THE IMPACT OF GOVERNANCE ON FOREIGN DIRECT INVESTMENTS: EVIDENCE FROM PAKISTAN, INDIA & BANGLADESH

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ABSTRACT

Purpose: Foreign direct investment (FDI) plays a vital role in the economic growth and development of the developing countries. This study examines the governance and its impact on foreign direct investment in Pakistan, India and Bangladesh. *Design/Methodology/Approach:* This study measure country governance through voice and accountability , government effectiveness, rule of law, regulatory quality, political stability and absence of violence and control of corruption controlling for macroeconomic factors such as gross domestic product, inflation, exchange rate and rate of interest. Pooled and Panel data analysis is performed. Findings: The empirical results suggested that that Rule of law has negative impact on FDI whereas Government effectiveness, Regulatory quality and Gross domestic product have positive impacts on FDI Moreover, the Hausman test results suggested that random effect is prevailing in data, While Breush Pagan Lagrange Multiplier test suggested that pool model analysis is preferred over panel data.Implications: From the results it is concluded the three countries has poor governance comparatively to the develop countries. So they need to improve its governance to attract more and more FDI inflow. If there is good governance in a country so more and more investors will invest in the country. So the government should adopt such sound policies and should promote good governance in the country that the foreign investors would come to invest.

KEYWORDS: FDI, Governance, Pakistan, India, Bangladesh

1.   INTRODUCTION

Foreign direct investment (FDI) is to be assumes a significant job in the development and advancement of the nations especially in the developing nations. Developing countries face lack of capital to investment, and they need more and more funds to invest into the country to produce new business openings. Besides, FDI also raises per capita, standard of living, and GDP, of the country. On the other hand profitability of the capital of the developing nations is high and the speculators expect more and more profit from the developing nations. As a result there exists a mutual benefit for the host countries and investors to invest and thus Foreign Direct Investment takes place.Azam and Uddin (2001) expressed that FDI is a significant instrument for the developing countries through which they can gain the advantages of globalization. Stern (2002) argued that worldwide organizations offers significance to the venture atmosphere of the nation in this manner sound atmosphere of a nation can receive more FDI inflow towards the country.

Anjum and Nishat (1998) stateed that political reliability, fairness circumstance (peaceful), mineral assets, specialized work power and financial arrangements of the administration has pulled in outside speculators. Asiedu (2002) has concentrated on strategy changes as the determinants of the creating nations for FDI inflows and found that the level of openness to FDI and corporate expense rates are the determinants of FDI. Zaidi (2004) expressed that in developing or poor countries saving (which is then equal to investment) is very low than the desired level. So the gape between saving and investment can be fill by Foreign Direct InvestmentShapiro and Globerman (2002) argue that the good governance has a positive impact onthe outflow and inflow of FDI. However, the impact on FDI outflow

is only significant for large and developed countries. The world bank study 2012 investigated different factors that can constitute governance index are voice and accountability (VA), political stability and absence of violence (PS), control of corruption (CC), government effectiveness (GE), regulatory quality (RQ) and rule of law (RL). According to the study country governance will be high if the voice and accountability is high and lower in case of low level of voice and accountability of the country. If a country government is politically stable and there is no or less violence (terrorism) in a country means good governance in the country. The higher is the country corruption the lower shall be country governance. Thus all these factors affect the country governance and moreover the governance can directly affect the foreign investors' confidence in country and foreign direct investments.

1.1 Research question

This study has mainly focused on the governance factors impact on the foreign direct investment based on the literature review the following question can be framed.

- Does governance indicators has impact on FDI inflow towards the countries?

1.2 Limitation of the study

The study has few limitations such as:

This study is based on the panel data retrieved from the World Bank website ranging from 1996 to 2012. So data availability is the main constrained in this research due to which the study fail to use large set data for analysis. Time is limited and it is hard to collect data for the more time period and have to rely on the World Bank data.

