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EMPIRICAL EVIDENCE ON THE SHORT-RUN & LONG-RUN EFFECT OF IFRS ADOPTION ON FDI IN DEVELOPING ECONOMIES: THE ALGERIAN CONTEXT

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Abstract

This study empirically examines the impact of International Financial Reporting Standards (IFRS) adoption, on the Foreign Direct Investment (FDI) inflows in Algeria, for the period 1970-2017. Although a limited number of empirical studies have been conducted on the association of IFRS adoption with FDI inflows, there has been no prior research in the Algerian context. The analysis was conducted, using the Toda-Yamamoto Granger Causality Approach and the Autoregressive Distributed-lag (ARDL) Bounds Testing Technique. The findings revealed evidence that IFRS adoption did have a significant negative effect on FDI inflows Algeria, both in the long-run as well as in the short-run. The findings offered several significant implications for governments, policymakers, investors, managers, researchers, practitioners and other interested groups, interested in understanding the economic importance of adopting international accounting standards, as one of the driving determinants of FDI inflows in developing countries.

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1. Introduction

IFRS foundation (2018) has recently reported that IFRS standards are applied by all or most domestic companies, in approximately 144 jurisdictions, around the world. More importantly, these international standards make significant contribution to the world economy, by increasing the quality of financial reporting, promoting the financial transparency and enhancing the international financial statement comparability, in order to assist investors in their analysis for effective investment making-decisions **(McConnell, P., 2014)**. Foreign direct investment (FDI) plays a key role, as a source of economic development, for many developing countries **(OECD, 2002)**. In this context, it is widely established that improving the financial information environment quality does matter in attracting more FDI to developing countries **(Ahearne et al., 2004; Chen et al., 2014)**. Further, It has been recognized in previous literature **(Covrig, V et al., 2006; Covrig, V.M et al., 2007; Sherman** and **de Klerk, 2015)** that the adoption of IFRS should result in an increase in cross border capital inflows, due to an increase in accounting quality **(Florou** and **Pope, 2012; DeFond et al., 2011; Chen et al., 2015)** and a decrease in information processing costs and information asymmetries for investors **(Li, 2010; Joos** and **Leung, 2012; Chen et al., 2014)**. In this vein, prior research **(Portes** and **Rey, 2005** and **Van Nieuwerburgh** and **Veldkamp, 2009)** also highlighted that information asymmetry may negatively impact investments abroad because foreign investors cannot have accurate and timely information in order to make effective decisions. In addition, following **Márquez-Ramos (2008), Evgenidis et al. (2016)** and **Yousefinejadet al. (2018b)**, IFRS adoption leads to financial transparency quality and comparability. Hence all these benefits of IFRS adoption would enable investors to make investment decisions, at lower cost. More importantly, **Amiram (2012)** argues that IFRS may significantly influence foreign investment decisions because they reduce the level of unfamiliarity of foreign investors, with the accounting standards of the host country. In a similar vein, **Huberman (2001)** and **Graham et al. (2009)** note that the increasing of foreign investments is driven by the impact of accounting familiarity, which enables foreign investors to feel more confident about the investment environment.

The present paper contributes to the existing body of accounting research, regarding the economic consequences of IFRS adoption, by providing a better understanding of the association between IFRS adoption and FDI inflows in MENA region. Further, to the best of our knowledge, there have been no studies to date, in the accounting literature, which has examined the effect of IFRS adoption, on FDI inflows, in the Algerian context. Therefore, this empirical research makes a novel contribution to the economic consequences of IFRS adoption literature.

2. Review of Literature

According to **Yousefinejad et al. (2018a)** and **Owusu et al. (2017)**, although prior research has extensively addressed the impact of IFRS on economic growth and at the firm level, there have been extremely restricted investigations, focusing on the association between IFRS adoption and FDI inflows. Further, following prior relevant literature on the nature of the association between IFRS adoption and FDI, it can be seen that a considerable number of empirical research found a positive relationship between IFRS adoption and FDI inflows. **Amiram, (2012)** concluded that IFRS adoption resulted in an increase of FDI inflows,

