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DYNAMIC CAUSALITY RELATIONSHIP BETWEEN FDI INFLOWS, TRADE BALANCE, AND ECONOMIC GROWTH IN WORLDWIDE SELECTED TOP 25 HOST COUNTRIES DURING POST LIBERALIZATION REGIME: A QUANTITATIVE APPROACH

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ABSTRACT

Worldwide, though the function of FDI, both in developed and developing countries, as a catalyst of economic growth has been studied comprehensively in the post liberalization period, there is no systematic study carried out to examine the causal relationship between FDI inflows, trade balance and economic growth of the top host countries at present. Therefore, this paper investigates this issue by examining the causal relationship between FDI inflows, trade balance and GDP in selected 25 top host countries where FDI inflows increases over time since 1990. The findings from Pair-wise Granger Causality tests provide little support that unidirectional causality is present between FDI and GDP in 10 countries out of 25 countries namely UK, Australia, France, Brazil, India, Chile, Switzerland, Italy, Sri Lanka, and Cyprus and in 4 countries bi-directional causal relationship is present between namely China, Canada, Macao, and Pakistan. In order to study the causal relationship between FDI and Trade balance, only in 7 countries unidirectional causal relationship is present, of them China, Spain, France, India, Sweden, Macao, and Pakistan. In general, however, the country-specific macroeconomic factors seem to be playing a comprehensively significant role in determining the function of FDI worldwide.

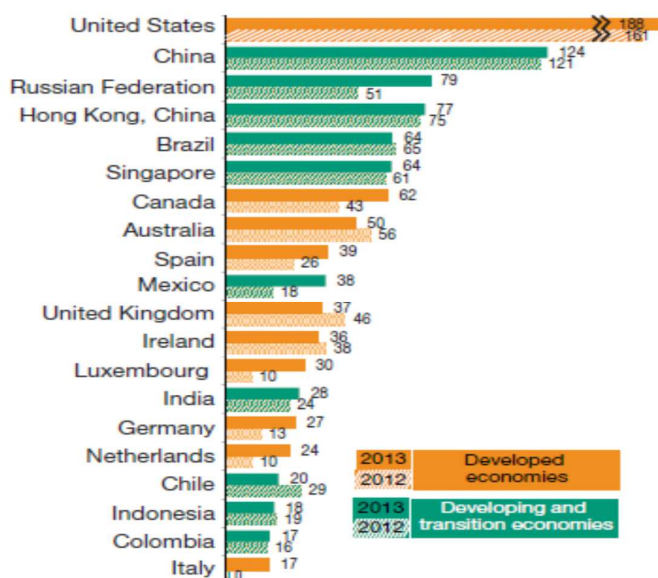
KEYWORDS

FDI inflows, trade balance, economic growth, post liberalization regime.

INTRODUCTION

In general, foreign direct investment (FDI) inflows have a positive impact on host country's economic and financial activities as well as growth and developmental efforts through inflow of valuable technology and innovations along with the efforts of the domestic firm which can help the financial system gain momentum. Through export and import, international trade plays a crucial role as an engine of economic growth by facilitating more efficient gross domestic production (GDP) of goods and services, by shifting production to foreign countries that have comparative advantage in producing them. Depending upon certain parameters such as level of human capital, gross capital formation, domestic investment along with FDI, infrastructural development of the host country, macro-economic stabilization and trade policies initiated by the government of the host country, the impact of FDI inflow on trade vs., economic growth of the host country differs worldwide. Most of the countries had adopted protectionist import substitution policies after the World War II and were experiencing declining growth rate by the 1970s, only a small number of East Asian countries adopted international trade as part of their overall economic developmental policies. But at present, in the post liberalization era, the import substitution policies are replaced by strategies based on export-led industrialization with technological innovations worldwide especially in the Developing Asia which remains the world's largest Recipient region of FDI inflows (UNCTAD, WIR, 2014) and top FDI recipient's countries (Figure 1). Remarkable significant reforms are noticed both in developed and developing country among the top FDI recipient's countries in the post liberalization period, which focused on liberalization, transparency, openness and globalization with special focus on export friendly business environment and simplified measures encouraging the exports and economic growth.