2.   REVIEW OF LITERATURE AND HYPOTHESIS DEVELOPMENT

Fan et al. (2007) explored the impact of governance on the Foreign Direct Investment and found a positive relationship among the governance and FDI for example if the governance is good Foreign Direct Investment inflow will high and vice-versa in case of bad governance.Kaufmann et al. (1999) developed indices for good governance which were updated by the Kaufman et al. (2003) according to their indices which they developed for good governance that the Good governance has the characteristics of economic freedom, security of the property rights, minimum cost which meets the specified standard for trade and less restrictions of trade, honest and efficient government servants and transparent legal system. So to promote the FDI the government should provide an atmosphere to the investors such as to give them confidence that their investment is safe here and they can earn profit from here.Asiedu and Lien (2011) found at the context of the vast empirical literature on the determinants of FDI that 12 published studies have included democracy as explanatory variables.

 They found that out of these 12 studies, eight has positive effect of democracy on FDI, three has no significant effects, and only one published by Li and Risnick (2003) found a significantly negative effect of the democracy on FDI.In response to Li and Resnick (2003) Soysa and Jakobsen(2006) suggested that if one doubles the sample size e.g. from 50 to 100 countries and uses logarithm of the multilateral FDI flows (relatively than the level) this finding is reversed .The democracy and property rights indexes have opposite effects on FDI. Shapiro and Globerman (2002) argue that the good governance has a positive effect on FDI outflow and FDI inflow, but the FDI outflow affect is only significant mostly for large and developed countries.It is belief that good governance is important for investment, economic growth and development it has a positive relationship with to foreign direct investment (FDI), which is important for economic growth of the developing countries that's why most of the developing countries have a strong focus on good governance .There are some empirical papers which show that economic, governance and FDI are positive correlated, means that if there is good governance the inward FDI will high and if there is bad governance the situation will be vice versa. However it (correlation) ignores causality effect. To design policies more effectively it is important to know the casualty effect between FDI and good governance.

2.1 Governance indicators

The governance indicators as follows:

2.2   Voice and Accountability (VA)

This implies the citizens of the country are allowed to choose governmentfreedom of association, freedom of thoughts, freedom of expression, and that the media ought to be free so they can express their perspectives. Bird et al (2006) expressed that to get or to accomplish the administration writ the legislature ought to have backing of the general population from the number of inhabitants in the nation. At the end of the day he expressed that the financial as well as the political framework which influences the monetary exercises of the nation. (Satarov and Levin (2000)

expressed that the main reason of the failure of the Russia government were the failure to secure the private property rights and pay off of the briberies to the corrupt authorities.

2.3 Political stability and absence of violence

Abadie and Gardeazabal (2008) contended that due to terrorism the government diverts the gainful assets to the security of the nation, it lessens the normal rate of degree of profitability, builds vulnerability, on account of these reasons and in light of the conceivable portability of the elements the investors moves the cash-flow to different nations, and consequently decays happens in the interests in the household and in the outside also.

2.4 Government Effectiveness (GE)

Government effectiveness means the nature of the civil administration, the development of strategies and its usage for FDI and trade. Most of the foreign firms leans toward the nation where the arrangements are best. Mehlum et al (2006) contended that the nations having rich assets can utilize their abundant supply and can accomplish quick financial development if the organizations of the nation work adequately. Strong administration and solid foundations are important to get support and consistent monetary development.

2.5 Regulatory Quality (RQ)

Regulatory quality, the ability of the legislature to make sound strategies and guidelines that permit promote private sector development. Of the six governance indicators this is very important indicator to increase both outside direct speculations (FDI) and exchange. Mody and Wheeler (1992) explored that FDI does very little pulled in to lower wage nations. Anyway, having some other human capital indicators, for example, training and proficiency rate a few analysts discovered positive connection among education and instruction and remote direct speculation, that where instruction and proficiency rate is high the FDI will high there and where it is low.

