It is also supportive to smooth consumption pattern, domestic saving that can bring strength in the economy, expansion in production power by novel technology, offer more employment opportunity, and raise per capita income. Opposing, it is noticed that if UDC's depends more on FDI, it may put off the performance of resident industry for the reason that the market shares get in control by international or multinational companies that leads to the shutting down of local industry (Saleem et al, 2017).

FDI performs an important role in the progress of UDC's. Moreover, FDI helps in the expansion of host country's employment level and also in the development technologies. Most of the economists agree with the fact that a new technology, strong administrations and FDI put the domestic firms in pressures whereas assembling the business sectors more aggressive. Also, to the developing economies FDI carries significant externalities, for example, managements of labor, provide more opportunities of skills and trainings and along these lines expands the production function. By innovation transfer, it helps the economies of the UDC's to remain there on self-feet by innovation overflow (Javaid, 2016). While other economists argue that, global administrations and politicians take into account FDI as a significant means of the GDP of a state and also the solution the issues related to economies. Whenever, the domestic savings are found to be in deficiency then in such situations FDI performs a central function in the enhancement of domestic savings (Hussain et al, 2017). According to Skandalis et al (2012), that the effect of FDI seems in different UDC's in the past two to three decades, FDI inflows have provided powerful impetus for economic progress. For local investment FDI serves as a key foundation of supply assets thus, enhancing capital enlargement in the UDC's. In developing countries FDI inflows helps an economic system by providing opportunities for increasing the level of service segment, retail trade and wholesale, business and lawful services.

In the context of Pakistan, FDI is considered as a main source to complete the gap among capital, human resource and completion of objective and it had a crucial influence in development of the economy. However, it is noticed in the past decade Pakistan's FDI percentage is diminishing because of few reasons that lack of policies to provide support to foreign investors. One of the primary reasons is the deficiency of law and order which is a decisive issue to trim down the ratio of FDI. Political instability constantly leftovers due to which economic conditions decline continuously. The policies regarding tax in Pakistan is not realistic particularly for foreign investors as a result of which the foreign investors have to manage high cost for investment, which is a disappointing process for them (Zaheer, & Kiramat, 2019). Pakistan's economy is based on developing economy with a yearly growth rate of 4.24 percent in 2014-2015 (Economic Survey of Pakistan, 2014-2015) while 4.71 percent recorded in 2015-2016 (Pakistan Bureau of Statistics) and for accomplishing the aim of development it needs a minimum growth rate of 7%. For this reason, at the moment, FDI inflows act as a fundamental engine of GDP and also the state has been put into practice liberalization policies for the attaining of stable levels of FDI inflows. Also, policy makers are continually working on generating a stable atmosphere for foreign investors; however, terrorism is the main cause for discouragement of foreign investors. It seems that in UDC's like Pakistan terrorism maybe the major cause disturbing FDI lead to GDP growth. Because of increasing terrorist attacks the uncertainty and instability takes place in both economic and political achievements. As a result, they depress to invest because of the risk that they might lose their investments and profits (Serfraz, 2017).

Like Pakistan is gaining from various developmental projects being implemented in the country including the CPEC. This has resulted US$46 billion of projects controlled in the CPEC, which recommends Pakistan a great chance of enlarged FDI and for management a part of the major obstacles hampering its growth: limited attraction, lack of energy and lack of efficient policies for foreign investors. After successfully finishing of the mentioning projects will must have bear significant effect upon trade and also upon GNI of Pakistan, (Ashraf et al 2019). In the acceleration of GDP FDI is a noteworthy feature particularly in UDC's. FDI inflow accelerates the capacity of to invest outside the level of domestic funds in order to attain the more significant level of GDP. The most significant factor attracting FDI is the safety and political stability (Samimi et al 2011). In the last few decades, the study of GDP has practiced a renewal, due to the primary commitment of Romer (1986). In contrast to the miserable calculation of the neoclassical model of growth (Solow, 1956), the latest models conceive a significant growth rate of real GDP per capita that emerges endogenously in the financial system. The new role inside this structure refers to various methods to make clear endogenous growth, (Bengoa et al, 2003).