FIGURE 1: FDI INFLOWS TOP 20 HOST ECONOMIES, 2012-13 (Billions of dollars)



Source: UNCTAD FDI-TNC-GVC Information system, FDI/TNC database (www.unctad.org/fdistatistics)

Conventional theories of FDI suggests that competitive advantage in the form of ownership, location and internationalization, allows firms to gain monopolistic and oligopolistic power in the market and develop their businesses internationally through investments, mergers and acquisitions (Dunning, 2000). According to Caves (1990) acquisition of a foreign competitor enables the acquirer to bring a more miscellaneous stock of explicit assets under its control and therefore grab more opportunities. A variety of studies have argued that multinational companies (MNCs) internationalize businesses mainly to acquire indescribable assets and analogous resources which they do not acquire and which are indispensable to build up a competitive advantage for continued existence in more competitive

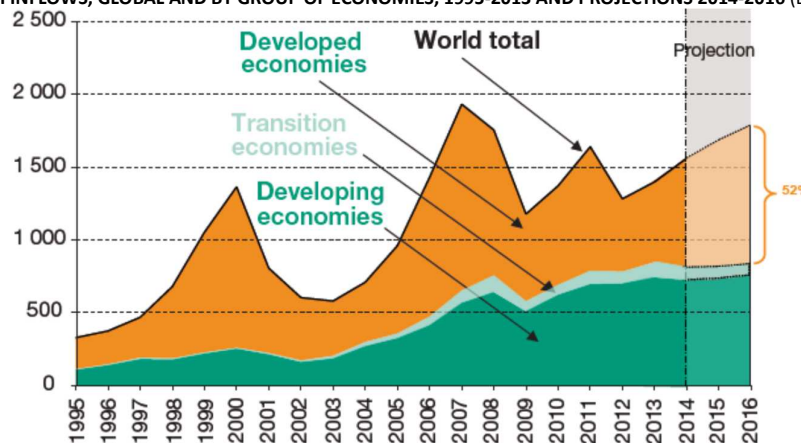
environments (Wang and Boateng, 2007; Anlakh, 2007). According to Feldstein (2000), unconstrained capital flows may also tender various advantages. First, international capital flows decrease the risk of the owners of capital by allowing them to expand their lending and investment. Second, the global amalgamation of capital markets can contribute to the spread of best practices in accounting standards, corporate governance and legal ethnicity. Third, the global mobility of capital restricts the ability of governments to practice terrible politics.

Global trends of FDI have comprehensively changed since the 1980s. In fact, total FDI sticks around the world, increased more than 25 times in the previous three decades (i.e., from US\$ 700 billion in 1980 to US\$ 17.7 trillion in 2009). The first rank in both inward and outward FDI flows has been maintained by the United States. In terms of inward FDI flows, the top 10 ranked countries in 2009 were US, China, France, Hong Kong, UK, Russia, Germany, Saudi Arabia, India, and Belgium. And in terms of outward FDI flows for the same year, were US, France, Japan, Germany, Hong Kong, China, Russia, Italy, Canada, and Norway. Worldwide FDI flows improved reasonably to \$1.24 trillion in the year 2010, but were still 15% below their pre-crisis standard. According to World Investment Report (WIR), 2011, this is in distinguished to global industrial output and trade which back to pre-crisis levels. Owing to an increase in FDI flows to developing countries by 10%, in the year 2010, on the other hand, FDI flows to developed countries constricted further in the same year (7% compared to 2009). Statistic information point out that the value and share of the primary and services sector declined. This image is moderately dissimilar as compared with the pre-crisis level (2005-07). Statistics shows that the manufacturing sector is 10% below its pre-crisis levels; services are less than half, while primary sector has improved. Many eminent economists suggest that uneven regional distribution is the outcome of FDI flows. As did flows to South Asia, flows to least developed countries, Africa, non-coastal developing countries and small island developing states all knock down. Whereas major emerging regions, as for example, Latin America, East and South East Asia experienced well-built growth in FDI inflows.

In 2010, (WIR 2011), the developed countries accounted for less than half of global FDI flows, with shares falling from 57% in 2008 to 51% in 2009 and 47% in 2010. On the other hand, the share of transition and developing countries climbed from 43% in 2008 to 53% in 2010. In the same year, the Caribbean and Latin American country engrossed 10% of global FDI. World Investment Report reveals the fact that the major FDI recipients among the developed countries were the United States, France, Belgium, and the United Kingdom. Among the developing countries the largest recipients were the BRIC countries and they are: Brazil, the Russian Federation, India and China (Figure 1, 2).

