

Impact of Foreign Capital Inflow on Economic Development of Pakistan: An Empirical Perspective

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ABSTRACT

The primary aim of this study is to trace and study the contribution of foreign capital inflows in the development of Pakistan and to give some policy recommendations that can be beneficial to the growth of the economy. This study examines external capital inflows for economic development in Pakistan, utilizing time series data from 1980 to 2023. GDP is used as a proxy variable of economic development, and FDI, remittances, and sovereign debt are used as capital flows, which influence the economic development of Pakistan. The study used Johanson Cointegration and ECM techniques on time series data to check the immediate and long-term interaction between capital flows and the economic growth of Pakistan. ECM is useful for identifying the short-term and long-term associations between foreign capital inflows and Pakistan's economic development. The Johansen cointegration technique determines the existence of a long-term relationship between foreign capital inflows and Pakistan's economic development. The findings indicate that debt, FDI, and transfer of funds have positive and statistically significant effects on Pakistan's GDP over the long term. The weak, momentary changes indicated by the ECM further emphasize the need for sustained, long-term policy interventions. To enhance the performance of capital flows in Pakistan, the government should reform its development policies and invest in more productive resources. It should focus on both domestic and foreign aspects to achieve practical benefits from capital flows. It should focus on money-generating investments instead of using the income flows for personal purposes. Investment should be easy for both foreign and domestic investors. The government should provide a suitable platform to investors to encourage the productivity and growth of the economy.

Introduction

Pakistan's history of macroeconomic volatility has a significant impact on its path to economic progress. This has led to poor investment and slow growth. Therefore, it is crucial to understand how foreign capital enters the country. FDI is particularly significant since it brings in new technology and builds up capital, both of which are very crucial for a country's economic growth. Pakistan's investment levels are low, at 15% of its GDP, which is far lower than the South Asian average of 30%. This shows that measures are needed to encourage more investment [1]. This research aims to provide policymakers with the information they need to develop more effective plans for economic growth and stability by examining the effects and patterns of foreign capital in greater detail. This knowledge is important because it lays the groundwork for long-term growth through better ways to invest in other countries [2]. Pakistan's history of macroeconomic volatility, which has led to low investment and poor growth, has a significant impact on its path to economic progress. Therefore, it is crucial to understand how foreign capital enters the country. FDI is particularly significant since it brings in new technology and builds up capital, both of which are very crucial for a country's economic growth. Pakistan's investment levels are low, at 15% of its GDP, which is far lower than the South Asian average of 30%. This shows that measures are needed to encourage more investment [1]. This research aims to provide policymakers with the information they need to develop more effective plans for economic growth and stability by examining the effects and patterns of foreign capital in greater detail. This knowledge is important because it paves the way for long-term growth through better ways to invest in other countries [2].

When we talk about the influx of foreign investment, it is evident that the economic growth of Pakistan is important in solving most of its problems. One of them is foreign direct investment, or FDI. It is vital to the economy in the sense that it assists in the spread of new technology and promotion of innovative thinking. Researchers have demonstrated that FDI has a relationship with the growth of the economy. That is, they estimated that a 1 percent rise in FDI could result in a 0.09 percent rise in GDP [2]. In case of unforeseen circumstances, like the COVID-19 pandemic, where FDI decreased because of the border closures and uncertainty, policymakers should find solutions to attract foreign capital as quickly as possible [3]. The study is proposed to give a full picture of the situation so that the people in charge could define what can be done with the foreign funds to achieve the best. This would make the economy of Pakistan prosper in a manner that benefits the environment and make decisions using facts.

The correlation between economic growth and foreign investment in Pakistan shows the necessity to have prudent policies. It is possible to learn something about other countries that foreign direct investment (FDI) can bring some new technology, new innovative ideas, and build capital, which is necessary to achieve long-term growth [2]. This paper analyses the trends in foreign direct investment (FDI) in an attempt to assist policymakers to recognize the effects of foreign capital on employment growth and economic growth in the long run. The COVID-19 pandemic has added further difficulties to FDI as more illnesses would normally result in less investment [3]. As long as the policymakers know all this, they can initiate measures that will not only be able to attract foreign investment but also ensure that the country is in a better position to solve future problems. This would fortify the economy of Pakistan

