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Assessing the Long-Run Influence of Human Capital and Macroeconomic Factors on Foreign Direct Investment: An Integrated Economics and HR Perspective

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Abstract

Human capital as well as core macroeconomic fundamentals have been noted to be key determinants of foreign direct investment inflows, particularly in the emerging economies like Pakistan. However, in spite of this acknowledgement, these determinants are traditionally studied separately, which fails to capture the possible interaction effects in a unified analytical structure. To fill this gap, the current study considers FDI inflows to Pakistan to conduct a systematic investigation of long and short-term effects of human capital, political stability, inflation, unemployment, and taxation on FDI inflows to Pakistan with ARDL methodology covering the time range 1980 to 2024. Based on both endogenous growth theory and the eclectic paradigm, the following study would build a new interdisciplinary framework integrating the economics and human resource aspects and provide a more comprehensive interpretation of FDI processes. The variables chosen have an important equilibrium relationship at long-run level as measured in the empirical findings. It is interesting, that political stability and inflation is discovered to be favorable in FDI inflows, but unemployment, taxation, and human capital have negative long run effects. The error correction model (ECM) shows in the short-term that the equilibrium is quickly approached after the shock. The robustness and reliability of the estimated model can be confirmed by means of comprehensive diagnostic and stability tests. In explaining complementarity between human capital and macroeconomic fundamentals, this study offers a new, policy-relevant analytical framework to guide policy towards increasing sustainable foreign investment within Pakistani and other similar type of emergent economies.

Keywords: Human Capital, Foreign Direct Investment, Macroeconomic Factors, ARDL, Pakistan

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Introduction

Foreign direct investment has become an important source of economic development, technology transfer and a creator of employment in developing economies. In the case of Pakistan, FDI attraction and maintenance are important not only to fill the gaps between savings and investments but also to attain lasting economic stability. Macroeconomic fundamentals that have historically impacted the flow of foreign capital into a nation include factors like inflation, unemployment, taxes, and political stability.Meantime human capital is another critical factor of productivity and competitiveness and another core factor of determining FDI. Although the contribution of human capital and macroeconomic variables has been acknowledged in determining FDI, very little work has been done in subjecting those variables to the influence of the other thereby providing an integrated input in economics and human resource factors in determining FDI.

Investors are willing to invest in a particular nation based on a wide variety of factors such as market size, policy environment, labor quality, and so on. Although the conventional macroeconomic theories pay most of their attention to financial stability and policy credibility, the modern trends are more inclined to the influence of human capital and quality of institutions on attracting multinational corporations. Specifically in the case of Pakistan, the play of different political circumstances, structural economic issues and lack of developed human capital base has restricted the ability of Pakistan to attract stable FDI. To make Pakistan a competitive location to invest in, such structural weaknesses are crucial to address.

The current studies present contradictory results on the macroeconomic factors of FDI in transition economies. Implementation of political stability and developing infrastructure outlines some positive results, and high taxation, inflation, and institutional inefficiencies discourage others due to the studies. However, relatively few studies have integrated human capital into this framework, despite its theoretical significance within the endogenous growth and eclectic paradigm perspectives. This research aims to fill this gap by empirically examining long-run and short-run impact of human capital and key macroeconomic factors on FDI in Pakistan by using ARDL methodology, which accommodates variables of mixed order of integration and is robust for small-sample analysis.

By adopting an interdisciplinary approach, this study contributes to both economics and human resource management literature, offering policymakers evidence-based insights for attracting sustainable foreign capital. The findings will provide practical recommendations for strengthening human capital, stabilizing the macroeconomic environment, and ensuring political consistency to enhance FDI inflows in Pakistan.

Literature Review

Foreign direct investment is widely acknowledged as a vital catalyst for economic growth, capital accumulation and technological development in emerging economies.Building and sustaining foreign direct investment in Pakistan has always been a policy problem.Human capital and macroeconomic fundamentals have been important factors in determining the amount of FDI that enters the nation.Macroeconomic conditions which include inflation, unemployment, taxation, and political stability make up the overall economic environment in which investors operate while human capital makes available a large pool of skilled labour force and innovativeness that helps to improve their productivity and

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competitiveness. A combination of them helps to define the capabilities of attracting long-run foreign investment in a country.

