



CROSS-BORDER FINANCE AND ECONOMIC GROWTH: A THREE-DIMENSIONAL PERSPECTIVE

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ABSTRACT

The central aim of this research is to test empirically the importance of remittances, FDI and foreign aid on economic growth estimated by GDP in the context of Pakistan. Notably, while employing twenty years historical secondary data made up of tertiary data for the period 2005 to 2025, the study uses robust econometric methods to guarantee meaningfulness of results. The presence of serial correlation in the data was checked using the Durbin-Watson test, and no serial correlation was found, indicating the robustness of the regression estimates. In addition, the coefficient of determination (R^2) was applied to evaluate the predictive performance of the model, and it proved to have a high explanatory power which means that the chosen independent variables strongly explain the changes in the GDP growth. Also, the research used OLS as a technique to investigate the strength and nature of the relationship among the independent variables. The findings reveal that remittances, FDI and foreign aid are beneficial and significant for stimulating the economic growth of Pakistan in the form of important sources of capital inflow, employment, technology and poverty alleviation. The research further confirms that remittances, foreign direct investment and foreign aid are essential determinant of Pakistan economic activities that can be well managed with sound policy measures to their maximum potential for development.

Keywords: *Remittances, Foreign Direct Investment, Foreign Aid, Economic Growth, and Gross Domestic Product.*

1. INTRODUCTION

Pakistan's economic growth dynamics, in the past, was supported by external financial inflows, remittances, FDI and foreign aid, to maintain growth in the face of structural imbalances, fiscal deficit, and external vulnerability (Abbas, Selvanathan, & Selvanathan, 2023). Remittances In the 1980s remittances jumped to about 10 percent of GNP and were important for balancing the balance of payments and financing domestic consumption (Adugna Chomen, Danquah, & Chen, 2024). Pakistan over the past two decades has been one of the top ten recipients of remittances in the world, attracting US\$6.4 billion in 2008 and more than US\$30 billion in 2022 for the same year where remittances cushion the economy from global and local shocks (World Bank, 2022). Inward FDI flows into Pakistan have also varied, they peaked in 2007–08 with nearly US\$5.4 billion as liberalization and privatization were fully underway, but later slowed down as a result of security risk and political instability (UNCTAD, 2020). A significant feature of the Pakistani economy has been foreign aid, with substantial flows coming in during the Cold War, the Afghan War and the post- 9/11 periods, yet its contribution to sustainable growth has been much debated (Ali, Subhan, Nasir, & Mohammed, 2021). Thus, these numbers demonstrate that the cross-border finance has been crucial in Pakistan to



maintain the pace of its economic growth and survival, however, the exact contribution of this finance on the GDP is still unknown and requires strong academic investigation (Ali, Ismail, & Baharudin, 2024).

It is important to explain how the remittances, FDI and foreign aid exert an impact on economic growth of Pakistan because all inflows lead differential impact on macroeconomic structure and long-run development outcomes (Ali, Kirikkaleli, Sharma, & Altuntaş, 2022). Remittances are found to be stable and countercyclical, typically increasing during downturns or crises, thus supporting consumption of households, reducing poverty, and stabilizing foreign exchange reserves (World Bank, 2022). These capital flows often go into household welfare, real estate, and small investments, which contribute to demand in the short term and may not necessarily enhance long-term productive capacity (Arshad, Abbas, Kächele, Mehmood, Mahmood, & Mueller, 2022). FDI, however, is linked with technology transfer, development of human capital and integration into global value chains, necessary for productivity per growth and industry modernization (Bird & Choi, 2020). However, delivering, the TFP have had mixed performance, some studies claim that concessional loans and grants provided some fiscal space and supported social sector reforms such as expanding access to healthcare and education programs while others argued that aid dependency creates inefficiencies, weakens the incentive to build institutional capacity among recipient countries, corruption and dilution of aid effectiveness (Bucevska & Naumoski, 2023). The disparate nature of these inflows mandates that a comparative study be conducted on their relative impacts on the GDP, in order to assist policy makers with more informed policy options for economic planning (Chishti, 2023).

