Volume and Issues Obtainable at Center for Business Research and Consulting, IBMAS, The Islamia University of Bahawalpur Pakistan

CENTER FOR BUSINESS RESEARCH AND CONSULTING

South Asian Review of Business and Administrative Studies
ISSN: 2710-5318; ISSN (E): 2710-5164
Volume 6, No.2, December 2024
Journal homepage: https://journals.iub.edu.pk/index.php/sabas

Influence of Foreign Direct Investment (FDI) Rates and Remittances on Islamic Financial Institutions Growth and Progress in Developing Economies

Muhammad saeed Iqbal, iqbaliub4@gmail.com, Islamic Business School, Universiti of Utara, Malaysia
Sufi Mohammad Fikri, Islamic Business School, Universiti of Utara, Malaysia
Asim Masood, School of Economics, Finance and Banking, Universiti of Utara, Malaysia
Muhammad Umar, School of Economics, Finance and Banking, Universiti of Utara, Malaysia

ARTICLE DETAILS

History
Revised format: Nov 2024
Available Online: Dec 2024

Keywords
Foreign Direct Investment (FDI), Remittance Collected (RC), Islamic, Financial Organization (IFO), growth, Islamic Banks (IBs) & ARDL.

ABSTRACT

This study determined what major macroeconomic factors impacted the growth of the IBs sector in Pakistan. The IBs sector has developed rapidly in recent years, particularly in Pakistan, where it ranks among the top industries in the Islamic world. Two macroeconomic variables were examined to determine whether macroeconomic factors significantly impacted Islamic finance growth: the rate of new empirical theories and the volume of settlements. ARDL model and annual data were used for every variable between (2014-2023) in the study. Based on the long-run ARDL analysis, remittances have a greater impact on Islamic banking growth than foreign direct investment (FDI). Both foreign direct investment and remittances have a significant impact on the long-run development of IBs in Pakistan, with remittances having a greater effect than FDI direct investment. While Islamic and non-Islamic banks compete with each other, their presence in a country provides an adequate structure for rigorously motivated individuals and contributes significantly to its financial sector growth. Remittances provide a more reliable source of funding for Islamic banks, as they are typically less reliant on external borrowing. Additionally, remittances are more likely to be spent on investments that benefit the local economy, whereas FDI benefits foreign investors. All in all, remittances are a significant source of revenue for Islamic banks, as they offer a more immediate and sustainable benefit to the local economy.

Corresponding author's email address: iqbaliub4@gmail.com
DOI: 10.52461/sabas.v6i2.3152

Introduction

The role of finance plays a crucial role in enabling financial organizations and general public economic assistance to function efficiently and effectively. Islamic banks and other financial organizations provide the majority of investment produced in compliance with Shari'ah regulations throughout the Islamic world (Kamalu et al., 2022; Iqbal et al., 2023). Regardless of the term used, Islamic money refers to a certain type of financial instrument that has been approved by Shari'ah by financial organizations (Aderemi et al., 2022). Islamic institutions are financial organizations that adhere to Quranic principles (Aman et al., 2016). Annuity institutions provide funding through cash advances, promoting investment opportunities. Islamic financial instruments and Islamic institutions promote economic growth and development. Therefore, Islamic financial organizations can be seen as an effective tool for economic development in the Muslim world.

The Islamic financial sector provides both individuals and businesses with a variety of financial services, as well as credit and lending services (Mamun et al., 2022). Islamic currency has recently emerged as one of the most innovative currency forms in the world (Ascarya et al., 2022). Investor interest in Islamic finance is a significant factor influencing its growth and acceptance globally. Muslim communities in countries with large Muslim populations, particularly in the Middle East and Southeast Asia, are increasingly interested in this area (Lim et al., 2022; Iqbal et al., 2023). Islamic finance continues to grow and expand, driven by investors and Muslims. Ultimately, this interest and development will continue in the years to come. This will make Islamic finance an increasingly significant part of the global financial system.

Muslims invest in non-interest-bearing assets appropriate to their religions to align their finances with their beliefs (Ofori et al., 2022). Market forces adjust their performance to accommodate a wide range of Islamic monetary criteria to meet these financial requirements. As opposed than conventional currencies used in Islamic countries and other developing economies, there are international currencies available. Within the last thirty years, it has experienced an average annual growth rate of 10% to 22%. A $2,2 trillion market has been developing for years. In 2021, experts predict Islamic resources will exceed $3.5 trillion (Mansoor et al., 2019). Thus, it is clear that the Islamic finance industry has experienced significant developments in recent years and is expected to continue growing in the future.

Barclay Bank in Cairo, Egypt contributed significantly to the development of Islamic money. Over the previous century, this bank monitored a variety of financial operations related to the Canal of Suez. In the 1930s, India, Pakistan, and other countries significant to the Indo-Pak Muslim population laid the foundations for current Islamic financial and investment principles. With more than 50 years' experience serving customers worldwide, Ahmed-el-Naga was founded in 1963. Philippine legislators established a bank to handle Islamic Shari'ah requirements in 1973. Around the middle of the 1970s, several Middle Eastern nations began practicing Islamic banking (Islam et al., 2021). It is clear, then, that IBs & finance have had a long history of growth and growth, which has shaped the modern-day industry.

Islamic banking was introduced in Pakistan and among others. Shariah provides all people with basic freedoms such as protection, food, clothing, and shelter (Jawaid et al., 2023; Iqbal et al., 2023). Due to the high cost of home ownership, most individuals still need home insurance. Islamic perspective prohibits Riba in conventional mortgages (Mansoor et al., 2019). Islam prohibits (limits) a variety of home loans made by conventional lenders on the basis of Riba. In addition to supplying people, organizations, and large businesses with a large array of Islamic financial commodities & aid, IBs also provide Islamic loans & Islamic credit plans (Mamun et al., 2022; Iqbal et al., 2022). Islamic banking is an alternative system of banking based on Islamic principles. It provides an effective way to meet financial needs without Riba.