In a situation of trade limitation, the FDI can even have insignificant effects upon the GDP growth. The FDI level relies upon accessibility of the reservation of human capital in the host country. Furthermore, this impact can be demonstrated depressing in economies with lack of human capital. The effect of domination experienced by the international firms can dishearten the domestic firms to build up their own behavior. Another depressing effect of the FDI may end up from the excessive extraction of ores or the attention of the invention on one precise good which would bring a decrease in export prices and a decline of the conditions of trade for the host country (Dhiab et al, 2018). Many research is concerned with the assumption that FDI has a beneficial influence on a host country's GDP; nevertheless, some studies indicate that FDI and GDP are loosely connected. For example, the overall impact of FDI on the host country is too low. Furthermore, the contribution of FDI is limited to GDP growth, if the host country has sufficient power of advanced technology. Even though, there is no conformity on the effects of FDI on GDP growth of the host country but the studies that found positive effects of FDI is higher than the studies which found negative effects. (Hussain et al, 2017).

In Pakistan, FDI played a critical part in the evolution of the financial system, and it is regarded as the most important source of filling the gap between human resources, capital, and target attainment. However, it appears that Pakistan's FDI ratio has been declining in recent years due to a number of significant factors, including the lack of appropriate laws to promote international investors. Lack of law and order is a major issue in reducing foreign direct investment. There always stays political instability in the country because of which economic situations reduce immediately. The tax organization in Pakistan for foreign investors is not reasonable as a result the investors have to tolerate high cost for investment, which is a disappointing strategy for foreign investors. Therefore, this study was conducted to examine the role of political stability and FDI on GDP of Pakistan. This study used first time considered the combined effect of FDI and PS on GDP of Pakistan. Unlike, the previous studies, the results of this study are authentic and reliable. Thus, role of political stability in influence of GDP growth of Pakistan is able to study. It is important to conduct such a study which suggests policies. This study can be a learning paradigm in the secondary level in order to enhance the FDI and political stability which bears good effects on GDP of the country. FDI have better impacts on the country's GDP by means of swap over of innovative and talent, display of HR, combination in universal markets, augmentation of enmity, and firms' perfection and revamp. Further the political stability is considered to be a positive support of stable financial period and the periods of clamor are repeatedly observed as periods of less financial stability in country. The present research will be beneficial for the government of Pakistan and policy makers that they how much relay on FDI and Political stability to influence GDP. The present analysis will further give several policy recommendations depend on the results in lieu of FDI and political stability just because to bring stable economic situation in the country. Therefore, this study was conducted by the role FDI and Political stability in the economic growth of Pakistan.

LITERATURE REVIEW

Gudaro et al, (2010) determined the collision of FDI on GDP of Pakistan. They applied the era of 1981-2010. The results showed significant correlation between GDP and FDI whereas pessimistic association analyzed amid GDP and inflation. Ahmad et al, (2012) found that association amid FDI and GDP is positive. Iqbal et al, (2013) used Pakistan. data from 1973-2010 and Johansen VAR-based co-integration approach. They showed positive collision of FDI, exports and rate of exchange positively upon the GDP of Pakistan. However, political instability and terrorism showed pessimistic consequence upon the GDP of Pakistan. Younus et al, (2014) analyzed the Pakistan data from the era of 2000-2010. and 2SLS technique. They showed optimistic correlation among GDP, substitutes by GDP and FDI. Political stability, volume of exports and domestic investment were examined highly important in locality option of FDI. Naseem et al, (2015) studied the Pakistan data from the era of 2008 to 2013. After analysis it was determined that the effect of FDI, trade openness and local capital were positive on GDP. Javaid, (2016) used data over the era of 1966 to 2014 of Pakistan and ARDL-ECM procedure. The study originated that FDI bears encouraging collision upon Gross Domestic Production growth. Rani and Batool, (2016) used data from the era of 1980-2013 of Pakistan and estimated an ARDL model. The result showed that political instability was insignificant in short run but it was significant in long run. However, FDI was optimistically linked with GDP. Hussain et al, (2017) used data from the era of 1991-2015 of Pakistan and showed FDI bears affirmative blow on GDP. Saleem et al, (2017) used the data over the period of 1976-2015 of Pakistan and showed that demonstrated that influence of FDI upon GDP was significant plus negative and the consequences of allowances and outside debts upon GDP was originated significant positive. Ahmad et al, (2018) used data over the period of 1966 to 2014 and ARDL co-integration approaches were applied for estimate. Results were opposing to frequent ideas; development was not determined by the selected features. Variables were numerically not significant in long run, regardless come into view with predictable symbols for development. Shaheen et al, (2019) explained the responsibility of FDI in the economy of Pakistan. Data used from the era of 1971-2018. While investigating short-run and long-run consequences the study applied the following technique, ARDL-ECM. FDI bears constructive collision on the GDP in analysis. Ali et al, (2019) studied how FDI affects GDP in Pakistan. The yearly data was used for the period 1975 to 2017 in the study. The findings of the study were that alliance amid GDP and FDI is negative. Zaheer and Kiramat, (2019) used secondary data over the period of 1985 to 2016 and OLS technique. They indicated that positive correlation among FDI and GDP subsists.