Despite the magnitude of these inflows, Pakistan continues to face chronic economic challenges, including low investment-to-GDP ratios, current account deficits, and sluggish long-term growth performance (UNCTAD, 2020). While remittances have remained a reliable source of foreign exchange, their role in promoting sustainable economic growth beyond household consumption remains uncertain (Das & Sethi, 2020). FDI, though capable of promoting productivity and capital formation, has been volatile and insufficient to cover Pakistan's external financing needs, limiting its transformative potential (Güvenek & Khatir, 2021). Similarly, although foreign aid has supported development programs, many scholars argue that aid inflows in Pakistan are often politically driven and fail to produce lasting growth effects, raising concerns about aid dependency and fiscal vulnerability (Javed & Amir-ud-Din, 2021). Existing studies that address these inflows typically analyze one factor in isolation, neglecting the potential interactions and comparative significance of remittances, FDI, and aid in shaping GDP growth (Hasan, Suborna, & Urbee, 2025). This fragmented approach leaves policymakers with limited insight into how to strategically prioritize or manage these inflows for maximizing economic growth (Islam, 2022).

Plenty of literature has dealt with the impact of remittances, FDI, and aid on the economic life but most of the studies cover the limited aspects and there exists a dearth in the literature in terms of integrated investigations. For example, Rehman et al. (2022), remittances have a positive long-run impact on growth through the channels of capital accumulation and external stability, but they did not incorporate FDI or aid in their model. Hayat and Ghauri (2024) examined FDI and remittances together but not systematically considered foreign aid, which is another important dimension of international finance. Javed and Amir-ud-Din (2021) employed a VECM model to investigate foreign aid and per capita GDP, and found that both ODA and technical cooperation decreased long-term growth, and that grants increased long-term growth, but did not encompass remittances and FDI. Likewise, Awan and Moeen-ud-Din (2015) presented that external aid inflow had a negligible positive association with GDP of



Pakistan unless there have existed good institutional quality and they also neglected other inflow. In sum, these piecemeal contributions provide evidence of a distinct empirical void: only a handful of studies have considered remittances, FDI and foreign aid's concurrent and comparative influence on growth in GDP, in one unified model – and especially not in an extensive time horizon – with solid econometric analysis (Javed, Rapposelli, Adedoyin, & Arshad, 2025).

This study therefore aims to contribute to existing literature by constructing a unified model that measures the impact of remittances, FDI and foreign aid on GDP growth of Pakistan both in isolation and comparatively. By using state of the art econometric modelling, the study will provide empirical evidence about which mode of cross-border finance has the strongest impact on growth consistently (for short and longruns) (Muhammad, 2021). This kind of evidence is needed to inform policy-making, especially in an economy like that of Pakistan, which has a limited fiscal space, high external liabilities and sustainable growth contingent upon external financing (UNCTAD, 2020). If remittances are the most consistent push factor, policymakers can tailor strategies to enhance diaspora association and remittance venue of transfer; if FDI is the most effective, reformulation may target investment climate and industrial policy; aid can only work if conditionality and institutional arrangements are overhauled to reinvigorate accountability (Nadeem, 2025). Apart from intellectual dimensions, the study is pragmatic in exploring how to tackle structural economic weaknesses, achieving macroeconomic stability mechanisms, and external finance harmonization with long run development objectives in Pakistan (Raza, Yan, Abbas, & Ilahi, 2024).

The rest of this paper is structured as follows. Section two reviews the literature on the nexus among remittances, FDI, and foreign aid and economic growth in the context of Pakistan and similar developing economies. The methodology used in our study is explained in the third section, which includes description of data sources, variable definitions and econometric methodologies used to measure the effect of cross border financial flows on GDP growth. Section four presents and discusses the empirical results, while focusing on the short-term and long-term effects of remittances, FDI and foreign on economic growth of Pakistan. Last but not least, the last section provides a conclusion and discussion, highlighting the main findings of the study, discusses policy implications, and proposes directions for future research.

