

Relationship between FDI and Financial Market Development: An Evidence from South Asian Countries

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Abstract

This research clarifies the relationship between FDI and Financial Market Development. For this aim, we hereby consider 4 emerging markets of South Asia. In this research, used indicators from the growth of both stock markets as well as the banking sector. The data range from 1996 to 2019. We used Granger causality as well as Regression analysis. In this research observe the positive relationship between FDI and FMD. In this research used the unit root test to check the stationary of FDI and FMD variables. The positive correlation between FDI and FMD variables. Used the Granger Causality test to check the causal relation between FDI and FMD variables. This research suggests that country is rich in natural resources that are taken bend in attracting FDI to the country. Pakistan is rich in natural resources. Monterey and Fiscal policy use in decision making FDI in Pakistan.

INTRODUCTION

1.1 Background of the Study

FDI and FMD are divided into two parts, basic literature, FDI, and economic growth. In this research use the panel data techniques, this research is to achieve more profits by focusing on four emerging markets in South Asia. First, attain to access a relating data in every country present in our sample. When choosing a suitable sample, these countries are not fully developed and economic conditions have poor. FDI and FMD are key variables in this research. By Adam and Tweneboh (2009) says that a determined relationship between financial markets in Ghana and FDI. Likewise, Al Nasser and Soydemir (2010) concentrated on Latin American countries and showed Granger Causality between the development of the financial market and FDI. In this discoveries unidirectional bond from banking industry growth to FDI. Moreover, the bidirectional development of financial markets and FDI. Their shows that FDI can officially confirm financial market development due to situations for investment that are ordinarily formed by the spillover effects connecting to FDI. In this way, financial markets will improve the likelihood of FDI. In this research considered that one of many countries or single country contribution unclear geographical existence. Research does not affect developing markets. In actual fact that FMD is important for bond naturals. FMD is positively affected by FDI and private investment. The development of the financial market is linked to some other having impact on functional risks related to other countries in combination with a capital cost.

Bidirectional bond is important for the development of financial markets and FDI. The concept of “Economic Development” has spread into two different aspects during the last two decades: First foreign technology and other is domestic factor beneficitation. The neoclassical model of economic progress is likely to use new technology and gaining access. In this way, developing countries emerge with developed countries. But know that developing countries have the use of modern technology only in industries. When progress is possible due to a version of new technology. In literature has explained the active role of FDI is important for new technology and economic progress. This research says that FDI faces inference at the micro and macro levels. At the micro-level, FDI affects technical efficiency and management of local firms and labor prepared, technological transference, and finally produces efficient spillover. At the macro level, FDI has an impact on real variables, including economic growth, domestic investments, exports and imports, and unemployment. FDI can also impact the financial variables for example Balance of payment,

Foreign exchange rate, Interest rate, and Inflation. Many researchers have worked to see inferences of FDI to economic development. Few researchers experiential that the relationship between Foreign direct investment and market size of the host country is meaningfully positive dully showed by GDP/ or GNP.

The investigators detect that the positive impact of foreign investment or domestic reserve economic progress, but the bond is very significant for economic growth. In addition, there is a positive but irrelevant association between foreign aid and evolution but its impact is negative in the case of local savings. In this regard, Schive and Majumdar (1990) foreign direct investment consequence on private investment and progress, exports/imports, and private consumption. The private fixed investment and exports are a key role in the relationship between economic presentation and FDI, but not private consumption and imports. FDI effects towards development might be detained to private investment levels and exports. To investment economies have higher efficiency, again more progress than economies have less investment. In the newest development philosophes disclose the association between progress and investment both domestic and foreign. To the host, nations improve technology, the expenditure of the capital goods, and finally, humans resources development pertaining. In many conditions, seller countries may not be able to completely provisional benefits allowed through FDI inflows due to the absence of fundamental groundwork, legal foundations, technology completion and awareness, strategies effect investment, and human capital development. Less-developed nations can only use small through MNCs as domestic firms share are dreamy shorts as analyze to comparable technology levels. Inputs are human capital development are required to engross management skills with modern technology caused by FDI inflows. They used modern technology and increase productivity, local firms use modern technology and gain more benefits. FDI related to intellectual property rights some researchers say this being of cutting edge technology. More focus on the strategies in order to safeguard property rights leads foreign firms to make more technological investment. In this way potential increase for spillover impacts and also boost the output of the local companies. Newest researchers about the endogenous progress model first stressed the local financial sector's role as a mechanism for shifting technology between economic progress and global capital inflows. When developed the domestic financial segment and its impact on technology and economic presentation.

Commonly stated two additional school of thought financial sector development and economic performance. Schive and Majumdar (1911) say that role of the banking sector by technology as “financial intermediaries”. Distribution of assets and yield progress linked with lower informational costs “financial intermediaries”. This research work has seen the relationship of FDI with numerous macroeconomic variables. Some say that have a connection to FDI flows is the size and growth potential of the host market, economic constancy, and the degree of openness of the host economy, and economic level, as well as the quality of organizations and level of development.

1.1.1 Market size and growth potential

Owing to scale economies larger host countries market relate with FDI due to larger potential demand and lower costs. For example, Resmini (2000), looking into industrial FDI, finds that countries in Central and Eastern Europe with large populations tend to entice more FDI.

1.1.2 Openness

On one hand, a decrease with horizontal FDI as investment firms get benefit through building production sites abroad. In vertical FDI flows increasing openness's.

1.1.3 Exchange rate

Exchange rate increases vertical FDI as firms take profit with low prices in host markets to buying services or, if production is stated, to increase home country profits on goods sent to a third market. The assets of the host country are less luxurious than to home country. Blonigen (2005) makes a "firm-specific asset" opinions show that in host country exchange rate are unhappiness tend to increase FDI inflows. But on the other hand, the real exchange rate is stronger might be predictable to strengthen the incentive of foreign firms to produce domestically: the exchange rate is in an intelligence barrier to entry in the market that could lead to more horizontal FDI.

1.1.4 Institutions

Institutional quality is a likely element of FDI, especially for less-developed countries, for a change of reasons. First well governance is related to high economic growth which should interest more FDI inflows. Second institutions are not good corruption increase and return decrease. Third, the cost of FDI high and political doubt that arises from poor institutions.

1.2 Research objectives

Research objectives are following;

- This research aims that defining the aspects inducing FDI inflows'
- In the specific aim that the FDI inflows affected the FMD, and explain the relationship between FDI and FMD.

1.2.1 Research questions

This research has the following research questions:

1. How are FDI inflows related with financial market development?
2. Is there any suggestion between FDI inflows with financial market development?

1.3 Significance of the research

These investigations concentrate on the relations between FDI and FMD. In the case of emerging South Asian markets, no specific attention has been paid to the FDI and FMD for markets still experiencing the development method. This research clarifies the direct relation founded on causality present amid FDI and FMD. In this research, we use panel information of South Asian developing market seats. Use the minimum four different benefits can be paying exact attention to such markets. In this research sample the data of all four nations simply available. The less developed countries use modern technology and increase economic growth and FDI. The less developed countries have to attract the FDI for development. They determine a new region for investment policies for South Asia, chiefly Pakistan is new region for researcher.

LITERATURE REVIEW

Hermes and Lensink (2003), distant complete trust, budgetary improvement, and monetary development checked out. In the year of 1970 to 1995 guidance set in created nation 37 out of the 67, were thus created money related structure. It was created by well-matched in mind the predictable aim which was to discover if FDI assigns clearly to financial development. The big part of these nations chosen was from Latin America and Asia. Hermes and Lensik paper observation check out the role, the monetary outline improvement plays a positive role between FDI & financial development. Likewise Alfaro et al. (2004) focal point the same through analyzing FDI & monetary development. This study observes the different links among external direct speculation, money related markets, and development.