in 73 reporting countries, in 2006. **Gordon et al. (2012)** found IFRS adoption to be positively associated with FDI, for 124 countries, between 1996-2009. Similarly, **Beneish et al. (2015)** provided evidence of positive association between FDI inflows and IFRS adoption, in 51 countries, in 2005. In a recent paper, **Akpomi** and **Nnadi (2017)** examined the impact of IFRS adoption on FDI inflows, for 45 countries, for the period from 1996 to 2011 and reported positive relationship between IFRS adoption and FDI inflows. In the context of poor countries, **Pricope (2017)** demonstrated that IFRS adoption was able to attract much FDI inflows, for 38 poor countries, during the period from 2008 to 2014. Using a sample of 26 emerging countries between 1996 – 2014, **Lungu et al. (2017)** showed that IFRS adoption had a positive effect on IFDI inflows. Studying 30 OECD countries from 2000 until 2005, **Chen et al. (2014)** indicated that IFRS adoption had significant positive relationship with FDI inflows, for 30 OECD countries, from 2000 until 2005 because of the information processing costs were reduced for foreign investors. In the Latin American context, **Akisik (2014)** provided evidence that countries adopting IFRS were more likely to attract much FDI, by examining a sample of 12 Latin American countries between 1997-2010. In the Asian context, **Yousefinejad et al. (2018a)** argued that IFRS adoption did have significant positive effect on FDI inflows, in ASEAN countries, for the period 2001 – 2016. Similarly, **Rakesh** and **Shilpa (2013)** concurred that IFRS adoption led to increase FDI inflows between 2012 and 2013. In the EU context, **Márquez-Ramos (2008)** supported the positive relationship between IFRS adoption and FDI, in EU countries, from 1999 to 2007. In the same way, **DeFond et al. (2011)** investigated the relationship between FDI and IFRS adoption, in EU firms, from 2003 to 2007. They reported

positive association between FDI and IFRS adoption due to comparability improvement. **Henock** and **Oktay (2014)** also concluded that the average proportion of cross-border acquisitions increased after mandatory IFRS adoption in European Union (EU) countries. In the African context, **Adetulaet al. (2014)** pointed out that IFRS adoption positively but insignificantly affected the Nigerian economy. **Jayeobaet al. (2016)** documented that IFRS adoption was positively and significantly associated with FDI inflows in Egypt, Nigeria, Kenya, Morocco, Tunisia and South Africa, during the period 1980-2015.

However, some empirical research provided evidence of a negative effect of IFRS adoption on FDI. **Lasmin (2012)** investigated the effect of IFRS adoption on FDI, in 48 developing countries, for the period of 2008 inflows. His findings revealed a significant negative effect on FDI inflows. **Efobi et al. (2014)** stated that IFRS adoption did not positively affect FDI inflows, by investigating a sample of 92 developing and developed countries, between 2002-2010. In a recent empirical research, **Owusu et al. (2017)** pointed out that IFRS adoption was not able to affect FDI inflows, during the period from 1996 to 2013, in 116 developing countries. With respect to the African context, **Sherman** and **de Klerk (2015)** indicated that there was a non significant association between IFRS adoption and Foreign ownership levels in South African companies for the period 2003-2007. **Nnadi** and **Soobaroyen (2015)** also revealed negative association between FDI and IFRS adoption, by using a sample of 34 African countries, over 20 years. In addition, **Ugwu** and **Okoye(2018)** reported a negative impact of IFRS adoption on the effect of FDI on GDP, in Nigeria, for the period of 1999 to 2015. Moreover, they did not find any difference in the impact of FDI on GDP,

in post IFRS adoption, for both Ghana and South Africa, for the same period.

3. Statement of the Problem

It is widely recognized that IFRS standards would help investors in their investment decisions, by providing them with high-quality financial reporting. Furthermore, previous studies emphasize that enhancing the financial information quality, would result in attracting more FDI, for many developing countries, due to decrease in information asymmetries for investors. In other words, decisions regarding foreign investments, as a source of economic development for many developing countries, are significantly affected by the quality of the financial information that should be guaranteed by IFRS. In the light of the previously presented literature, deficiency of empirical research can be observed, regarding the relationship between IFRS adoption and FDI inflows, in the Algerian context. The principal research question was, therefore, whether the new Algerian accounting system (SCF), closely based on IAS/IFRS, contributed to FDI inflows in Algeria.