2. LITERATURE REVIEW & HYPOTHESIS DEVELOPMENT.

The literature review is an essential component of any research project as it offers the theoretical and empirical basis upon which data analysis is grounded. It contributes toward consolidating current evidence, highlighting important results, and pointing out inconsistencies or limitations of previous studies on remittance, FDI, foreign aid, and economic growth. By analyzing previous studies, this section not only positions current research within the broader academic discourse but also pinpoints the existing deficiencies that should be tackled. Finally, the literature review guarantees that the study is well-anchored, in context, and adds value to the ongoing academic and policy debates.

2.1. Remittance and Economic Growth (GDP).

It's no longer a subdued business now! During the last few years, remittances have started to gain importance in quantitative terms as well as in the form of economic growth, especially in the developing nations such as Pakistan and more than 80 others, as remittances there have become a big source of foreign exchange for the country. There is ample evidence that remittances have a favorable impact on economy-wide GDP (or gross national product (GNP), depending on whether data on income transfers have been used for measuring remittances) through their effect on household consumption, their contribution to alleviating liquidity



constraints, and their role in funding investments in education, health, and microenterprises (Rehman, Radulescu, Ahmad, Kamran Khan, Iacob, & Cismas, 2023). Remittances have been documented to be countercyclical in the case of Pakistan with their size increasing during troubled economic times, thus stabilizing household welfare as well as the balance of payments (Shaikh & Noorani, 2021). There is empirical support for the fact that remittances directly support the GDP growth of a nation by augmenting domestic savings and capital formation, which are generally limited in low-income nations (Song, Paramati, Ummalla, Zakari, & Kummitha, 2021). Taking time series data, Siddiqui and Kemal (2006) showed that remittances had a dominant role in economic growth of Pakistan by financing imports and helping to decrease the current account deficit. Similarly, Mughal and Anwar (2012) maintained that remittances raise aggregate demand and promote macroeconomic stability, while they warned of an excessive reliance on remittances that could result in consumption-based growth rather than in sustainable investment-led growth. Recent studies, employing sophisticated econometric applications also point out that remittances have long-run positive impact on GDP growth in Pakistan and short-run effects depend on volatility in exchange rate and external shock (Sutradhar, 2020). In general, the evidence suggests that remittance flows are indeed an important source of growth of Pakistan's GDP, provided that it can be channeled more into productive investment instead of pure consumption (Tabash, Anagreh, Subhani, Al-Faryan, & Drachal, 2023).

Hypothesis

Hypothesis

(H1): *Economic growth (GDP) in Pakistan is significantly influenced by remittance inflows.*

(H2): *Economic growth (GDP) in Pakistan is significantly influenced by foreign direct investment.*

(H3): *Economic growth (GDP) in Pakistan is significantly influenced by foreign aid.*

2.2. Foreign Direct Investment and Economic Growth (GD).

Foreign direct investment (FDI) is believed to be a key driver of economic growth, due to its access to both capital inflow and the acquisition of technology, managerial, and global market access, which contributes to growth of gross domestic product (GDP). In Pakistan, various empirical studies support a positive relationship of FDI inflows with GDP where FDI has been shown to bring additional contribution to GDP by increasing industrial output, creating job opportunities and aid in export diversification (Tahir, Jan, Shah, Alam, Afridi, Tariq, & Bashir, 2020). Malik, Hayat, Hayat (2010) based on time series data, explored the potential impact of FDI on the savings-investment gap and found FDI inflows have positive and significant impact on GDP growth in both short and long run which ultimately narrow the savings investment gap in Pakistan. Hussain and Haque (2016) also suggested that FDI will positively contribute into economic growth through the expansion of the production base, but the degree of the contribution will largely depend on the level of political stability and macroeconomic stability. Cross-country evidence also indicates that the positive impact of FDI on GDP growth is higher in countries with better financial markets, indicating that Pakistan's underdeveloped financial system can "sometimes constrain the potential for beneficial impacts of FDI" (Ur Rehman & Hysa, 2021). Rehman, Shah and Rehman (2022) also showed that FDI has long-run benefits for GDP growth in Pakistan, albeit with short-run limited impact due to the volatility of capital flows and structural inefficiencies. More recently, the synergistic role played by FDI in conjunction with other external flows like remittances and foreign aid – with the combined

effect being paramount in determining Pakistan’s long-term growth path – was highlighted in Hayat and Ghauri, 2024. On the whole, the literature suggests that FDI has overall positive (but long-term dependent) impact on economic growth in Pakistan through macroeconomic stability, institutional capability and FDI-friendly policies (Zaidi, Akhtar, & Sargana, 2024).