Hermes and Lensik clarify an economy with a limit of experts order by their own level of volume. Two assumptions were created: to gain an agreement that applies their profusion and work for the away ordering on FDI analysis or to a change spending grip business activity. In order to adventure clue overflows from FDI, a good budget markets lets experts do so. This study decided the result that to better the monetary development FDI plays an important role. In Ghana was studied by Adam and Tweneboah (2009) common relationship among safeties exchange recovers. In this study the relationship between FDI inflows, nominal exchange rate, and stock market development, co-integration inspection was done and mistake amendment models were employed. In Ghana, its result proves that the long-run relationship between FDI inflows, nominal exchange rate, and stock market development. This discovery showed that even a slight shift in FDI inflows greatly affects the betterment of securities exchange. In this case, also study the energetic role that stock market development plays in tempting FDI inflows. In Latin America Al Nasser and Soydemir (2010) broke the household and global sources away from direct interest. In the phases of 1978 to 2007 America was examined in this study. In this study observe which variables indorsed to increase the FDI inflows. He observes that the nation more attract FDI inflows. This study explains that both local and universal parts had been an essential element of FDI inflows to Latin America. In this result to conclude that between the connections of FDI and managing an account division the unidirectional. The bidirectional connection amongst FDI and securities exchange improvement indicators, explains that the first FDI could improve the securities discussion if the thought that FDI – related overflows impact and therefore has the capability to pull in more EDI. Dutta and Roy were also examined in financial market progress, FDI, and different political weaknesses.

In this year of 1984 to 2003, OLS pooled estimation of 97 nations was absent. Power examination Feasible Generalized Least Square (FGLS) was applied and show result there was a non-direct relationship between the two. This result shows that the negative impact on FDI related betterment of monetary levels and also the profitless relation was observed among financial market development and FDI inflows for every level of political danger. Successful advantages of FDI inflows were determined in the financial market there was an increase in political reliability. Again studied the relationship between the FDI and financial development in seven nations, Bangladesh, India, Maldives, Bhutan, Sri Lanka, Nepal, and Pakistan in this study given variables are used exchange rate, current account balance, inflation labor population, trade balance, long period debt outstanding and GDP as the factors of FDI inflows for the period of (1980-2010) for the study of the relationship between FDI. THE panel VAR model was applied to financial development.

Foreign direct investment is importantly consequence by the 18exchange rate, inflation, labor population, per capita GDP, merchandise trade balance, current account balance, and long term debt outstanding. In order to gain maximum FDI in the economy, we need advanced monetary development, reliability 18exchange rate and inflation rate, more work general public development, recovering exchange openness, and control in the current account balance and long-run term debt outstanding. The loss of these might affect the FDI inflows in the economy. Kholdy and Sohrabian (2008) studied the Indian economy real and financial sector, Casual connection amongst stock prices, and macro-economic variables. For this period (1995-2007) was observed quarterly time arrangement information. This study concluded that long run and short-run causality relationships among all variables. This relationship effective impact of FDI on the conjecture with an effect on development in stock cost appears to impact sent out streams, perhaps through its impact on change standard. It's also experiential in Sensex and Nifty are resulting in changes in transaction scale in the short run.

2.1 Theoretical (Framework)

Hypothetically, three different conditions have been used to clear the fundamental relationship between FDI and FDI inflows. Firstly, the increase in net flows of FDI clearly recognized with the assets accessible in the economy and the reason behind money related between through money market. An organization which compulsory in FDI is similarly list their shares on the closeness securities exchange, as they by and large begin from industrialized nations where stock exchange financing is a correct condition to an organization indispensable to be considered as important. Kholdy and Sohrabian (2008) broke foreign direct investment, budgetary markets, and political debasement. Remote direct venture (FDI) might allow betterment in different countries on the basis of money while failing major leaders. Although three huge along with the parallel analysis lines study the impact of money related FDI, and following political desecration to the monetary growth, till now no study could have analyzed the joined effect of remote speculation & debasement on budgetary improvement.

The thrill of money related development towards the creation of the nation's study established some introductory proof that FDI. Besides, outcomes acknowledge that majority of the connections have been found in creating nations that selection an increased amount of debasement as acute corruption, support, "support for-favors" work reservations mystery party financing, and suspiciously close ties between governmental issues and business. Political economy explore has been used by the Rajan and Zingales (2003) for opposing that improved FDI diminishes exclusive class-related force throughout the economy along with driving exclusive class to sustain market-accommodating arrangement of laws that make more grounded the development of money related markets. Third, enough better-work financial markets can be a center for remote investors, who see such a market as an indication of magnificence, openness with respect to nation powers, and a market-friendly environment.

In the long run reduce the expenditure of capital a generally very much created securities exchange builds the liquidity of recorded organization, consistently version the nation appealing to the outside schemes. Pakistan, Sri Lanka, Nepal, and Bangladesh adopted "policies for Economic Reforms" since long and unlimited focusing market economy along with integration economy with other countries. So an increased level of economic development has been proved in all South Asian countries except Pakistan during the 1990s, follow the macroeconomic policies and focus the promotion of export. Thee of the 1980s as compared to the high GDP growth rates in Nepal, Sri Lanka, and Bangladesh during the aforesaid decade. In the agriculture sector, India achieved a high growth rate in 1991-2000 by promoting the service sector with marginal development, whereas growth in Nepal, Sri Lanka, and Bangladesh has been the key factor in high industrial & service sector growth.

In the case of Pakistan GDP growth rate is decline because of Pakistan's political instability, interrupted business climate, social insecurity, and internal conflicts. During the 1990s in Pakistan income decline per capita but the upward trend in Sri Lanka, Bangladesh, Nepal, and India. Evenly, abundant improvement has been observed in different key macro indicators include growth domestic capital formulation with saving in aforesaid economic excluding Pakistan. We observed that South Asian economies except Pakistan have experienced improvement towards major "macroeconomic" indicators and high economic growth. During recent times this part of the world has been among the rapidly growing business region. During the recent era and 1990 to 2000 change in the FDI environment in South Asian countries. Owing to the liberal approach & policies FDI with positive change-related policies framework, South Asian has become an attractive investment destination. So accept that in South Asian countries has been successful towards

ensuring the provision of investment incentives to the foreign investors and bilateral trade agreements through FDI changes in related policies.

FDI observed based on the domestic market in Pakistan and India, the same has been observed in some export-oriented business units in Bangladesh and Sri Lanka FDI inflows in various sectors. FDI is mostly concentrated in the service and manufacturing sectors in South Asia. According to an analysis, an increase & positive trend of FDI observed in South Asian economies. Economic growth is conditional with the persistent growth of the productive capacity in any country, supported by investments and saving. In developing as well as least developed countries, lower levels of investments, and savings in this results in decrease economic growth and capital stock. According to earlier, Growth model capital causes an increase in the living standards that results in more development & growth. However, R. (1956) criticized the growth model relying on the fixed portion of all relevant factors of production between labor & capital, capital is a source of increased workforce efficiency working in the dynamic cycle of investment growth. Some newest growth-related theories include Lucas (1988); Rebelo (1991) increases the scope of capital through the inclusion of human capital along with knowledge buildup. In the same way, Romer (1986, 1990); Grossman and Helpman (1991) have used capital by R&D explaining growth and other variables. In economic development growth-related literature role of capital. During the recent era, increased demand for FDI inflows as MNCs is the main source of economic growth and development.

Lower-income countries in South Asia FDI helps in developing according to the new knowledge of domestic investment. FDI growth has been primarily studied firstly considering growth determinants, second studying FDI determinants, and thirdly MNC's role in the recipient nations. The important micro as well as macro studies analyzing impact of FDI on economic growth. However, findings obtained both the country based as well as cross-sectional study failed to establish the aforesaid relationship. Previous research shows the relationship between FDI and growth pertaining to developing countries postulate negative findings on the basis of FDI was mainly concentrated on low-prices primary exports in developed countries and caused adverse effects on overall growth. On the contrary, Rodan (1961) reported favorable implications on productivity along with due to FDI in aforesaid developed economies. In addition, Grossman and Helpman (1996) argued that FDI generates increasing returns through technology with transfer knowledge and long term positive impact. Reviews by UNCATD on investment policy provides proof regarding advantages of FDI in terms of employment generation, wages, linkages with local firms, range of new product and services, increases in technology-intensive export, etc. Furthermore, FDI has important positive effects of growth however contains different values on the bass of the country under consideration.