2.6 Rule of Law (Rl)

Rule of law estimates the certainty that the specialists have on the guidelines of the general public particularly on account of the nature of the agreement authorization, courts and the police. This is significant for both the FDI and trade. Narayan et al. (2000) and Belton (2005) expressed that the rule of law implies individual security also the security of property. So the rule of law implies in first occasion the arrangement of security to an individual and the security of the property or the trustworthiness of the agreement between the economic agents.

2.7 Control of corruption

Shleifer and Vishny (1993) contended that corruption like tax can build the expense for the investors and subsequently it diminishes the overall revenue to the speculators and it has negative impact on FDI. Calerio and Caetano (2005) find that corruption has a critical negative effect on FDI, yet expressed that the huge effect it has is just for developing nations. Freckleton et al (2010) researched the connection among FDI and corruption by utilizing 42 developing nation's information. He utilized board information to assess the connection among corruption and economic growth and from the observational outcomes he found that lower level of corruptiont can build the FDI which greatly affects financial development and advancement.

3. RESEARCH DESIGNED AND METHODOLOGY

3.1 Type of research

As stated earlier that research is of quantitative nature and as the study shall provide descriptive overview of variables of interest. It's also explanatory study because it's also testing the impact of governance factors on FDI.

3.2 Population

The population for the study is south asia

3.3 For a sample

Sample size for the study is Pakistan, India and Bangladesh were taken.

3.4 Sample size and data collection

This study primarily founded on Pakistan, India and Bangladesh and what is the circumstance of governance in these nations and how it influences FDI. So information will be gathered from 1996 to 2012 from, for example, governance data will be collected from WGI site while FDI information will be gathered from the World Bank site for a similar timeframe.Moreover the data is of panel nature. The three mentioned countries (Pakistan, India and

Bangladesh) constitutes the cross sectional units while the number of years (17 years) constitutes the time series units. Total number of observations in this Panel set of data is 51 (nxt=3x17).

3.5   Statistical tools

The following statistical techniques will be used for statistical analysis.

3.6   Panel regression

Because of the panel nature of data, panel regression has been opted for analysis. FDI has been taken as dependent variable whereas ROL, PA, GE, RQ, VA, CC, ER, IR. GDP and inf were taken as independent variables. Being panel nature of data, best model is selected through Hausman test, Wald test or test for differing groups intercepts and Bresuh. Pagan Lagrange Multiplier test. Hypotheses for the tests are as:

3.7   Hausman test

Hausman tests(Hausman 1978) is used to compare fixed effect model and Random effect model. This test is d esign to detect the violation of the Random effect model.The decision rule for the test is that if the P-
value is greater than 0.05, null of the test will be accepted and vice versa.
Hausman test is based on the following assumptions:
The Hypothesis for the test is:

H_0: Random effect model is better than the Fixed effect model or GLS estimates are consistent
H_1: Random effect model is not better than the Fixed effect model or GLS estimates are not consistent

3.8   F-test or wald test

This test is used for comparing Pooled OLS and the Fixed effect model. It is also used to evaluate the hypothes is that involved multiple parameters. The decision rule is same as mentioned above for the Hausman test.This test was run for selecting the best model between Pooled OLS and Fixed effect model. The hypothesis is:

H_0: Pooled OLS is better than Fixed effect model or Groups have a common intercept
H_1: Pooled OLS is not better than the Fixed effect model or Groups have no common interpt.

3.9   Bresuh Pagan Lagrange Multiplier Test

This test serves the purpose of comparing Pooled OLS with Random effect model under the same decision rul e. It was introduced by Breusch and Pegan in (1979) in an article. It is used to test for heteroscedasticity problem in a linear regression model. It tests the estimated variacnce of residuals of the regression are depedent on the of the i ndependent. Acconding to classical assumptions, including homoscedasticity that ordinary least square has the prop erties of best linear unbiased estimator (BLUE), i.e., It should be unbiased and and efficient, but it
losts its efficiency In the presence of heteroscedasticy. So Breush Pegan test is much important to check heterosced asticity problem before the estimation of the model.
under the assumption of null hypothesis of homoscedasticity.
Hypothesis for the test is:

