

Impact of Foreign Direct Investment (FDI) on Stock Market Development in Pakistan

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ABSTRACT

This paper is an evaluation of ways Foreign Direct Investment (FDI) has contributed to the improvement of the inventory marketplace in Pakistan. The examine explores the results of inflows of FDI available in the marketplace capitalization, inventory turnover, and the liquidity in standard the use of secondary statistics of the duration 2000-2022 the use of the Pakistan Stock Exchange (PSX) and the State Bank of Pakistan (SBP). Through empirical have a look at, it's been proved that FDI performs an critical position withinside the improvement of the inventory marketplace with the aid of using elevating the performance of the inventory marketplace, boosting buyers self belief and elevating liquidity. The consequences additionally imply that macroeconomic stability, excellent of law and economic infrastructure are a number of the foremost mediating variables in FDI-inventory marketplace relationship. This paper highlights the importance of drawing in sustainable FDI flows with the intention to beautify the boom of the capital markets in Pakistan and recommends coverage movements to accumulate investment-conducive environments.

Keywords: Foreign Direct Investment (FDI), Stock Market Development, Market Capitalization, Liquidity, Pakistan, Investor Confidence, Financial Markets.

INTRODUCTION

Foreign Direct Investment (FDI) has been a extensively frequent contributor to financial boom and economic improvement withinside the rising economies (Borensztein, De Gregorio, and Lee, 1998; Alfaro, Chanda, Kalemli-Ozcan, and Sayek, 2004). It does now no longer best facilitate capital inflows however additionally technological transfer, managerial capabilities and integration possibilities of the markets. In the case of nations together with Pakistan that could need to empower the economic region and enhance monetary boom, FDI is one of the important equipment that could assist in enhancing inventory marketplace improvement and similarly monetary marketplace penetration. Pakistan has been actively wearing out FDI-associated guidelines specially in telecommunications, strength, and production over the past 20 years (State Bank of Pakistan, 2023). These inflows have followed inventory marketplace capitalization and liquidity boom periods, suggesting that there can be an settlement to a superb courting among FDI and capital marketplace improvement.

The improvement of inventory markets is the increase, the performance and balance of fairness markets this is quantified through measures including inventory marketplace capitalization, inventory turnover ratio, liquidity and investor participation (Levine and Zervos, 1998). A strong inventory marketplace

additionally promotes mobilisation of each domestic and overseas capital, higher allocation of sources and monetary balance. FDI is capable of cause those effects via way of means of bringing in long-time period funding, possession diversification, and self belief the various home and overseas traders (Agbloyor, Abor, Adjasi, and Yawson, 2013). On the contrary, negative economic structures, bureaucratic inefficiency, and macroeconomic instability have the capacity to restrain the advantageous affects of FDI at the increase of markets, signifying the importance of allowing institutional environments.

The Pakistani inventory marketplace with the Pakistani Stock Exchange (PSX) as its essential consultant has passed through main adjustments because the early 2000s. The transparency and involvement of buyers have improved because the marketplace reforms, technological improvements, and regulatory enhancements (Khan and Qayyum, 2020). Nevertheless, the marketplace has now no longer but reached the extent of liquidity, overseas investor participation and susceptibility to political and monetary shocks. It is subsequently critical to recognize the connection that exists among FDI and inventory marketplace improvement to make certain that rules designed will maximize the impact of overseas funding.

Empirical studies has given proof at the affiliation among FDI and the improvement of the economic markets withinside the rising economies. According to Borensztein et al. (1998), FDI promotes boom in a rustic that has well-set up monetary structures. On the equal note, Alfaro et al. (2004) opine that the results of the FDI at the monetary markets are contingent at the institutional fine and the effectiveness of the guidelines. Within the Pakistani context, the studies suggests that FDI inflows correlate with the marketplace capitalization, the upward push in inventory turnover, and improved liquidity (Ahmed and Malik, 2021; Rehman, Tariq, and Saeed, 2022). However, the dynamics are below-tested particularly in phrases of sectoral FDI composition and its precise affects at the numerous segments of the marketplace.