In the previous study suggest that growth FDI depends upon the capital with technology shift and finally knowledge accumulation owing to workforce training and further gaining of skills. Developing and less developed countries follow the pattern of FDI's main factor of production labor and capital. In this way, most studies report a positive effect of FDI on the recipient economy. From a macro-level perspective, existing literature demonstrates the positive effect of FDI, depending upon the country and mainly trusting on the following conditions. In the case of the rich country the positive effect of FDI towards growth. Borensztein et al. (1998) reported a positive effect of FDI inflows towards GDP growth per capita with the condition that the receiver country owns highly qualified manpower. In the industrial sector, FDI positively affects growth. Borensztein et al. (1995) stated that FDI highly distributes to growth as associated with domestic investment because of transfer technology. In addition, FDI gives flow to need for intermediate

goods relating to local firms, allow increased entry of new firm, increase nation welfare, industrial growth, and competition. FDI increase or decrease the national welfare of the country. The welfare of the host country depends upon the effect of MNCs on the effectiveness of the local firm. In other conditions, in the local firms the condition of labor is weaker than working, so decrease the welfare of the nation.

According to De Mello Jr. (1997); Kokko (1996), negative relationship between total factor of productivity and FDI. But Sahoo and Mathai (2003) say that the positive relationship between FDI and overall growth. As South Asian economies have a surplus in the labor market, FDI improves growth by increasing employment. Some countries have low infrastructure facilities and education level so closed the economy. In 1990 the increase in FDI to developing countries has been observed. The private investors build prospects in a host country on the basis of institutional, economic infrastructure, and controlling factors. During the investing period, the investors consider the major economic policy issue, governance, regulatory bodies' framework, presence of physical as well as social infrastructure, and labor. By a country, some basic factors of FDI like market size, resource donation, and finally geographical location outside the control of the policies, expressed and followed. However, for investment different macro-level and economic level policies may play an important role in creating a favorable environment. FDI boom in East Asian countries prior to 1997, FDI benefit depends on these factor growth, income, suitable labor and infrastructure policy.

In this respect, many theories has explained why FDI takes place and what are the potential determining factors, including market inadequacy hypothesis by Hymer (1976), internalization theory by Rugman (1986), & electric method by during (1988). FDI flows may be vertical as well as horizontal. In vertical FDI the factor prices are not steady across country. Stronger firm-level scale economies and higher trade costs encourage FDI as compared with the exports. In the case of horizontal FDI take place due to costs related to the trade. As per Dunning MNCs attain three different kinds of benefits in producing abroad. Firstly ownership gains, secondly location benefits, and finally internalization advantages. Due to ownership, we gain firm many advantages like familiarity with production, design, technology, marketing, or management & registered board. On the basis of benefit, a firm can decide whether to internalize the activities due to any failure of the market, attach with the transaction at arm's length, as in the case of intangible assets. Increase in productive efficiency due to achieve less transaction-related costs. Locational advantages refer to (OLI) paradigm i.e. the eclectic ownership, location & finally internalization, it's used for explaining foreign investment in the shape of FDI. We consider capital supply in a specific location, like South Asian economies, the site returns holds an important role. Location advantages can influence the choice of location through a multitude of related factors. Nevertheless, they may be the categorized into five groups: (a) macro-economic fundamentals (b) infrastructure facilities (c) availability & costs of inputs (d) market size & prospects for the growth (e) FDI and trade-related regulatory policies.

Till now, explain the factors of FDI has a lot of literature support. FDI factors may be divide into two (a) economic conditions (b) host country policies. The first group stated i.e. ROR, labor costs, market size, urbanization, human capital, and lastly macro-economic basics. Likewise, the recipient country's policies include the financial market; trade policies, FDI policies, legal framework, and quality of bureaucracy. During the 1990s, the flow of private capital in the form of FDI among the remarkable features of globalization. FDI is an important source of financing, development, and helps contribute towards productivity gains through the provision of better technology, new investment, export markets, and management exports. According to the

neoclassical growth model, FDI increases the volume of investment and its efficiency thus promoting economic growth. Hence all countries attract FDI owing to the benefit of the host country economy. Foreign investment, particularly FDI supplements sources for local investment & also perform as mean for foreign exchange that may offer relaxation in the balance of payment constraints on growth. FDI flow into the developing countries causes growth via two different mechanisms, firstly, increasing total investment in the host country and secondly, productivity through technology and management spillover.

East/South Asian countries and China have rapidly improved macro-economic conditions, employment, exports, and investment from the 1980s to 1990s by using large volumes of FDI. Likewise, private capital nowadays considers being a source of economic growth and investment in South Asia. In this research FDI inflow is a major topic of study, owing to its importance. FDI has been regarded as highly indispensable. The influence of financial development towards FDI inflows may be negative beyond a critical level.

The theory provides contradictory expectations regarding the progress effect of FDI economic justification for proposing exceptional enticements to appeal FDI is based on the notion that technology transference Spillovers can be obtained from foreign investment for an instant, Romer (1993) states that significant "idea gaps" exist between poor and rich Nations. He observed that transmissions of Business and technological know-how towards poor countries can be made possible only through foreign investment. The subject transfer can have considerable spillover implications for the economy. In this way, foreign investment can enhance yields of all companies, leaving those which are in possession of game capitals (Rappaport, 2000). In compression, some floor surfaces forces that FDI in the presence of pre-existing trade, financial, price, and different other destinations would slow down the growth through significant damage to the resource allocation (Brecher and Diaz-Alejandro, 1977 Brecher and findlay1983). Accordingly, philosophy yields vague prophecies about the progress effects of FDI, and some models suggest that FDI will only encourage progress under certain policy circumstances. Examining the influence of foreign capital towards economic progress has significant strategy consequence In case FDI has an optimistic influence on economic progress after making full control over endogen city and rest of the evolution causes, this situation would arguments week for limiting full foreign investment. However, in the case observed that FDI does not apply a positive influence on progress this would propose a reassessment of the swift deployment of text incensement infrastructure 7 sides exclusions pertaining to the import duty and other measures that the environment wisdom proposed that financial development is a significant element and significant contributor towards economic development for some reasons. Firstly developed financial system ensures conducive grounds towards resource allocation favor information asymmetries economic progression and better monitoring. The financial system can make contributions to the economic pin in two ways. Firstly the financial system mobilizes the reserve this usually upsurges the share of the resources accessible for financial investments. Secondly, it performs screening and monitoring of the investment projects which indicates lowering information acquisition costs. In this way, it increases the effectiveness of projects (Dutta and Roy 1990). In this way can assume that a developed domestic financial system enables the liberalization of saving and perform screening monitoring of the investment projects ultimately contributing towards higher economic progression.

Subsequently, credit rationing is dependent upon the financial system in economic markets and compels potential entrepreneur's progression. The same is particularly true upon arrival of a totally new technology that brings the complete potential for tapping both domestic as well as export

market (Alfarco et al 2004). Thirdly financial sector may determine the level of bromine by foreign companies to prolong their innovative activities in the host country, thus increasing scope for technological spillover to the local firms. In this way, the dispersion process can be more efficient if the financial markets of host countries are well developed as it permits subsidiary of an MNC to interact on investment upon arriving into the host country (Hermes and lentils 2003). Indeed researchers have contained that level of vulnerability to the risk is less in those countries with effective financial systems (Beck et al 2000).