In particular, debt-based financial strategies include Istisna, Straight Bithaman Ajil (BBA), Ijarah, and Murabaha. In relation to Islamic financing subsidizing, it should be noted that decreasing organizations, or Musharakah Mutanaqisah, are forms of value-based assistance and that changes in traditional loan prices have a significant impact on Islamic financing subsidizing (Ullah et al., 2021). Islamic banks have made their products available to challenge traditional banks for banking support & entice support for their products. Islamic banks send out various materials in order to compete with conventional banks (Khan et al., 2023; Iqbal et l., 2023). As a result of these agreements, financial transactions are protected under Islamic law. Islamic banks have become a viable option for individuals and corporations alike, providing financial convenience and religious satisfaction.

As a result of substantial increases in financing charges, agents are expected to lower their premium installments on conventional mortgages to support their interest in Islamic money (Rosly, 1999). In the investment world, BBA is one of the most popular methods of obtaining financing. This is because it offers the greatest potential profit for investors. The scale of Islamic banks grew throughout the worldwide financial crisis due to Islamic principles' adaptability, with a median yearly expansion rate of between ten and fifteen percent from 1995 to 2005 (Khan et al., 2007). Shahinpoor (2009) says money should only be used for trading between entities and individuals. Consequently, this highlights Islamic finance's potential to be a reliable alternative source of capital for the global economy.

Islamic law prohibits certain activities such as gambling, gharar trade, and intrigue installments (riba) with available resources (Akbar et al., 2022). Businesses aim to generate revenue, so productivity is a fundamental component of any financial organization that generates revenue. This study confirms that macroeconomic variables impact the development of Islamic banks in Pakistan. As a result, it identifies, analyzes, and evaluates the impact of those elements. By identifying the key macroeconomic parameters that influence the most effective improvement of Islamic banks, this study aims to help directors & legislators dismiss the impact of economic factors on their implementation. The study also highlights the importance of having a comprehensive financial policy framework that can ensure that Islamic banks remain competitive and viable in the long run. It suggests that governments must consider economic factors' impact on IB development when making policy decisions. Overall, this study provides a strong argument for governments to prioritize Islamic bank development to achieve sustainable financial development.

Emerging economies have witnessed a rise in Islamic financial organizations due to the growing demand for Sharia-compliant banking products and services. These institutions adhere to Islamic principles that prohibit interest-based transactions and promote ethical banking practices. However, Islamic financial organizations in these economies face various challenges, including limited capital, lack of expertise, and inadequate regulatory frameworks. Foreign direct investment (FDI) can potentially contribute to Islamic financial organizations' growth and development in emerging economies. FDI brings capital, technology, and managerial expertise, which enhances Islamic financial institutions' efficiency and competitiveness. Moreover, FDI can facilitate knowledge transfer and improve corporate governance, which will contribute to the overall banking sector.

Remittances, on the other hand, refer to funds transferred by individuals working abroad to their home countries. These inflows play a significant role in emerging economies' development, as they contribute to poverty reduction, consumption, and investment. Remittances can also support the establishment and expansion of Islamic financial organizations by providing a source of capital and stimulating economic activity.

Problem Statement

This article examines the impact of FDI rates & remittances on Islamic financial institutions development in emerging economies. The strong research problem at hand involves understanding how these two factors influence the growth and success of Islamic financial institutions. This is in countries experiencing rapid economic development. By analyzing the link between FDI rates, remittances, & the expansion of Islamic financial organizations, this study will provide valuable insights into the role of these variables in shaping the economy landscape of emerging economies.

Foreign Direct Investment (FDI) rates and remittances play a significant role in Islamic financial organizations development in developing economies. The influence of FDI rates and remittances on the growth and sustainability of these organizations is a complex and dynamic area of study. In order to gain a deeper understanding of this phenomenon, it is crucial to formulate clear research questions and establish research objectives. This document aims to outline the research questions and research objectives related to the impact of FDI rates & remittances. It also outlines the development of Islamic financial organizations in emerging nations.

Research Questions

1. How do FDI rates affect the establishment and development of Islamic financial organizations in emerging economies?
2. What is the relationship between remittances and the financial performance of Islamic financial organizations in emerging economies?
3. How does the level of government support and regulatory framework influence the influence of FDI rates & remittances on the development of Islamic financial organizations in emerging economies?

Research Objectives

1. To examine the extent to which FDI rates contribute to the establishment and development of Islamic financial organizations in emerging economies.
2. To analyze the impact of remittances on the financial performance and sustainability of Islamic financial organizations in emerging economies.
3. To assess the influence of government support and regulatory framework on the utilization of FDI rates & remittances by Islamic financial organizations in emerging economies.

The research questions and research objectives outlined in this article provide a framework for studying the impact of FDI rates & remittances on the growth of Islamic financial organizations in emerging economies. By addressing these questions and objectives, researchers can contribute to the existing body of knowledge in this field. They can also inform policymakers and practitioners about the potential benefits and challenges associated with FDI rates and remittances in Islamic finance.

Significance of the Study

In the end, this study on the impact of FDI rates & remittances on Islamic financial organizations growth in emerging economies holds immense significance. By examining the link between FDI rates, remittances, & Islamic finance expansion, this research will contribute to the existing knowledge base. It will also provide valuable insights for policymakers and practitioners. This study will help shape policies and strategies to promote Islamic financial organizations. This will contribute to emerging economies' economic development.

Literature Review

It is critical to note that the financing mechanisms and strategies used by conventional money, which requires income, are not similar to those used by Islamic money, which does not generate revenue (Zehra et al., 2022; Iqbal et al., 2023). It is the perception of operating mutually to complete mutual objectives that is the basis of the Islamic financial structure (Chapra, 2000). As financial organizations, Islamic banks will certainly have a major effect, particularly in countries with large Islamic populations (Abrar et al., 2022). Research was conducted to determine if demand was declining, particularly in rural areas. In their study, they predicted a significant positive correlation between the population growth & the development of Islamic finance. This demonstrates that Islamic banking has the potential to make a meaningful difference in many communities.