H_0: Pooled OLS is better than the Random effect model
H_1: Pooled OLS is not better than the Random effect model
Moreover Heteroscedasticity has been checked through Bresuh Pagan test. The hypothes for this test is
H_0: The data is Homoscedastic
H_1: The data is Heteroscedastic

3.10 Model

The below statistical model has been used for the analysis purpose. The vari able of the model and its constru ction are adopted from the study of the (Kaufmann. Kraay and Mastruzzi 2007a).

$$FDI_{it} = \alpha + \beta_1 VA_{it} + \beta_2 PV_{it} + \beta_3 GE_{it} + \beta_4 RQ_{it} + \beta_5 RL_{it} + \beta_6 CC_{it} + Z_{it} + \varepsilon_{it}\ldots.1$$

3.11 Definition of variables

3.11.1   Voice and Accountability (Va)

This variable estimates the view of the degree to which nation residents can take an interest in choosing their government, free media, opportunity of articulation, and opportunity of affiliation. (Kaufmann, Kraay, and Mastruz zi 2007a).

3.11.2 *Political Stability and Absence of Violence/Terrorism (Pv)*

This variable estimates the effect of political stability, the effect of violence, The adequacy of the judiciary , the enforceability of the agreements and the assurance of property rights in a nation on FDI.(Kaufmann, Kraay, an d Mastruzzi 2007a).

3.11.3 *Government Effectiveness (Ge)*

This variable estimates the nature of administration, qualification of government employees, nature of adm inistrations to people in general, political pressure on government workers they free or not from the political pressu re, strategy arrangement and government responsibilitytowards strategies execution, Government validity towards a pproaches usage. (Kaufmann, Kraay, and Mastruzzi (2007a).

3.11.4 *Regulatory Quality (Rq)*

This variable estimates the administration capacity to figure sound approaches and its usage and guidelines that pull in private division. Of these six pointers this one is significant for improving FDI and exchange. (Kaufma nn, Kraay, and Mastruzzi 2007a).

3.11.5 *Rule of Law (Rl)*

This variable estimates the effect of political strength and the impact of violence in a nation, the adequacy of the legal executive, the quality and the enforceability of the agreements, the assurance of property rights, the poli ce, and the courts on FDI. This variable is significant for both FDI and exchange. (Kaufmann, Kraay, and Mastruzz i 2007a).

3.11.6 *Control of Corruption (Cc)*

This variable estimates the view of corruption the degree to which public power is practiced for private interes ts, Corruption demonstrates the failure of the government. That's the reason this is the most significant variable to measures the FDI.(Kaufmann, Kraay, and Mastruzzi 2007a).

3.12 Controlled variables

3.12.1 *Exchange rate (Er)*

Exchange rate estimates the rate of trade of money between the two monetary standards. It is the trading o f the local cash into foreign money. Here we quantifies the conversion scale sway on FDI to discover that the high exchange rate has highly affects FDI inflow and the other way around. So it is a significant macroeconomic variabl e to measures the FDI

3.12.2 *Interest Rate (Inst Rate)*

Gross and Trevino (1996) expressed that a high rate of Interest rate has a generally positive effect on FDI i nflow to the host nation.

3.12.3 *Gross Domestic Product (Gdp)*

Gross Domestic Product or Total national output is significant for the outside speculators to settle on choic es for the Investment. Gross domestic product shows the development rate of a nation. It is considered as the nation al pay development marker or the monetary exhibition pointer of a nation. So in macroeconomic variable this varia ble has much significance to discover the effect of the GDP on FDI.

3.12.4 *Inflation (Inf)*

Inflation shows the monetary stability or instability of a nation. A high rate of inflation shows/indicates econo mic instability and vice versa. So it is likewise a significant macroeconomic variable to gauge its effect on FDI.

4. EMPIRICAL ANALYSIS AND DISCUSSION

This chapter includes the empirical analysis of the study. The analysis has done for three countries and the too ls used are stationeries test, descriptive statistics, correlation, and regression.