According to World Investment Prospect Survey (2010-2012), since the end of 2008, with other economic behaviour, foreign direct investment (FDI) flows have undergone spectacular changes when the current economic and financial crisis strikes home for the first time. The atypical degree of the current crisis has raised major concerns about the propensity and aptitude of transnational corporations (TNCs) to carry on investing and growing overseas. As witnessed in 2009, the causes for a drop in FDI flows are undecided profits, condensed access to financial resources, declining market opportunities, as well as the apparent risk of a possible deterioration of the global economic recession. Not only that, the declining FDI also raises concerns among host countries particularly the developing countries who depends on international investments to finance their growth and employment generation.

FIGURE 2: FDI INFLOWS, GLOBAL AND BY GROUP OF ECONOMIES, 1995-2013 AND PROJECTIONS 2014-2016 (Billions of dollars)



Source: UNCTAD, WIR, 2014

OBJECTIVES OF THIS STUDY

To examine if there has been any causal relationship (unidirectional or bi-directional) between the variables FDI, Trade balance and GDP of the selected top 25 host countries during post liberalization regime i.e. from 1990 to 2013 and analyze the economic implications of such causal relationship. In our study we consider top 25 host countries according to the volume of inflows from 'above \$100 Billion' to 'below \$ 1 billion' category (Table 1).

REVIEW OF LITERATURE

This section reviews the empirical studies on the relation between FDI and economic growth, which facilitates identification of issues related to the impact of FDI on economic growth. FDI is an important vehicle for the transfer of technology and knowledge and it has been demonstrated that it can have a long-run effect on growth by generating increasing return in production via positive externalities and productive spillovers. Thus, FDI can lead to a higher growth by incorporating new inputs and techniques (Feenstra and Markusen, 1992). A study by Kashibhatla and Sawhney (1996) in the USA supports a unidirectional causality from GNP to FDI and not the reverse causation. Hu and Khan (1997) attribute the spectacular growth rate of the Chinese economy during 1982 to 1994 to the productivity gains largely due to market-oriented reforms, especially the expansion of the non-state sector, as well as China's "open-door policy", which brought about a dramatic expansion in foreign trade and FDI. Basu (2002) have tried to find out the short-run dynamics of FDI and growth. Choe, (2003) and Mullen and Williams (2005) have concluded that FDI has a positive effect on economic growth. Borensztein et al. (1998), Alfaro et al. (2004), and Alfaro et al. (2008) have concluded that FDI will promote economic growth only when certain economic conditions are met in the host country, such as a threshold level of human capital. Carkovic and Levine (2005) have argued that FDI does not have any significant impact on economic growth in the host country, while Mengening (2003) has found that inward FDI is negatively related to economic growth.

Ahmad and Harnhirun (1996) examined causality between exports and economic growth for five countries of the Association of Southeast Asian Nations (ASEAN). Dutt and Ghosh (1996) studied causality between exports and economic growth for a relatively large sample of countries using the error correction model (ECM) for the countries in which they found cointegration. Then Vector Error Correction (VEC) model was estimated, and tests for Granger causality were performed. According to Goldberg and Klein (1998) direct investment may encourage export promotion, import substitution, or greater trade in intermediate inputs, especially between parent and affiliate producers. Blomstrom, Globerman and Kokko (2000) argue along the same lines that the beneficial impact of FDI is only enhanced in an environment characterized by an open trade, investment regime and macroeconomic stability where FDI can play a key role in improving the capacity of the host country to respond to the opportunities offered by global economic integration. Empirical research by Chakraborty and Basu (2002) examined FDI and Trade function as engines of growth, where they concluded that as trade and FDI liberalization policies began in India in the late 1980s and were widened in the 1990s, these policy liberalizations have increased growth in India significantly. Love and Chandra (2004) confirmed these results and further suggested that trade and

economic growth exhibits a feedback relationship. For China, *Tian et al.* (2004) pointed out that provinces with a higher FDI ratio (ratio of FDI to GDP) have experienced rapid economic growth. He concluded that FDI should be encouraged in the less developed economies to accelerate technological change and economic growth. The interrelated relationship between volume of trade and FDI inflow, and interpreting the importance of these activities towards economic growth has always been considered as an important topic for discussion since the era of import liberalization policies to the era of openness and economic growth, however the empirical work on the relationship is relatively limited. Many of the studies conducted so far do not discuss the issue of causality between the three variables and the existing literature on the Indian position in the subject matter proves to be inadequate.