4. Need of the Study

The findings from this investigation, would provide several significant implications for governments, policymakers, investors, managers, researchers and practitioners, looking for understanding the economic importance of adopting international accounting standards, as one of the driving determinants of FDI inflows in developing countries. Motivation behind focusing on this particular context comes from a number of reasons. First, studies on economic consequences of IFRS adoption, in terms of FDI, are still extremely limited in the current literature **(Yousef inejad et al., 2018a)** , and to the best of Researcher's knowledge, none of previous studies has investigated such a relationship, by

focusing on the Algerian environment. Second, Algeria, as a MENA member, has embarked on deep economic and social reforms since 1990s, in order to complete its transition from a planned economy to a market economy, in accordance with the international monetary fund policy recommendations **(IMF, 2004)**.To achieve this objective, Algeria has adopted a new Algerian accounting system (SCF), closely based on and converged with IAS/IFRS standards, implemented by Law of 07/11 of November 25th,2007, in order to satisfy the informational needs of foreign investors and encourage foreign capital flows by improving financial information quality and **(Saidi, 2013)**.Moreover, foreign investment is recognized as crucial to developing economies **(World Bank Group, 2018)**, which need to reduce information processing costs for foreign investors by adopting IFRS standards **(Márquez-Ramos, 2008)**. Therefore, Algeria, as an example of a major developing country in the Middle East and North Africa regions (MENA), is an interesting context for providing a significant motivation for empirical evidence on the effect of IFRS adoption on FDI inflows.

5. Objective of the Study

The main objective of the present study was to examine the impact of IFRS adoption, on the amount of FDI inflows in Algeria, for the period 1970-2017.The analysis was performed, using the Toda-Yamamoto Granger Causality Approach and the ARDL Bounds Testing Technique.

6. Hypothesis of the Study

Based on the review of literature, investigating the effects of IFRS adoption on FDI, a positive effect of IFRS on FDI inflows, was expected. Hence the hypothesis as follows:

NH-1: The mandatory adoption of IFRS is significantly associated with an increase in FDI inflows in Algeria.

7. Methodology of the Study

7.1 Sample Selection

The purpose of the present study was to examine the effect of IFRS adoption on FDI inflows in Algeria. As 1970 was the year when FDI data became available in the database, the year 1970 was used as the starting year for data collection. Hence the sample consisted of a total of 45 observations.

7.2 Sources of Data

The study relied on secondary data sources. As a result, data for all variables were sourced from the World Development Indicator (WDI) database, published by the **World Bank, 2018**.

7.3 Period of the Study

This investigation was based on the annual data series, for the period considered, from 1970 to 2017.

7.4 Research Variables

FDI inflows, being the dependent variable, was measured in current US dollars in line with prior literature **(i.e, Márquez-Ramos, 2008; Gordon et al., 2012; Yousef inejad et al., 2018a)**. The IFRS adoption, as an independent variable, was extensively used as a dummy variable in the existing literature concerning the association between IFRS adoption and FDI inflows **(Beneish et al., 2015; Ugwu and Okoye, 2018; Yousef inejad et al., 2018a)**. In this research, IFRS adoption was defined by a dummy variable. IFRS adoption was expected to contribute positively to FDI inflows in Algeria. A number of important control variables, commonly employed in the existing literature **(i.e, Akpomi and Nnadi, 2017; Ugwu and Okoye, 2018; Yousef inejad et al., 2018a)** were also considered in this study such as market size, level of economic development, degree of economic openness and macroeconomic stability **(Table-1).**

7.5 Tools Used in the Study

Based on the previous empirical research of **Gordon et al. (2012); Beneish et al. (2015)** and **Akpomi** and **Nnadi (2017)**, the empirical model of this study can be specified as follows:

$$FDI_t = \beta_0 + \beta_1 IFRS + \beta_2 GDP + \beta_3 OPEN + \beta_4 GDPCAP + \beta_5 INF + e_t \qquad (1)$$

Where, FDI is foreign direct investment inflow, IFRS is a dummy variable equal to 0 for observations in pre-IFRS; 1 for observations in post-IFRS; GDP is Gross Domestic Product; OPEN is Degree of economic openness; GDPCAP is GDP per capita; INF is inflation rate; β_0 is constant; $\beta_{(1-5)}$ are slopes and t is time.