The existing literature has always emphasized the importance of macroeconomic stability in determining FDI inflows. Inflation, as an example, influences faith of the investor since an uncertain future cost and returns can occur as a result of inflation. Testifying to the effect of high level of inflation in developing world, Bhat et al., (2024) contend that high level of inflation in developing countries destroys the predictability of the outcomes, of investment decisions, whereas moderate inflation is an indication of healthy economic activity, which may lure investment action. Likewise, unemployment was found to be a two-sided variable in that high unemployment rates indicated a potentially obtainable labor supply, but it also showed that the economy is experiencing problems, which is unwelcome to foreign investors who rely on consistent demand of the consumers (Kimino, 2015). In Pakistan, Khan et al. (2023) find that consistently elevated unemployment rates have negative effects on FDI, especially in manufacturing industries which are more likely to be sensitive to domestic demand on the one hand and capable of judging their situations based on economic factors available on the one hand.

The taxation policy also plays a significant role in the inflow of FDI. The result of lower taxes placed on the corporations is increased post-tax profitability hence encouraging the corporations to enter the country and high taxation will discourage international participation. Chaisse, (2024) highlights that countries with simplified tax regimes and investment-friendly fiscal incentives have successfully positioned themselves as attractive FDI destinations. In Pakistan, however, frequent changes in tax policy and administrative inefficiencies create uncertainty that undermines investor confidence (Dogar and Khalid, 2024). Political stability is another critical determinant, as it reduces the risk associated with abrupt policy reversals, social unrest, or governance failures. Mansoor et al., (2023) emphasize that in politically unstable economies, investors often defer or cancel long-term commitments due to perceived risks. Historical evidence from Pakistan reinforces this point: Nasir, (2022) find that political volatility during periods of government transition significantly reduced FDI inflows, particularly in infrastructure and manufacturing sectors.

Alongside these macroeconomic factors, human capital has emerged as an equally important determinant of FDI, particularly within the context of knowledge-driven industries. Endogenous growth theory underscores the role of education, skills, and training in driving productivity and sustaining long-run growth. Abbas et al. (2022) first demonstrated that countries with higher human capital levels are better positioned to absorb and benefit from foreign investment. More recently, Aladesanmi, (2022) confirm that in Sub-Saharan Africa, nations with a skilled workforce and high tertiary enrollment rates attracted greater volumes of FDI, especially in technology-intensive sectors. Similarly, Dang and Nguyen, (2021) argue that multinational corporations increasingly evaluate labor quality, rather than merely cost, in their investment location decisions.

In Pakistan, however, the gap between labor market requirements and the available skill base has been repeatedly highlighted as a barrier to FDI. Kazmi, and Abdullah, (2024) note that while Pakistan enjoys a demographic advantage with a large labor force, inadequate investment in vocational training and education has constrained its ability to attract high-value investment in sectors such as IT, finance, and advanced manufacturing. This deficiency contrasts sharply with East Asian economies, where coordinated efforts in

Vol. 3 No. 8 (2025)

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human capital development and macroeconomic stability created a virtuous cycle of investment and growth (Nasir, 2024).

Despite the abundance of literature on macroeconomic factors and FDI, few studies have attempted to integrate human capital into the same analytical framework. Tsaurai and Danquah, (2025) demonstrate that when human capital development is considered alongside economic stability indicators such as inflation and political risk, the explanatory power for FDI inflows significantly improves. They argue that multinational investors increasingly view the availability of skilled labor and a stable policy environment as complementary factors rather than independent determinants. Nevertheless, most studies are disjointed in terms of Pakistan. Khan et al. (2025) mainly concentrate on the exchange rates, inflation, and institutional quality without referring to the mediating effect of human capital to reach long-term investment.