Considering the evidence that demand declined (Abedifar et al., 2013), it was determined that this goal was achieved. In a preliminary analysis (Rosly, 1999), it has been assumed that adjustments to conventional loan costs will have a considerable impact on Islamic financial subsidization. Islamic banking is an anticipated, deliberate, and sensitive financial system managed according to Islamic principles. To share risk and reward, Islamic finance uses several key tools. Johnson (2013) conducted significant and endearing research that revealed a significant portion of Muslims in an unspecified locality is a vital factor in the development of Islamic money. Thus, we can conclude that Islamic banking is a viable and promising form of finance, with significant potential to impact the world positively.

This study shows that Muslims play a crucial role in Islamic finance development. This suggests that utilizing Islamic financial institutions to the fullest extent possible may result in certain mixed benefits. This study indicated that money-related strategy aspects (M2, IR, and Gross Domestic Product) were not necessarily crucial or motivating (Hudaya et al., 2023); Iqbal et al., 2023). It has been found that Islamic money is influenced by money-related arrangements, expansion, interest rates on depository bills, and interest rates on financial reserve accumulations. Malaysian customary credits and Islamic finance were examined for their equivalent effects under financial strategy shocks. This study examined the effects of financial strategy on the development of a dual finance framework from the perspective of a public authority. Based on this study, Malaysia's public finance system should gain valuable insight into the potential effects of market shocks.

Financial strategy changes would certainly impact Islamic banks. Based on research conducted over the past few years, this conclusion has been reached. This has been clearly demonstrated by (Aderemi et al., 2023). As a result of the categories of things open on the financial record, which are more liable to shifts in strategy, this statement is partially true (Kassim et al. 2009). Based on Kasri's (2010) study, it would seem reasonable to assume that Islamic banks' businesses are influenced by the number of components they hold. In addition, they are influenced by conventional banks' true pay, return, and revenue rates. Islamic banks rely heavily on understanding their conventional counterparts' behavior to remain competitive on the market.

In a study by Adebola et al. (2011), it was found that Islamic banks in Malaysia are affected by regular banks' interest rates. The results of the study led him to conclude that Islamic banks provide a viable alternative to conventional banks for lending. In addition, it was demonstrated that both money and foreign exchange negatively impacted Islamic financial subsidizing. Abduh et al. (2011); Al-Fawwaz et al. (2015) and Nahar et al. (2016) found a negative correlation linking growth and Islamic finance in Jordan. They concluded, based on their analysis, that Islamic influence is responsible both for the increase in economic output and for the overall decline in employment and product output. All in all, Islamic finance is a double-edged sword, as it helps to boost economic growth but can also lead to a decrease in employment opportunities and product output.
Based on the data in the table below (Rahman et al., 2023), remittances are likely to contribute to nations' public reserve funds. Studies have shown that remittances contribute positively to public reserve funds (Khawaja et al., 2023; Iqbal et al., 2023). In addition, government shortfalls or business initiatives undertaken by government authorities do not significantly affect public reserve funds in a nation like Pakistan. Zahid et al. (2018) claim that gross domestic product, the real exchange rate, and M2 all play a significant role in economies' development. Conversely, FDI rates, loan fees, and investment funds are all negatively correlated. This demonstrates the importance of foreign investment and how FDI rates, loan fees, and investment funds can all negatively affect an economy. The correlation between these three variables and GDP suggests that a strong economy is not necessarily dependent on foreign investment, but rather on domestic investment. Foreign investment should be managed carefully and with an understanding of potential effects on an economy.

FDI Rates and Financial Development

Foreign Direct Investment (FDI) has long been recognized as a crucial driver of financial development in countries around the world. This literature review aims to provide an overview of existing research on FDI rates and their impact on financial development. By analyzing and synthesizing various scholarly articles, this review seeks to identify the key findings and trends in this area of study. The literature on FDI rates and financial development demonstrates that foreign direct investment plays a crucial role in promoting financial development, technological progress, trade expansion, and employment generation. The findings suggest that attracting FDI inflows can be an effective strategy for countries aiming for sustainable economic development. However, policymakers must create an enabling environment that encourages FDI and maximizes its potential benefits while mitigating potential risks. Overall, this literature review provides valuable insights into the relationship between FDI rates and financial development. It serves as the foundation for further research in this field. It offers useful guidance for policymakers seeking to harness FDI potential for sustainable financial development (Iqbal et al., 2023).

FDI in Islamic Financial Organizations

Foreign Direct Investment (FDI) plays a crucial role in economies' growth and development worldwide. In recent years, FDI has increased in Islamic financial organizations. This literature review aims to provide an overview of existing research on FDI in Islamic financial organizations. It focuses on its benefits, challenges, and potential implications. This literature review explores the topic of FDI in Islamic financial organizations. FDI benefits include enhanced market stability, technology transfer, and international collaboration. However, challenges related to Shariah compliance and regulatory differences must be addressed. FDI in Islamic financial organizations has wide-ranging implications, with both positive and potential risks. Further research is needed to fully understand the dynamics and long-term effects of FDI in Islamic financial organizations (Iqbal et al., 2023).

Remittances and Financial Development

Remittances have emerged as a significant source of capital inflows for many developing countries. This literature review aims to provide an overview of existing research on remittances and their impact on financial development. It explores the theoretical and empirical literature to understand the linkages between remittances and various dimensions of financial development. These dimensions include access to finance services, financial sector development, and financial inclusion. In the end, the literature on remittances and financial development suggests that remittances can play a vital role in promoting financial development in recipient countries. They have a positive impact on financial sector development, financial inclusion, market stability, and the microfinance sector. However, it is critical to note that the relationship between remittances and financial development is complex and context-specific, and further research is needed to fully understand the mechanisms through which remittances influence financial development (Iqbal et al., 2023).