TABLE 1: FDI INFLOWS OF THE TOP 25 HOST COUNTRY (Billion dollars)

Unit	FDI Inflows(Billion dollars)	Name of the Country
Unit 1	Above \$100 billion	United States(Developed)
Unit 2	Above \$50 billion	United Kingdom(Developed)
	(\$50 bn-\$99 bn)	Australia(Developed)
		China (East & South-East Asia)
		Singapore(East & South-East Asia)
Unit 3	Above \$ 10 Billion	Canada(Developed)
	(\$ 10 bn-\$ 49 bn)	Spain(Developed)
		France(Developed)
		Sweden(Developed)
		Indonesia(East& South east Asia)
		Malaysia (East & South-east Asia)
		Brazil (Latin America & The Caribbean)
		India (South-East Asia)
		Chile (Latin America & The Caribbean)
		Columbia(Latin America& The Caribbean)
Unit 4	Above \$ 1 billion	Germany(Developed)
	(\$ 1 bn- \$ 9 bn)	Italy(Developed)
		Switzerland(Developed)
		Japan(Developed)
		Macao (East & South-East Asia)
Unit 5	Below \$ 1 billion	Netherlands (Developed)
	(\$ 0.1 bn-\$ 0.9 bn)	Malta (Developed)
		Pakistan(South-East Asia)
		Srilanka (South-East Asia)
		Cyprus (developed)

Source: UNCTAD, World Investment Report, 2013-14.

Pacheco-López (2005) has found that there exists a bi-directional causality between FDI and exports and FDI and imports in Mexico. It is also interesting to note that some studies have concluded that positive association between inward FDI and exports is unfounded, indicating that foreign firms are not likely to stimulate exports (*Alici and Ucal*, 2003; *Sharma*, 2003; *Zheng et al.*, 2004). *Aizenman and Noy* (2005) observe that it is common to expect bi-directional linkages between FDI and trade in goods. However, it is difficult to indicate whether inflows and outflows of FDI have different effects on trade in different types of goods. They have suggested that there is a strong relationship between FDI flows and trade, especially in manufacturing goods. *Wong and Tang* (2007) have examined the causality between FDI and exports using the electronics exports data of Malaysia.

The majority of the above-mentioned empirical studies have applied causality tests based on time series data to examine the nature of any causal relationship between FDI and exports. Some studies have not considered the endogenous nature of the export process and are subject to simultaneous bias (*Hood and Young*, 1979). Several are cross-country studies have assumed a common economic structure and similar production technology across countries, which may in fact not be true (*Hejazi and Safarian*, 2001; *Liu et al.*, 2001). Lack of comparability in terms of time and country has been an obstacle to the meaningful conclusion with respect to the available empirical studies, although a majority of such studies indicate a one-way causal relationship between inward FDI and the host country's export performance.

Liu et al. (2002) examined the presence of long run relationship among FDI, growth and exports in China during 1981-1997. They find the existence of bidirectional causality among them. *Wang* (2002) examined the nexus between FDI and economic growth in the sample of 12 Asian countries over the period 1987-1997. He suggests that FDI in the manufacturing sector has a significant positive impact on economic growth and attributes this positive contribution to FDI's spillover effects. *Campos and Kinoshita* (2002) explored the effects of FDI on economic growth for 25 Central and Eastern European and former Soviet Union economies. They find that FDI had a significant positive effect on the economic growth of each selected country. *De Gregorio* (1992) finds similar results for Latin American economies and *Blomstrom et al.* (1992) finds similar results from 78 developing countries. *Hsiao and Shen* (2003) find a feedback association between FDI and economic growth in China. *Choe* (2003) finds a bi-directional causality between FDI and growth for a sample of 80 countries over the period 1971-1995, but suggest that the effect is more apparent from economic growth to FDI. *Chowdhury and Marvotas* (2005) examined the causal association between FDI and growth from Chile, Malaysia and Thailand. They find the unidirectional causality from economic growth to FDI in Chile and a two-way causation between the two from other two countries. *Duasa* (2007) detects no causality between FDI and economic growth in Malaysia, but suggested that FDI does contribute to stability of growth. The above earlier findings give the evidence that the nexus between foreign direct investment and economic growth is far from straightforward (*Vu and Noy*, 2009). It varies from country to country and even within a country with different time periods.