The literature could be summarized as; FDI and Political Stability are the two basic and most important aspects of an economic system, which are able to support upcoming regulation for the economy of a country, economic and monetary behaviors, especially for developing countries. The high rate of FDI and the stable political system in a country leads to higher GDP. Although different empirical studies conducted previously indicated an optimistic collision of FDI upon GDP of host country however the magnitude of that impact may vary from one country to another country relies upon the human capital, local investment, transport and communication, investment policies and overall macroeconomic strategies. However, the literature upon the influence of FDI on the GDP is still a warm topic for debate. On the other hand, the existing literature generally lacks in determining the role of institutions, especially PS and especially focusing on Muslim world separately; Although some of the studies conducted in the past determined that PS play positive role in promoting GDP and political stability may affected by corruption which leads to slow GDP in the country. Different researchers used various methodology and analysis techniques like GARCH Methodology; ARDL bound test, Johnanson co-integration test, and Ordinary Least Square, Error Correction Model, and EGLS methodology in their papers. The primary role of FDI and Political Stability were that both are important catalysts for GDP growth in UDC's. Low level FDI and political instability impede economic activities and slow down GDP growth in the country; it discourages domestic investment thereby hampering output and affecting GDP growth. It adversely

affects exports and threatens widespread problem in the national and international trade system. With the experience of the FDI and political stability and its direct and indirect impact on the GDP growth, it is noticed that from a decade many economists suggest various policies concerning GDP. But Pakistan was unable to achieve the desire level of growth. So, the present study is conducted to suggest policies which is obliging to achieve the target GDP.

The economists give much attention to the inflow of FDI to enhance the GDP. Many studies are conducted to investigate the effect of FDI on GDP but, the effect of FDI on GDP is still controversial. Like some scholars argues that FDI has negative effect on GDP (Ali et al, (2019). While other gives opposite argument and show that FDI has positive effect on GDP (Shaheen et al, (2019). Therefore, the effect of FDI on GDP growth is still controversial among the scholars. Alternatively, Pakistan's political background is exceptionally conflicting. In Pakistan, both parliamentary and presidential form of the government had remained. After independence in a very short history of the country military dictators have managed the government four times in country. An elected administration may possibly not consider stable to the time when the primary improvement of an elected administration in 2008 into another elected administration in 2013 after effectively implementing its time period of 5 years. Because of such volatility of elected administrations, time periods along despotic administration are seen to be good in conditions of economic operations as soon as the political set-up had been established in country. Thus, maybe political stability has a big obstacle in the way of sustainable economic growth and macroeconomic stability.

RESEARCH METHODOLOGY

The study will be based on quantitative research and used secondary time series data from 1996 to 2019 and used OLS technique for estimation. Data was gathered from World Development Indicator (WDI), (2020).