Certainly, countries having strong institutions and financial markets that efficiently channel saving of the society for most beneficial usually enjoy rapid economic development (Bekaert et al 2005). According to BJejer (2006) countries having an effective financial system or no more prone to banking and currency predicaments and less harmless in case of predicament. Empirical positive rule of the financial system on relationship between FDI and economic progression is already a catalyzed at in order to inspect whether the financial government supports a country to get benefit from FDI and researches cooperated Foreign Direct Investment with diverse measures of financial markets growth as per the outcomes collaborations turns and commonly optimistic and substantial when FDI is integrated financial development indicators Highlighting the role of financial development in profit-making from FDI. A well-developed domestic financial system can impart an important role in maximizing the influence of FDI towards economic growth i.e. countries having better 12 financial sectors observe a rise in their evolution rates. Foreign direct investment in the case of economically developed countries has matured swiftly falling both political as well as financial changes. To upturn their portion regarding FDI flows majority countries comfort limitation towards FDI private estate on enterprises put efforts to strengthen macro stability local financial reforms, liberalization of capital account subsidy and instituted text encouragements (Bank 1997 b) Furthermore stock markets are settled and established to intermediary funds for different investment plans.

It is quite easy to observe positive implications of aforesaid structural changes towards gaining more FDI its further implication towards financial markets particularly stock markets. For example, FDI in two West African development nations is amplified from 1.9 to 15.8 billion (approx.) in 1995 and 2006 respectively. The market capitalization of development countries got thrice time expansion from 2 trillion to 5 trillion approx. during the same era. These foreign investment groups have arisen as the main players in developing stock markets via purchasing of prevailing equity or by the recovery of the investment through the selling of equity in the capital markets. However, the degree of relative influence on the evolving stock market progress of the nation has received quite less consideration. Financial Development of an economy is an important segment of the progress process.

Beck et al. (2000) argued that financial growth indicators are a source to identify and further measure size activity and effectiveness of financial mediatory and markets. Economists including Schumpeter Schive and Majumdar (1911) have accepted the circle rule of the financial system. According to Schumpeter Schive and Majumdar (1911), “the banker doesn’t to be the middleman in commodity buying power being main Procedure commodity the banker stands among those attending to create new combination along with possessors of different productive means the banker is primarily phenomenon of the growth although only under the circumstances whereby no Central authority Direct the social process and further censures execution of new combination empowers Masses using the name of the ‘society’ as it were to create them. The banker is the exchange economy Ephor. Levine (1997) re-established the significance of an effective financial

market in the modern era. Besides carrying a 1st order impact on progress financial development also has a direct impact on different other factors of economic development.

In this research consider the relationship between financial development and FDI in this regard existing studies indicate aforesaid from the perspective of progress (Hernes and Lensink 2003). Besides this, another segment of the literature has linked uneven dispersal of financial growth with concerned Nation political stability (Roe and Jordan Siegel 2007) they emphasize about importance of the political stability Owing to its rule towards building institutions like investor production beneficial for the financial sector. Financial development causes and being greater FDI inflows but up to a specific level and afterward, the aforesaid relationship becomes negative. However, the existence of high political stability causes a favorable taste to all relationships as adverse effects set in at a relatively more high level of financial progress. Hence in order to materialize the benefits of FDI simulations existence of political stability and competent financial markets is indispensable. Financial development leads to word FDI inflows, to a certain extent after that the association tends to develop negative relationships. But political stability adds a different dimension. The probability of developing economies primarily like imaging Markets and developing world rely upon the ability to ensure the profitability in investments and accumulating of the capital. In case of scarcity of the resources and necessary infrastructure, the facility is foreign capital deems lonely to be an option for such countries. However few types of capital investment i.e. portfolio investment and short term credits are riskier as the account recovery back at once particularly during the hard financial crises and is a situation foreign direct investment has the greatest advantages so Nations must make efforts to attract such investment (Kose et al, 2003). Due to this fact, developing countries along with transition economies have rapidly responded since the 1990s era. Since then FDI has reached good figures. As per IMF & FDI inflows have increased up to 23% during the 1990s in developing countries. With developed financial infrastructure the foreign companies can evaluate up to what extent they may borrow for the innovative activities and can ensure effective investment planning. Financial growth also arguments liquidity, Hence, trading for the financial instrument timing and a subsequent settlement for such trade becomes relatively easy (Levine, 1997) which ultimately leads towards greater FDI inflow Rioja and Valve (2004) established presence of a non-linear connection between FDI and development Aforesaid bond between FDI inflows and financial growth is observed to be positive up to the certain extent of the financial growth.

Many studies have examined the effect of Democratic institutions on FDI inflows. However, one segment of the thought reveals that such a relationship is positive. Democratic write can positively affect FDI inflows through improvement in property rights protection. Buses and hefeker (2005) stated that few measurements of political stability such as base democratic rights absence of both internal and external conflict efficient law and order system and governmental stability play a significant role in determining FDI inflows. According to the literature on finance and law, those institutions have been regarded as important for financial growth that provides protection to the investors. According to Roe and Jordan Siegel (2007), political stability supports the economy for developing and fostering investor protection. An efficient financial market may be vital towards determining the volume of FDI inflows to an economy however not necessarily sufficient. Besides this political stability is significant with the financial capability to attract foreign investors.

RESEARCH METHODOLOGY

3.1 Introduction

In this section, we're going to give an explanation for about the sources of data and methodology which we used for the estimation with the help of outcomes graph and table. This examine became based totally on secondary source of data

3.2 Data Description

This research obtained the data for four most developing South Asian countries: Bangladesh, India, and Pakistan & Sri-Lanka. It covers 1994 to 2006. Two general FDI indexes: 'FDIGDP' i.e. Ratio of FDI to GDP and 'FDIGCF' i.e. Ratio of FDI to GFC formation have been used by us. So, this way; applied data has been being taken through World Bank's 'World Development Indicators Database'. In this research, divided the five indicators into two subgroups: Stock market development (SMD) and Banking sector development (BSD). The first indicator consists of a ratio of Stock market Capitalization to GDP (STKMKT CAP) and the ratio of the stock value traded as a percentage GDP (STKVALTRA).

The second one consists of the ratio of private credit by deposit money bank and other financial organizations of GDP (CREDIT) and ratio of Commercial bank treasures. These ratios have been divided by Commercial bank and Central bank holdings (CCB). The Global Development Finance database of the World Bank and International Financial statistics database of monetary funds has been practiced to get the required material. Furthermore, the methodology consists of cross-sectional analysis, panel procedure along contemporaneous: equation system for FDI & FMD determinants.

$$FDI_{it} = a_0 + a_1 FMD_{it} + a_2 EDUCATION_{it} + a_3 INFLATION_{it} + a_4 EXHRATE_{it} + a_5 GOVERNANCE_{it} + a_6 LOG(GDP_{it-1}) + a_7 OPENNESS_{it} + a_8 NATRES_{it} + a_9 INFRAS_{it} + \epsilon_{it} \dots \dots \dots (1)$$

$$FMD_{it} = b_0 + b_1 FDI_{it} + b_2 EDUCATION_{it} + b_3 INFLATION_{it} + b_4 EXHRATE_{it} + b_5 GOVERNANCE_{it} + b_6 LOG(GDP_{it-1}) + b_7 BALANCE_{it} + b_8 INTRATE_{it} + v_{it} \dots \dots \dots (2)$$

The explanatory control variable has been selected after skimming collective data regarding the determinants of FDI and FMD. The understated control variables for the estimation of determinants used by us. Economic and policy variables.