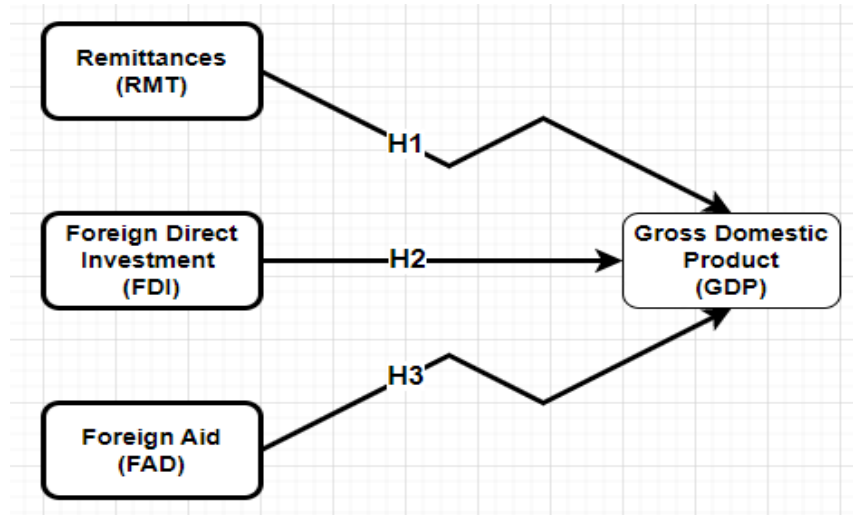


Figure-1: Conceptual Framework

2.3.Foreign Aid and Economic Growth (GDP).

Pakistan’s economic history, foreign aid is an obvious fact of life, with inflows of assistance from bilateral and multilateral donors providing substantial financing for various development projects, budgetary support and balance of payments support (Zardoub & Sboui, 2023) but its effect on economic growth is very much debatable. A number of studies have also suggested that official development assistance may have a positive effect on gross domestic product (GDP) as it fills the savings-investment gap and pays for the provision of infrastructure, and the development of human capital in receiving countries (Abbas, Selvanathan, & Selvanathan, 2023). However, in the case of Pakistan, evidence seems to support that aid effectiveness is highly contingent upon the quality of governance and institutional capacity, since mismanaged aid inflows allow to sustain economic growth (Adugna Chomen, Danquah, & Chen, 2024). Siddiqui and Malik (2013) found that while flows of aid bought some fiscal breathing space, but this did not translate into meaningful long-term GDP growth because of inefficiencies, corruption and weak absorptive capacity. Also, Javid and Amir-ud-Din (2021) observed that grants had a positive effect on GDP growth in the long run whereas concessional loans and technical cooperation projects have had an adverse influence per capita income in Pakistan. Research also suggests that shock violence reduces the growth effects of aid because unpredictable inflows lead to imbalances in the fiscal accounts and hinder long-run development planning (Ali, Subhan, Nasir, & Mohammed, 2021). Moreover, they also argued that aid dependency generates biases towards institutional weaknesses and lowers the domestic revenue efforts, diminishing its positive growth contribution (Ali, Kirikkaleli, Sharma, & Altuntaş, 2022). However, other studies indicate that foreign aid can stimulate growth when invested in the productive sectors, such as education, health, and infrastructure, under proper macroeconomic environment (Bird & Choi, 2020). Overall, the literature reports a mixed and sometimes negative connection of foreign aid and GDP growth of Pakistan, it indicates that the

role of aid is dependent on quality of governance, policy framework and the level of efficiency “aid absorption,” as well (Bucevska & Naumoski, 2023).