It is important that Pakistan appreciates the nature of money flow in and out so as to come up with sound economic strategies. Foreign Direct Investment (FDI), investments in stocks and bonds, and loans are different types of foreign money and each of them has varying impacts on the economy. FDI assists the economy to grow at a very high rate by bringing in new technology and through capital increase that makes things to run smoothly. Conversely, the price of stocks and bonds can change frequently depending on the events in the world economy. The economy is unstable when

there is shortage of money in the world or when people lack uncertainty in economic policy [4]. The study is essential as it can enable policymakers to have a better insight into the connection between stable economies and different kinds of foreign investment. By closely examining these inflows, those in authority are able to implement regulations that ensure that there are maximum benefits of foreign investment, and that the risks are minimized. This would assist in the Pakistani economy to grow sustainably.

Countries interested in developing their economies have to find their way between foreign investment and their internal policies. Research shows that Foreign Direct Investment (FDI) does not only contribute to the prosperity of the economy, but also provides a climate that promotes technical advancement and innovation. Thus, it is the responsibility of the policymakers in Pakistan to prepare strategic plans on how to utilize these external resources. The COVID-19 pandemic has also increased the pre-existing vulnerabilities, causing a significant reduction in FDI [3]. When policymakers wish to facilitate the investment of people during times of crisis, they must learn this shifting relationship. To increase its economic resilience and guarantee that its policies are in line with the changing global investment environment, Pakistan can promote foreign direct investment (FDI).

Countries that aim at enhancing their economic growth must understand how foreign investments affect policy making decisions since the two are closely intertwined. Inflows of foreign capital not only introduce much-needed funds to most important enterprises but also contribute to the implementation of new technologies and enhanced methods of operation. This is particularly true in the case of countries such as Pakistan whose research indicates that foreign aid has an impact on economy by boosting investment and government expenditure both in the short term and in the long term. This can go a long way in solving such critical issues as poor GDP growth and trade deficits [5]. Also to ensure that the returns of these investments are maximum and risks are minimal like bad investment of funds, an effective economic policy is required [6]. This paper will present ideas to the policymakers in Pakistan on how they can use foreign investments to foster long-term economic growth.

The relationship between foreign investment and economic growth in Pakistan highlights the importance of having well-informed policies. Foreign Direct Investment (FDI) is a clear example of how governments can utilize these benefits. FDI helps the economy thrive by facilitating the transfer of technology and the accumulation of capital [2]. This paper also discusses how exogenous shocks, such as the COVID-19 pandemic, may exacerbate the situation. These events had a negative impact on FDI inflows, highlighting the importance of having a robust economic strategy [3]. Policymakers may create plans that not only mitigate the effects of global crises but also make the country more attractive to investors when they understand the connections between these issues. Ultimately, this research will enable precise adjustments that will foster sustainable economic growth in Pakistan, ultimately strengthening the country's position in the global economy.

Review of Literature

Collective production is a mixture of human assets and physical assets. Physical assets can also be household or foreign-owned assets in the shape of FDI. The endogenous growth models progressed by Lucas-Romer expand the old neo-classical model by emphasizing the function of endogenous aspects such as (human capital reserve and R&D behaviors) as the critical facets of growth of the economy. Whereas in the early neo-classical models, total factor output expansion (or technical progress) is taken as exogenously set. The newer endogenous output extension

models attribute this aspect of growth to the learning-by-doing results that occur with substantial human capital, which lead to increasing returns to scale in output technology (Lucas, 1988).

Adams and Klobodu (7) examined the variable outcomes of capital flows on the financial development of five African economies during the period from 1970 to 2014. The autoregressive distributive lag model was used to ensure the effect of inflows on the economic expansion of these nations. The obtained outcomes showed that FDI has a positive and significant impact on the growth of Burkina Faso but a negative effect on the growth of Niger. Debt impact was negative, and aid promoted the growth of Niger and Gabon.

Sahoo and Sethi (8) investigated the causality between external investment inflows and India's economic progress. This study employed cointegration and vector error correction mechanisms as econometric tools. The obtained results showed that, in the long term, domestic savings have a positive and significant impact on the state's progress. However, other variables, such as ODA, FDI, and GDP, have an adverse yet momentous effect on the development of the Indian economy.