The ARDL Bounds Testing Approach was used to investigate the existence of the long-run causal relations between the examined variables in the model, to assess the long-run as well as the short-run impact of IFRS adoption on FDI inflows. This Approach, developed by **Pesaran et al. (2001)**, is recognized for its suitability for small sample size and when there are combinations of non-stationary and stationary time series **(Omoniyi** and **Olawale, 2015)**. Further, this approach permits the time series to have different optimal lags **(Dritsaki, 2017)**. In addition, it allows both the long-run and short-run parameters. Consequently, following **Pesaran et al. (2001),** eq.(1) can be expressed as a function of the lagged value of FDI (dependent variable) and the current and the lagged values of the independent and control variables were as follows:

$$\Delta FDI_t = \alpha_0 + \alpha_1 FDI_{t-1} + \alpha_2 IFRS_{t-1} + \alpha_3 GDP_{t-1} + \alpha_4 OPEN_{t-1} + \alpha_5 GDPCAP_{t-1} + \alpha_6 INF_{t-1}$$
$$+ \sum_{i=1}^{q} \rho_{1i} \Delta FDI_{t-1} + \sum_{i=1}^{q} \rho_{2i} \Delta IFRS_{t-1} + \sum_{i=1}^{q} \rho_{3i} GDP_{t-1} + \sum_{i=1}^{q} \rho_{4i} OPEN_{t-1}$$
$$+ \sum_{i=1}^{q} \rho_{5i} GDPCAP_{t-1} + \sum_{i=1}^{q} \rho_{6i} INF_{t-1}$$
$$+ \mu_t \qquad\qquad (2)$$

Where, Δ is the first difference operator; μ_t is the white noise error term; the parameters (α_1-α_6) are the long-run relationship coefficients of the dynamic model; the parameters (ρ_1-ρ_6) represent the short-run coefficients of the dynamic model. All others variables have been explained above.

In order to check the stationarity and define the order of integration of each time series, the Augmented Dickey-Fuller (ADF) unit root Test (**Said** and **Dickey, 1984**) was conducted. In the second step, Toda-Yamamoto Granger Causality approach (**Toda** and **Yamamoto, 1995**) was performed, to examine the causal relationship between FDI and IFRS and provide further evidence for using of FDI as dependent variable in the ARDL model. Third, with a view to investigating the existence of cointegration among the variables in the question, the F-bounds test, as an extension of ARDL, was carried out. Once the existence of a long-run relationship was confirmed, both the long-run and the short-run coefficients were estimated. In the final stage, the long-run coefficients of the estimated ARDL model were tested for serial correlation, heteroskedasticity, functional form misspecification, and normality. The stability of the model was tested by performing CUSUM and CUSUM of squares tests (**Brown et al., 1975**), as suggested by **Pesaran et al. (1998, 2001).**

8. Data Analysis

8.1 Unit Root Tests

The results of the ADF unit root, presented in **Table-2**, show that series pointed out a different order of integration. In fact, the FDI series were integrated first order I(1), while GDP, OPEN, GDPCAP and INF were stationary in the level I(0).

8.2 Cointegration Test using ARDL Bounds Testing Approach

The findings of the ARDL Bounds Testing Approach (**Pesaran et al., 2001**), shown in **Table-4**, provide evidence of cointegration between all variables of this study since the value of F-statistic at 7.77 (computed with one lag) was greater than the upper critical bound at 1%. In view of the results of the bound test, the next step was to estimate the coefficients of long and short run from the dynamic ARDL model.