3. Methodology

The secondary data for the main variables remittances, FDI, foreign aid, and GDP were collected state bank of Pakistan, Pakistan bureau of statistics, World Bank, and IMF databases) for the time period of 2005–2025, to meet the reliability of this research as shown in World Bank (22). The reliance on secondary data has been an acceptable methodology for past empirical investigations either macroeconomic relationship are concerned since such data represent long span trends, which are prerequisites of good econometric analysis (Das & Sethi, 2020). To check for the serial correlation in the time-series data, the Durbin-Watson (DW) test was employed as one of the most common diagnosed tests in econometric analysis when the monotonic relationship in stochastic shocks of the residuals is used to check autocorrelation in the residuals of the regression and the validity of statistical inferences (Durbin & Watson, 1971). Explanatory and predictive capacity of the econometric model were evaluated using the coefficient of determination (R^2), a standard practice in applied economics to measure the extent to which the independent variables explain variation in the dependent variable (Wooldridge, 2016). Last, the Ordinary Least Squares (OLS) regression technique was used to determine the strength and the direction of the relationship between the underlying variables—remittances, FDI, foreign aid, and GDP—because OLS is one of the most popularly used method of estimating linear relationships in econometrics and it generates unbiased, consistent, and efficient estimates under the Gauss-Markov assumptions (Güvenek & Khatir, 2021). This methodological approach not only maintains the statistical rigor but also corresponds to previous research that has investigated the link between external financial inflows and economic growth in emerging economies, such as Pakistan (Hasan, Suborna, & Urbee, 2025).

- **Economic Growth (GDP)**= B_0+B_1 (FAD) + B_2 (FDI) + B_3 (RMT) + u

4. Results and Analysis

4.1. Durbin Watson Test: -

In the present study, as the existence of autocorrelation can distort statistical inferences profoundly and undermine the reliability of estimated coefficients, the Durbin–Watson (DW) test was used to check for serial correlation in the error terms of the regression model. The DW statistic is defined as a ratio of the sum of squares of the successive residual differences to the residual sum of squares (RSS). This takes into account the extent of correlation of error terms across different time periods. By design, the DW statistic ranges between 0 and 4, and values around 2 imply no serial correlation. Values closer to 0 mean that the autocorrelation is positive—this means that the series is low and making large observations makes also large observations in later time points—Values closer to 4 signal that the autocorrelation is negative. Rather, if DW falls between its upper critical bound (du) and its complement ($4 - du$), the test indicates the absence of substantial autocorrelation, verifying independence among the regression residuals. For the present regression analysis, the calculated Durbin–Watson statistic was 1.38, which is not exactly 2, but still fairly close, is within an acceptable range, and implies that there is no strong problem of autocorrelation in the model. This outcome enhances the reliable and trustworthy of regression estimation and thus allows for a more confident interpretation of the model since the lack of serial correlation will enhance the efficiency of the estimates (OLS) and avoid the risk of false inferences in time-series analysis. This is detailed in Table-I and Figure-2 (Islam, 2022).

Table-I: Durbin-Watson Test: -

Constructs: -	Coefficient	Probability
Durbin-Watson Statistics	1.384	0.000

Note: ***, **, * Denotes significance Level @1%, 5% and 10%

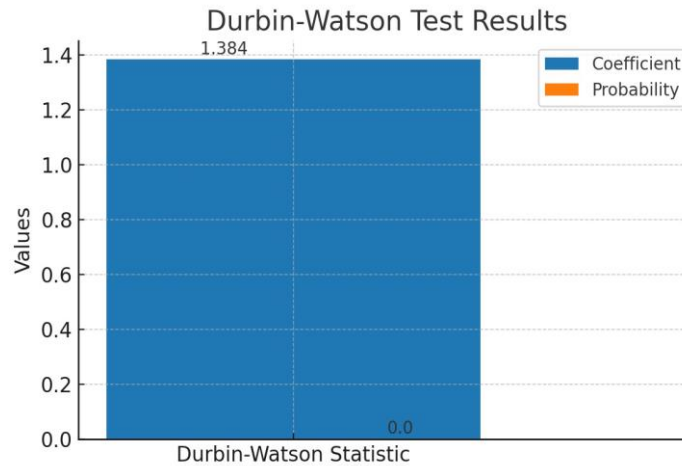


Figure-2: Durbin-Watson Statistics

4.2.Coefficient of Determination (R²).