Remittances in Islamic Financial Organizations

Remittances play a crucial role in the global economy, providing a lifeline for many individuals and communities. Islamic financial organizations have also recognized the significance of remittances and their potential impact on economic development. This literature review aims to explore the existing scholarship on remittances in the context of Islamic financial organizations. Several empirical studies have explored the impact of remittances on Islamic financial organizations. These studies examine the socioeconomic effects of remittances on recipient households. They have also examined the role of Islamic banking institutions in facilitating remittances, and the potential for using remittances for sustainable development projects. Remittances are a vital aspect of Islamic financial organizations, contributing to poverty reduction, economic development, and social welfare. Despite the challenges, technology adoption and adherence to Islamic principles enhance remittance practices' effectiveness and impact. Further research is needed to explore innovative approaches and strategies for maximizing remittance benefits in Islamic financial organizations (Iqbal et al., 2023).

Gaps in Existing Literature Review

Islamic financial organizations have gained significant attention in recent years. With globalization, the importance of foreign direct investment (FDI) rates and remittances in shaping the growth and sustainability of Islamic finance institutions in emerging economies has become a subject of interest. While there is existing literature on the impact of FDI rates and remittances on conventional financial organizations, there are notable gaps in understanding of how these factors specifically affect Islamic financial organizations. This document aims to identify and address these gaps in the existing literature review (Iqbal et al., 2023).

1. Lack of empirical studies
2. Neglected regional variations.
3. Limited analysis of policy implications
4. Limited understanding of Islamic financial instruments

The existing literature review on the impact of FDI rates & remittances on Islamic financial organizations growth in emerging economies has several notable gaps. These gaps include the lack of empirical studies, limited understanding of Islamic financial instruments, neglected regional variations, and limited analysis of policy implications. Addressing these gaps through further research would contribute to a more comprehensive perception of FDI rates and remittances. This would shape the expansion & sustainability of Islamic financial organizations in emerging economies.

Research Methodology

This test provides quantitative information. WDI was used to calculate a few variables in addition to the data obtained from the State Bank of Pakistan website. The study of Islamic banks is necessary to fully appreciate the contribution Islamic banks have made to the development of a nation's financial structure. The researchers analyzed annual data for all components (ARDL) between (2014-2023). Using a combination of WDI and ARDL, this study endeavors to provide a comprehensive and quantitative assessment of Islamic banks development in Pakistan. In the current study, the main population is Islamic finance organizations in Pakistan. Pakistan's financial sector has been represented more specifically in the study. Multiple analyses were conducted on the following equation.

$$\mathbf{DIBst} = \beta\mathbf{0} + \beta\mathbf{1}\text{FDI-Rate} + \beta\mathbf{2}\text{REM-Collected} + \varepsilon it \quad \text{.......}(1).$$

As a result of foreign direct investment and remittances collected by Pakistan, the present analysis analyses the impact of these factors on Islamic banking development in Pakistan. The test will be conducted using the model included. DIBs develop Islamic banks. Foreign direct investment is called "FDI". Ultimately, this analysis will help us understand the impact of FDI & remittances on IB growth in Pakistan. Additionally, "REM collected" provides information on REM. Therefore, these investments and remittances collected by Pakistan have the potential to contribute to Islamic banking development in Pakistan. In this case, the term "it" refers to the error term. It is anticipated that a term that is "ε**i**t" will include the impacts of missing components found in the model. However, they continue to negatively impact Islamic banking in Pakistan. This suggests that the model may not accurately represent the impact of foreign direct investment on the Islamic banking industry in Pakistan. Therefore, it is critical to consider other potential factors that contribute to the problem (Iqbal et al., 2023).

Furthermore, it was recognized that error terms are often composed of constant differences and zero means. In addition, it was anticipated that error terms would not eventually become repeatedly connected. The choice of the model is one of the key hypotheses around the aforementioned condition. It is assumed that the model does not prefer certain details. It is believed that the autoregressive distributed lag model (ARDL) provides the most relevant detail of the model. ARDL variation of the scenario is analyzed using the Ordinary Least Square (OLS) method, with an appropriate lag design based on the lag length requirements, which is essential for obtaining desired test results. ARDL is a type of econometric model that allows researchers to analyze the relationship between two or more variables. OLS is the most commonly used method to estimate ARDL parameters. By selecting the lag length, the researcher can ensure that the model captures all the underlying relationships between the variables (Iqbal et al., 2023).

Moreover, a co-integration trial is conducted considering the implications of the bound test. The coefficients are measured in both the short run and the long run. A direct consequence of this is the fact that macroeconomic issues may have different impacts in the short and long run. A classic linear regression model is examined by examining the analyzed data for key indications. It is through discussion and research that the most effective and strongest results can be achieved. This is significant because it allows economists to assess the impact of macroeconomic issues on the analyzed data in both the short and long run. The co-integration trial, on the other hand, helps to identify the relationships between the variables in the studied data. This allows economists to better understand macroeconomic issues and develop strategies to mitigate them. Ultimately, by engaging in research and discussion, economists can better understand macroeconomic issues' relationships, dynamics, and impacts (Iqbal et al., 2023).

Results of Research

This section examines the correlation between remittances collected by FDI & the development of Islamic finance in Pakistan. In Pakistan, remittance and foreign direct investment inflows might theoretically lead to Islamic banking development. It is particularly true if Islamic families are inclined to park remittances in IBs as a means of investing & accumulating reserves. Foreign direct investment can also contribute to financial system liquidity. Similarly, to the component, the assessment of this section begins with descriptive measures. Table 1 shows an adverse relationship between the log of Islamic financial resources in absolute terms and FDI direct investment; however, there is an adverse correlation between the log of total resources and remittances collected. This table does not indicate the relationship between incidents and logical results. The negative impact of foreign direct investment on the log of all available resources is unclear, or alternatively, whether FDI negatively impacts the log of all available resources. As a result, remittances collected, and all-out resources do not seem connected in any significant way.