RESEARCH METHODOLOGY AND DATA

This exploratory study will be empirical in nature and make use of secondary data to be collected from the publications of World Bank, IMF, UNCTAD, and research journals, periodicals and different websites. This empirical study intends to cover the period since 1990. The period of study is 1990-91 to 2012-13. To examine the causal relationship between the variables FDI, GDP and Trade balance of the 25 countries we use UNCTAD data warehouse from 1990- 2013. Apart from the use of descriptive statistical measures, some specific statistical and econometric tools have been used for analysis and interpretation of data, keeping the specific objectives of the study in mind.

Empirical Analysis: The techniques to be used to analyse the causal relationship between the variables FDI inflows, Trade balance and GDP, **Pair-wise Granger Causality Test** is used. A specific type of relation was pointed out by Granger (1969) and is known as Granger-causality. Granger called a variable y_{2t} causal for a variable y_{1t} if the information in past and present values of y_{2t} is helpful for improving the forecasts of y_{1t} . Suppose that y_{1t} and y_{2t} are generated by a bivariate vector autoregressive VAR(p) process,

$$\begin{pmatrix} y_{1t} \\ y_{2t} \end{pmatrix} = \sum_{i=1}^p \begin{bmatrix} a_{11,i} & a_{12,i} \\ a_{21,i} & a_{22,i} \end{bmatrix} \begin{pmatrix} y_{1,t-i} \\ y_{2,t-i} \end{pmatrix} + u_t \quad (1)$$

Then y_{2t} is not Granger-causal for y_{1t} if and only if $a_{12,i} = 0, i=1,2,\dots,p$. In other words, y_{2t} is not Granger-causal for y_{1t} if the former variable does not appear in the y_{1t} equation of the model. This result holds for both stationary and integrated processes.

To examine the causal relationship between the variables FDI, GDP and Trade balance of the 25 countries we uses UNCTAD data warehouse from 1990- 2013(Results: Table 2). From the table,column 5, unidirectional causality is present between FDI and GDP in 10 countries out of 25 countries namely UK, Australia, France, Brazil, India, Chile, Italy, Switzerland, Srilanka, and Cyprus and in 4 countries bi-directional causal relationship is present between FDI and GDP namely China, Canada, Macao, and Pakistan.For causal relationship between FDI and Trade balance (TB), in 7 countries unidirectional causal relationship is present, of them China, Spain, France, India, Sweden, Macao, and Pakistan.

TABLE 2: GRANGER CAUSALITY TEST FOR FDI, GDP AND TRADE BALANCE I.E., CAUSALITY RELATIONSHIP BETWEEN FDI AND GDP AND TB (Trade Balance)