'EDUCATION' refers to (GER) i.e. gross enrolment ratio associated with all literary levels. The quality of the country's human capital can be estimated by examining educational levels. Similarly, 'INFANTS' is the infrastructure measure equal to Log i.e. number of phones/1000 inhabitants. In this way, the infrastructure growth level of a state is key determinant of FDI. 'EXHRATE' refers to the exchange rate index that expresses the value of household currency worth and basically utilized as a proxy for state power and attractiveness towards macroeconomic stability and foreign investment. Furthermore, 'INFLATION' refers to the rate of inflation calculated through % age change in the GDP deflator and sound proxy towards macro-economic stability. Inflation has a wrong influence on BSD indicators as the same as a wrong impact on loss of dominated and borrowing rates.

By supposing a high inflation scenario, it might be cheaper for these companies which have been raising money via the stock market in spite of bank, so inflation's impact on SMD can be positive. The real interest rate that is fixed against the inflation is primarily calculated by loading interest rate, which is INTRATE. It might be taken as a proxy for the magnitude of lending financial sectors. The top interest rate may possibly hamper the entire lending routines of the bank, thus, expanding banks' liquidity by creating an imbalance between credit and deposit works.

‘BALANCE’ is the current account balance over total GDP and a simple indicator showing the power of the macro-economic openness that equal to import plus export over GDP. KKM index used to measure governance six (06) different indicators measuring (a) voice and check & balance (b) political stability and absence of violence (c) quality of regulatory system (d) government effectiveness (e) rule of law & (f) control over corruption.

3.3 Estimation Techniques

The unit root test is applied to check whether a time series data possess unit root or variables is non-stationary. Levin, Lin & Chu, I'm, Pesaran & Shin W-stat, ADF-Fisher Chi-square PP-Fisher Chi-square test are applied to check the unit root of the data. Further, we have applied the correlation analysis to determine the correlation between FDI & FMD. The correlation only determine the inter-dependence of variables but it does not imply the Causality among the variables, to determine the causal relationship applied the Granger Causality test.

To determine the relationship between the variables applied at least square regression analysis. Detail results of the test are explained in chapter 4. While the following equations are estimated through regression analysis.

$$FDI_{it} = a_0 + a_1 FMD_{it} + a_2 EDUCATION_{it} + a_3 INFLATION_{it} + a_4 EXHRATE_{it} + a_5 GOVERNANCE_{it} + a_6 LOG(GDP_{it-1}) + a_7 OPENNESS_{it} + a_8 NATRES_{it} + a_9 INFERAS_{it} + \epsilon \dots \dots \dots (1)$$

$$FMD_{it} = b_0 + b_1 FDI_{it} + b_2 EDUCATION_{it} + b_3 INFLATION_{it} + b_4 EXHRATE_{it} + b_5 GOVERNANCE_{it} + b_6 LOG(GDP_{it-1}) + b_7 BALANCE_{it} + b_8 INTRATE_{it} \dots \dots \dots (2)$$

Furthermore, the Autoregressive distributed lag (ARDL) model is applied to determine the long-run relationship of the variables. It contains the lag of variables too.

RESULT AND DISCUSSION

4.1 Graphical Representation of Data:

This section includes the graphical representation of the sum of variables for four selected countries from the period 1996 to 2019.

Sum of Education by Country

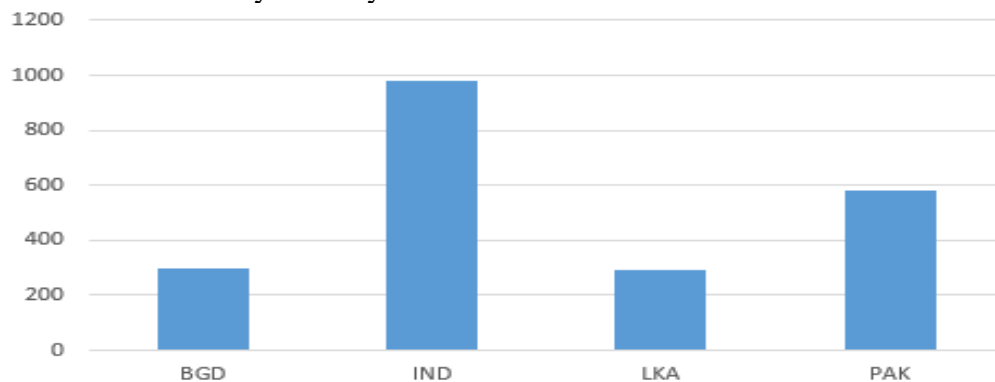


FIGURE 4.1: Sum of education by country

The above figure represents the sum of the education parameter for the selected four countries. India having the highest score followed by Pakistan. Bangladesh and Sri Lanka equal trends.

Sum of Inflation

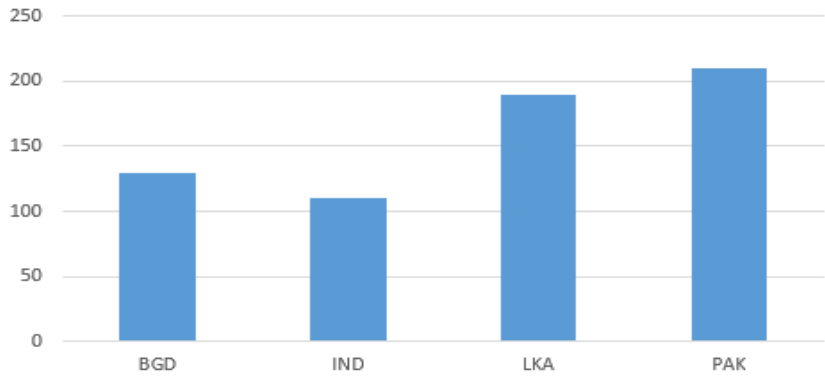


FIGURE4.2: Sum of inflation by country

The above figure shows the sum of inflation in selected countries, Pakistan is highest than Bangladesh, Sri Lanka & India. The above graph shows that India is the country that has the lowest inflation over the period of 1996 to 2019.

Sum of Political Stability by Country

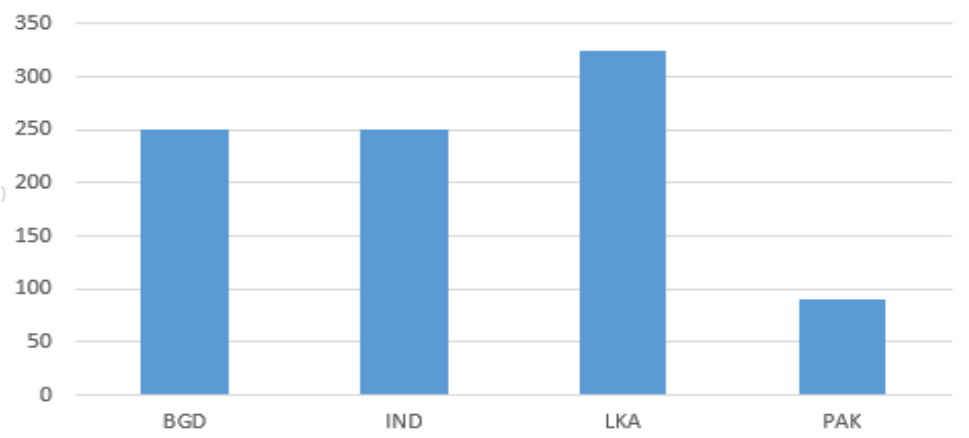


FIGURE 4.3: Sum of political stability by country

The above figure shows the sum of political stability in the selected countries, high political stability in Sri Lanka than Bangladesh and India at the same level followed by the lowest political stability in Pakistan from 1996 to 2019.