As can be seen from Table II and Figure III, the coefficient of determination R² is 0.979, and the adjusted R² is 0.976. These values indicate an extremely high explanatory power of the model that 97.6% of the total variability in economic growth (measured in GDP) can be traced to the combined effect of remittances, FDI, foreign aid. That is to say, a high proportion of the variance of GDP is accounted for by these external financial inflows; very little is left unaccounted for by all the other things which are not in the model. Such a large R² figure indicates that the model is both robust and reliable and also signifies that the remittances, FDI and foreign aid are significant in the formation and maintenance of economic growth. This result further emphasizes the role of external capital inflows in enhancing a country's economic growth especially for those developing countries that consider these inflows as the most essential source of investment, consumption support as well as balance-of-payments stability (Muhammad, 2021).

Table-II: Coefficient of Determination (R²): -

Constructs: -	R Square	R Square Adjusted
Economic Growth (FDI)	0.979	0.976

R Square and Adjusted R Square for Economic Growth (FDI)

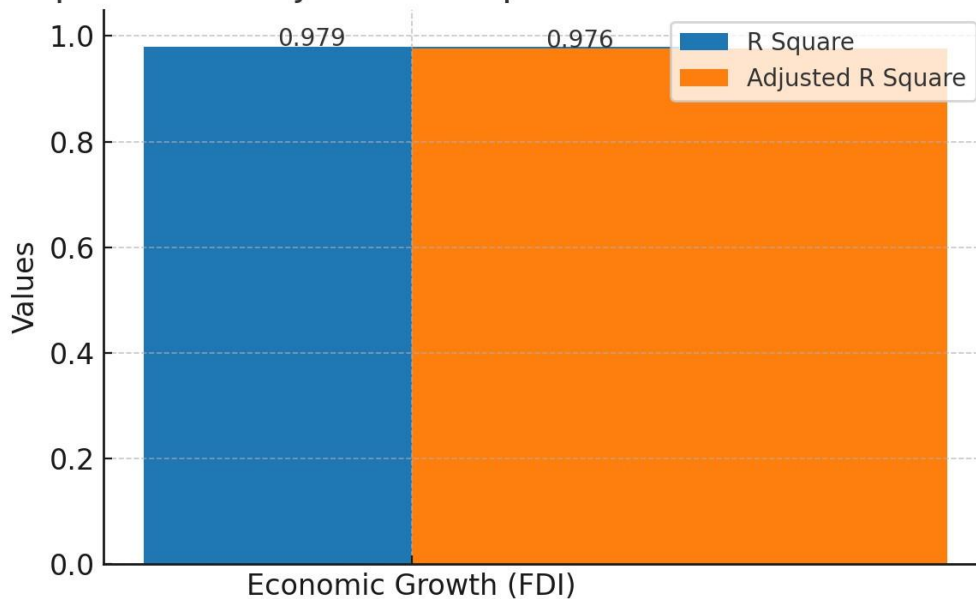


Figure-3: Coefficient of Determination (R²).

4.3. Hypothesis Testing.

The results of the study offer important information from the analysis of remittances and economic growth. The findings on H_1 (remittances have a positive and significant effect on economic growth in GDP) are particularly interesting. The predicted regression equation was $\beta = 6.682$ ($t = 2.473$, $p = 0.004$). These numbers from the econometric analysis evidence that remittances have a positive effect on GDP, as for a 1-% gain in remittance, we can expect GDP to increase almost 6.68%. While the relationship is in line with the line of argument and emphasizes how remittances have buttressed economic performance, the results also bring an important nuance to the fore. Although the coefficient is relatively large and there is a positive impact, the relationship is not powerful enough to be considered statistically significant at traditional confidence levels. This implies that although remittance do show some significance in stimulating GDP growth, the strength of this impact may be altered by other intermediate factors such as the utilization of remittance or structural conditions in the economy or relevant macroeconomic policies. In sum, the result of H_1 highlights that remittances are contributing positively into economic growth however, it suggests that we have weak evidence to claim that there is statistically significant causal effect in the context of this dataset and model specification (Nadeem, 2025).