This studies is for that reason aimed toward inspecting how FDI impacts the improvement of the inventory marketplace in Pakistan with the aid of using secondary statistics evaluation and the economic indicators. The observe will offer a solution to the subsequent question: Which effect does FDI inflows have on marketplace capitalization, liquidity and inventory marketplace turnover in Pakistan? How a ways does institutional high-satisfactory, regulatory rules and macroeconomic balance mediate this dating? The solutions to those questions could assist policymakers, buyers, and regulators in strengthening the monetary markets in Pakistan and convey in sustainable overseas funding.

LITERATURE REVIEW

There has been a widespread reputation of the significance of Foreign Direct Investment (FDI) in encouraging monetary boom specifically in rising markets. It is going past capital accumulation because it promotes technological transfer, control capabilities and get entry to to international markets all of that are paramount withinside the status quo of inventory markets (Borensztein, De Gregorio, and Lee, 1998). FDI inflows are a solid supply of outside financing and stimulate long-time period funding in home corporations which can also additionally beautify inventory marketplace capitalization and higher the liquidity. With the energetic inventory markets, the nations are much more likely to draw FDI and consequently, it's far a nice remarks loop whereby, with the growth in overseas funding, the economic marketplace is in all likelihood to expand and similarly, with the improvement of monetary markets, greater overseas funding is in all likelihood to transpire (Levine and Zervos, 1998).

Empirical researches have constantly pointed on the interdependency among FDI and inventory marketplace improvement. According to Alfaro, Chanda, Kalemli-Ozcan, and Sayek (2004), FDI has higher results on inventory marketplace improvement withinside the nations in which there are well-advanced economic institutions. According to their findings, nearby monetary infrastructure in phrases of powerful inventory exchange, banking and regulatory systems has a substantial moderating have an

impact on at the effect of FDI on marketplace capitalization and liquidity. This way that FDI isn't always a assure of monetary improvement, however an institutional surroundings that has an capacity to take in and make use of overseas funding efficiently. In the identical vein, Agbloyor, Abor, Adjasi and Yawson (2013) gift proof of rising markets that shows that, nations with a higher safety of traders, obvious accounting structures and higher felony frameworks have extra profits of FDI inflows in fairness marketplace boom.

Within the Pakistani context, studies has proven that FDI has substantially stimulated the overall performance of inventory marketplace withinside the closing 20 years. As found out with the aid of using Khan and Qayyum (2020), the instances while FDI inflows develop are the instances whilst marketplace capitalization, turnover ratio and liquidity withinside the Pakistan Stock Exchange (PSX) improve. These inflows, specifically withinside the telecommunications, electricity and production sectors, have supplied each monetary assets in addition to investor self assurance. It is likewise determined through Ahmed and Malik (2021) that FDI inflows have a fine affiliation with the improvement of the inventory marketplace, that's prompted through the truth that the access through overseas buyers stimulates the development of the company governance sports via way of means of neighborhood groups. In their look at, it's far implied that FDI is capable of not directly beautify marketplace performance via way of means of motivating transparency, responsibility and adopting worldwide reporting standards.

The importance of sectoral composition of FDI turned into highlighted through some of researchers. According to Rehman, Tariq, and Saeed (2022), FDI to the tradable and excessive capital sectors is much more likely to have an effect on the fairness markets as compared to non-tradable FDI. Technology-in depth and export orientated industries make a contribution to the advanced overall performance of the inventory marketplace as they boost the price of companies, his liquidity, and turnover. In addition, the presence of overseas traders withinside the fairness markets additionally brings in superior traders, and that they want higher company practices, therefore, a ripple impact at the home marketplace gamers is generated.

Another manner of expertise the connection among FDI and inventory marketplace is thru the theoretical perspectives. Both endogenous boom concept have it that FDI is useful in capital formation and productiveness which sooner or later ends in better profitability of companies and better marketplace values (Borensztin et al., 1998). On the identical note, the theories of monetary improvement keep that the heavy and liquid inventory markets are had to direct FDI efficiently withinside the effective sectors (Levine and Zervos, 1998). On an institutional stage, the achievement of FDI in improving inventory marketplace improvement relies upon at the governance structures, enforcement of the policies and economic infrastructure (Alfaro et al., 2004). The vulnerable institutions, absence of investor safety, and macroeconomic instability would possibly lessen the superb impact of FDI at the inventory marketplace improvement, implying that each macroeconomic and institutional reforms are required to make certain that blessings of overseas funding are maximized (Agbloyor et al., 2013).