Table 1: Coefficients-Correlation

Varaibles	Financing-TA	FDI	REM-Collected
Financing-TA	1		
FDI	-0.61721	1	
REM-Collected	0.72143	-0.77104	1

There are two types of time series data: stationary and non-stationary. Using the Ordinary Least Squares (OLS) method, it is possible to estimate a simple single-equation model when time series data are stable. When OLS is applied to assess a crucial linear regression finding, it might result in spurious association measurements if the time series is not stable. This applies if the time series contains a unit root. When non-stationary time series data are used to estimate linear regression models, the coefficients will be statistically invalid. While the standard's R-squared determination will be higher, suggesting a reliable measure, the findings will still be inaccurate even if some coefficients are statistically significant. This argument implies that Table 4.3 identifies the unit root cause of the data time series. Based on the table provided, FDI is non-stationary at the level when only the intercept is included in the regression equation. However, when trend and intercept are included in the regression equation, the identical FDI series becomes static at the level. As a result, the results are inconsistent.

As shown in Table 2, remittance time series are nonstationary when no consideration is made of the interrupt or whether a positive interrupt is taken into account in regression analysis. The first difference in a time series can be used to determine if it has become stationary when it reaches a specified level of non-stationarity. Due to the fact that all series in this case are stable at the first difference, FDI and remittances are integrated. Co-integration of time series occurs when they are integrated in the same order. Based on the test results presented in the table, we can estimate the bound test results. 7.21 is the bound test value. In comparison with the minimum and maximum critical values, this value is comparable. The statistical value decreases between the two limits when compared to one percent of significant values. However, the test statistic exceeds the upper limit if the critical value is greater than 2.5%. Therefore, there is evidence of cointegration at 2.5 significant levels of the limit test.

Table 2: Results of ADF Test – Unit Root Test

	Level	
Variables	**Intercept**	**Trend-Intercept**
Financing-TA	-4.574222 (0.003) *	-2.3028 (0.181)
FDI	-3.182214 (0.149)	-3.1422 (0.080)
REM-Collected	-1.452211 (0.922)	-2.6821 (0.723)
	Ist Differences	
Variables	**Intercept**	**Trend-Intercept**
Financing-TA	-5.40221 (0.0044) *	-3. 9142 (0.002) *
FDI	-3.13020 (0.0657)*	-4.5424 (0.052)*
REM-Collected	-4.65128 (0.000)*	-5.5221 (0.004)*

Table 3: ARDL – Bound Test

Statistic-Test	**Level Values**	**(K)**
Statistic-F	7.492825	(2)
	C- Value Bounds	
Sig.*	1Bound	Bound
1%	4.12	4.92
2.5%	3.60	4.22
5%	4.54	5.10
10%	5.63	4.30

Table 4: LM Test Serial Correlation Breusch-Godfrey

Statistic-F	4.4302	F-Prob. (2,61)	0.421
Square-R Obs*	9.5231	Ch-Square-Prob. (3)	0.525

Table 5: Breuch-Pagan-Godfrey: Heteroscedasticity Test

Statistic-F	9.620	F-Prob. (4,63)	0.000
Square-R Obs*	26.056	Ch-Square-Prob. (4)	0.000
SS-Explained Scale	21.612	Ch-Square-Prob. (5)	0.004

As a result, the relationship between the variables is in long-run equilibrium with Table. As part of the regression analysis, it is essential to examine the regression equation to determine serial correlation and heteroscedasticity. In the following tables, you will find the results of both tests. Based on the stated probabilities in both tables, the null hypothesis cannot be accepted by such a large margin. In this model, it is impossible to reject the null hypothesis because there is no evidence of serial correlation or heteroscedasticity. Conclusions can be drawn from the table information.

Table 6: ARCH: Heteroscedasticity

Statistic-F	62.390	F-Prob. (1,65)	0.000
Square-R Obs*	30.552	Ch-Square-Prob. (3)	0.000

SS-Explained Scale	20.112	Ch-Square-Prob. (4)	0.004

The table below shows the calculated cointegration coefficients. A significant error correction coefficient of -0.027267 is found at a 10% significance level. As a result, any imbalance in the current year will be adjusted by 2.7% the following year. Accordingly, the system is likely to reach equilibrium sometime in the future. Several lag values of total assets are included in the model as explanatory variables. There is a positive impact in the first two occurrences, while there is a negative impact in the third occurrence. There is no statistical significance in the first interval, but there is a lot of significance in the two following intervals. As a result, the organizational structure of the log of total assets is incompatible with the current values of the log of total assets. The short-run impact of foreign direct investment and remittances is not statistically significant. Remittances have a positive impact, whereas foreign direct investment has a negative impact. In this study, it is suggested that Pakistan's Islamic banks' total assets decrease as FDI increases. Similarly, an increase in the net flow of remittances increases Islamic institutions' assets. However, FDI and remittances contribute to Islamic bank total assets growth over the long run. In addition, while the coefficient of remittances is relatively significant, the coefficient of foreign direct investment is not. The study shows that Islamic banking expands by 0.75 units for every unit increase in net remittances.

Table 7: Estimates of Shor & Long-Run

Co-Integration Form				
Variables	**Coefficient**	**Error-Std.**	**Statistic-t**	**Prob.***
D(Financing-TA(-1))	0.043	0.139	0.366	0.785
D(FDI)	-0.053	0.042	-1.453	0.312
D (REM-Collected)	0.052	0.012	1.197	0.242
Co-Int-Eq (-1)	-0.042	0.052	-1.814	0.172
Coefficients Long-Run				
Variables	**Coefficient**	**SD**	**Statistic-t**	**Prob***
FDI	0.432	0.392	1.462	0.156
RM-C	0.552	0.282	2.982	0.014
C	6.152	2.781	2.105	0.030

Discussion

Based on the results of the present study, it was evident that there were relationships between the variables measured. All independent factors were significantly correlated with the outcome variables, which suggests a causal relationship. Furthermore, the findings of the present study agree with those reported in recent studies (Camara, 2022; Mamun et al., 2023 and Pham et al., 2022). Pakistani authorities should examine more closely the impact Islamic banking has had on the country's overall banking development. This is in light of the incredible growth of Islamic banking in the country. Islamist banking has had a significant impact on the nation's overall banking development, due to its significant influence. Additionally, the confirmation motivates Islamic financial organizations to buy Shariah-compliant products. Besides being the first of its kind in Pakistan, this research is also the first worldwide. The paper examines this issue using empirical data. Islamic banking provides a practical solution for religious individuals. However, they also play a significant role in the Pakistani banking sector's development. Currently, IBs & non-IBs are in a strong struggle with each other. Islamic banks have thus become a vital part of Pakistan's financial system, and further research into their growth is essential.