8.3 Estimation of the long and short run models

Table-5 illustrates the results of the long-run coefficients. The findings pointed out that there was a significant impact of IFRS and GDPCAP on FDI inflows. The coefficients on the dependent variable were negative and statistically significant at 1%. Further, the Table shows that there was positively significant effect of GDP and OPEN on FDI inflows, at 1% significance level, while the variable of INF was insignificantly associated with FDI inflows in Algeria. Hence, **"NH-1: The mandatory adoption of IFRS is significantly associated with an increase in FDI inflows in Algeria",** was accepted. In **Table-6,** the short-run dynamic estimates are presented. The findings revealed that all examined variables were statistically significant at 1%.The short-run estimates of IFRS, GDPCAP and INF were negative while the short-run estimates of GDP

and OPEN were positive. Additionally, in relation to the error correction term, the analysis indicated that the estimated lagged error correction term was negative and statistically significant at 1%, with the coefficient of -0.9871. In other words, about 98.71% of the distortion in the short-run was corrected towards equilibrium annually. The high value of error correction term indicated a fast speed of adjustment.

Accordingly, our empirical findings, regarding the impact of IFRS on FDI, diverge from those found by **Márquez-Ramos(2008), DeFond et al.(2011), Amiram(2012), Gordon et al.(2012), Chen et al. (2014), Beneish et al. (2015), Olugbenga et al. (2016), Jayeobaet al. (2016), Akpomi** and **Nnadi (2017), Pricope (2017), Lungu et al. (2017)** and **Yousefinejad et al. (2018a)**, who revealed that IFRS adoption contributed positively to FDI inflows. However, these results were in line with those of **Nnadi** and **Soobaroyen (2015)**, who explained that the key reason for adopting IFRS, in developing countries of the African region, was to seek international business recognition, by providing a socially acceptable and legitimate environment. They added that FDI in the African countries was more dependent on the resources of these countries. Similarly, our findings were in agreement with those of **Efobi et al. (2014)** and **Owusu et al. (2017),** who reported that the adoption of IFRS alone may be insufficient to have a significant effect on FDI inflows in countries, which experienced poor institutional infrastructure quality (eg. regulatory quality, rule of law, and the level of corruption). Within this framework, **Lasmin (2012)** also provided evidence of a negative association between IFRS adoption and FDI inflows. He argued that the economic benefits of IFRS adoption depended on the development of the socio-economy and political-economy environment of a country.

8.4 Toda-Yamamoto Granger Causality Analysis

The results of Toda-Yamamoto Granger Causality Test, reported in **Table-3**, indicated that there was bidirectional causal relationship between FDI and IFRS, on a 1% level of significance. Moreover, the results also indicated that IFRS, GDP, OPEN, GDPCAP and INF, considered together, granger caused FDI, at 5% level of significance. Therefore, using FDI as the dependent variable in the dynamic ARDL model was widely justified.

8.5 Stability and Diagnostic Tests

The graphical presentation of the CUSUM and CUSUM of squares tests, as presented in **Figure-1**, revealed that the estimated model was within the 5% significance line. Hence the estimated coefficients were stable and, consequently, our estimated model was stable too. **Table-7** summarizes the diagnostic tests results of our selected dynamic ARDL Model. The results indicated that there was no evidence of correlated error terms (serial correlation) and heterosketasticity. In addition, the Ramsey RESET test indicated that the model was not mis-specified and the Jarque-Bera normality test revealed that the residuals were normally distributed.

9. Findings of the Study

According to the present study, there was significant negative impact of IFRS on FDI inflows in Algeria, in the long-run as well as in the short-run, at 1% significance level. These findings revealed that the adoption of IFRS did not result in improvement in the amount of FDI. Therefore, the stated hypothesis was not supported.

10. Suggestions

The results of this study suggested that the level of FDI inflows would enhance when IFRS adoption was accompanied by adequate institutional infrastructures. In addition, the

findings from this study, provided a number of significant implications. First, our results yielded notable evidence to researchers and practitioners, in developing countries, about the effect of IFRS adoption, as an important determinant of information asymmetry, on FDI inflows. Second, the results of this study would have significant implication for governments and policymakers, who need to be aware of the importance of IFRS adoption, as a key component of influencing foreign investments decisions. Third, the findings of this investigation would be of interest to other developing countries, seeking to understand the economic importance of adopting international accounting standards, as a major driver of FDI. Fourth, our findings carry noteworthy implications for investors and managers, looking for reducing information processing costs as well as for decreasing the capital cost in developing countries.

