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The Role of Tax Policies, Inflation, Trade Openness and Exchange Rate Volatility on the Foreign Investment Decisions in Pakistan

Aqsa Shabbir[1], Shahid Abbas[2], Imran Javed[3] & Numair Nisar[4]

[1]*Lecturer, University of Management and Technology, Sialkot Campus, Email: Aqsa.shabbir@skt.umt.edu.pk*
[2]*Lecturer, Superior University Sargodha Campus, Email: shahid03016946440@gmail.com*
[3]*Lecturer, University of Lahore Sargodha Campus, Email: imranjaved084@gmail.com*
[4]*Lecturer University of Management and Technology, Sialkot Campus, Email: numair.nisar@skt.umt.edu.pk*

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Corresponding Author:
Aqsa Shabbir
Email:
Aqsa.shabbir@skt.umt.edu.pk

ABSTRACT

Foreign investment decisions have been the challenging issue nowadays due uncertainty of financial condition around the globe. This aspect need the focus of recent studies and the present study examines the impact of tax policies, inflation, trade openness and exchange rate volatility on the foreign investment decisions in Pakistan. The study used the secondary data extracted from the World Development Indicators (WDI) from 1991 to 2024. The outcomes revealed that the tax policies, inflation and trade openness have a positive association with foreign investment decisions and exchange rate volatility has a negative association with foreign investment decisions in Pakistan. The study provides the help to the policymakers in establishing new policies related to enhance the foreign investment decisions using effective tax policies and low exchange rate volatility.

Introduction

Foreign direct investment (FDI) denotes the investment made by individuals, companies, or government from one country to some business or projects carried in another country. The foreign investment may be in forms like establishing a new business, acquiring the stake in an existing company, creating access to innovative technologies, and getting particular business practices done that is not possible in own country. Decision concerning with foreign investment has a wide influence on the economy, employment rate, and competitiveness, which further boosts country's development and growth (Cicea & Marinescu, 2021). FDI plays a significance role in establishing economic stability by increasing the country's capital. The increased financial resources or assets

help starting and sustaining new businesses, development practices, construction works, and other factors leading to economic growth (EG). In addition to creating financial resources, it arranges physical resources and facilities from other states to overcome challenging situations in developing country (Utouh & Kitole, 2024). Investors' decision of making FDI gives rise to imports and exports of products the host and the source countries. This adds to revenue and improves relations between countries. In addition, improving the working of local and backward business models, foreign investment be helpful in bringing technological advancements. As a result, business may have higher productivity and add to competitiveness in a host country (Kanval, Ihsan, Irum, & Ambreen, 2024). For its utmost significance, decision of foreign investment needs attention from researchers and academics.

Foreign investment decisions are made with the aim to generate earning and have profits on investment. The intentions or decisions regarding foreign investment are dependent on some factors like tax policy and exchange rate. The proposals of tax policies influence decisions concerning foreign investment with respect to volume and location because the returns on investment and even the actual amount is affected (Boly, Coulibaly, & Kéré, 2020). Inflation is a gradual increase in the prices of goods or services over a given period of time. The moderate level of inflation is likely to encourage domestic growth and development booting foreign investment decisions. Whereas high level inflation discourages foreign investors by reducing the value of earning and causing uncertainty (FoEh, Suryani, & Silpama, 2020). In an economic context, trade openness means the extent to which a country is engaged in international trade. Trade openness enhances foreign investment decisions as it creates a more attractive environment for foreign interested parties (Khan, Nawaz, & Saeed, 2021). Exchange rate is the value of one currency in comparison to current of another nation or economic region. Exchange rate fluctuations or stability have complex and multifaceted influences on foreign investors' decisions. It ca create uncertainty and risks. While it may also create opportunities for some investors (Munir & Iftikhar, 2021).