Mohamed (9) examined the impact of external asset invasions on Sudan's economic progress and resource depletion. Johnson's cointegration method revealed a distant association between growth and flows. The study's outcomes showed that external assistance and the current account deficit have a favorable impact on the economy's economic progress, while the opposite is true in the case of FDI and sovereign deficit.

Onyinye, Orji (10) estimated the impact of external asset influxes on Nigeria's financial progress during the period from 1986 to 2014. The ARDL and unrestricted Error correction model are used in this investigation for experiential analysis. The results showed that asset inflows have a positive association with Nigeria's growth. The results also showed that one-to-one remittances and other external asset Inflows have significant impacts on economic development in Nigeria. The study suggested that the monetary sector should be enhanced so that staff remittances can be capably handled through bank channels and also put to inspired use.

Dutta, Haider (11) examined the causal relationship between foreign direct investment, domestic investment, trade openness, and economic growth in Bangladesh from 1976 to 2014. Granger causality VECM was used to inspect the causal association between these indicators. The obtained findings showed that Unidirectional causality exists between external direct venture and growth, internal speculation and trade openness,, and trade openness and economic growth. A two-way association existed between internal and external investment and the economic progress of the economy.

Rehman and Ahmad (12) examined the impact of external asset inundation on the financial progress of emerging economies. For the sack of short and long-run estimates, panel unit root and (PMG) techniques were used. The results obtained in this paper indicate that inundation, including EX_DEBT and ODA, has a considerably negative impact on the financial progress of less developed economies, whereas external direct investment and remittances have an encouraging and considerable positive impact on economies' progress over the long term.

Adamu Jibir (13) examined the natural association between external investment influxes and Nigeria's economic evolution over the period from 1970 to 2014. For economic investigation, the Granger causality test, ECM, and Johanson cointegration were employed in this study. The obtained findings showed that capital inflow has a faraway association with the economic progress of Nigeria.

The study of how foreign investment affects economic growth in Pakistan reveals that both theoretical frameworks and empirical research have undergone significant changes over time. Early studies mostly said that there was a clear link between foreign direct investment (FDI) and economic growth. For example, researchers who focused on how foreign capital may improve domestic productivity and knowledge transfer showed this [14]. As the research developed, scientists began to use several economic models, such as the Harrod-Domar model and the Solow growth model, to explain how foreign capital affects growth [15, 16].

Even though there have been a lot of studies, there are still big gaps in the literature. Studies nowadays typically ignore the complex ways that different types of foreign capital, such as portfolio investment and foreign direct investment (FDI), affect different parts of the economy [17, 18]. Recent research has also shown that foreign capital inflows can cause growth, but they can also make a country more vulnerable by causing currency rate swings and making it reliant on outside sources. This is an area that still needs further research [19, 20]. Advanced econometric models and longitudinal data should be used in future investigations to fill in these gaps and give us a better picture of how things are changing.

Looking at how foreign investment affects Pakistan's economic growth shows that there are many complex ideas in the literature. A major focus is the link between foreign direct investment (FDI) and economic growth, which is generally backed up by models that show how FDI may help local capital formation and technical progress. Researchers like Mehmood, Ilyas (14) and Haider, Singh (15) say that foreign direct investment (FDI) leads to big increases in productivity, which in turn contributes to total economic development. However, this relationship is not always true. Some studies focus on the socio-political situation in Pakistan that could affect investment outcomes, saying that the quality of governance and institutional frameworks are important factors that affect how well foreign investment works [16, 21].

Another important topic that comes up in the literature is the role of remittances. Research shows that remittance inflows make a big difference in household income and local spending, which in turn boosts economic activity [22, 23]. However, the comparison shows a gap since not enough research has been done on how foreign direct investment (FDI) and remittances affect Pakistan's economy. There are several studies that look at this link, but there isn't a whole framework that fully captures this synergy [17, 24].

Also, much of the research that has been done so far focuses on quantitative evaluations and doesn't pay enough attention to qualitative insights that may help us better understand the local factors that affect capital flows. This points to a major vacuum that future research may fill by using a variety of methods to give a more complete picture of the problems that come with foreign capital inflows and how they affect Pakistan's economy [18, 19]. In the end, looking into these topics more deeply not only adds to the intellectual conversation but it also helps policymakers figure out how to encourage long-term economic growth in Pakistan.