Theoretical Framework

To analyze the influence of FDI and PS on the GDP of the host country, the theoretical side will be based on endogenous growth theory and exogenous growth theory. It was Romer (1986) who introduced the endogenous growth theory and he is known as the chief follower to this theory. Endogenous growth shows the role of FDI in the influence of GDP growth, not only by capital accumulation and technology transfer but also through labor training and skill acquisition. The statement of the theory is that, through skills and training of labor countries can increase technology transfer, and also can expand the level of information. Similarly, local firms may able to copy from FDI by means of organizational arrangements and alternative administrative practices. Thus, FDI is a source of development by expanding over all factor productivity because of a pragmatic technology distribution and expanded effectiveness by means of administrative structure, advanced technology and better marketing. Furthermore, endogenous growth literature has revealed conditions of the country which are significant for FDI to have positively outcome upon GDP for example the interdependencies among proper level of human capital, and FDI, sound financial markets and open trade regimes.

The theories of FDI were categorized beneath micro and macroeconomic point of view. Microeconomic FDI theories are firm specific, basically related to internalization and ownership profits and stick in the direction of imperfection bias of the market and industrial economics, on the other hand macroeconomic FDI theories accentuate particular factors of the country, also these theories are progressively associated to international economics and trade. It is to more difficult authentically to clarify and apply FDI theories. The correlation among FDI and GDP has been widely observed by different investigators, practitioners and also strategy makers. The measured views start from an absolute positive view and end towards a organized cynicism. The endogenous growth models and neoclassical are viewed as theoretical base for FDI led GDP hypothesis of a country. It is supposed by the growth theories of neoclassical that FDI is

possibly able to control the essential funds to the productive sectors of an economy which has capital shortage which, as a result, boost the GDP by enhancing the marginal productivity of capital (MP_C). Neoclassical observed that, for the developing economies FDI is consider as more reliable and less unstable base of capital that can enlarge GDP.

The causality among FDI and GDP may possibly happen in both ways. FDI may possibly encourage GDP in the spirit of the Solow growth model. It contends that in the receiver economies through capital accumulation, FDI may possibly have effects of growth on host economies for the reason that FDI and domestic investment are alike and FDI depend upon to form non-curved growth by enhancing the inclusion of new imported technologies and new inputs within the production function of the receiver economy. As per Mckinnon point of view that, reduced level of technology is the major issue to GDP in UDC's. The endogenous growth theories also states that the long run growth of the country relies upon the effectiveness of developing investment and not just effected by the level of substantial investment. So, the main focus of endogenous growth model is on incorporating managerial, governmental, innovation and technological progress, technical and human skills, and gathering of information endogenously in the growth theories which repeatedly got through FDI. Unequivocally, in the endogenous growth model, the long run GDP is considered as a role of technological growth which is developing from knowledge spillovers and transfer of technology.

The causal correlation among FDI and GDP may possibly be positively connected and it is highly expected that the two variables go jointly through criticism. Countries with fast growing GDP can generate high demand for FDI, which leads to improved chances that further go ahead towards high income for foreign investors, which can be a center of attention for enormous level of FDI. While, FDI inflows through significant direct effects and overflow effects may possibly encourage GDP of the host nation. FDI as well as GDP are significantly co-dependent and may possibly prompt two-way causality.

As some Economists showed positive correlation between FDI and GDP, however there are some Economists who found negative correlation between FDI and GDP. Such view related to the dependency theorists who contend that reliance on foreign investment leads to create a harmful impact on GDP and also on the distribution of income. The fundamental statement besides the dependency theory is that the GDP managed by the foreigners is not able to grow purely rather enhance in a disarticulated manner. It is contended from the dependency theories that if there is greater volume of capital, larger access to market, large number of technologies, good administrative and HR skills and advanced level of marketing networks then foreign investors. As narrow capital little rising firms can fight with the Multinational Corporations (MNCs) so this condition could be even dismal for the narrow capital little rising firms. In the same way, FDI will create a monopoly manufacturing makeup which can prompt to underutilization of creative commands. It is further contended by the theories that FDI can have a bad impact on distribution of income, employment, country's autonomy and countrywide sovereignty. if the host country use imported inputs for production as a result FDI can affect negatively the BOP condition of the country. Furthermore, the shrinking foreign exchange reserves may reduce financial stability of a country when capitals and profits are repatriated. Therefore, the dependency theories contend that FDI is not given support to the growth level but it weakens the process of growth.