The present study puts emphasis on the decision regarding FDI in Pakistan. As per the UNCTAD's World Investment Report 2024, the inflow of foreign investment to Pakistan was recorded as 1.81 billion in 2022, showing an increase by 24.4% year-on-year. Coming to the end of the same year, FDI to the country reached USD 28.62 billion, standing 8.4% of the total GDP (Farooq, Anwar, Ahad, Shabbir, & Imran, 2024). Statistics of the Board of Investment tell that in the time from 2011 to 2024, power sector is the first one foreigners make investment in Pakistan (29.6% of the total FDI), while others are gas & oil (17.8%), financial business (15.4%), trade (3.0%), communication (it & telecom) (3.6%), transport (2.1%), construction (2.0%), chemicals (2.0%), and textiles (1.2%), whereas 23.2% investment is done across other sectors. As far as countries making foreign investment are concerned, China is the largest one investing in Pakistan (27%), exceeding Hong Kong (11.3%), the UK (12.9%), and Switzerland (5.8%) Özkan, Olasehinde-Williams, and Usman (2024). As per the information from the State Bank of Pakistan (SBP), the country saw an increase in inward foreign investment in the first half of FY 2024-25 when inflow reached USD 1.33 billion, an increase from USD 1.1 billion in the same time. Mainland china has investment to Pakistan was total USD 535.5 million, exhibiting an 48.3% increase from USD 361.5 million in the staring months of FY 2023-24 and accounting for about 42.9% of Pakistan's total inward FDI (Batool, Khan, Akram, Tariq, & Qamri, 2024).

Although, Pakistani economy has handsome capital coming as FDI and is experiencing a gradual increase in FDI inflows year-by-year (FY). Still it is far behind other countries in terms of total value of FDI inflow. Moreover, the social and economic conditions are poor, unsatisfactory, and not meeting the potential use of the resources denoting immediate need for increase in FDI inflows

(Kumari, Kumar, & Kumar, 2024). The present study resolves this issues as its focus is on foreign investment decision. The objective of the study is to examine the role of tax policies, inflation, trade openness, and exchange rate in foreign investment decisions. It is also to examine the impact of control factors like EG and industrialization on foreign investment decision.

The concept of the study are not simply taken from previous studies but it makes significant literary contributions to the literature. First, although numerous studies have examined the role of macro-economic conditions in FDI. This study provides deep insights into its subject of foreign investment decisions analyzing it from different points of view. Second, in the existing literature, some authors have discussed how tax policies, inflation, trade openness, and exchange rate influence foreign investment decisions. But the influences of these factors on foreign investment decisions were discussed individually. The current study fills the gap by analyzing the relationship tax policies, inflation, trade openness, and exchange rate with foreign investment decisions at a time. Third, there are only a few studies which address the role of tax policies, inflation, trade openness, and exchange rate in decisions concerning with FDI in Pakistan. The current article which sheds light on the role of above-mentioned factors in foreign investment decisions in Pakistani economy.

This paper comprises of five parts: In second part, views shared by researchers regarding the relationship of trade policies, inflation, trade openness, and exchange rate with foreign investment decisions were revised. In the third part, the procedures used to attain data and test relations were elaborated. In the fourth part, calculations were performed to confirm relations. In the last part, results discussion, study implications, conclusion, and limitations were given.

Literature Review

As FDI is the money or things invested by a firm, individuals or government from a country into another one, it is significant for both countries. It creates revenues, refines mutual relations, adds to countries' protection, and enhances EG. The decision of foreign investment is influenced by country's economic conditions, regulations, and behaviors (Sohail, Qayum, & Khan, 2024). The present study examines the influence of tax policies, inflation, trade openness, exchange rate, EG, and industrialization on foreign investment decisions. Different studies have analyzed the relationship of tax policies, inflation, trade openness, exchange rate, EG, and industrialization with foreign investment decisions different. In the following paragraphs, some of these studies are examined to determine the relations.

Tax policies and foreign investment decisions

Taxes impose a burden on corporations and cause reduction in profits to be distributed among shareholders or investors. Tax policy which determines the rate of taxes and taxable incomes or products, influences profits to them. The propositions of a tax policy enlightens over investors how much they could earn from their investment and makes it easy for them to take right decisions while making FDI. Thus, tax policy influences FDI flows (Appiah-Kubi et al., 2021). Gasparėnienė, Kliestik, Šivickienė, Remeikienė, and Endrijaitis (2022), highlight that tax policy is the one encompassing rules and regulations governing including tax rates, calculation, imposition, and collection. If tax policies are designed carefully concerning economy's needs and prospects, there is an expansion in production, trade, and profitability. As a result, there is an increases foreigners' inclination to put their resources in domestic firms and projects. Thus, foreign investment decisions can be effectively implemented. Silajdzic and Mehic (2022), checks how tax policy is effective in foreign investment decision in transition countries. The results showed that