This disjointed model has created numerous research gaps. To begin with, there is also an integration gap because the literature has, so far, ignored the synergistic influence of human capital and macroeconomic fundamentals on FDI inflows within one study. Second, there is an empirical gap, i.e., evidence of little evidence of Pakistan in spite of its unique demographic and economic structure. Third, it has provided a methodological gap since the majority of the previous studies have adopted a standard econometric approach which is not very efficient in modelling short-run dynamics as well as long-run equilibrium relationships. However, lastly, there exists a policy gap since not many studies provide current, interdisciplinary advice which unites economic policy with human resource development framework to strengthen FDI inflows.

The research aims to fill these gaps by having an integrated economics and HR choice of perspective and use Autoregressive Distributed Lag method to analyze the long-run and short-run impacts of human capital and macroeconomic factors on FDI inflows in Pakistan. Theoretically, this research will go hand in hand with offering practical policy guidance to policymakers to develop a comprehensive framework that can be used to understand the mutual interlinked nature of the related factors. The anticipated value addition is not only that of quantifying the impacts of these determinants but also to show that, in case of sustainable FDI attraction in Pakistan, they necessitate concomitant reforms in macroeconomic management and human capital development and thus creating an all-round blue print in economic competitiveness in the international market.

Data and Variables

Robust empirical results are made by using consistent and reliable data. The analysis uses a time-series study of Pakistan between 1980 and 2024 which is a time-frame that is both long enough to observe long run dynamics and short enough to capture the short run. The choice of variables is anchored on theoretical relevancy and empirical evidence on previous research, which is consistent with the integrated economics-HR way of thinking. These data have been sourced through credible and available international and national sources, World Bank, International financial statistics and State Bank of Pakistan, which in itself makes them credible and consistent.

Foreign direct investment is the dependent variable in this study, with human capital, political stability, inflation, unemployment, and taxation as the independent variables. These variables are selected to capture macroeconomic fundamentals and HR related determinants of investment decision.

Vol. 3 No. 8 (2025)

Journal of Social Signs Review

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Table 1: Description of Variables

Variable	Description	Measurement/Unit	Source	Expected Impact on FDI
FDI	Foreign Direct Investment inflows	% of GDP	World Bank (WDI)	Dependent variable
HC	Human Capital (proxy: tertiary school enrollment)	% of gross enrollment	World Bank (WDI)	Positive: enhances labor quality
PS	Political Stability I	% of GDP	World Governance Indicators (WGI)	Positive: reduces investment risk
INF	Inflation Rate	Annual % change in CPI	International Financial Statistics	Negative: high inflation deters FDI
UNEMP	Unemployment Rate	% of labor force	World Bank (WDI)	Negative: reflects economic distress
TAX	Tax Revenue (proxy for tax burden)	% of GDP	World Bank (WDI)	Negative: excessive taxes deter FDI

The choice of human capital (HC) relies on endogenous growth theory, placing much focus on education and formation of skills as vital inputs in determining productivity and the attractiveness of investment. The inclusion of political stability (PS) is due to the fact that stable governance functions to reduce uncertainty and investor confidence. Unemployment (UNEMP) and inflation (INF) are two macroeconomic fundamentals which determine the situation on the market and risk of investments. Taxation (TAX) connotes the financial conditions that foreign investors consider and how it forms the expectations of profitability. The present study synthesizes economic and HR related factors to formulate a general analytical framework that explains determinants of FDI inflows.

Model Specification

Model specification of this study is formulated to empirically test the correlation between FDI and its significant drivers within the theoretical lenses of the endogenous growth theory and eclectic paradigm. The model permits simultaneous estimation of short-run adjustments together with the long-run equilibrium relationships among the variables using Autoregressive Distributed Lag approach. The technique is especially beneficial in studies with small samples and in cases where variables are of mixed integration orders hence providing rigor in terms of the methodological use. This model consists of functional form that considers human capital, political stability, inflation, unemployment, and taxation as the explanatory variables, which have an integrated economic and human resource approach towards FDI inflows.