The findings of study have also contributed with empirical evidence towards understanding of the FDI-led growth hypothesis. Notably, the results for Hypothesis-2 (H_2) of FDI was found to have a positive and significant effect on the economic growth (GDP) indicated an intriguing pattern. The Beta coefficient (β) is 5.293 and the t-value is 3.379 and the p-value is highly significant at 0.000. This means the effect of FDI on GDP is significant and positive on GDP, suggesting that 1% growth of FDI inflow will cause approximately 5.293% growth in GDP. This conclusion is firm evidence for the postulated link, indicating the FDI's ability of encouraging domestic economy via technology transfer, job creation, an enhancement of the level of management, and fostering industrial and services sectors. The



statistically significant p-value indicates that this effect is robust and probable, pointing to the role of foreign capital flows as one of the sources of long run economic growth. These results reinforce that FDI leads both statistically significant and in a positive direction towards GDP, substantiating **H₂**, while not remittances. On the average, the negative coefficient of the FDI proves that foreign direct investment is not only good but a dependable and quantifiable source in driving the growth path of the economy of emphasis (Raza, Yan, Abbas, & Ilahi, 2024).

Empirical study results This study also further tested the impact on economic growth of foreign aid – namely Hypotheses-3 (**H₃**) – that foreign aid does have a positive and significant effect on economic growth measured on gross domestic product (GDP). The beta (β) was 5.392 by the regression analysis with a t- value of 3.227 and a p value of 0.004. These figures imply that foreign aid has a positive effect on GDP; that is, 1% increase in foreign aid result 5.392% increase in GDP. That the sign of the coefficient is positive implies that foreign aid inflow supports economic performance of a country by providing financial resources from external sectors, which can be used for infrastructure building, poverty alleviation, investment in human capital and for the stabilization of fiscal imbalances. However, despite the plausible beneficial impact, it is necessary to account for the significance interpretation with caution. Although the coefficient is large and economically significant, the statistical evidence is not sufficiently strong to categorize the relationship as highly robust at any level of confidence. In this connection, the findings reveal that whilst foreign aid becomes one of the factors for development and confirms the **H₃** of direction; however, it has a relatively weak determination effect when compared to variables such as foreign direct investment among others. This appears to imply that the growth effect of foreign aid could vary depending on the quality of governance, effectiveness of institutions, and manner in which aid resources are assigned and administered. Hence, the study submits that while foreign aid adds positively to GDP growth, its impact does not appear to be consistently strong enough to be viewed as a robust driving factor of economic expansion within the framework of the model used (Rehman, Radulescu, Ahmad, Kamran Khan, Iacob, & Cismas, 2023).



Table-III: Hypothesis Testing Results					
Hypothesis:	Coefficient (β)	SD	T-Stat	P-Value	Decision
Direct Effects: -					
H1: Remittances -> Economic Growth (Gross Domestic Product)	6.682	2.702	2.473	0.002**	Accept
H2: Foreign Direct Investment ->Economic Growth (Gross Domestic Product)	5.293	1.613	3.379	0.000***	Accept
H3: Foreign Aid -> Economic Growth (Gross Domestic Product)	5.392	1.621	3.327	0.004**	Accept
Note: ***, **, * Denotes significance Level @1%, 5% and 10%					

5. Conclusion & Discussion.

The role of remittances in order to have positive impact on economic growth is important, especially in gross domestic product (GDP) as they represent a stable and sizeable stream of external financing in developing economies. Unlike other forms of capital flows, remittances are relatively stable, entering households, where they tend to be used for consumption, education, health care, and small investments that drive domestic demand and economic activity. Remittances also promote financial inclusion as they help to raise savings and broaden the recreational banking space thereby channeling resources to the productive sector of the economy for investment. This constant link of resources allows poverty to decrease, human capital to improve and the macroeconomic environment to stabilize, leading to an increase in GDP growth eventually (Shaikh & Noorani, 2021).