tax policy plays an important role in decision for foreign investment. An effective tax policy with change in tax rates, conditional taxation, or incentives may bring technological development. So far, foreign investors' attraction may be achieved. Moreover, reduction in corporate taxes imparts a positive influence on profitability of corporates and get foreign investors decide to make investment in a particular country. A research was conducted by Submitter, Edo, Okafor, and Justice (2020), to investigate the role of tax policies in decision concerning with FDI under democratic or military regimes. With the error correction model, the panel data were collected from Nigeria during 1983-to-1999 (military rule) and 1999-to-2017 (democratic rule). The study implies that during the military regime the influence of corporation income tax on FDI is clearer as compared to that in the civilian era. FDI investor mostly have higher rate of convergence in the military regime as compared to civilian rule. Hence, tax policy with strict rules and regulations usually causes investors restrain from making foreign investment.

Inflation and foreign investment decisions

Inflation which itself is an increase in products and services, accelerates the profits, demand, productivity, and sales of a corporation as well as overcomes the value of debts or liabilities. These corporations show a good prospects for investors. Even parties from abroad are motivated and have decision to be a part of domestic projects or corporation management through investment. Thus, the start of inflationary period enhances increases FDI inflows (Njoku, Nwaimo, & Essienette, 2023). The study of Opeyemi (2020), declares that if a country is in inflationary period, it makes progress in areas like technology, infrastructure development, and human capital. Such a country has ability to pay back as per foreign investors' expectations. So, greater number of investors can be attracted to be a part of domestic projects. An article by Agudze and Ibhagui (2021), throws light on inflation impact on FDI decisions by investors in developing and industrialized economies. The research was conducted in 74 economies gathered into industrialized and developing economies. The panel model was tested with the help of random or fixed effect model based on the findings of the Hausman test. The study implies that the relationship between inflation and FDI decision is nonlinear, while threshold effects are analyzed in such countries. Inflation threshold value is largely higher in developing countries than industrialized economies. Inflation has tendency to overcome FDI decision in industrialized economies while crossing the threshold value and contrary to it, the inflationary influence on foreign investors' behavior gets negative even before reaching threshold value in developing countries. So, inflation has a significant influence on foreign investment decision although it differs in different countries or time periods. The research by Mukhlis and Viphindrartin (2021), identifies the relations of inflation, exchange rates, taxes, and government spending on FDI decision. Authors took the period from 1970 to 2017 and collected data for of inflation, exchange rates, taxes, and government spending on FDI decision from Malaysia applying the Vector Error Correction Model (VECM). There is a positive impact of inflation on foreign investment decision. When there is larger money supply within the country, developmental activities are performed smoothly and business cycle runs effectively. It attracts foreign investors to put their share in domestic businesses. So, inflation positively influences FDI decision.

Trade openness and foreign investment decisions

Trade openness which determines trade of products even beyond national boundaries and country links with foreigners, has a key role in decisions regarding foreign investment. In open economies there are larger consumer markets, attracting greater number of foreign investors who want an expansion in their operations. Moreover, liberalized trade policies and stable environment improves relations and makes it easier to make foreign investment (Rakshit, 2022). Qamruzzaman

and Karim (2020), examines the relationship among trade openness, economic volatility, and decision about foreign investment. Authors were interested to test the relations in selected South Asian countries and took time between 1975 and 2019. In order to attain business objectives, several nonlinear tests like ordinary least squares (OLS) test, the unit root test, causality test, and autoregressive distributed lag (NARDL) test were applied. In order to transfer ones' funds into businesses in other countries, investors need certain information, security, and opportunity to grow. Under higher trade openness when domestic parties come into contact with foreigners and build fine relations, they may provide sufficient information about businesses as well as assure them regarding security and opportunity to grow. The impressed investors are likely to take right decisions about foreign investment. Rathnayaka Mudiyanselage, Epuran, and Tescașiu (2021), checks the relationship of trade openness with FDI decision along with the control variables like GDP, real effective exchange rate, inflation, and education. The study was conducted with the data from Romania for the period of 1997-2019. Granger causality test with The Auto Regressive Distributed Lag (ARDL) Bounds test procedure was applied to gain the research objectives. The increase in trade openness, increases demands for products not only within country but beyond borders. It boosts sales and triggers prices at higher level making the businesses running on profitable bases. The domestic business with higher profits has capability to meet the investors' requirements and thus, foreigners have intention to invest capital in these businesses.