Researchers have looked at the link between foreign capital influx and economic growth in Pakistan from a number of different angles. They found that there are many things that affect growth in a complicated way. Many studies have shown that foreign direct investment (FDI) and remittances are important for the country's economic growth since they increase productivity and encourage new ideas [14, 15]. The endogenous growth hypothesis says that foreign capital not only offers important funding but also helps indigenous companies by bringing in new technology and skills [16].

On the other hand, different methods have led to different findings regarding how foreign capital inflows affect things. For example, research that use vector autoregression models show that there is a dynamic link between foreign capital and economic measures. They imply that more foreign direct investment (FDI) can lead to better macroeconomic results [21, 22]. Some study that uses panel data analysis, on the other hand, finds a possible threshold effect, saying that foreign inflows need to reach a particular level before they may be helpful [23].

Even though there is a lot of material, there are still some gaps in the literature, especially when it comes to comparing different parts of Pakistan. A lot of research looks at overall levels without taking into account differences across regions and how they grow over time [17, 24]. There is also not much research on the possible crowding-out impacts of foreign money, which might make it harder for local businesses to invest [18]. Future studies can provide us with a better idea of how to make the most of foreign capital influx for Pakistan's economic growth by combining these different methodological points of view and filling up the gaps that have been found.

Looking at how foreign capital intake affects Pakistan's economic growth shows that there are many ideas and models that help explain this connection. According to classical economic theories, foreign direct investment (FDI) makes it easier to get new technology and increases productivity. These theories say that FDI may help local growth by making capital more available [14, 15]. This point of view is in line with endogenous growth models that stress the importance of human capital and knowledge spillovers for long-term economic growth [16]. However, dependency theory has its critics who say that relying too much on foreign capital can make a country more vulnerable and hurt long-term economic stability, as shown in studies of Pakistan's financial situation [21, 22].

A comparison of multiple models shows that different forms of foreign money have varying effects on results. For example, portfolio investment is generally tied to short-term market volatility, but FDI is more commonly linked to real economic growth. Also, while some researchers have found a positive link between capital inflows and economic growth, others point out major problems, like the risk of capital flight, which could make economic inequalities worse [17, 18, 23, 24].

Even though we have learned a lot from these studies, there are still gaps in the literature, especially when it comes to detailed empirical evaluations that are specific to Pakistan's unique social and economic situation. These are needed to connect theoretical frameworks with real-world effects. Filling up these gaps might add a lot to the conversation by giving us a better picture of how foreign investment affects economic growth in the region. Several studies suggest that more focused study is needed to connect theoretical predictions with actual results. This would allow for a more in-depth look at the role of foreign capital in Pakistan's economic story [19, 20].

Methodology and Results

This study employs a rigorous econometric framework to examine the long-term and short-term outcomes of debt, FDI, and remittances on Pakistan's GDP from 1980 to 2023. Each methodological step is meticulously applied to ensure robustness, and the results are complemented with diagnostic testing and visualization.

The mathematical model takes the form of

The functional form is $Y = f(\text{FDI}, \text{REM}, \text{E. DEBT})$

The econometric model is

$$\text{GDP} = \alpha + \beta_1 \log(\text{FDI}) + \beta_2 \log(\text{REM}) + \beta_3 \log(\text{E. DEBT}) + \mu t$$

GDP (a proxy for economic development) is used as the dependent variable, and $\log(\text{FDI})$, $\log(\text{REM})$, and $\log(\text{DEBT})$ are used as independent variables in this economic analysis. α is the coefficient β s are the slopes of the parameters, and μt is the error term.

Stationarity Analysis

The Augmented Dickey-Fuller test was used to check the stationarity of the variables. The test revealed that all variables Log_GDP, Log_Debt, Log_FDI, and Log_Remittances—were not stationary at level but became stationary after taking the first difference. It confirms that all variables are integrated of order one I(1)). This result provided the foundation for subsequent long-run and short-run analyses. The stationarity test results are presented in Table 1.

Table 1: Stationarity Test Results (ADF Test)

Indicators	ADF level	p-value (Levels)	ADF (First Difference)	p-value (First Difference)	Integration Order
Log_GDP	-0.594	0.872	-6.408	<0.01	I(1)
Log_Debt	-0.586	0.874	-4.030	<0.01	I(1)
Log_FDI	-1.446	0.560	-3.986	<0.01	I(1)
Log_Remittances	0.282	0.977	-5.027	<0.01	I(1)

OLS Model

OLS regression was used to examine the long-run relationships between GDP (the dependent variable) and the predictors (Log_Debt, Log_FDI, and Log_Remittances). The results, presented in Table 2, indicate a strong model fit with an R-squared value of 96.8%. Each independent variable showed a positive and statistically significant relationship with GDP, confirming their long-run contributions to economic growth.