Current model of the study is as:

$$FDI=f(HC,PS,INF,UNEMP,TAX)$$

Where FDI is foreign direct investment, HC is human capital, PS is political stability,

Vol. 3 No. 8 (2025)

Journal of Social Signs Review

Online ISSN 3006-466X

Print ISSN 3006-4651

INF is inflation rate,UNEMP is unemployment rate, TAX is taxation.

The linear econometric form of the model is expressed as:

$$FDI = \beta_0 + \beta_1 HC + \beta_2 PS + \beta_3 INF + \beta_4 UNEMP + \beta_3 TAX + \mu_i$$

Econometric Methodology

The data analysis used three methods: Autoregressive Distributed Lag approach, Phillips Perron (PP) unit root test and Augmented Dickey-Fuller test.

Unit Root

Order of integration of the variables used necessitates the determination prior to the use of the ARDL bounds testing procedure as it would be a pre-condition for utilizing a procedure of ARDL in that none of the variables should be integrated of order I(2) and above. In that regard, the research uses two common tests of stationarity: the Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) tests. Each variable at level, and above a first difference is tested, under specifications that include an intercept, and, where applicable, a deterministic trend.

These tests are aimed to determine whether the time series data contain unit roots meaning that they are not stationary or they are stationary when differences are made. The requirement of stationarity in econometric modeling is of particular importance, since non-stationarity in variables may cause spurious regression. The ARDL methodology becomes validated as a suitable method of estimation in this case because of the confirmation of the variable being I (0) or I (1).

Cointegration Test

After ensuring the order of integration properties of the variables, it is important to determine whether there exists a long-run equilibrium relationship between the variables. The cointegration analysis is critical in finding out whether two variables that are not individually stationary can co-move over time in a stable and economically meaningful relationship.

In the present study, the ARDL bounds testing procedure of Pesaran et al. (2001) will be used to reflect cointegration. This procedure is ideal when dealing with models that contain variables that are either integrated of different orders, I(0) or I(1) and will also work well on small-sample estimation. Contrary to traditional cointegration methods like the Engle-Granger or the Johansen, the test of bounds procedure does not place a limitation excessive all variables to be integrated of the same order, thereby making it more flexible and robust (Mustafa et al., 2024).

Using this method, the article assesses the combined urge of lagged level variables utilizing an F-statistic. When the calculated F-statistic is greater than its upper critical value, then the null hypothesis of no cointegration will be rejected which implies the existence of a stable long-run relationship. Then the statistic on the lower bound, however, it will inevitably be under it and in this case, the null hypothesis will not pass the test, whereas the values within the scopes will simply be unconfirmed and thus will need additional investigation.

The methodology would therefore offer a valid platform to validate the presence or absence of long-run equilibrium between human capital, political stability, inflation, unemployment and taxation with FDI in Pakistan.

ARDL

Current study makes use of recently developed ARDL framework by Pesaran and Shin (1995, 1999), Pesaran et al. (1996) and Pesaran (1997) to ascertain the direction of causation

Vol. 3 No. 8 (2025)

Journal of Social Signs Review

Online ISSN 3006-466X

Print ISSN 3006-4651

between variables. This technique provides benefits compared to the conventional methods of Johansen and Juselius (1990). While, traditional cointegration method predicts the long-run interactions within the framework of a system of equations. RDL approach utilizes only one reduced-form equation (Pesaran & Shin, 1995). The test of the present relationship between variables in levels is significant regardless of whether the underlying regressors are pure I(0), pure I(1), or a combination of the two, as pre-testing variables is not a component of the ARDL approach(Osmanovic and Alvi, 2022). Given this aspect alone, together with the characteristics of the cyclical components of the data, even the existing unit root tests to ascertain the sequence of integration still require greater credibility, making cointegration technique unsuitable. Furthermore, ARDL method avoids requirements other than the standard cointegration test.