Country	Null Hypothesis	Obs.	F-Statistic	Prob.
USA	GDP does not Granger Cause FDI	18	1.37474	0.3380
	FDI does not Granger Cause GDP	18	1.17258	0.4083
	TRADE BALANCE does not Granger Cause FDI	18	1.74916	0.2419
	FDI does not Granger Cause TRADE BALANCE	18	0.28560	0.9067
UK	GDP does not Granger Cause FDI	18	7.02747	0.0118*
	FDI does not Granger Cause GDP	18	0.81277	0.5760
	TRADE BALANCE does not Granger Cause FDI	18	0.61427	0.6941
	FDI does not Granger Cause TRADE BALANCE	18	0.26430	0.9190
Australia	GDP does not Granger Cause FDI	18	2.66702	0.1167
	FDI does not Granger Cause GDP	18	4.67503	0.0339*
	TRADE BALANCE does not Granger Cause FDI	18	0.68468	0.6503
	FDI does not Granger Cause TRADE BALANCE	18	1.02829	0.4684
China	GDP does not Granger Cause FDI	18	4.49756	0.0373*
	FDI does not Granger Cause GDP	18	14.8179	0.0013*
	TRADE BALANCE does not Granger Cause FDI	18	0.84961	0.5560
	FDI does not Granger Cause TRADE BALANCE	18	14.8904	0.0013*
Singapore	GDP does not Granger Cause FDI	18	0.85126	0.5551
	FDI does not Granger Cause GDP	18	1.07796	0.4467
	TRADE BALANCE does not Granger Cause FDI	18	1.86153	0.2197
	FDI does not Granger Cause TRADE BALANCE	18	0.45886	0.7959
Canada	GDP does not Granger Cause FDI	18	3.17230	0.0821**
	FDI does not Granger Cause GDP	18	8.09015	0.0080*
	TRADE BALANCE does not Granger Cause FDI	18	2.02849	0.1911
	FDI does not Granger Cause TRADE BALANCE	18	0.94820	0.5058
Spain	GDP does not Granger Cause FDI	18	0.73212	0.6219
	FDI does not Granger Cause GDP	18	1.69277	0.2540
	TRADE BALANCE does not Granger Cause FDI	18	1.83541	0.2246
	FDI does not Granger Cause TRADE BALANCE	18	7.46324	0.0100*
France	GDP does not Granger Cause FDI	18	1.45902	0.3129
	FDI does not Granger Cause GDP	18	3.12987	0.0845**
	TRADE BALANCE does not Granger Cause FDI	18	2.93540	0.0964**
	FDI does not Granger Cause TRADE BALANCE	18	1.36095	0.3423
Sweden	GDP does not Granger Cause FDI	18	1.13508	0.4231
	FDI does not Granger Cause GDP	18	1.36056	0.3424
	TRADE BALANCE does not Granger Cause FDI	18	5.03695	0.0282*
	FDI does not Granger Cause TRADE BALANCE	18	0.43984	0.8085
Indonesia	GDP does not Granger Cause FDI	18	1.23756	0.3840
	FDI does not Granger Cause GDP	18	0.86599	0.5474
	TRADE BALANCE does not Granger Cause FDI	18	1.30063	0.3620
	FDI does not Granger Cause TRADE BALANCE	18	1.62537	0.2695
Malaysia	GDP does not Granger Cause FDI	18	1.77039	0.2375
	FDI does not Granger Cause GDP	18	1.04681	0.4602
	TRADE BALANCE does not Granger Cause FDI	18	0.48010	0.7818
	FDI does not Granger Cause TRADE BALANCE	18	0.28373	0.9078
Brazil	GDP does not Granger Cause FDI	18	3.37765	0.0718**
	FDI does not Granger Cause GDP	18	1.63579	0.2671
	TRADE BALANCE does not Granger Cause FDI	18	1.88513	0.2154
	FDI does not Granger Cause TRADE BALANCE	18	2.70488	0.1135
India	GDP does not Granger Cause FDI	18	6.07592	0.0242*
	FDI does not Granger Cause GDP	18	1.40835	0.3410
	TRADE BALANCE does not Granger Cause FDI	18	0.53265	0.7469
	FDI does not Granger Cause TRADE BALANCE	18	17.5009	0.0016*
Chile	GDP does not Granger Cause FDI	18	9.81212	0.0046*
	FDI does not Granger Cause GDP	18	2.06752	0.1851
	TRADE BALANCE does not Granger Cause FDI	18	1.60551	0.2743
	FDI does not Granger Cause TRADE BALANCE	18	1.26689	0.3736
Colombia	GDP does not Granger Cause FDI	18	1.89686	0.2132
	FDI does not Granger Cause GDP	18	0.19983	0.9525
	TRADE BALANCE does not Granger Cause FDI	18	0.16274	0.9686
	FDI does not Granger Cause TRADE BALANCE	18	1.66716	0.2598
Germany	GDP does not Granger Cause FDI	18	0.67026	0.6591
	FDI does not Granger Cause GDP	18	2.06445	0.1856
	TRADE BALANCE does not Granger Cause FDI	18	0.48593	0.7779
	FDI does not Granger Cause TRADE BALANCE	18	2.06077	0.1862