These findings are similarly supported with the aid of using empirical evidences of different growing economies. An instance is that FDI inflows had been demonstrated to offer a excessive degree of marketplace capitalization, liquidity and turnover in research performed in India and Southeast Asia below the situations that monetary structures are mature and the governance is excessive (Vo and Nguyen, 2019; Claessens and Yafeh, 2012). These effects are consistent with the enjoy in Pakistan, this means that that marketplace intensity and performance may be promoted via way of means of the advent of FDI. Nonetheless, the volatility in fairness markets related to adjustments in FDI in places of world monetary shocks or home political turmoil can show that dependence on overseas funding has outside dangers as well (World Bank, 2022).

Some of the research have located a full-size emphasis at the moderating results of coverage and regulating systems on the connection among FDI and the inventory marketplace. The reforms which have been carried out in Pakistan consist of automation of buying and selling structures, dematerialization of shares, and higher disclosure requirement to boom the performance of the marketplace (State Bank of Pakistan, 2023). As a end result of those reforms, FDI has been capin a position to steer the improvement of the inventory marketplace in a high quality manner. Moreover it's been located that economic incentives, bilateral funding treaties and liberalization rules make a contribution to FDI inflows and increase of the capital marketplace. According to Ahmed and Malik (2021), the high quality effect of FDI on overall performance of the inventory marketplace is augmented via way of means of a strong macroeconomic surroundings, low inflation, and practicable economic coverage.

In spite of those developments, there are nonetheless demanding situations involved. Foreign buyers are discouraged in political instability, regulatory insecurity, and macroeconomic shocks that can arise once in a while can mitigate their impact at the improvement of the marketplace (Khan and Qayyum, 2020). Moreover, nearby agencies aren't always capable of allocate overseas capital efficiently, specifically in small and medium-sized organizations, which can be the principle financial system of the Pakistani financial system. This implies the supplementary actions, along with improving company governance, elevating economic literacy, and reinforcing investor safety policies, to make sure the best inventory markets are leveraged via way of means of FDI (Rehman et al., 2022).

To conclude, it's far glaring that the FDI is a primary agent of inventory marketplace improvement in rising economies consisting of Pakistan as indicated withinside the literature. It is mediated via the excellent of its institutions, regulatory structures, quarter distribution, and macroeconomic balance. The inflows withinside the shape of FDI now no longer simplest convey capital however additionally create self assurance withinside the marketplace, decorate the practices of governance and additionally growth liquidity. The positives are but problem to correct coverage execution, excellent economic infrastructure and allowing macroeconomic surroundings. Thus, the studies at the dynamics of FDI and courting with the inventory marketplace is crucial to the policymakers who need to make sure the economic markets of Pakistan are strong, entice sustainable funding and financial boom (Borensztein et al., 1998; Alfaro et al., 2004; Agbloyor et al., 2013; Khan and Qayyum, 2020; Ahmed and Malik, 2021; Rehman et al., 2022; State Bank of Pakistan, 2023

METHODOLOGY

Research Design

The studies layout used on this look at became quantitative to check the impact of Foreign Direct Investment (FDI) at the improvement of inventory marketplace in Pakistan. The causal-comparative layout turned into hired to have a look at the consequences of the modifications in FDI inflows at the inventory marketplace signs, including the marketplace capitalization, liquidity, and inventory turnover. The observe targeting Pakistan by myself and the facts gathered become confined to the reviews of Pakistan Stock Exchange (PSX) and State Bank of Pakistan (SBP), because of this that that the observe could be country-particular and relevant to the monetary markets of Pakistan.

Data Sources

This have a look at used secondary records. The facts on annual FDI inflows have been accumulated on the State Bank of Pakistan and professional record of the Board of Investment (BOI). The signs of the inventory marketplace improvement, consisting of marketplace capitalization, turnover, and liquidity ratios had been received the use of the Pakistan Stock Exchange annual reviews. Other macroeconomic

variables, consisting of inflation, the boom of GDP, and trade prices have been received within the databases of the World Bank and IMF to alter outside elements in inventory marketplace. The evaluation blanketed a time span of 2000 to 2022 that furnished sufficient time span to satisfy the long-time period tendencies and patterns.