Table 2: OLS Regression Results

Indicators	Coefficients	Std.e	T stats	p-value
constant	1.2480	1.165	1.071	0.290
Log_Debt	0.6194	0.093	6.644	<0.01
Log_FDI	0.1916	0.038	5.062	<0.01
Log_Remittances	0.2314	0.043	5.437	<0.01

Diagnostics for the OLS Model

To ensure the consistency of the OLS outcomes, diagnostic tests were conducted. The results of these tests are presented in Table 3. The Breusch-Godfrey test confirmed the presence of autocorrelation, while the Breusch-Pagan test indicated heteroscedasticity. Additionally, the Variance Inflation Factor (VIF) test revealed moderate multicollinearity for Log_Debt. The presence of autocorrelation is visualized in the ACF Plot (Figure 1), while heteroscedasticity is demonstrated in the Residual Plot (Figure 2).

Table 3: Diagnostic Test Results for OLS Model

Diagnostic Test	Result	p-value	Conclusion
Breusch-Godfrey Test	Significant autocorrelation detected	<0.05	OLS assumptions violated
Breusch-Pagan Test	Evidence of heteroscedasticity	<0.05	OLS assumptions violated
Variance Inflation Factor (VIF)	Log_Debt: 7.09, Moderate Multicollinearity	-	Multicollinearity identified

Figure 1: ACF Plot of Residuals

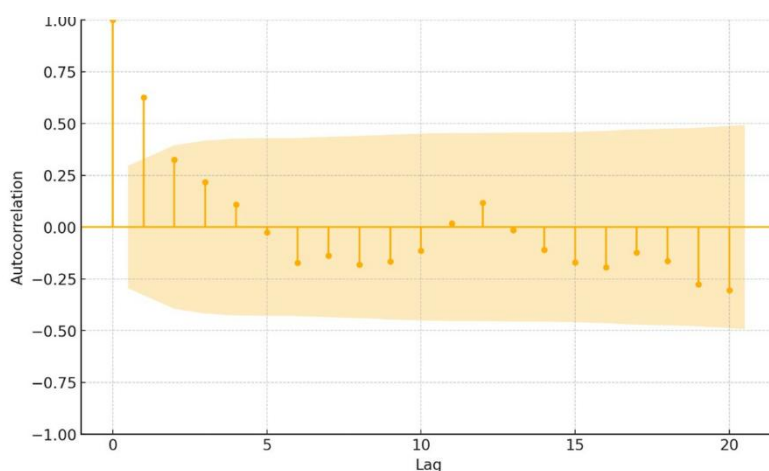
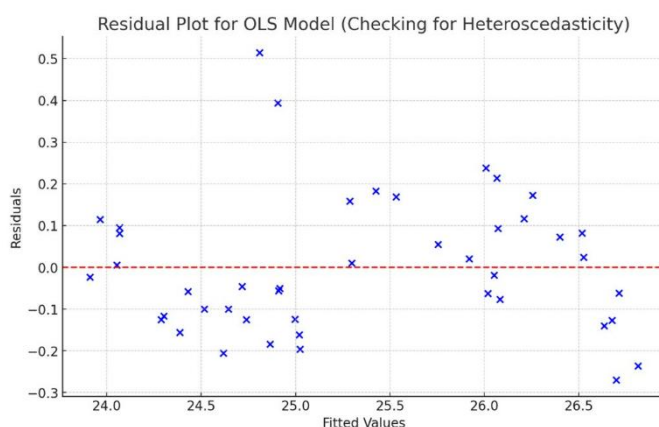


Figure 2: Residual Plot for OLS Model



Error Correction Mechanism (ECM)

The ECM was used to observe temporary dynamics. However, the Error Correction Term (ECT) was statistically insignificant, and the model exhibited poor explanatory power (R-squared of 3.3%), suggesting that short-run adjustments were weak. These results are summarized in Table 4.