The general ARDL equation, which establishes a relationship between "Human Capital and FDI" is as follows:

$$\Delta(FDI) = \alpha + \beta_1(FDI)_{t-1} + \beta_2(HC)_{t-1} + \beta_3(PS)_{t-1} + \beta_4(INF)_{t-1} + \beta_5(UNEMP)_{t-1} + \beta_6(TAX)_{t-1} + \sum_{i=1}^{\alpha 1} \delta_1\Delta(FDI)_{t-i} + \sum_{i=0}^{\alpha 2} \delta_2\Delta(HC)_{t-i} + \sum_{i=0}^{\alpha 3} \delta_3\Delta(PS)_{t-i} + \sum_{i=0}^{\alpha 4} \delta_4\Delta(INF)_{t-i} + \sum_{i=0}^{\alpha 5} \delta_5\Delta(UNEMP)_{t-i} + \sum_{i=0}^{\alpha 7} \delta_6\Delta(TAX)_{t-i} + \varepsilon_t$$

In ARDL model, parameters represent the long-run multipliers, while the symbols Δ and white noise error term represent the short-run dynamic coefficients and variables' initial differences.

The following equation can be used to determine the long-run parameters of the model on (Human Capital and FDI).

$$\Delta(FDI) = \alpha + \sum_{i=1}^{\alpha 1} \eta_1(FDI)_{t-i} + \sum_{i=0}^{\alpha 2} \eta_2(HC)_{t-i} + \sum_{i=0}^{\alpha 3} \eta_3(PS)_{t-i} + \sum_{i=0}^{\alpha 4} \eta_4(INF)_{t-i} + \sum_{i=0}^{\alpha 5} \eta_5(UNEMP)_{t-i} + \sum_{i=0}^{\alpha 7} \eta_6(TAX)_{t-i} + \varepsilon_t$$

The following can be used to estimate the short-term dynamics of the (Human Capital and FDI) model.

$$\Delta(FDI) = \alpha + \sum_{i=1}^{\alpha 1} \lambda_\lambda\Delta(FDI)_{t-i} + \sum_{i=0}^{\alpha 2} \lambda_2\Delta(HC)_{t-i} + \sum_{i=0}^{\alpha 3} \lambda_3\Delta(PS)_{t-i} + \sum_{i=0}^{\alpha 4} \lambda_4\Delta(INF)_{t-i} + \sum_{i=0}^{\alpha 5} \lambda_5\Delta(UNEMP)_{t-i} + \sum_{i=0}^{\alpha 7} \lambda_6\Delta(TAX)_{t-i} + \omega ECM_{t-1} + \varepsilon_t$$

Diagnostic and Stability Tests

To ensure the accuracy, reliability, and robustness of the estimated ARDL model, it is essential to conduct a series of diagnostic and stability tests. These tests serve to validate the appropriateness of the model specification and the integrity of its residuals. Specifically, examinations for heteroscedasticity, serial correlation, and model stability are employed to detect potential misspecifications or biases. If the model successfully passes these diagnostic checks, the resulting estimates can be deemed statistically sound and appropriate for subsequent analysis.

Results and Discussion

This section presents the empirical results derived from the ARDL model, including descriptive statistics, correlation analysis, unit root tests, bounds testing for cointegration, and both long-run and short-run estimations. Diagnostic and stability tests are also performed to ensure the reliability and validity of the model.

Descriptive Statistics and Correlation Analysis

Descriptive statistics provide an overview of the variables used in the study, while correlation analysis examines the direction and strength of relationships among them.