As per neoclassical view the impact of FDI on GDP is similar to collision of FDI upon GDP in short-term and to the domestic investments. Solow suggested that the production is a function of the capital stock and the labor. However, according to endogenous growth model, FDI in the improvement of GDP is very productive in comparison to domestic investments as it is able to develop incorporation of new technology in the production function of the country. So, various countries are able to develop innovation, and the remaining may gain from the expansion of that innovation.

Table 1: Description of variables

S. No	Variables	Measurement	Symbol
1	GDP growth (annual %)	Percentage	GDP_t
2	Labor Force (% of total population ages 15+)	Percentage	LF_t
3	Capital (% of GDP)	Percentage	K_t
4	Political Stability	Rank (1 = low, 100 = high)	PS_t
5	FDI (% of GDP)	Percentage	FDI_t
6	Human Capital (Gross %)	Percentage	HK_t
7	Government Expenditures	Percentage	GE_t

Model Specification

Based on the Romer (1986), Endogenous Growth Theory, the following modified model to analyze the influence of inward FDI and Political Stability (PS) on GDP of Pakistan.

The present study used the following modified model with a dependent variable GDP and six independent variables capital (K), labor force (LF), human capital (HK), foreign direct investment (FDI), political stability (PS) and government expenditures (GE) so as to find out the association among FDI, political stability and GDP under particular time period. The same model was used by Falki, (2009), Javaid, (2016) and Saleem et al, (2017).

In linear form

$$EG_t = \alpha_0 + \alpha_1 LF_t + \alpha_2 K_t + \alpha_3 FDI_t + \alpha_4 PS_t + \alpha_5 HK_t + \alpha_6 GE_t + \mu_t \ldots\ldots\ldots\ldots (\mathbf{1})$$

Where α_1, α_2, α_3, α_4,α_5 and α_6 are coefficient and μ is the error term.

The ARDL Method

We have decided to use the Auto Regressive Distributive Lag Model (ARDL) for co-integration because our data variables were found stationary; some of them are stationary at levels 1(0) and some at first difference 1(1).. The ARDL methods have found more accurate as compare to other methods of co-integration.

In ARDL form

$$EG_t = \alpha_0 + \sum_{i=1}^{n} \alpha_{1i} EG_{t,i-1} + \sum_{i=1}^{n} \alpha_{2i} LF_{t,i} + \sum_{i=1}^{n} \alpha_{3i} K_{t,i} + \sum_{i=1}^{n} \alpha_{3i} FDI_{t,i} + \sum_{i=1}^{n} \alpha_{4i} PS_{t,i} + \sum_{i=1}^{n} \alpha_{5i} HK_{t,i} + \sum_{i=1}^{n} \alpha_{6i} GE_{t,i} + \mu_t \ldots\ldots\ldots\ldots (\mathbf{2})$$

ARDL-Bound test equation

$$\Delta EG_t = \alpha_0 + \sum_{i=1}^{n} \alpha_{1i}\Delta EG_{t,i-1} + \sum_{i=1}^{n} \alpha_{2i}\Delta LF_{t,i} + \sum_{i=1}^{n} \alpha_{3i}\Delta K_{t,i} + \sum_{i=1}^{n} \alpha_{3i}\Delta FDI_{t,i} + \sum_{i=1}^{n} \alpha_{4i}\Delta PS_{t,i} + \sum_{i=1}^{n} \alpha_{5i}\Delta HK_{t,i} + \sum_{i=1}^{n} \alpha_{6i}\Delta GE_{t,i} + \gamma_1 LF_t + \gamma_2 K_t + \gamma_3 FDI_t + \gamma_4 PS_t + \gamma_5 HK_t + \gamma_6 GE_t + \mu_t \ldots\ldots\ldots\ldots\ldots\ldots (3)$$

RESULTS AND DISCUSSION

Summary of Descriptive Statistics

The summary of descriptive statistics of all variables included in the model is shown in table 2. All the variables are normally distributed except FDI inflow. However, the rest of statistics are self-explanatory.