Exchange rate and foreign investment decisions

An exchange rate is the value of currency of a nation while being compared with other country's currency. The fluctuations or volatility of exchange rate influence decision about foreign investment in both manners, positive and negative especially depending on other factors. Usually continuous changes in exchange rate proven to be a risk for foreign investment, because this makes it tough for the investors to predict returns on investment. Well, in some situations, the exchange rate changes present good prospects, gives hope, and attract foreigners for investment (Boburmirzo & Boburjon, 2022). Huong, Nguyen, and Lien (2020), integrates the relationship between the exchange rate and decision concerning FDI. Quarterly frequency data from Vietnam over the time from 2005 to 2019 were obtained using vector autoregression (VAR) model. The study implies that although the exchange rate volatility influences foreign investment volume usually but it depends on investors intentions and behaviors. Whenever, investors observe that due to depreciation in the value of currency imports gets more expensive, they feel courageous to establish product systems in the country to avoid imports at higher costs. By investing they could earn more by meeting inland demands. Thus, change in exchange rate boosts FDI decision. Tan, Xu, and Gashaw (2021), investigates the influence of exchange on FDI decision. The research was conducted to find relation among these factors in Zhejiang province, China, for the period from 1985 to 2019. For the purpose of examining, the co-integration tests, Granger causality tests, vector error correction models, and impulse response tests were employed. The study found that there is unidirectional causal and long-term stable and unidirectional causal relationship between the exchange rate and foreign investment decision. Consistent appreciation of RMB currency against USD discourages decision of foreign investment. Instead of the cost effect or the demand effect, the wealth effect is the mechanism that drives the long-term relationship. Conversely, in the near term, FDI inflow is not much impacted by the exchange rate or the three influencing mechanisms.

Research Methods

The study examines the impact of tax policies, inflation, trade openness and exchange rate volatility on the foreign investment decisions in Pakistan. The study also used the EG and

industrialization as the control variables. The study used the secondary data extracted from the WDI from 1991 to 2024. The equation is given below:

$$FID_t = \alpha_0 + \beta_1 TP_t + \beta_2 INF_t + \beta_3 TO_t + \beta_4 ERV_t + \beta_5 EG_t + \beta_6 IND_t + e_t \quad \textbf{(1)}$$

Where;
FID = Foreign Investment Decisions
t = Time Period
TP = Tax Policies
INF = Inflation
TO = Trade Openness
ERV = Exchange Rate Volatility
EG = Economic Growth
IND = Industrialization

In this study, foreign investment decision has been used as the dependent variable and measured with FDI, net inflows (% of GDP). In addition, the study used four predictors such as tax policies measured with Taxes on income, profits and capital gains (% of total taxes), inflation measured with consumer prices (annual %), trade openness measured with The sum of a country's imports and exports as a share of that country's GDP and exchange rate volatility measure with Real effective exchange rate index (2010 = 100). Finally, the study also used two control variables such as EG measured with GDP growth (annual %) and industrialization measured with Industry value added (% of GDP). These are given in Table 1.