Sum of Openness by Country

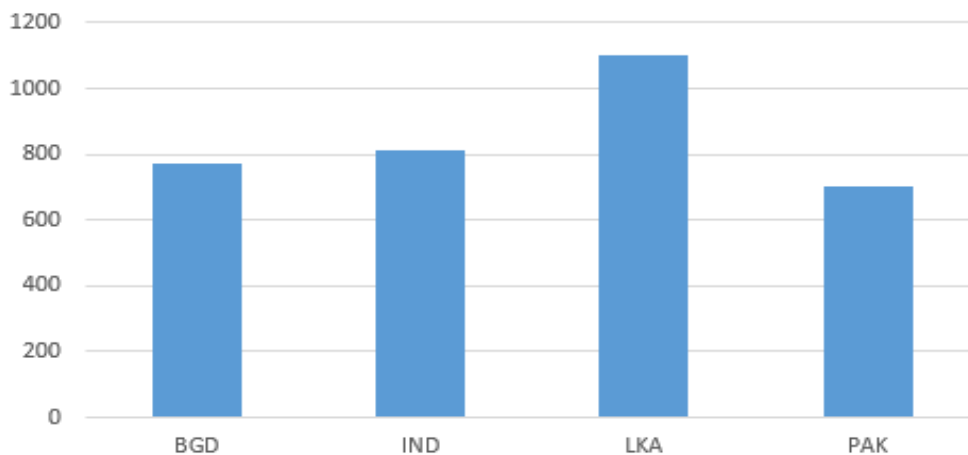


FIGURE 4.4: Sum of openness by country

The above figure shows the trend in market openness in the selected countries. Sri Lanka shows the high market openness value while India and Bangladesh at almost at the same level. Pakistan shows the lowest level of market openness.

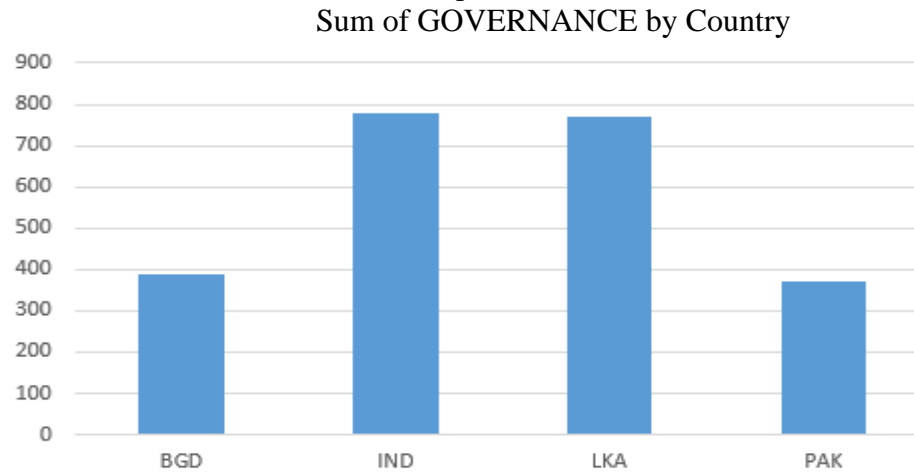


FIGURE 4.5: Sum of governance by country

The above figure represents the sum of governance in selected countries, India and Sri Lanka show the highest governance value while Pakistan and Bangladesh show the same low value as the compare to India & Sri Lanka over the course of 1996 to 2019.

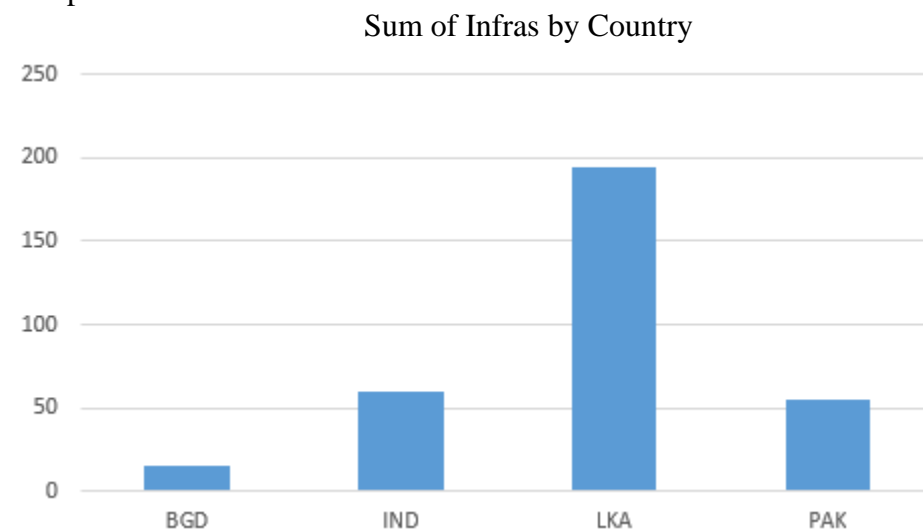


FIGURE 4.6: Sum of infrass by country

The above figure shows the sum of infrastructure in the selected countries, Sri Lanka leads the other countries with the highest infrastructure value followed by Pakistan, India & Bangladesh over the period of 1996 to 2019.

4.2 Unit Root Test

The unit root test is done to check the stationary of FDI and FMD variables. For heterogeneous panel data, use Levin, Lin Chu (2000), and Im, Perasan, and Shin (2003) test. In addition, we also use the Dickey-Fuller (ADF) and Phillips-Perron (pp) unit root test.

Table 4.1 shows the results of the Units root test of FDI and FMD variables. According to all panel unit root tests, FDIGDP is stationary. While Credit, STKMKRTCAP.

Table 4.1: Results of Unit root test

Method	Credit		STKMKRTCAP		STKVOLTRA		FDIGDP		CCB	
	Statistic	Prob.**	Statistic	Prob.**	Statistic	Prob.**	Statistic	Prob.**	Statistic	Prob.**
Levin, Lin & Chu t*	-0.6534	0.2567	-1.64774	0.0497	-1.2675	0.103	-2.0535	0.020	-2.052	0.020
Im, Pesaran and Shin W-stat	0.52256	0.6994	-0.52451	0.3000	-1.1091	0.134	-1.5654	0.059	-0.663	0.254
ADF - Fisher Chi-square	5.94708	0.6532	8.23762	0.4106	11.1299	0.194	16.914	0.031	9.029	0.340
PP - Fisher Chi-square	2.97709	0.9358	9.73360	0.2842	9.72698	0.285	16.079	0.041	7.656	0.468
First Difference										
Levin, Lin & Chu t*	-1.8856	0.0297	-6.57696	0.000	-4.7103	0.000	-2.3469	0.010	-6.3695	0.000
Im, Pesaran and Shin W-stat	-1.8077	0.0353	-5.0423	0.000	-3.0281	0.001	-3.6783	0.000	-4.9222	0.000
ADF - Fisher Chi-square	15.2072	0.0552	38.274	0.000	23.8895	0.002	28.428	0.000	37.358	0.000
PP - Fisher Chi-square	27.5891	0.0006	66.8194	0.000	44.9343	0.000	135.32	0.000	73.807	0.000

Note: (Data is arranged at 3 Decimal)

STKVOLTRA and CCB are non-stationary at level, so we take first difference test and at first difference level all of the panel unit root test depicts that it become stationary.

4.3 Correlation Analysis

Table 4.2: Correlation between FDI and FMD variables.

Correlation	CREDIT	CCB	FDIGCF	FDIGDP	STKMKRTCAP	STKVOLTRA
CREDIT	1.000					
CCB	0.174	1.000				
FDIGCF	0.098	0.280	1.000			
FDIGDP	0.472	0.368	0.480	1.000		
STKMKRTCAP	0.679	0.241	0.0647	0.447	1.000	
STKVOLTRA	0.361	0.274	0.509	0.509	0.690	1.000

Note :(Data is arranging at 3 decimal)

Table 4.2 shows the correlation between the FDI and FMD variables. These results show that the positive correlation between FDI and FMD variables with a higher value of 69%. In this result, we also observed that the positive correlation between FDIGDP and five FMD variables.