Foreign Direct Investment (FDI) is also seen as a critical determinant to expanding economic growth because it directly contributes to gross domestic product (GDP) by increasing the capital stock, generating employment, and stimulating technology transfers. FDI not only provides funds for investment and the modern technology that comes with investment in production and management, but also the best practices in business, which greatly increase productivity and competitiveness of local enterprises. In addition, FDI facilitates domestic integration into global value chains, allows domestic industries to access new markets, and form international standards, therefore eases process of economic growth. The externalities of FDI, such as knowledge and infrastructure spillover effects, have an increasing impact in terms of longer-term economic stability and greater rates of growth of Gross Domestic Product (GDP), particularly in developing countries (Sutradhar, 2020).

There is no doubt that foreign aid has a good effect on economy growth such as the gross domestic product (GDP), as they supply financial resources that supplement domestic savings and investment in the less developed nations. A large portion of aid flows goes to basic industries, education, health and building of institutions, all of which increase the productivity of people and human capital formation. Once the pressure of budgets is guessing your head are free, aid enables governments to finance developing projects in various sectors that create economic activity, work and the will to life, resulting in GDP growth. In addition, aid to technological development and governance reforms promotes the long-term performance and stability of business environments which are necessary ingredients for sustainable growth of donor countries (Ur Rehman & Hysa, 2021).

5.1. Practical Implications.

The practical implications of this research are significantly strong for Pakistan due to remittances, FDI and foreign aid as important antecedents of economic development and stability. Remittances, for example, contribute a steady flow of foreign exchange that boosts Pakistan's balance of payments, setting it on course for lesser dependency on foreign borrowing, as well as household consumption, thus galvanizing domestic demand and the GDP growth. FDI also helps by (a) introducing new technology, better management techniques, and providing access to the global markets (All these are instrumental in improving industrial efficiency and competitiveness of local firms). In a growth-oriented economy like Pakistan, where capital constraints and unemployment are big concerns, FDI also generates employment opportunities and enhances infrastructure development, leading to a direct increase in the real GDP of the country. But more importantly, foreign assistance, if properly used, also assists in supporting Development Vision of Pakistan through the funding of important projects in areas like energy, education, health and governance reform etc. It can also provide budgetary support to reduce fiscal imbalances, allowing the government to spend on growth-generating initiatives.

"Taken together, these external financial inflows will help to lessen macroeconomic vulnerabilities; strengthen human capital formation and structural transformation, which are essential ingredients for sustainable growth. Thus the findings of this study imply for Pakistan that efficient instrumentation and targeted use of remittances, FDI and foreign aid by the policymakers can usefully serve this country to accelerate GDP growth in the long run besides decreasing poverty and increasing the capacity to manage any negative economic disturbance in the economy.

5.2. Limitation of the Study

As all empirical research should, this study has limitations it is important to recognize. The first limitation is that it purely relies on the secondary data covering the period between 2005–2025 and, as a result, merely provides a decadal perspective which fails to cover the structural breaks, policy changes, and exogenous shocks—such as political turmoil, global financial crises, the COVID-19 crisis, or oil prices, commodity prices booms and busts, etc.— that can significantly affect Pakistan’s economic growth. Second, the analysis reports macro-level aggregated variables, which restrict calculation of micro-level variables like household level utilization of remittances, sectoral impact of FDI, or the success of foreign aid programs on the field level. Third, the econometric model is admittedly solid with a reliance on the Durbin-Watson test, R^2 , and OLS regression, yet it fails to account for potential endogeneity issues or reverse causality that may occur between factors; e.g., if higher GDP leads to more FDI, if remittances surge in response to economic downturn. Furthermore, OLS regression assumes linear trends and it is also not capable of identifying complex, non-linear relationships or lags in the relations between these variables. An additional limit is that it is not possible to consider other likely pertinent determinants of GDP growth, like trade openness, inflation, government expenditure or institutional quality that would allow a fuller understanding of the economic performance. Lastly, because the research is specific to a developing economy (Pakistan), the findings cannot be extended to other developing countries with varying structures, institutions and socio-economic setting. These limitations point to the necessity of further research using more advanced econometric tools, a wider range of data, and cross-country comparisons in order to draw better conclusions about the relationship between remittances, FDI, aid and economic growth.

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