11. Conclusion

The present investigation sought to examine the impact of IFRS adoption, on the amount of FDI inflows in Algeria, for the period 1970-2017. The analysis was performed, using the Toda-Yamamoto Granger Causality Approach and the ARDL Bounds Testing Technique. The empirical findings showed that IFRS adoption exercised significant negative effect on FDI inflows in Algeria, with long-run and short-run coefficients value, at -1,366,684,524 and -304,565,070 respectively, and significant at 1%.

12. Limitations of the Study

As with all empirical investigations, the present study also suffered from a number of limitations. First, this investigation used only four variables as control variables (namely, GDP, GDP per capita, Inflation and Degree of economic openness), due to sample size considerations. However, other control variables such as institutional infrastructure may be considered, to capture the impact of IFRS adoption on FDI inflows. Taking into consideration these variables,

could result in more new details. Second, this research did not account for information asymmetry in the empirical analysis. Taking into consideration this factor might have offered additional insights to our investigation. Third, this empirical research only paid attention to a single setting, namely, Algeria. Therefore, an extension of this empirical study may be to cover the impact of IFRS adoption on FDI inflows in other developing countries in the Middle East and North Africa regions. Such empirical analysis may provide noticeable insights into the economic consequences of IFRS adoption literature.

13. Scope for Further Research

In the light of the above limitations, this study opens the doors for a number of future research directions. Firstly, future research should seek to investigate the institutional infrastructure impact on the relationship between IFRS adoption and FDI inflows. Secondly, additional research is recommended to shed light on the association between information asymmetry and FDI inflows, after the adoption of IFRS. Thirdly, future research could also undertake comparatives studies between other developing countries in the Middle East and North Africa regions.

## 14. Acknowledgment

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Figure-1: Graphical Presentation of the CUSUM and CUSUM of Squares Tests
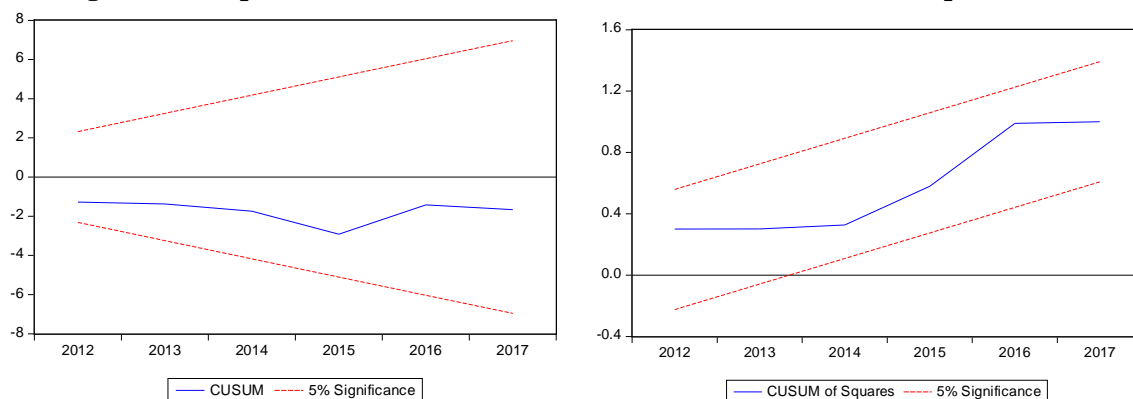
Source: Secondary Data, Data analyzed (1970-2017) using Eviews (version 9)

Table-1: Variables, Measurements and Data Collection Sources

Variables	Proxy	Description	Source	Expected Sign
Market size	GDP	Gross Domestic Product in current US dollar	WDI*	+
Degree of Economic Openness	OPEN	value of exports plus imports as percentage of real GDP	WDI	+
Level of Economic Development	GDPCAP	Annual growth rate of the GDP implicit deflator	WDI	+
Macroeconomic Stability	INF	Annual growth rate of the GDP implicit deflator	WDI	-

Source: Developed by the Researcher (2018). * World Development Indicator (WDI) by World Bank

Table-2: Results of Unit Root Tests – Augmented Dickey-Fuller (ADF) Tests for checking the Stationary and define the Order of Integration of each Time Series of Variables

Variables	Level		1st Difference		Order of Integration
	Const	Const, trend	Const	Const, trend	
FDI	-1.174713	-2.872254	-3.206441**	-3.738013**	I(1)
GDP	-0.067799	-5.448297	-6.816108*	-6.832937*	I(1)
OPEN	-5.472387*	-5.977343*	-9.581044*	-9.791175*	I(0)
GDPCAP	-0.76758	-5.478288*	-6.74138*	-6.67946*	I(0)
INF	-5.03238*	-4.981453*	-9.395699*	-9.363389*	I(0)

Source: Secondary Data, Data analyzed (1970-2017) using Eviews. * $p < 0.01$; ** $p < 0.05$; *** $p < 0.1$.