Table 1: Descriptive Statistics

Variables	Obs	Mean	Std. Dev	Min	Max
VA	51	-0.3208	0.57506	-1.32	0.45
PA	51	-1.3765	0.56449	-2.81	-0.45
GE	51	-0.441	0.2972	-0.86	0.11
RQ	51	-0.628	0.26789	-1.1	-0.16
Rol	51	-0.5337	0.48219	-1.02	0.29
CC	51	-0.7875	0.33701	-1.49	-0.28
INSTR	51	4.18226	3.42959	-5.6	9.39848
ER	51	69.5148	26.2334	35.43	116.03
GDP	51	5.43711	2.12702	1.01	10.5464
Inf	51	7.47345	3.80297	2.00717	20.29
FDI	51	1.1621	0.87843	0.03327	3.90442

Descriptive statistics illustrates the minimum and the maximum values of the independent variables of the data followed by the mean and the standard deviation. The descriptive statistics summarize sample rather than population. The above table shows that each variable has 51 observations in total.

Table 2: Heteroscedasticity

Test Run	P-value
Breush Pagan test or Cook-Weisberg test	0.0001

Heteroscedasticity was checked through Breush Pagan test or CookWeisberg test. Results are given in the above table.The results show that Pvalue (0.0001) for the test is less than 0.05, thus rejecting the null hypothesis and is showing the Heteroscedasticity problem in data.

4.1   Regression analysis and findings

Table 3: Regression results of Random effect model

Variables	Coefficients	Std.error (Robust)	Z-stats	P-value
Constant	0.8290493	1.42825	0.58	0.562
VA	0.1796755	0.604104	0.3	0.766
PA	-0.5376257	0.297895	-1.8	0.071
GE	2.225058	1.057623	2.1	0.035
RQ	2.150194	1.22594	1.75	0.079
Rol	-2.092784	0.68614	-3.05	0.002
CC	-0.2820711	0.576058	-0.49	0.624
InR	-0.0004403	0.055317	-0.01	0.994
ER	-0.0055946	0.013833	-0.4	0.686
GDP	0.109352	0.052535	2.08	0.037
Inf	0.0587914	0.040797	1.44	0.15
R-square	0.5529 Or 55.29%			
Prob-Chi square test	0			

4.2 Random effect model

Results in the above table for Random effect model indicate that the only variable that affects the FDI negatively and significantly is ROL. Whereas GE and GDP have positive and statistically significant impact on the FDI. The value of GE's coefficient (2.225) shows that with 1% change in GE, FDI changes by 222.5% whereas GDP changes by 10.93%. Moreover PA's coefficient (0.54) shows that PA has negative relationship with FDI. It's Pvalue (0.07) shows that the effect of PA is insignificant on FDI. CC's value of the coefficient is 0.28, indicating a negative relationship of CC with FDI. It's Pvalue (0.62) shows that CC has insignificant relationship with FDI. INSTR has coefficient's value of 0.00044 showing a negative relationship of this variable with FDI. Moreover Pvalue (0.994) shows that this relationship is insignificant. ER has coefficient's value of 0.0056 showing a negative relationship of ER with FDI. The Pvalue (0.68) shows that the relationship of ER with FDI is statistically insignificant. VA has a coefficient's value of 0.18 showing that it has a positive relationship with FDI. Furthermore Pvalue is 0.76, again indicating an insignificant relationship. RQ has a coefficient's value of 2.15 indicating a positive relationship with FDI.