A study of empirical data shows that IBs contribute to the financial region's growth. Several researchers have found a significant correlation between the factors observed in this study and those observed in other studies (Akbar et al., 2023; Lim et al., 2022; Mamun et al., 2022 and Andori et al., 2022). As evidenced by the fact that the factors for total assets & IBs access are interrelated, Islamic banks have become increasingly significant in Pakistan's financial system. Overall, this study supports the notion that the Islamic banking sector in Pakistan is growing and playing an increasingly significant role in the nation's financial sector. Furthermore, the study provides management and policy advice for the result-makers & supervisors of IBs in Pakistan under a variety of conditions and for a variety of outcomes. Islamic banks could be raised even further from a policy perspective. This is to ensure poor individuals can feel confident using Islamic banks' products. Management of these institutions should maintain and strengthen their efforts to gather resources through deposits and credit production. It is the management's responsibility to care for this aspect. All in all, Islamic banks must be improved to ensure their efficacy in providing financial services to the marginalized.

Conclusion

We examined yearly data for IBs in Pakistan for (2014-2023). The data were taken from the World Development Indicators (WDI) published by the World Bank and the State Bank of Pakistan's Annual Banking Statistics. In addition to compiling information from the study's many data sources, including online journals, articles, publications, and reports, multiple database searches for relevant literature were conducted. Therefore, the data gathered from these sources is quantitative. Data on financial organizations has been provided to shed light on macroeconomic factors that influence the growth of IBs in Pakistan. Thus, the gathered data serve as a tool for enhancing Pakistan's economic banking development. This was done by providing insight into the current situation and determining the consequences of macroeconomic factors that impact Islamic banking development. Based on the comprehensive information accumulated in this research, the reliable information given is an accurate representation of the latest profession to begin; they represent a more effective method for collecting information. Therefore, this research provides an effective tool for Pakistan's economic banking sector development.

For the purpose of determining the banking industry's development, total financing assets are used as the dependent variable. The independent variables are FDI rates and remittances collected. There is a primary theoretical justification for the concept of increasing pass-through based on the hypothetical channel of increasing pass-through. As measured by the consumer price index, rising living expenses can reduce savings and investments. Based on the available literature and the Pakistani banking system characteristics, independent variables were selected. It was necessary to explain all the variables. Therefore, it can be concluded that the concept of rising pass-through is viable in the Pakistani banking system. Therefore, a descriptive analysis has been conducted to evaluate the study's validity. Further research has been conducted to confirm the connection between macroeconomic influences & IBs expansion in Pakistan. As a result, we have included a results and analysis chapter in the study to make it more reflective and easier to follow. The objective of this chapter is to provide insight into the macroeconomic factors affecting the future expansion of IBs in Pakistan. This chapter will also analyze the key findings of the study. It will suggest potential strategies to capitalize on Islamic banking benefits in Pakistan. Therefore, this chapter should prove useful for stakeholders, policymakers, and researchers interested in Islamic banking in Pakistan.

Limitations

This article aims to explore and discuss these limitations to provide a comprehensive understanding of the challenges faced in this context.

1. Remittance Volatility:
2. Regulatory Challenges:
3. Dependency on FDI Rates:
4. Lack of Awareness and Education:

While FDI rates and remittances can impact Islamic financial organizations in emerging economies, several limitations must be considered. Dependence on FDI rates, remittance volatility, regulatory challenges, and lack of awareness and education are all significant factors that hinder Islamic financial institutions' growth and sustainability. Recognizing and addressing these limitations is crucial to ensure a conducive environment for Islamic finance development in emerging economies (Gheeraert, 2014).

Implications for Policy and Practice

1. Institutional capacity building for sustainable development of Islamic finance:
2. Recommendations for policymakers to attract FDI and maximize remittance benefits:
3. Strategies for Islamic financial organizations to capitalize on FDI and remittance flows:

This article highlights the significance of FDI rates and remittances in shaping Islamic financial organizations' growth in emerging economies. The findings underscore the need for policymakers and practitioners to recognize the potential of FDI and remittances in promoting Islamic finance. By implementing appropriate policies and practices, emerging economies can foster Islamic financial institutions, leading to increased market inclusion and economic development.

Recommendations for Future Research

The recommendations for future research sections will provide valuable insights for researchers and policymakers in advancing the understanding of the impact of FDI rates and remittances. This will enable researchers and policymakers to grow Islamic financial organizations in emerging economies. It will suggest potential research directions, such as:

1. Conducting empirical studies using ARDL analysis to explore the causal relationship between FDI rates, remittances, and the development of Islamic financial organizations.
2. Examining the role of institutional factors, such as regulatory frameworks and government policies, in facilitating or hindering the impact of FDI rates and remittances on Islamic financial organizations.
3. Investigating the influence of cultural and social factors on the adoption and growth of Islamic finance in emerging economies.
4. Assessing the impact of technological advancements, such as digital finance and fintech, on the development of Islamic financial organizations in the context of FDI rates and remittances.
5. Exploring the potential spillover effects of FDI rates and remittances on other sectors of the economy, such as job creation and economic growth.

The conclusion section will summarize the key findings of the document and highlight recommendations for future research. It will emphasize the importance of further investigation into the impact of FDI rates and remittances on Islamic financial organizations growth in emerging economies. Overall, this document provides a comprehensive analysis of the impact of FDI rates and remittances on Islamic financial organizations growth in emerging economies. It highlights gaps in the current literature and offers valuable recommendations for future research. This fosters a deeper understanding of this significant area of study.

Acknowledgments

The author must acknowledge the support in conducting the research work.