Table 2: Descriptive statistics of the variables

	GDP_t	FDI_t	GE_t	HK_t	PK_t	LF_t	PS_t
Mean	4.1947	1.3432	106.5170	25.6651	18.0739	51.5665	11.5000
Median	4.5356	1.1418	106.2839	25.2708	17.6303	50.9987	4.5000
Maximum	7.6673	3.6683	113.9565	35.0000	23.0000	56.0000	29.0000
Minimum	1.0144	0.3828	100.6884	18.0000	14.2058	47.0000	1.0000
Std. Dev.	1.7648	0.8720	3.7559	4.7241	2.1562	2.2395	11.5570
Skewness	0.0544	1.4341	0.2615	0.4505	0.6155	0.1728	0.5085
Kurtosis	2.3697	4.2228	2.2756	2.4567	2.8877	2.6837	1.5711
Jarque-Bera	0.4091	9.7214*	0.7982	1.1070	1.5279	0.2194	3.0759
Probability	0.8150	0.0077	0.6709	0.5749	0.4658	0.8961	0.2148

Note: * shows 1% level of significance.

Correlation matrix

Table 3 indicates the correlation amongst all the variables. Which shows that all the variables are positively correlated with economic growth.

Table 3: Correlation Matrix

	GDP_t	FDI_t	GE_t	HK_t	PK_t	LF_t	PS_t
GDP_t	1	0.1217	0.5685	0.6484	0.6562	0.7839	0.1236
FDI_t		1	-0.1094	0.2300	-0.1889	-0.1235	0.1469
GE_t			1	0.8767	0.8135	0.7613	0.6526
HK_t				1	0.7695	0.7553	0.4859
PK_t					1	0.8382	-0.2311
LF_t						1	-0.3276
PS_t							1

Unit Root Test Results

In this step the stationary in the data checked by using the Augmented Dickey Fuller Test (ADF). All the variables are stationary at stationary at 1st difference except FDI Inflow.

Table 4: ADF Test Results of the Variables

Variables	ADF test statistics		Order of Integration
	At level	At first difference	
GDP_t	-2.1485	-4.3938*	I(1)
	(-0.229)	(0.0025)	
FDI_t	-3.3928*	-------	I (0)
	(0.0231)		
GE_t	-0.3675	-4.5703*	I (1)
	(0.8994)	(0.0017)	
HK_t	-0.9839	-4.2516*	I (1)
	(0.7413)	(0.0034)	
PK_t	-0.8964	-6.3504*	I (1)
	(0.7708)	(0.0000)	
LF_t	-1.3681	-5.8346*	I (1)
	(0.5796)	(0.0001)	
PS_t	-1.5027	-2.8395**	I (1)
	(0.5143)	(0.0491)	

Note: * and ** shows 1% and 5% level of significance.

Regression Results

Table 5 shows ARDL long run outcomes of the variables. The FDI has positive and significant effect on GDP. 1% increase in FDI will increase GDP by 1.1466%. The same outcome was given by Shaheen et al, (2019) and dissimilar outcome was given by Ali et al, (2019). Similarly, the GE has positive and significant consequence on GDP. 1% increase in GE will raise GDP by 0.9021% in the long run. The same outcome was given by Mandala, (2020) and the dissimilar outcome was given by Egbetunde, (2013). In the same way the HK has positive and significant consequence on GDP in long run. 1% increase in HK will raise GDP by 0.2931%. The same outcome was given by Liu *et al.* (2008), Usman *et al.* (2011). Similarly, PK possesses positive and significant effect on GDP. One percent increase in PK will raise GDP by 0.8771%. The same outcome was given by Saleem et al, (2017). Similarly, the LF has positive and noteworthy consequence on GDP. One percent increases in LF will raise GDP by 0.5546%. The same outcome was given by Saleem et al, (2017). In the same way the PS has positive and noteworthy consequence on GDP. One rank increase in PS will increase GDP by 0.2255%. The same outcome was given by Ahmad et al, (2018). By applying the bound test, the F-Statistics value appear to be 3.2389 which are greater than the upper bound value. Therefore, we reject the null hypothesis that there are no long-run cointegration exist between the variables and concluded that there is long run relationship among the variables.