4.4 Causality Test

Check the causal relationship between FDI and FMD variables use the Granger Causality test. Divide the FMD into two parts:

Stock market development (SMD) indicators (STKMKRTCAP & STKVALTA) and banking sector development (BSD) indicators (CREDIT & CCB). Depending upon the unit root test have taken the first level lag for CREDIT, STKMKRTCAP, STKVALTA, & CCB. Further denote these variables as DSTKMKRTCAP, DSTKVALTA, DCCB & DCREDIT.

Causality test between FDI and SMD

DSTKMKRTCAP TO FDIGDP

Pairwise Granger Causality Test

Sample: 1996 to 2019.

Lags: 1

Table 4.3: Causality test between FDI & SMD

Null Hypothesis	F-Statistic	Prob.
STKMKRTCAP does not Granger Cause FDIGDP	15.97	0.0002
FDIGDP does not Granger Cause STKMKRTCAP	2.083	0.1534

Table 4.3 shows the result of the Granger Causality test of STKMKRTCAP on FDIGDP. As per the null hypothesis of the aforesaid test, STKMKRTCAP does not Granger Cause the FDIGDP. The probability value is less than 0.05 which implies that cannot accept the null hypothesis rather accept alternative hypothesis which implies that DSTKMKRTCAP Granger Cause the FDIGDP. While there is no bidirectional causality at different level 1.

DSTKVOLTRATO FDIGDP

Pairwise Granger Causality tests

Sample: 1996 to 2019.

Lags: 1

Table 4.4: Granger Causality test of STKMKRTCAP on FDIGDP

Null Hypothesis	F-Statistic	Prob.
STKVOLTRA does not Granger Cause FDIGDP	23.09	0.000009
FDIGDP does not Granger Cause STKVOLTRA	1.355	0.2485

Table 4.4 shows that the results of the Granger Causality test of DSTKMKRTVALTRA to FDIGDP. With 23% confidence level results shows that DSTL VOLTRA Granger Cause FDIGDP. Whereas there is no bidirectional Causality is observed at different level 1.

So, from the above results infer that SMD variables Granger because the FDIGDP at different level one but FDIGDP does not Granger Cause the SMD variables. It can be further investigated at different level two.

Causality test between FDI & BSD

DCREDIT to FDIGDP

Pairwise Granger Causality tests

Sample: 1996 to 2019

Lags: 1

Table4.5: Granger Causality test BSD variables

Null Hypothesis	F-Statistic	Prob.
CREDIT does not Granger Cause FDIGDP	4.328	0.0412
FDIGDP does not Granger Cause CREDIT	11.32	0.0013

Table 4.5 shows the results of the Granger Causality test of BSD variables CREDIT to FDIGDP. It is evident from the above results that CREDIT Granger Cause the FDIGDP. It also observed here that FDIGDP Granger causes CREDIT as well. So there is a bidirectional causal connection amongst FDIGDP and CREDIT.

CCB to FDIGDP
 Pairwise Granger Causality tests
 Sample: 1996 to 2019
 Lags: 1

Table 4.6: Causality test of CCB on FDIGDP

Null Hypothesis	F-Statistic	Prob.
CCB does not Granger Cause FDIGDP	0.00	0.978
FDIGDP does not Granger Cause CCB	0.345	0.559

Table 4.6 shows the results of the Causality test of CCB on FDIGDP. The probability value implies that CCB does not Granger Cause FDIGDP. The same results imply on bidirectional analysis at different level one.

4.5 Regression Analysis

In the case of most of the FMD factors, our test countries of quick Causality tests among FDI & FMD are dubitable. To achieve our target of attention the connection amongst FDI & FMD, along these lines we perform least square regression investigation on the following condition.

$FDI_{it} = a_0 + a_1 + FMD_{it} + a_2 EDUCATION_{it} + a_3 INFLATION_{it} + a_4 EXHRATE_{it} + a_5 GOVERNANCE_{it} + a_6 LOG(GDP_{it-1}) + a_7 OPENNESS_{it} + a_8 NATRES_{it} + a_9 INFRAS_{it} + \epsilon_{it}$ Equation (1)

Table 4.7: Regression analysis of Eq1.

Dependent variables: FDI

Variables	Coefficient	Std. Error	t-statistic	Prob.
C	-0.342	0.624	-0.548	0.586
FMD	-0.013	0.003	-3.590	0.001
EDUCATION	0.001	0.003	0.308	0.759
INFLATION	-0.038	0.015	-2.488	0.015
EXHRATE	-0.021	0.006	-3.259	0.001
GOVERNANCE	-0.005	-0.002	-2.107	0.038
OPENNESS	0.063	0.010	6.327	0.000
NATRES	0.358	0.035	10.338	0.000
INFRAS	-0.047	0.054	-0.878	0.383
R-square	0.839	Mean dependent var		1.194
Adjusted R-square	0.822	S.D. dependent var		0.473
S.E. of regression	0.199	Akaike info criterion		-0.286

Note: (Data is arranged at 3 Decimal)

Table 4.7 shows the results of the Regression analysis of Eq1. Where FDI is the dependent variable and FMD, EDUCATION, INFLATION, EXHRATE, GOVERNANCE, LOG (GDPit-1), OPENNESS, NATRES and INFRAS are the independent variables.

The results show that the FMD, INFLATION, EXHRATE, NATRES, and OPENNESS are the significant predictors for FDI. Whereas other predictors are insignificant. NATRES and OPENNESS show positive relations. The model fitness for EQ1 is almost 83%.

$FMD_{it} = b_0 + b_1 FDI_{it} + b_2 EDUCATION_{it} + b_3 INFLATION_{it} + b_4 EXHRATE_{it} + b_5 GOVERNANCE_{it} + b_6 BALANCE_{it} + b_7 INTRATE_{it}$ Equation (2)

Dependent variable: FMD

Method: Panel Least Square

Cross-sections included: 4

Total panel (balanced) observation: 84

Table 4.8: Regression analysis of EQ2

Variables	Coefficient	Std.Error	t-Statistic	Prob.
C	-13.641	13.500	-1.010	0.316
FDI	11.375	2.931	3.882	0.001
EDUCATION	-0.301	0.121	-2.491	0.015
INFLATION	1.641	0.734	2.235	0.028
EXHRATE	0.199	0.139	1.426	0.158
GOVERNANCE	0.075	0.104	0.717	0.475
BALANCE	0.313	0.882	0.355	0.723
INTRATE	1.1001	0.806	1.365	0.176
R-square	0.310	Mean dependent var		25.217
Adjusted R-square	0.247	S.D. dependent var		10.705
S.E. of regression	9.292	Akaike info criterion		7.387
Sum squared reisd	6562.429	Schwarz criterion		7.618
Log likelihood	-302.234	Hannan – Quinn criter.		7.479
F-statistic	4.879	Durbin – Watson stat		0.925
Prob (F-statistic)	0.0001			

Note: (Data is arranged at 3 Decimal)

Table 4.8 shows the results of regression analysis of EQ 2 where FMD is dependent variable and FDI, EDUCATION, INFLATION, EXHRATEit, GOVERNANCE, LOG (GDPit-1), BALANCE, INTRATE are independent variables. The results show that FDI, EDUCATION & INFLATION are the important predictors for FMD whereas others are unimportant predictors.

4.6 Autoregressive Distributed Lag (ARDL) Model

$1FDI_{it-1} = a_0 + a_1 FMD_{it-1} + a_2 EDUCATION_{it-1} + a_3 INFLATION_{it-1} + a_4 EXHRATE_{it-1} + a_5 GOVERNANCE_{it-1} + a_6 OPENNESS_{it-1} + a_7 NATRES_{it-1} + a_8 INFRAS_{it-1}$

Dependent variable: D (FDI)

Method: ARDL

Sample: 1996 to 2019

Included observation: 80

Maximum dependent lags: 1 (Automatic selection)

Model selection method: Akaike info criterion (AIC)

Dynamic regressors (1 lag, automatic): FMD, EDUCATION, INFLATION, EXHRATE, GOVERNANCE, OPENNESS, NATRES & INFRAS

Fixed regressors: C

Number of model evaluated: 1

Selected model: ARDL (1, 1, 1, 1, 1, 1, 1, 1, 1)

Table 4.9: Results of ARDL model with 1 lag Long Run Equation.