Disclosure statement

No potential conflict of interest was reported by the author(s).

Disclaimer

The views and opinions expressed in this paper are those of the author alone and do not necessarily reflect the views of any institution.

References

Abrar, M., Abbas, S., Kousar, S., & Mushtaq, M. (2022). Investigation on effects of customer knowledge, political support, and innovation on the growth of Islamic banking system: A case study of Pakistan. *Journal of the Knowledge Economy*, 1-20.

Abduh, M. B., & Finance. (2011). Islamic banking service quality and withdrawal risk: *The Indonesian experience*. *1*(2), 1-15.

Abdul Kader, R., & Yap, K. L. (2008). The impact of interest rate changes on Islamic bank financing.

Abedifar, P., Molyneux, P., & Tarazi, A. J. R. o. F. (2013). Risk in Islamic banking. *17*(6), 2035-2096.

Abrar, M., Abbas, S., Kousar, S., & Mushtaq, M. (2022). Investigation on the effects of customer knowledge, political support, and innovation on the growth of Islamic banking system: A case study of Pakistan. *Journal of the Knowledge Economy,* 1-20.

Aderemi, R., & Ishak, M. S. I. (2023). Qard Hasan as a feasible Islamic financial instrument for crowdfunding: its potential and possible application for financing micro-enterprises in Malaysia. *Qualitative Research in Financial Markets*, *15*(1), 58-76.

Adebola, S., Yusoff, W., Dahalan, J. F., & Accounting. (2011). The impact of macroeconomic variables on Islamic banks financing in Malaysia. 2(4), 22-32.

Ahmad, N., Yazis, M., Oudat, E., & Finance. (2015). Analysing long-run, short-run relationships between macroeconomic variables and murabaha to the purchase-order: *Evidence from Jordanian Islamic bank. 7*(2), 168-177.

Akbar, M., Akbar, A., Yaqoob, S., Hussain, A., & Yasmin, F. (2023). Islamic finance education: Current state as well as challenges for Pakistan. *The Cogent Economics & Finance*, *11*(1), 2164665.

Akhtar, B., Akhter, W., & Shahbaz, M. J. I. J. o. E. M. (2017). Determinants of deposits in conventional and Islamic banking: *A case of an emerging economy. 12*(2), 296-309.

Al-Fawwaz, M., Alawneh, A. M., & Shawaqfeh, G. N. (2015). The Impact of Islamic Finance on Some Macro Economic Variables. *A case study of Jordan Islamic Bank. 7*(1), 10-30.

Aman, A., Sharif, S., & Arif, I. (2015). Comparison of Islamic banks with Conventional banks: Evidence from emerging market. *Paper presented at Asian Finance Association (Asian) 2015* Conference Paper.

Aman, A., Sharif, S., & Arif, I. J. J. o. M. S. (2016). Comparison of Islamic banks with conventional banks: *Evidence from an emerging market. 3*(1), 24-33.

Ascarya, A., Husman, J. A., & Tanjung, H. (2023). Determining characteristics of waqf-based Islamic financial institution and proposing appropriate models for Indonesia. *International Journal of Ethics and Systems*, *39*(1), 143-164.

Camara, A. (2022). The Effect of Foreign Direct Investment on Tax Revenue. *Comparative Economic Studies,* 1-23.

Chapra, U. J. R. o. I. E. (2000). Why has Islam prohibited interest? *Rationale behind the prohibition of interest. 5-20.*

Cizakca, M. (2009). Incorporated Cash Waqfs: Islamic Non-Bank Financial Instruments from the past to future. *Paper presented at the Seminar, Labuan, Malaysia, November 14th.*

Curuk, S. A. (2014). Factors Effecting the Development of Islamic Finance in Turkey. *Paper presented at international interdisciplinary business-economics progress conference (iiba) conference proceeding*.

Gait, A., & Worthington, A. E. (2008). An empirical survey of individual consumer, business firm and financial institution attitudes towards Islamic methods of finance. 35(11), 783-808.

Honohan, P. J. J. o. B., & Finance. (2008). Cross-country variation in household access to financial services. 32(11), 2493-2500.

Hudaya, A., & Firmansyah, F. (2023). Financial stability in the Indonesian monetary policy analysis. *Cogent Economics & Finance*, *11*(1), 2174637

Iqbal, M. S. ., Fikri, S. M. ., & Ahmi, A. . (2023). Relationship Between Musharakah, Credit Risk, and Profitability in Pakistan's Islamic Banks. *Journal of Applied Economics and Business Studies*, *7*(3), 75-91. https://doi.org/10.34260/jaebs.735.

Iqbal, M. S., & Fikri, S. M. (2023). Comparison of Credit Risk Management Practices among Islamic and Public Commercial Bank's in Pakistan. *International Journal of Management Research and Emerging Sciences, 13*(3). https://doi.org/10.56536/ijmres.v13i3.509.

Iqbal, M. S., & Fikri, S. M. (2023). Comparison of Credit Risk Management Practices among

Islamic and Public Commercial Bank's in Pakistan. *International Journal of Management Research and Emerging Sciences*, *13*(3). https://doi.org/10.56536/ijmres.v13i3.509.

Iqbal, M. S., & Fikri, S. M. (2023). The Determinants of Growth in Banking Sector: Time Series Analysis of Conventional And Islamic Banking In Pakistan. *Islamic Banking and Finance Review*, *10*(1), 51-67. https://doi.org/10.32350/ibfr.101.03.

Iqbal, M. S., & Sofi, M. F. B. (2022). Analyzing the impact of oil prices on commodity future listed on Pakistan mercantile exchange (PMEX) in the era of Covid-19. *South Asian Review of Business and Administrative Studies (SABAS)*, *4*(2), 103-112. https://doi.org/10.52461/sabas.v4i2.1513 .

Iqbal, M. S., Fikri , S. M., Imtiaz , A., & Yahaya , H. D. (2023). Impact of House Financing Accessibility on the Productivity of Private-Public Relationships in Mortgage Financing Conditions. *Journal of Contemporary Business and Islamic Finance (JCBIF)*, 3(2),324–335.Retrievedfrom https://journals.iub.edu.pk/index.php/jcbif/article/view/2130.