Italy	GDP does not Granger Cause FDI	18	0.89662	0.5315
	FDI does not Granger Cause GDP	18	4.14047	0.0454*
	TRADE BALANCE does not Granger Cause FDI	18	0.34304	0.8716
	FDI does not Granger Cause TRADE BALANCE	18	1.88016	0.2163
Switzerland	GDP does not Granger Cause FDI	18	0.61535	0.6935
	FDI does not Granger Cause GDP	18	4.08032	0.0470*
	TRADE BALANCE does not Granger Cause FDI	18	0.39987	0.8349
	FDI does not Granger Cause TRADE BALANCE	18	0.54518	0.7388
Japan	GDP does not Granger Cause FDI	18	0.36582	0.8571
	FDI does not Granger Cause GDP	18	2.39086	0.1434
	TRADE BALANCE does not Granger Cause FDI	18	0.72278	0.6274
	FDI does not Granger Cause TRADE BALANCE	18	0.38549	0.8443
Macao	GDP does not Granger Cause FDI	18	8.78647	0.0063*
	FDI does not Granger Cause GDP	18	8.47195	0.0070*
	TRADE BALANCE does not Granger Cause FDI	18	3.03126	0.0903**
	FDI does not Granger Cause TRADE BALANCE	18	1.26931	0.3728
Netherland	GDP does not Granger Cause FDI	18	0.97555	0.4927
	FDI does not Granger Cause GDP	18	1.39666	0.3312
	TRADE BALANCE does not Granger Cause FDI	18	0.55372	0.7332
	FDI does not Granger Cause TRADE BALANCE	18	0.62740	0.6858
Malta	GDP does not Granger Cause FDI	18	2.04679	0.1883
	FDI does not Granger Cause GDP	18	1.69721	0.2530
	TRADE BALANCE does not Granger Cause FDI	17	1.38865	0.3468
	FDI does not Granger Cause TRADE BALANCE	17	0.91043	0.5311
Pakistan	GDP does not Granger Cause FDI	18	4.77538	0.0322*
	FDI does not Granger Cause GDP	18	6.04779	0.0176*
	TRADE BALANCE does not Granger Cause FDI	18	2.35122	0.1478
	FDI does not Granger Cause TRADE BALANCE	18	2.92706	0.0970**
Srilanka	GDP does not Granger Cause FDI	18	3.16210	0.0827**
	FDI does not Granger Cause GDP	18	1.07703	0.4471
	TRADE BALANCE does not Granger Cause FDI	18	0.52023	0.7552
	FDI does not Granger Cause TRADE BALANCE	18	0.96177	0.4993
Cyprus	GDP does not Granger Cause FDI	18	1.56204	0.2851
	FDI does not Granger Cause GDP	18	9.71980	0.0047*
	TRADE BALANCE does not Granger Cause FDI	18	0.51291	0.7600
	FDI does not Granger Cause TRADE BALANCE	18	1.50353	0.3005

Note:

- * Significant at 5% levels
- ** significant at 10% levels

CONCLUSION

From the p-value, we can say that the **hypothesis 'FDI causes GDP'** is significant in 5 cases (i.e. UK, Brazil, India, Chile, Srilanka), **'GDP causes FDI'** is significant in 5 cases (i.e. Australia, France, Italy, Switzerland, and Cyprus) and **'GDP causes FDI, FDI causes GDP'** is significant in 4 cases (i.e., China, Canada, Macao, Pakistan). From the p-value, we can say that the **hypothesis 'FDI causes TB(trade balance)'** is significant in 4 cases(i.e. China, Spain, India, Pakistan), **'TB causes FDI'** is significant in 3 cases(i.e. France, Sweden, Macao).From this result, we can say that FDI has no effect on GDP in most of the countries except some developed countries. But GDP has effect of on FDI in developing countries and also FDI has effect on TB (trade balance) in developed and developing countries.

POLICY RECOMMENDATION

As a country becomes more open to the rest of the world, there exists a greater chance for more export and less FDI inflow into the country. This is possible because export and FDI are two different and alternatives modes of foreign market operation. If trade openness squeezes, then it attracts foreign investors to open their subsidiaries in the reporting country the results also illustrate that FDI explains most of its forecast error variance. That means if there is a hike in the inflow of FDI in the current period, then credit should go to them who were responsible for the increment of inflow in the previous periods. In general, however, the country –specific macroeconomic factors seem to be playing a comprehensively significant role in determining FDI.

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