Table 1: Variables and Measurements

S#	Variables	Measurement	Sources
01	Foreign Investment Decisions	FDI, net inflows (% of GDP)	WDI
02	Tax Policies	Taxes on income, profits and capital gains (% of total taxes)	WDI
03	Inflation	Inflation, consumer prices (annual %)	WDI
04	Trade Openness	The sum of a country's imports and exports as a share of that country's GDP	WDI
05	Exchange Rate Volatility	Real effective exchange rate index (2010 = 100)	WDI
06	Economic Growth	GDP growth (annual %)	WDI
07	Industrialization	Industry value added (% of GDP)	WDI

The study checks construct details using descriptive statistics such as minimum and maximum values along with average and standard deviation of the constructs and number of observation used in the study. In addition, the study also examines the correlation with the help of matrix of correlation that provides the multicollinearity situation of the variables. Moreover, the study also checks the unit root that is necessary for selecting further analysis using Augmented Dickey-Fuller (ADF) test and Phillips-Perron test (PP). The equation is mentioned below:

$$d(X_t) = \alpha_0 + \beta t + \Upsilon X_{t-1} + d(X_t(-1)) + \varepsilon_t \quad \textbf{(2)}$$

The ADF and PP tests exposed that the ARDL model is appropriate because some constructs have no unit root at level and other have no unit root at first difference. The ARDL model provides the long as well as short run associations among the constructs. It also adjust issues of

heteroscedasticity and autocorrelation in the data. The statistical equation of the ARDL model is given below:

$$\Delta FID_t = \alpha_0 + \sum\delta_1\Delta FID_{t-1} + \sum\delta_2\Delta TP_{t-1} + \sum\delta_3\Delta INF_{t-1} + \sum\delta_4\Delta TO_{t-1} + \sum\delta_5\Delta ERV_{t-1} + \sum\delta_6\Delta EG_{t-1} + \sum\delta_7\Delta IND_{t-1} + \varphi_1 FID_{t-1} + \varphi_2 TP_{t-1} + \varphi_3 INF_{t-1} + \varphi_4 TO_{t-1} + \varphi_5 ERV_{t-1} + \varphi_6 EG_{t-1} + \varphi_7 IND_{t-1} + \varepsilon_t \quad \textbf{(3)}$$

Moreover, the article intention is to explore the asymmetric relationship among FID and exchange rate volatility. Hence, nonlinear function is established below:

$$FID = f(TP, INF, TO, EG, IND, ERV^+, ERV^-) \quad \textbf{(4)}$$

Thus, the empirical model is established as below:

$$FID_t = \alpha_0 + \beta_1 TP_t + \beta_2 INF_t + \beta_3 TO + \beta_4 EG + \beta_5 IND + \beta_6 ERV_t^{+} + \beta_7 ERV_t^{-} + e_t \quad \textbf{(5)}$$

The equation (3) exposed the ARDL model that provides the association among constructs. On the other hand, the present study also explore the nonlinear nexus among exchange rate volatility and FID. The partial sum of positive and negative alteration in exchange rate volatility and FID are given in equations given below:

$$ERV^+ = \sum_{i=1}^{t} \Delta ERV_i^+ = \sum_{i=1}^{t} \max(\Delta ERV_i\ 0) \quad \textbf{(6)}$$
$$ERV^- = \sum_{i=1}^{t} \Delta ERV_i^- = \sum_{i=1}^{t} \min(\Delta ERV_i\ 0) \quad \textbf{(7)}$$

Hence, with the help of positive and negative changes exchange rate volatility and FID, the study has developed the ARDL equation is mentioned below:

$$\Delta FID_t = \alpha_0 + \sum\delta_1\Delta FID_{t-1} + \sum\delta_2\Delta TP_{t-1} + \sum\delta_3\Delta TO_{t-1} + \sum\delta_4\Delta INF_{t-1} + \sum\delta_5\Delta EG + \sum\delta_6\Delta IND_{t-1} + \sum\delta_7\Delta ERV_{t-1}^{+} + \sum\delta_8\Delta ERV_{t-1}^{-} + \varphi_1 FID_{t-1} + \varphi_2 TP_{t-1} + \varphi_3 TO_{t-1} + \varphi_4 INF_{t-1} + \varphi_5 EG_{t-1} + \varphi_6 IND_{t-1} + \varphi_7 ERV_{t-1}^{+} + \varphi_8 ERV_{t-1}^{-} + \varepsilon_t \quad \textbf{(8)}$$

Research Findings

The study checks construct details using descriptive statistics such as minimum and maximum values along with average and standard deviation of the constructs and number of observation used in the study. The outcomes indicated that the observations used are 34 while the average value of FID reported 0.926%, TP was 31.285%, INF was 9.581% and TO was 17.759%. In addition, the results also exposed the mean value of ERV was 106.637%, EG was 3.963% and IND was 20.251%. These figures are given in Table 2.