Table-3: Results of Toda-Yamamoto Granger Causality Analysis to test Causal Relationship between FDI and IFRS

	FDI			IFRS			GDP		
	Chi-sq	Df	p-value	Chi-sq	df	p-value	Chi-sq	Df	p-value
FDI	-	-	-	27.66249	2	0.0000*	0.073036	2	0.9641
IFRS	9.911324	2	0.0070*	-	-	-	0.198274	2	0.9056
GDP	1.313301	2	0.5186	4.147366	2	0.1257	-	-	-
OPEN	2.017379	2	0.3647	0.307989	2	0.8573	0.017701	2	0.9912
GDPCAP	1.482912	2	0.4764	0.909028	2	0.6348	0.105029	2	0.9488
INF	1.628967	2	0.4429	0.504323	2	0.7771	0.049102	2	0.9757
ALL	**22.58453**	**10**	**0.0124****	**90.38849**	**10**	**0.0000***	**0.774230**	**10**	**0.9999**

Source: Secondary Data, Data analyzed (1970-2017) using Eviews. * $p < 0.01$; ** $p < 0.05$; *** $p < 0.1$.

Table-4: Results of Bounds Test to investigate the Existence of Cointegration among the Variables

Test statistic	Optimal lag	Value	df	Lower bound	Upper bound	Conclusion
F-statistic	ARDL(1, 1, 1, 1, 1, 0)	7.769903*	5	3.41	4.68	Cointegration

Source: Secondary Data, Data analyzed (1970-2017) using Eviews. * $p < 0.01$; ** $p < 0.05$; *** $p < 0.1$.

Table-5: Results of Estimated Long-run Coefficients of FDI and IFRS

Dependent Variable FDI			
Variables	Coefficients	t-stat.	p-value
IFRS	-1,366,684,524*	-3.89	0.0005
GDP	0.031418*	4.38	0.0001
OPEN	21,920,089*	2.98	0.0054
GDPCAP	-777,344*	-3.07	0.0044
INF	-2,880,454	-0.44	0.6616
C	-972,402,697*	-2.20	0.0351

Source: Secondary Data, Data analyzed (1970-2017) using Eviews. * $p < 0.01$; ** $p < 0.05$; *** $p < 0.1$.

Table-6: Results of Estimated Short-run Coefficients of FDI and IFRS

Dependent Variable FDI			
Variables	Coefficients	t-stat.	p-value
D(IFRS)	-304,565,070*	0.00	0.00000
D(GDP)	0.08954400*	2.86	0.00740
D(OPEN)	1,802,134*	0.00	0.00000
D(GDPCAP)	-2,356,203*	0.00	0.00000
D(INF)	-2,843,307*	0.00	0.00000
CointEq(-1)	-0.9871*	-6.4148	0.0000

Source: Secondary Data, Data analyzed (1970-2017) using Eviews. * $p < 0.01$; ** $p < 0.05$; *** $p < 0.1$.

Table-7: Results of Diagnostic Tests of Selected Dynamic ARDL Model for (Serial correlation) and Heterosketasticity of FDI and IFRS

Diagnostic Tests	Value	p-value	Diagnostic Tests	Value	p-value
Serial Correlation LM(1)	1.45	0.23	Heteroscedasticity ARCH(2)	0.09	0.85
Serial Correlation LM(2)	1.89	0.40	Ramsey RESET (1)	0.93	0.63
Heteroscedasticity ARCH(1)	0.04	0.85	Normality (3)	1.47	0.24

Source: Secondary Data, Data analyzed (1970-2017) using Eviews. ( ) is the order of diagnostic test (The lag order)