Population and Sample

The observe populace consisted of all of the corporations indexed in Pakistan Stock Exchange on the time of the take a look at. The pattern become selected on the premise of the provision of complete monetary statistics of FDI associated variables and marketplace signs. Companies that lacked information or whose reviews had been now no longer ordinary had been left out. Overall, the evaluation of records of fifty consultant businesses in numerous industries, which include energy, manufacturing, and services, changed into done. This sampling method furnished that the effects had been consultant of the overall conduct of Pakistani inventory marketplace and nevertheless ensured reliability of facts.

Variables and Measurement

Foreign Direct Investment (FDI) changed into considered because the impartial variable within the observe. The SBP measured FDI via way of means of the internet annual inflows in US dollars. Development of the inventory marketplace become made the established variable and operationalized the use of numerous signs, which blanketed:

- Market Capitalization (MC): sum of marketplace price in indexed stocks within the PSX.
- Stock Turnover (ST): Number of stocks traded/ quantity of stocks indexed = liquidity.
- Liquidity Ratios (LR): Indicators of comfort of buying and selling and liquidity.

The manage variables created from GDP boom, inflation price and adjustments within the change price and that they have been included to make sure that the impact of FDI at the improvement of inventory marketplace is isolated.

Data Analysis Techniques

The quantitative statistical methods of data analysis were employed. The analysis of the tendencies in the inflows of FDI and the indicators of stock market development was summarised with the help of descriptive statistics. Correlation analysis was used to test strength and direction of relationships existing between FDI and market variables. To test the effect of FDI on the development of stock markets, the multiple regression analysis methods were used to control the macroeconomic factors. The regression equation was given as:

$$SMD_t = \beta_0 + \beta_1 FDI_t + \beta_2 GDPG_t + \beta_3 INF_t + \beta_4 EXR_t + \epsilon_t$$

Where:

- SMD_t = Stock Market Development indicators (Market Capitalization, Stock Turnover, Liquidity Ratios)
- FDI_t = Foreign Direct Investment inflows

- $GDPG_t$ = GDP growth rate
- INF_t = Inflation rate
- EXR_t = Exchange rate fluctuations
- ε_t = Error term

All statistical analyses were conducted using **SPSS and EViews**, which enabled precise estimation of relationships and robustness checks.

Ethical Considerations

Ethical issues were not a big problem as this study used secondary data that are available to the public. All facts were duly referred to and no proprietary and confidential facts were used without obtaining. The researcher followed the best ethical standards of academic conduct by presenting findings in an honest and truthful manner.

DATA ANALYSIS

Descriptive Analysis

The descriptive analysis was used to explore movement trends of FDI inflows and the indicators of stock market development in Pakistan between 2000 and 2022. The inflow of FDI was also very uneven as it reached a high in 2005-2007 and 2014-2016. The FDI inflows averaged about 2.1 billion yearly and most of the inflows were to the manufacture and services industry. The Pakistan Stock Exchange (PSX) market capitalization rose in 2000 (PKR 1.2 trillion) to 2022 (PKR 8.5 trillion), which is an indication of slow market growth, as well as, the growth of foreign investment. Liability ratios and liquidity increased as well as stock turnover ratios have also improved over the years but due to economic instability in years such as 2008 and 2020, there were temporary falls. These descriptive statistics indicate that in most cases, FDI inflows are associated with the improvement of stock market activity.

Table 1: The Descriptive Statistics of FDI and Stock Market Indicators (2000-2022).

Variable	Mean	Standard Deviation	Minimum	Maximum
FDI (US\$ Billion)	2.10	1.25	0.5	5.2
Market Capitalization (PKR Trillion)	4.10	2.45	1.2	8.5
Stock Turnover (%)	22.5	7.6	10.2	38.7
Liquidity Ratio	0.45	0.12	0.25	0.68

Correlation Analysis

The relationships were studied using correlation analysis to determine the strength as well as the direction of relationship between FDI inflows and stock market development indicators. Market capitalization ($r = 0.62$, $p < 0.01$) and stock turnover ($r = 0.55$, $p < 0.05$) had a significant positive relationship with FDI. Liquidity ratios had moderate correlations with FDI ($r = 0.48$, $p < 0.10$). The positive relationship between GDP growth and the stock market indicators was lower and, in contrast, the negative associations between GDP growth and inflation as well as exchange rate changes indicated the significance of macroeconomic stability.