Vol. 3 No. 8 (2025)

Journal of Social Signs Review

Online ISSN 3006-466X

Print ISSN 3006-4651

Table 2: Descriptive Statistics and Correlation Matrix

Variable	Mean	Median	Max	Min	Std. Dev.	Skewness	Kurtosis	Jarque-Bera (p)
FDI	6.3275	6.5000	8.8000	2.4000	1.6124	-0.4498	2.3330	0.3167
PS	-1.3075	-1.5660	0.5336	-2.8100	1.0381	0.2113	1.7221	0.1900
UNEMP	4.2347	4.4500	7.8600	0.3980	2.2526	-0.2230	2.0159	0.3430
INF	8.6069	7.8827	29.245	2.5293	4.7775	2.0330	9.5397	0.0000
HC	30.9513	30.1269	54.369	16.339	10.367	0.3215	2.1753	0.3669
TAX	6.9415	6.8358	40.035	-26.152	19.778	0.0002	1.7966	0.2651

Correlation Matrix

	FDI	PS	UNEMP	INF	HC	TAX
FDI	1	0.351	-0.125	0.330	-0.275	0.242
PS	0.351	1	0.294	-0.189	-0.522	0.905
UNEMP	-0.125	0.294	1	-0.044	0.299	0.059
INF	0.330	-0.189	-0.044	1	0.054	-0.249
HC	-0.275	-0.522	0.299	0.054	1	-0.616
TAX	0.242	0.905	0.059	-0.249	-0.616	1

The results indicate that FDI is positively correlated with political stability and inflation, while it is negatively associated with human capital and unemployment. The strong positive correlation between political stability and taxation suggests that governance quality is closely linked to fiscal management.

Unit Root Tests

Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) tests were applied to confirm the stationarity of variables.

Table 3: Unit Root Test Results

Variable	ADF Level (p)	ADF 1st Diff (p)	PP Level (p)	PP 1st Diff (p)	Order
FDI	0.311	0.000	0.410	0.000	I(1)
PS	0.472	0.000	0.473	0.000	I(1)
UNEMP	0.000	-	0.000	-	I(0)
INF	0.102	0.000	0.118	0.000	I(1)
HC	0.006	-	0.006	-	I(0)
TAX	0.147	0.000	0.148	0.000	I(1)

These results confirm that none of the variables are integrated of order I(2), which justifies the use of the ARDL bounds testing approach.

Bounds Test for Cointegration

ARDL bounds test was applied to examine the presence of a long-run equilibrium relationship among the variables.

Table 4: Bounds Test Results

Test Statistic	Value	I(0)	I(1)	Decision
F-Statistic	10.20085	3.06	4.15	Cointegration confirmed

The F-statistic exceeds the upper bound at the 1% level, indicating the existence of a stable long-run relationship between FDI and its determinants.

Vol. 3 No. 8 (2025)

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Long-Run ARDL Results

Table 5: Long-Run Coefficients

Variable	Coefficient	Std. Error	t-Statistic	p-Value
HC	-0.044	0.014	-3.100	0.0065
PS	2.434	0.491	4.957	0.0001
INF	0.178	0.033	5.434	0.0000
UNEMP	-0.393	0.051	-7.660	0.0000
TAX	-0.088	0.032	-2.751	0.0136
C	10.574	1.062	9.953	0.0000

The long-run results reveal that political stability is a key determinant of FDI inflows in Pakistan, highlighting that foreign investors value predictable governance and reduced political risk, as periods of stability in Pakistan have historically encouraged investment, while political turmoil has led to capital flight. Inflation shows a positive association with FDI, which, although unconventional, may reflect the profit-driven behavior of investors in sectors benefiting from rising prices and the perception that moderate inflation signals expanding domestic demand. On the other hand, FDI is sensitive to unemployment that presents a negative state of affairs that reflects ineffective use of the workforce in the labor market and is a deterrent to investors who need a skilled and flexible workforce. Likewise, human capital is adversely impacting it, probably because of the unmatched skills that are available, compared to the needs of these foreign firms, especially in the tech-intensive sectors. Moreover, taxation is a disincentive to FDI due to the complex taxation structure and lack of policy predictability, which establish business costs at higher levels as compared with other economies. In summary, despite the ability of a stable political environment and moderate inflation to make a country attractive to overseas investors, such factors as high unemployment, poor skills match, and excessive taxation are significant obstacles which need structural adjustments to enhance the long-term investment environment in Pakistan.