Variables	Coefficient	Std. Error	t-statistic	Prob.
FMD	-0.017	0.003	-6.194	0.000
EDUCATION	0.014	0.004	3.571	0.001
INFLATION	-0.225	0.012	-18.075	0.000
EXHRATE	-0.083	0.004	-20.781	0.000
GOVERNANCE	-0.049	0.003	-19.483	0.000
OPENNESS	0.117	0.004	26.792	0.000
NATRES	0.978	0.025	38.506	0.000
INFRAS	-0.287	0.021	-13.862	0.000

Short Run Equation

COINTEQ01	-0.816	0.000	NA	0.000
D(FMD)	0.008	0.000	NA	0.000
D(EDUCATION)	-0.004	0.000	NA	0.000
D(INFLATION)	0.090	0.000	NA	0.000
D(EXHRATE)	0.044	0.000	NA	0.000
D(GOVERNANCE)	0.018	0.000	NA	0.000
D(OPENNESS)	-0.005	0.000	NA	0.000
D(NATRES)	-0.295	0.000	NA	0.000
D(INFRAS)	-0.501	0.000	NA	0.000
C	2.446	0.000	NA	0.000

Mean dependent var	0.026	. Dependent var	0.363
S.E. of regression	0.039	Akaike info criterion	-3.112
Sum squared resid	0.054	Schwarz criterion	-1.722
Log likelihood	178.684	Hannan – Quinn criter.	-2.553

Note: (Data is arranged at 3 Decimal)

Table 4.9 shows the results of the ARDL model with 1 lag. FDI is the dependent variable while FMD, EDUCATION, INFLATION, EXHRATE, GOVERNANCE, OPENNESS, NATRES & INFRAS are the independent variables. The hypothesis of the ARDL model is the following:
 H_0 = No integration equation.

H_1 = H_0 is not true.

From the above mention results that, in log run relationship as well as short-run relationship there exist a cointegration among FDI and FMD variables.

$2FMD_{it-1} = b_0 + b_1 FDI_{it-1} + b_2 EDUCATION_{it-1} + b_3 INFLATION_{it-1} + b_4 EXHRATE_{it-1}$

+ b5 GOVERNANCE_{it-1} + b6 BALANCE_{it-1} + b7 NATRES_{it-1}

Dependent variable: D (FMD)

Model: ARDL

Sample: 1996 to 2019

Included observation: 80

Maximum dependent lags: 1 (Automatic selection)

Variable	Coefficient	Std. Error	t-statistic	Prob.
FDI	-281.047	423.769	-0.663	0.511
EDUCATION	1.098	4.182	0.263	0.794
INFLATION	9.491	10.415	0.911	0.368
EXHRATE	-7.236	12.456	-0.581	0.565
GOVERNANCE	20.238	27.745	0.729	0.469
BALANCE	-57.359	85.891	-0.668	0.508
NATRES	37.879	54.259	0.698	0.489

Number of model evaluated: 1 Table 4.10: Results of ARDL model with lag 1 Long Run Equation

Short Run Equation

COINTEQ01	-0.068	0.000	NA	0.000
D(FDIGDP)	3.096	0.000	NA	0.000
D(EDUCATION)	-0.372	0.000	NA	0.000
D(INFLATION)	0.421	0.000	NA	0.000
D(EXHRATE)	-1.501	0.000	NA	0.000
D(GOVERNANCE)	-0.704	0.000	NA	0.000
D(BALANCE)	0.403	0.000	NA	0.000
D(INTRATE)	-0.400	0.000	NA	0.000
C	3.177	0.000	NA	0.000

Mean dependent var	0.424	S.D. dependent var	8.261
S.E. of regression	3.809	Akaike info criterion	5.637
Sum squared resid	549.692	Schwarz criterion	6.881
Log likelihood	-193.756	Hannan – Quinn criter.	6.137

Note: (Data is arranged at 3 Decimal)

Table 4.10 shows the results of the ARDL model with lag 1 where FMD is the independent variable and FDI, EDUCATION, INFLATION, RXHRATE, GOVERNANCE, BALANCE & INTRATE. The results show that in the long-run relationship there is no integration but if we see the results of short-run relation the p-value is less than 0.05 which clearly shows that exists a cointegration between FDI and FMD variables.

CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusions

This study clarifies the relationship between FDI and FMD. In this study, we consider the 4 emerging markets of South Asia. The data range from 1996 to 2019. We used Granger causality as well as Regression analysis. We detect the positive relationship between FDI and stock market progress pointers while when we study the development indicators in the banking sector, the causality appears imperfect and indistinct.

We use the unit root test to check the stationary of the FDI and FMD variables. Unit root test shows that FDIGDP is stationary while STKMRTCAP, STKVOLTRA, and CCB are non-stationary at level but at the first difference it becomes stationary. There is a positive correlation between FDI and FMD variables. We don't believe in the correlation of variables another statistical test suggests an increase in careful results. We use the Granger Causality test to check the causal relation between FDI & FMD variables. The SMD variables Granger Cause the FDIGDP at level but it is opposite in vice versa. The BSD variable DCREDIT Granger causes the FDIGDP and vice versa but opposing the CCB does not Granger reason the FDIGDP and the same result is for FDIGDP to CCB. In regression analysis signify the FMD, INFLATION, EXHRATE, NATRES & OPENNESS are important predictors of FDI. The policymakers should focus on these variables in selected countries to attract FDI from this conclusion. NATRES & OPENNESS shows a positive relationship with FDI which implies that market openness and investor-friendly policies can attract FDI in the country.

Further, check that we apply the market openness model of the European Union to our selected countries. In this study, we propose that the countries rich in natural resources are taking advantage of attracting FDI to the country. In Pakistan to attract FDI the decision-makers use the monetary and fiscal policy, Pakistan is rich in natural resources.

The results of FMD regression analysis show that FDI, EDUCATION & INFLATION are the positively important pointers of FMD which suggests that if we want to develop the financial market GDP and NATRES should be given focus as explained earlier in case of FDI. From both results, we draw the conclusion that GDP increased and natural resources of countries are given the focus on developing financial markets in which we can better attract foreign direct investment.

The ARDL model with lag 1 indicates that there happens a cointegration between FDI & FMD in a short and long-run relationship.

Foreign investment, in one way, influences the local stock market through the impacts of its investment spillover. FDI activities involved in different MNCs with attaching the local stock market, obviously, it eases the probability of the associates. So because the MNCs prefer the industrialized countries having the tradition of financing through the stock market. In this study, the political economy influences we can assume that political choice is highly fortified to follow market-oriented rules particularly better governance rules and investor protection due to FDI inflows: thus endorsing stock market development. On the contrary, a consonantly more developed stock market better attracts foreign investors, being a market-friendly environment, energy symbol, and openness by country higher specialists. In the case of emerging markets, this concept works even better where development in stock markets is intensely focused as associated with the markets of other developing countries.

5.2 Recommendations

Answers of this study recommend the preparation of a key policy duty accompanied by a system of market-oriented guidelines, particularly relating to the stock market like procedures to defend investors and recover governance to attract more FDI. The maximum gain of the economic spillover effect of FDI. In the emerging markets to attract the FDI market openness also contributes. In domestic markets friendly investment and market openness allows building domestic regulatory process to the trade. This research is limited to the selected emerging markets. Moreover, this study can be explained as a comparative study of different countries. As we have mentioned in the conclusion section European Union and emerging markets can be analyzed at the same design with different variables.

In this study suggest that market openness is a positive indicator of financial market development this study can more explain in the view of countries given GSP plus status, where tariff subsidies are given to countries from the rules of world trade organization (WTO).

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