Iqbal, M. S., Fikri, S. M., & Ahmi, A. (2023). Relationship Between Musharakah, Credit Risk, and Profitability in Pakistan's Islamic Banks. *Journal of Applied Economics and Business Studies, 7*(3), 75-91. https://doi.org/10.34260/jaebs.735,

Iqbal, M. S., Fikri, S. M., Ali, M., Umar, M., & Yahaya, H. D. (2023). The Effect of Car Ijarah/Lease Financing on the Pakistani Islamic Banking Sector's Performance. *Pakistan Journal of Economic Studies (PJES)*, *6*(3), 219-230. Retrieved from https://journals.iub.edu.pk/index.php/pjes/article/view/2330.

Islam, M. A., Liu, H., Khan, M. A., Islam, M. T., & Sultanuzzaman, M. R. (2021). Does foreign direct investment deepen the financial system in Southeast Asian economies? *Journal of Multinational Financial Management*, 61, 100682.

Jawaid, S. T., Siddiqui, A. H., Kanwal, R., & Fatima, H. (2023). Islamic banking and customer satisfaction in Pakistan: evidence from internal and external customers. *Journal of Islamic Marketing, 14*(2), 435-464.

Kamalu, K., Ibrahim, H., & Ahmad, A. (2022). Effect of Remittance on Human Development in the Organization of Islamic Cooperation Member Countries: Evidence from DCCE AND CS-ARDL. *Iranian Journal of Management Studies, 15*(2), 405-424.

Kassim, S. H., Majid, M. S. A., Yusof, R., & Development. (2009). Impact of monetary policy shocks on the conventional and Islamic banks in a dual banking system: *Evidence from Malaysia. 30*(1), 41-58.

Khan, N., Hassan, K., Shahid, A. E., Banking, & Finance. (2007). Banking behavior of Islamic bank customers in Bangladesh. 3(2), 159-194.

Khan, I., Khan, I. U., Uddin, M. J., Khan, S. U., & Marwat, J. (2023). Diversity of Shari'ah supervisory board and the performance of Islamic banks: evidence from an emerging economy of Pakistan. *Journal of Islamic Accounting and Business Research. 14* (02), 2174637.

Lim, R. J. M., Tolentino, M. Y. A., & Manapat, C. L. (2022). The Relationship between Philippine Population, Remittances, Foreign Direct Investment, and Trade Openness on its Gross Domestic Product. *Journal of Economics, Finance and Accounting Studies, 4*(4), 168-201.

Mamun, A., & Kabir, M. (2022). The Remittance, Foreign Direct Investment, Export, and Economic Growth in Bangladesh: Time Series Analysis. *Arab Economic and Business Journal*, *14*(2), 12.

Mansoor, D., Siddiqui, D. D., Siddiqui, D. I., & Co-Movement, D. A. (2019). International and Domestic Integration Among Islamic Investment*: Is There Any Co-Movement?* 530-554.

Mushtaq, S., & Siddiqui, D. F. I. (2016). Effect of interest rate on economic performance: evidence from Islamic and non-Islamic economies. 2(1), 9.

Nahar, S., Sarker, N. J. J. o. B., & Management. (2016). Are macroeconomic factors substantially influential for Islamic bank financing? *Cross-country evidence. 18*(6), 20-27.

Nasir, S., Khalid, M., & Mahmood, A. J. T. P. D. R. (2004). Saving-investment behaviour in Pakistan: An empirical investigation *[with Comments]*. 665-682.

Ofori, I. K., Gbolonyo, E. Y., Dossou, T. A. M., & Nkrumah, R. K. (2022). Remittances and income inequality in Africa: Financial development thresholds for economic policy. *Research in Globalization*, *4*, 100084.

Oudat, M. S., Ahmad, N., Yazis, M. J. I. J. o. E., & Finance. (2015). Examining Causality Relationships among Energy Consumption, *Economic Growth and Islamic Banking System Performance in Jordan. 7*(6).

Pham, H. T., Gan, C., & Hu, B. (2022). Causality between financial development and foreign direct investment in Asian developing countries. *Journal of risk and financial management*, *15*(5), 195.

Rab, H. J. J. o. K. A. U. I. E. (2004). Impact of inflation on Mudarabah profits: some observations. 17(2). Rosly, S. A. J. T. I. B. R. (1999). Al-Bay 'Bithaman Ajil financing impacts on Islamic banking performance. 41(4-5), 461-480.

Rahman, M. K., Hoque, M. N., Yusuf, S. N. S., Yusoff, M. N. H. B., & Begum, F. (2023). Do customers' perceptions of Islamic banking services predict satisfaction and word of mouth? *Evidence from Islamic banks in Bangladesh. Plos One*, *18*(1), e0280108.

Tabash, M. I., Dhankar, R. S. J. J. o. F., & Accounting. (2014). The flow of Islamic finance and economic growth: *An empirical evidence of Middle East. 2*(1), 11-19.

Ullah, A., Zhao, X., Kamal, M. A., Riaz, A., & Zheng, B. (2021). Exploring asymmetric relationship between Islamic banking development and economic growth in Pakistan: Fresh evidence from a non-linear ARDL approach. *International Journal of Finance & Economics*, *26*(4), 6168-6187.

Warde, I. (2000). Islamic finance in the global economy: Edinburgh University Press. Wilson, R. J. T. B. (1995). *Going global. 145*(829), 45-46.

Zahid, S., Basit, A. J. J. o. F., & Research, E. (2018). Impact of Macroeconomic Factors on the Growth of Islamic Banking: *A Case of Pakistan. 3*(2), 37-50.

Zehra, N., Umair, H., Shabbir, M. S., & Mallouli, A. E. (2022). The role of Islamic banking development and its impact on financial stability: evidence from morocco's financial institutions. *Pakistan Journal of Humanities and Social Sciences*, *10(*1), 354– 365-354–365.