Table 4: ECM Results

Variable	coefficient	Std.e	T stats	p-value
ECT	-0.035	0.056	-0.625	0.534
Log_Debt (Δ)	0.0157	0.007	2.243	0.041
Log_FDI (Δ)	0.0063	0.004	1.575	0.132
Log_Remittances (Δ)	0.0108	0.005	2.160	0.048

Johansen Cointegration Test

The Johansen Cointegration Test provides accurate results when we attempt to determine how variables that vary over time are related to each other in the long run. Its power stems from the fact that it can handle more than one cointegrating vector at a time. This is particularly useful when examining complex topics, such as financial data. The test employs maximum likelihood estimation to provide strong statistical evidence for detecting cointegration in time series that are not stationary. Researchers may utilize the Johansen Test's framework to distinguish between long-term and short-term movements. Studies on economic growth and its significant effects have confirmed this [25]. Additionally, it has been very helpful in understanding the connections between imports, exports, and the stock market, providing policymakers with crucial information [26]. The Johansen Cointegration Test is a key technique that ensures studies are comprehensive and helps us understand how different economic factors are related. The Johansen Cointegration Test results, as shown by Table 5, revealed no evidence of a constant long-term equilibrium amongst the variables.

Table 5: Johanson Cointegration Test Result

Hypothesis	Trace stats.	Crit. Value (95%)	Conclusion
None	40.93	47.85	No Cointegration
At most 1	17.20	29.80	No Cointegration
At most 2	6.07	15.49	No Cointegration
At most 3	1.46	3.84	No Cointegration

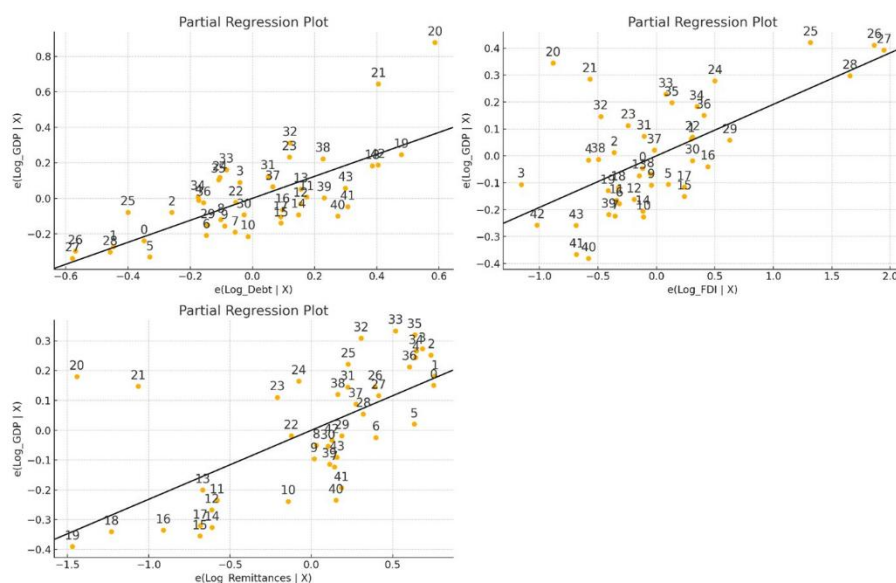
Robust OLS Model with HAC Standard Errors

To address diagnostic issues, the OLS model was re-estimated using Heteroscedasticity- and Autocorrelation-Consistent (HAC) standard errors. This adjustment effectively corrected for heteroscedasticity and autocorrelation, yielding robust and reliable coefficient estimates, as presented in Table 6. The partial regression plots (Figure 3) further validate the relationships between the predictors and GDP.

Table 6: HAC-Adjusted OLS Results

Variable	Coefficient	HAC Std. Error	t-Statistic	p-value
Constant	1.2480	1.518	0.822	0.416
Log_Debt	0.6194	0.143	4.317	<0.01
Log_FDI	0.1916	0.043	4.430	<0.01
Log_Remittances	0.2314	0.074	3.110	<0.01

Figure 3: Partial Regression Plots for HAC-Adjusted OLS Model



Discussion

The findings suggest that debt, FDI, and remittances have statistically significant and positive long-term effects on Pakistan's GDP. The HAC-adjusted OLS model, which accounted for diagnostic violations in the initial analysis, demonstrates that a 1% increase in debt corresponds to a 0.62% rise in GDP. In comparison, FDI and remittances contribute 0.19% and 0.23%, respectively, to GDP growth. These results highlight the importance of productive debt management, policies to attract foreign investment, and strategies to formalize and channel remittances into productive use.