Table 2: Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
FID	34	0.926	0.659	0.310	3.036
TP	34	31.285	4.166	24.395	38.174
INF	34	9.581	5.736	2.529	30.768
TO	34	17.759	27.01	0.198	106.109
ERV	34	106.637	9.741	91.395	123.929
EG	34	3.963	2.102	-1.274	7.831
IND	34	20.251	1.700	17.159	22.931

In addition, the study also examines the correlation with the help of matrix of correlation that provide the multicollinearity situation of the variables. The outcomes indicated that positive correlation among FID, TP, INF, TO, EG and IND while negative correlation among FID and ERV. In addition, no multicollinearity issue is reported. These are given in Table 3.

Table 3: Matrix of Correlation

Variables	FID	TP	INF	TO	ERV	EG	IND
FID	1.000						
TP	0.160	1.000					
INF	0.142	0.228	1.000				
TO	0.488	-0.254	-0.184	1.000			
ERV	-0.078	-0.584	-0.336	-0.215	1.000		
EG	0.067	-0.173	-0.392	0.417	0.230	1.000	
IND	0.136	-0.387	0.430	-0.191	0.374	-0.141	1.000

Moreover, the study also checks the unit root that is necessary for selecting further analysis using ADF and PP tests. The outcomes exposed that the FID, TP, TO, EG and IND have no unit root at level while INF and ERV have no unit root at first difference. These outcomes are given in Table 4.

Table 4: Unit Root Test

	ADF		PP	
Series	**Level**	**First difference**	**Level**	**First difference**
FID	-3.012***	-5.494***	-4.167***	-7.645***
TP	-4.392***	-7.982***	-2.633**	-4.311***
INF	-1.545	-4.382***	-0.645	-3.151**
TO	-3.248***	-3.909***	-2.282**	-3.291***
ERV	-2.122	-5.765***	-1.241	-5.453***
EG	-2.337***	-4.392***	-5.323***	-8.930***
IND	-3.112***	-5.124***	-4.545***	-7.242***

In addition, the study also run the Bound test to check the co-integration and the outcomes exposed that the F-statistics are more than the upper and lower bound and indicated co-integration exist. These figures are given in Table 5.

Table 5: Bound Test of Nonlinear ARDL

	F-statistics	Lower Bound	Upper Bound	Decision
Linear ARDL	0.257	2.750	2.911	No Co-integration
Asymmetric ARDL	5.322	2.192	2.435	Co-integration

The study used the nonlinear ARDL model to examine the association among constructs. The outcomes revealed that the tax policies, inflation and trade openness have a positive association with foreign investment decisions and exchange rate volatility has a negative association with foreign investment decisions in Pakistan. These outcomes are given in Table 6.

Table 6: Nonlinear ARDL Results

Variables	Coefficients	Std. Err.	t-statistics
C	0.392	0.023	17.043
FID (-1)	0.102	0.033	3.091
TP (-1)	0.392	0.043	9.116
INF (-1)	0.647	0.192	3.369
TO (-1)	0.353	0.034	10.382
ERV-P (-1)	-0.430	0.023	-18.696
ERV-N (-1)	-1.921	0.234	-8.209
EG-P (-1)	2.177	0.302	7.209
EG-N (-1)	1.291	0.432	2.988
IND-P (-1)	1.292	0.423	3.054
IND-N (-1)	0.554	0.045	12.311
Adj. R Square	0.623		
F-statistics	48.765		
Prob.(F-statistics)	0.011		

Discussions

The results showed that tax policies have a positive association with foreign investment decisions. These results are supported by Boachie Yiadom and Mensah (2021), which highlights that favorable trade policies, encourages trade at international level and bring people closer across boundaries. It clears ways for foreign investment. These results are also in line with Camara (2023), which states that a country with good trade policies carry trade practices also considering the health of international relation. As a result, foreign government or firms accept proposals and get ready to make foreign investment.