Short-Run ECM Results

Table 6: Short-Run ARDL-ECM Results

Variable	Coefficient	Std. Error	t-Statistic	p-Value
D(PS)	2.056	0.786	2.615	0.018
D(UNEMP)	0.020	0.071	0.272	0.789
D(INF)	0.009	0.028	0.330	0.745
D(HC)	-0.072	0.022	-3.245	0.004
D(TAX)	-0.345	0.110	-3.145	0.006
ECM(-1)	-1.658	0.169	-9.829	0.000

The negative and highly significant error correction term (ECM) confirms rapid convergence to long-run equilibrium.

Diagnostic and Stability Tests

Table 7: Diagnostic Tests

Test	p-Value	Result
Breusch–Godfrey LM	0.410	No serial correlation
Breusch–Pagan–Godfrey	0.641	No heteroscedasticity
Ramsey RESET	0.206	Model correctly specified
Jarque–Bera	0.874	Residuals are normal
CUSUM & CUSUMSQ	Stable	Model stable

Vol. 3 No. 8 (2025)

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Diagnostic results confirm the reliability and robustness of the model.

Conclusion and Policy Recommendations

This study used the ARDL bounds testing method in determining long-run and short-run impacts of human capital and key macroeconomic factors and political stability, inflation, unemployment, and taxation-on foreign direct investment inflows in Pakistan over the period 1980-2024. Diagnostic and stability tests supported the findings as strong long-run relationship existed between selected variables.

Results indicate that a positive and statistically significant impact of political stability and inflation on FDI in the long-run exists. Political stability is a reasonable environment of predictability and security that will encourage investor confidence and moderate inflation indicate an growing economy which can form profitable investment opportunities. Unemployment, tax, and human capital, on the other hand, have very negative implications on FDI. Of special concern to notice is the negative sign of human capital where although Pakistan possesses a large labor force, the skills mismatch and the inequitable quality of education and training used impedes the country in attracting high value investment.

Quickness in adjusting towards the long-run equilibrium is measured with significant and negative error correction term in short-run outcomes which are reflected by the error correction model. This underlines the sensitivity of FDI inflow to variations in the macroeconomic environment and the human capital building processes. Diagnostic and stability t-tests reveal that the model is well-specified, is not serially correlated and not heteroscedasticity.

Findings of this research have a number of policy implications. To start off with, one can certainly note that there is a definite necessity of targeted investments in human capital. To achieve such change, policymakers must focus on education reforms, vocation training and the development of tie-ups between industry and academia so that the labor supply can meet needs of multinational companies. Pakistan can transform its demographic asset into a real powerhouse of FDI by enhancing their skill-building and technical know-how.

Second, it is important to ensure political stability. Building stronger institutional quality, enhancing governance and having a transparent and predictable policies will contribute to the reduction in the perceived investment risk. It is particularly necessary to endear long-term and technology intensive foreign investments, which need a stable policy environment.

Third, moderate inflation does not inevitably lead to a deterrence in FDI, but macroeconomic stability should be a primary goal. Monetary policies need to be prudent so that prices do not become too volatile such that it lowers investor confidence. Equally, the characteristic of adverse effect on taxation identifies the necessity of reformation of simple and competitive tax regime. Investment friendly taxation regimes, reduction of compliance costs and less reversal of policies are few formulae that will make Pakistan more attractive to foreign investments.

Lastly, the presence of deep unemployment raises the necessity to combine reforms of the labor market with FDI policies. The government can achieve this by establishing employment-oriented training schemes, and connecting the external investment projects to the domestic labour creation, providing a two-fold trick of eliminating a pool of unemployed citizens and drawing new funds to the country.

Vol. 3 No. 8 (2025)

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Conclusively, the research reveals that an integrated strategy of macroeconomic stabilization as well as enhancing human capital is critical in the attraction of sustainable inflows of FDI in Pakistan. Pakistan can achieve its long-term economic growth by establishing coherent mutually reinforcing policies in these dimensions, as through this, Pakistan can enhance its investment climate and increase its competitiveness.

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