Table 5: ARDL Results

Variable	Coefficient	Standard Error	t-Statistic	Probability
Long Run Coefficients				
FDI_t	1.1466***	0.4938	2.3222	0.0679
HK_t	0.2931***	0.1294	2.2649	0.0729
PK_t	0.8771**	0.2913	3.0108	0.0297
LF_t	0.5546**	0.1527	3.6317	0.0150
PS_t	0.2255***	0.0922	2.4458	0.0582
GE_t	0.9021**	0.3005	3.0021	0.0300
ARDL Bounds Test			3.24	
Short Run Coefficients				
ECM	-0.5807*	0.1591	-3.6495	0.0026
$D(FDI_t)$	0.4056***	0.2093	1.9373	0.0732
$D(HK_t)$	-0.0751	0.0713	-1.0532	0.3101
$D(PK_t)$	-0.1671	0.1319	-1.2677	0.2256
$D(LF_t)$	0.6283*	0.1247	5.0366	0.0002
$D(PS_t)$	0.0066	0.0439	0.1496	0.8832
$D(GE_t)$	0.4861*	0.1190	4.0849	0.0011
C	-0.2143***	0.1198	-1.7887	0.0953

Note: *,** and *** shows 1%, 5% and 10% level of significance.

Table 5 also indicates the result of short run coefficient of variables and error correction term. FDI possess encouraging and noteworthy consequence on GDP. 1% increase in FDI will raise GDP by 0.4056 percent. The same result was given by Shaheen et al, (2019). The GE has positive and noteworthy effect on GDP. One percent increase in GE will raise GDP by 0.4861 percent. The same result was given by Mandala, (2020) and the dissimilar result was given by Egbetunde, (2013). Similarly, the HK has negative and insignificant consequence on GDP in short run. 1% increase in HK will reduce GDP by 0.0751%. The same result was given by Liu *et al.* (2008), Usman *et al.* (2011). PK possesses negative and insignificant consequence on GDP. The LF has positive and noteworthy consequence on GDP in the short run. 1% increase in LF will raise GDP by 0.6283%. The similar result was given by Govindaraju *et al.* (2011). Similarly, PS possesses positive and noteworthy consequence on GDP. One percent increase in PS will raise GDP by 0.0066 percent in short run. Related consequences were given by Ahmad et al, (2018). The coefficient value of ECM is negative i.e. -0.5807 which means that for long run relationship the variables are reinforces and 58% dis-equilibrium errors are corrected yearly.

CONCLUSION, AND RECOMMENDATIONS

The role of FDI in the GDP has been a passionate debate, particularly in developing countries like Pakistan, but the relationship between inflows of FDI and GDP is still controversial among the scholars. The main purpose of the study is to find out the effect of inward FDI and political stability on GDP and used time-series data from 1996-2019 for Pakistan and used the ARDL method for data estimation. The study revealed that FDI has a positive and significant consequence on GDP. Government expenditure, political stability, along with labor force has a positive and significant consequence on GDP. Human capital and capital formation has a positive and significant consequence on GDP growth in long run but have no consequence on GDP growth in short run. This study concluded that FDI and political stability has encouraging for GDP growth.

This study recommended that

1. The government should focus on political stability to enhance GDP growth in the long run and short run.
2. The government should attract FDI to enhance GDP growth.
3. The government should focus to invest more in human capital in order to enhance GDP growth in the short run.
4. The government should focus to invest more in capital in order to enhance GDP growth in the short run.

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