The absence of cointegration suggests that while the variables are correlated in the long run, no stable equilibrium exists, potentially due to structural economic factors or policy variability. The weak short-run dynamics indicated by the ECM further emphasize the need for sustained long-term policy interventions.

The findings of the study align with those of many other studies, including Mehmood, Ilyas (14), Haider, Singh (15), Khalid, Tahir (16), Chandio, Mirani (18), Krisztin and Piribauer (27) and Olkhovik, Lyutova (28).

Foreign direct investment, or FDI, can affect a country's GDP in several ways over the long term. It often depends on institutional changes and what is happening in specific sectors. Take Chile, for example. Reforms that made the market more open, along with updated laws for foreign investment, helped attract a significant amount of FDI. This, in turn, boosted GDP growth [29]. These investments not only increase the amount of capital available but also help advance technology and improve productivity, which are essential for long-term economic success.

On the other hand, the connection between remittances and FDI is not so straightforward. Remittances can help local economies, but they may also lead to a "Dutch Disease" situation, where excessive reliance on foreign funds can hinder local investment [30]. Therefore, it is essential to comprehend the interplay between FDI and remittances in order to develop effective policies that promote long-term economic stability and growth.

Analyzing the short-term GDP impacts of remittances reveals a complex picture, particularly when economic instability enters the equation. Take Tunisia, for example. Research indicates that migrant remittances can bolster consumption during economic downturns, but their impact on local investment tends to wane, especially in the presence of major political or economic unrest [31]. This highlights how remittances can help maintain steady household consumption, but they do not always significantly contribute to boosting overall economic growth in the short term. Moreover, the intricacies of how remittances flow can sometimes lead to Dutch Disease, where the currency becomes stronger and harms other parts of the economy. This illustrates just how challenging it can be to manage these inflows [30]. When examining FDI, the interaction between remittances and foreign investment highlights both immediate and long-term challenges that countries must address to maintain a vibrant economy [29, 32].

To summarize, the connection between FDI and remittances shows different effects on a nation's GDP, influenced by time and socio-economic situations. On the one hand, FDI can boost economic growth by accumulating capital and reforming institutions, as seen in Chile. On the other hand, it may lead to negative long-term outcomes, such as profit repatriation affecting capital [29]. Remittances, however, tend to act as a buffer during economic hardship, often showing a positive long-term effect on growth and consumption despite some short-term issues [31]. Therefore, understanding how these capital flows interact means that policies need to be adaptable. The aim is to enhance local economies by leveraging the positive aspects of FDI and remittances while mitigating the negative impacts [33]. For developing nations, a balanced strategy is crucial for lasting economic growth.

Through robust diagnostics, visual validation, and careful model selection, this analysis provides a reliable and comprehensive understanding of the economic drivers of growth in Pakistan, offering valuable insights for policymakers and researchers alike.

Conclusion and Recommendations

The primary aim of this study was to trace capital inflows on economic development in Pakistan. Johanson cointegration and ECM are applied to fulfill the study's purpose. The ECM was utilized to inspect short-term dynamics. However, the Error Correction Term (ECT) was statistically insignificant, and the model exhibited poor explanatory power (R-squared of 3.3%), suggesting that short-run adjustments were weak. The Johansen Cointegration Test revealed no evidence of a constant long-run equilibrium between variables. The findings suggest that debt, FDI, and remittances have statistically significant and positive effects on Pakistan's GDP over the long term. The absence of cointegration suggests that while the variables are correlated in the long run, no stable equilibrium exists, potentially due to structural economic factors or policy variability. The weak short-run dynamics indicated by the ECM further emphasize the need for sustained long-term policy interventions.

To enhance the performance of capital flows in Pakistan, the government should refine its development policies and invest in more productive resources. It should focus on both domestic and foreign aspects to achieve practical benefits from capital flows. It should focus on money-generating investments instead of using income flows for personal purposes.

Investment should be easy for both foreign and domestic workers. This means the government should provide a suitable platform to domestic investors to encourage productivity and economic growth. The economy should not rely solely on external resources; instead, it should utilize our domestic resources.

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