The results showed that inflation has a positive association with foreign investment decisions. These results are supported by Jui, Hossain, Das, Sultana, and Islam (2024), which implies that if there is inflation, a country may have better prospects for investors. Having surety of handsome gains foreign investors get interested and foreign investment decisions can be effectively implemented. These results are also in line with Kamal, Naaz, Bhandari, Shukl, and Khan (2022), which explains that when there is inflationary situation within the country, foreign investors are aware of country's economic activity and have decision to put investment it economic projects.

The results showed that trade openness have a positive association with foreign investment decisions. These results are supported by Dalaseng, Xiongying, and Srithilat (2022). This study states that the country with high trade openness, not only serve domestic market but gets important to associated foreign parties. It arouses interest in foreigners to make investment in the domestic companies. These results also agree with Xu, Han, Dossou, and Bekun (2021). According to this previous study, trade openness builds good relations at international levels and decision is formed to make FDI.

The results showed that exchange rate a positive association with foreign investment decisions. These results are supported by Okonkwo, Osakwe, and Nwadibe (2021), which indicates that if exchange rate is good, foreign investors are more attracted to put their investment in domestic countries. These results are also in line with Moraghen, Seetanah, and Sookia (2023), which good exchange rate signals good earnings from investment in the domestic projects and increases foreign investors interest.

The results showed that EG has a positive association with foreign investment decisions. These results are supported by Raza, Shah, and Arif (2021) which posits that if a country is making EG at increasing rate, it has good financial and economic conditions. In this situation, foreigners are more likely to make investment in country firms. These results are also in line with Fan and Hao (2020), which states that country making higher EG succeed to get the foreign emerging parties to make investment in the country.

The results showed that industrialization a positive association with foreign investment decisions. These results align with Udemba and Keleş (2022), which states that industrialization increases the country capability to make potential use of its resources achieving higher earnings. It catches foreign investors' intentions. These results match with Ahmed, Ali, Kousar, and Ahmed (2022), which examine that if industrialization increases, it encourages foreign entities to make investment within the country.

Implications

Investment in any form increases resources for the economy and improves its capacity to grow. The present study has vital importance to Pakistani economy and similar others for its guidance to improve decision making regarding FDI. The present study guides that economists should turn their struggles to making trade policies favorable so that investors have decision for foreign investment. The study also suggests that regulators should try to manage inflation to be favorable for the economy and bring resources from effective foreign investment decisions. The study also reveals that a country's trade openness must be increased and thereby, the foreign entities have determination to make FDI in the country. There is also a guideline that economic authorities must take steps to improve exchange rate for domestic dealers in order to boosts decisions for bringing foreign investment. The article implies that economic conditions must be good and country must achieve high EG moving ahead to achieve foreign investment decisions from greater number of investors. Moreover, the study conveys that economists and government authorities must pay attention to industrialization within the country and thus, higher number of foreigners may have foreign investment decisions.

Conclusion

The objective to write this article was to find the relationship of trade policies, inflation, trade openness, and exchange rate with foreign investment decisions. Authors were also interested to learn about the role of EG and industrialization in foreign investment decisions. Data to examine the relations were collected from statistics of Pakistan. The results from empirical analysis depicted a positive association of trade policies, inflation, trade openness, exchange rate, EG, and industrialization with foreign investment decisions. The results showed that when trade policies are flexible and favorable, the decisions regarding foreign investment can be formed and executed. The results also revealed that if there is inflation, country can expand its economic practices and better prospects attract foreigners to make investment. The study explored that higher trade openness, improves international relations and win trust of foreign investors implementing foreign investment decisions. The study also found that a favorable exchange rate encourages trade and relations at international levels. In this situation, successful decisions concerning FDI are made. Moreover, study concluded that when EG rate is higher and industrialization is increasing, foreign investment decisions are more likely to be executed.

Limitations

The present study also has some limitations. The present study gives a limited view about decisions about foreign investment because of its analysis of limited factors like trade policies, inflation, trade openness, exchange rate, EG, and industrialization affecting foreign investment decisions. In future research, authors must also examine factors like tourism, infrastructure development, and international relation management etc. as factors affecting foreign investment decisions. Second, data used to find relations among factors were collected from Pakistan alone. In further research, there is need to acquire data from multiple countries.

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