The Pvalue is 0.079 indicates that the relationship is insignificant. Inflation has coefficient value of 0.059 has positive relationship with FDI. The Pvalue in this case is 0.15, again declaring the relationship to be statistically insignificant. From the coefficients' values of the said variables, it's clear that PA, CC, INSTR, ER changes by 53.53%, 28.23%, 0.04%, 0.60% respectively. Moreover as the coefficients are negative, therefore with a 1% increase in these variables, FDI decreases by the said percentages respectively. Furthermore with a percent increase in VA and RQ, FDI increases by 17.96% and 215% respectively, as their coefficients are positive. Furthermore it's evident from the results that each variable, whether affecting the FDI positively or negatively, affect FDI to the extent of amount equal to their respective coefficients. Furthermore the value of RSquare (0.5529 Or 55.29%) in this case shows that 55.29% of the total variation in the dependent variable FDI is explained by the independent variables included whereas the remaining variation remains unexplained.

4.3 Selection of the best model

As the data was of Panel nature, therefore Panel regression is applied as analysis tool for the study. The overall results are given above. Among the three models (Pooled OLS, Fixed effect model and Random effect model), best one has been selected by using Wald test, Breush Pagan Lagrange multiplier test and Hausman Test for Pooled against Fixed eTffect model, pooled against Random effect model and Random effect model against Fixed effect model respectively. The results are as under. Best model among the three models was selected on the basis of the following tests run for comparison.

Table 4: Results for Hausman Test (Random VS Fixed effect models)

Test	P-value
Hausman test	0.9196

4.4 Hausman Test

Hausman test has been run for comparing Random effect model against Fixed effect model. Results for this test shows that Pvalue (0.9196) for this test is also greater than 0.05, again leading to the acceptance of the null hypothesis and declaring Random effect model to be the better model between the two models.

Table 5: Results for comparison of Pooled OLS and Fixed effect model

Test for differing group intercepts	P-value (0.118343)

4.5 F-Test or Wald Test

From the above results of Wald test or test for differing group intercepts shows that Pvalue (0.118343) for the test is greater than 0.05, leading to acceptance of the null hypothesis and declaring Pooled OLS to be the best model between the two.

Table 6: Results for comparison of Pooled OLS and Random effect model

Breush Pagan Lagrange Multiplier test	P-value (1.0000)

4.6   Breush Pagan Lagrange Multiplier Test

Breush Pagan Lagrange Multiplier test is run for comparing Pooled OLS with Random effect model. Results for this test shows that Pvalue (1.0000) for this test is greater than 0.05, again leading to acceptance of the null hypothesis and declaring Pooled OLS to the better model between the two.Based on the results from the above tests, Pooled OLS was selected as the best model for the study. Results of the Pooled OLS are as under:

Table 7: Regression results for Pooled OLS (Robust)

Variables	Coefficients	Std. error	T-Stats	P-Value
Constant	0.8290493	1.04291	0.79	0.431
VA	0.1796755	0.48617	0.37	0.714
PA	-0.537626	0.37158	-1.45	0.156
GE	2.225058	0.767	2.9	0.006
RQ	2.150194	1.00428	2.14	0.038
RoI	-2.092784	0.69546	-3.01	0.005
CC	-0.282071	0.47827	-0.59	0.559
InR	-0.00044	0.03653	-0.01	0.99
ER	-0.005595	0.01047	-0.53	0.596
GDP	0.109352	0.04714	2.32	0.026
Inf	0.0587914	0.04051	1.45	0.155
R-square	0.5529 Or 55.29%			
Prob-F test	0			

4.7   Results Of Pooled Ols

Pooled OLS has been run with Robust standard errors, in order to control for the Heteroscedasticity problem in the data. Results for the Pooled OLS in the above table show that ROL is the only variable having negative and statistically significant effect on the dependent variable FDI whereas GE, RQ and GDP have a positive and significant impact on FDI. The value of the GE's coefficient (2.225) shows that with a percent change in GE, FDI changes by 222.5% whereas GDP changes by 10.93%. Furthermore it's clear from the results in the above table that PA, CC, INSTR, ER and VA and inflation have negative and positive but insignificant impact on FDI respectively. From the coefficients' values of the said variables, it's clear that PA, CC, INSTR, ER changes by 53.53%, 28.23%, 0.04 %, 0.60% respectively. Moreover as the coefficients are negative, therefore with a percent increase in these variables, FDI decreases by the said percentages respectively. Furthermore with a percent increase in VA and RQ, FDI increases by 17.96% and 215% respectively, as their coefficients are positive. Moreover it's also evident from the above results that each of the independent variable affects the dependent variable FDI up to extent of the amount equal to their coefficients respectively. Furthermore it's also clear for the value of R (0.5529 Or 55.29%) 55.29% of the total variation in the dependent variable FDI is explained by the independent variables included in the study while rest of the variation remains unexplained and became part of the error term. This study investigates the impact of country governance factors on the foreign direct investment inflow. The empirical results suggested that ROL is the only variable that has negative and statistically significant effect on the FDI. Whereas GE, RQ, and GDP have positive significant impact on FDI. These are consistent with the study of Anis, Saidi and Houria (2012) as they found the governance indicators such as political stability and regulatory quality have significantimpact on FDI inflows. Moreover Yaqoob And Rafid (2012) suggested that voice and accountability, government effectiveness and rule of law found statistically significant. Raheem and Oyinlola (2013) found that governance has a significant positive impact on FDI. Empirical research confirms that measure of corruption are significantly and negatively related inflows of foreign direct investment (Smarzynska and Wei 2000; Wei 2000). The study of Matthias and Hefeker (2007) also consistent with our study results that government stability, internal and external conflicts, corruption and ethnic t

ensions. Law and order, democratic accountability of the government, and the quality of bureaucracy are highly sig nificant determinants of the foreign direct inflows.Thus there exists significant relationship between the country go vernance and FDI and thus if the country strive to improve the governance factors would lead to the improvement of the foreign direct investment.

Table 8: Comparison of the Governance situation of the countries (Pakistan, India and Bangladesh)

Governance index	Bangladesh	India	Pakistan
Inequality-adjusted Human developmnt index (2012) global ranking 202	146	136	146
Corruption (2014) ranking of 175	136	94	127
GE (Percentile rank)	22.9	47.37	23.44
ROL(Percentile rank)	19.43	52.61	18.96
PS(Percentile rank)	9	11.85	0.95
VA(Percentile rank)	34.12	58.29	23.7
Multidimentional index 2013 (global ranking of 114)	88	85	82

The above table 8 shows the governance index of Pakistan, India and Bangladesh. In the table the Inequality – adjusted Human Development Index shows that Pakistan ranked 146, India 136 and Bangladesh ranked 146. Moreover the corruption perception index (2014) indicates that Pakistan ranked 127, India 94 and Bangladesh ranked 136 amongst 175 countries. The government effectiveness (percentile rank) indicates Pakistan ranks 23.44, India ranks 47.37 while Bangladesh ranks 22.49. Similarly the Rule of law (percentile rank) indicates that Pakistan ranks 18.96, India ranks 52.61 while Bangladesh ranks 19.43. Due to uncertain political atmosphere in Pakistan ranked (percentile) is 0.95 while it is much better in India ranks 11.85 and Bangladesh ranks 9 percentile amongst the 175 countries. Voice and accountability Pakistan ranks (percentile) 23.70 indicates the lowest percentile between the countries (India and Bangladesh). India ranks 58.29 which is much better between the countries while Bangladesh ranks 34.12 percentile amongst the 175 countries. Moreover the Multi dimensional poverty index (2013) indicates that Pakistan ranks 82, India 85 and Bangladesh ranks at 88 amongst the 114 countries.

4.8 Policy recommendations

The nations especially the developing nations are facing lack of cash flow to invest, in light of the fact that ma rginal tendency to expend is a lot more significant in the developing countries rather than saving. So in such circum stances, for the most part they rely upon on Foreign Direct Investment, to increase employment, raise per capita an d standard of living of the people of the country.In this study Pakistan, India and Bangladesh are the core and unde r developing countries of the subcontinent region. Here found great economic similarities between the countries. e. g. the per capita income of Pakistan is $1410, India has $1592 and Bangladesh has $1344 per annum etc.

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