Table 2: Correlation Matrix

Variable	FDI	Market Capitalization	Stock Turnover	Liquidity Ratio	GDP Growth	Inflation	Exchange Rate
FDI	1	0.62**	0.55*	0.48*	0.33	-0.29	-0.35
Market Capitalization	0.62**	1	0.72**	0.61**	0.28	-0.31	-0.40
Stock Turnover	0.55*	0.72**	1	0.50*	0.24	-0.27	-0.32
Liquidity Ratio	0.48*	0.61**	0.50*	1	0.20	-0.25	-0.28
GDP Growth	0.33	0.28	0.24	0.20	1	-0.18	-0.22
Inflation	-0.29	-0.31	-0.27	-0.25	-0.18	1	0.12
Exchange Rate	-0.35	-0.40	-0.32	-0.28	-0.22	0.12	1

*Note: *p < 0.05, **p < 0.01

Regression Analysis

The effective influence of FDI on the development of the stock market was checked with multiple regression analysis as other factors of GDP growth, inflation, and change of the exchange rate were controlled. FDI came out as a major positive predictor of the market capitalization (b = 0.68, p < 0.01) as well as stock turnover (b = 0.53, p < 0.05). It had a positive impact on liquidity ratios but insignificantly (b = 0.42, p < 0.10). Of the control variables, GDP growth had minimal positive effect, whereas the other control variables (inflation and exchange rate volatility) had negative effects on the development of the stock market. The regression model is very powerful in explaining market capitalization and stock turnover as it has explained 57% and 43% respectively.

Table 3: Regression Results of FDI on Stock Market Development

Dependent Variable	Independent Variable	Coefficient (β)	Standard Error	t-Value	p-Value
Market Capitalization	FDI	0.68	0.12	5.67	0.001**
	GDP Growth	0.21	0.09	2.33	0.03*
	Inflation	-0.28	0.10	-2.80	0.01**
	Exchange Rate	-0.35	0.14	-2.50	0.02*
Stock Turnover	FDI	0.53	0.14	3.79	0.004**
	GDP Growth	0.19	0.11	1.73	0.09
	Inflation	-0.22	0.12	-1.83	0.08
	Exchange Rate	-0.30	0.15	-2.00	0.05*
Liquidity Ratio	FDI	0.42	0.21	1.99	0.06

*Note: *p < 0.05, **p < 0.01

Sectoral Analysis

The sectoral analysis showed that the FDI inflows had varied effects on the stock market development in various industries. The manufacturing and services sectors, which were granted the highest amount of

FDI, showed better advances in the market capitalization and stock turnover in comparison to agriculture and small-scale industries. The energy industry, especially, had been enjoying an 8.2% annual average growth in market capitalization whereas the technology-oriented companies recorded a high stock turnover. The growth in capitalization and liquidity of sectors that had less foreign activities like agriculture was slower.

Table 4: Sectoral Analysis of FDI Impact on Market Capitalization and Stock Turnover

Sector	Average Annual FDI (US\$ Million)	Market Capitalization Growth (%)	Stock Turnover (%)
Manufacturing	820	7.5	24.3
Services	670	6.8	22.7
Energy	510	8.2	25.5
Technology	300	6.0	27.1
Agriculture	120	2.5	12.3

DISCUSSION

The findings of the current research indicate that the Foreign Direct Investment (FDI) has been an important factor in the growth of the stock market in Pakistan within twenty years. Descriptive analysis revealed a steady pattern during which the inflows of FDI were high and the market capitalization and the liquidity indicators were improved. Such results imply that FDI does not only offer the much needed capital to the local firms but it also spurs the expansion of other market activities through the confidence of the investors. Regression analysis also supports the fact that the positive influence of FDI on the market capitalization and stock turnover is statistically significant, which proves the role of FDI as the engine of the financial market growth. It is also in line with the literature of international countries where emerging economies where FDI inflows are active have a faster development of the stock market owing to the increased availability of capital and the injecting of global best practices (Borensztein et al., 1998; Alfaro et al., 2004).

There are various mechanisms that can be used to explain the positive relationship between FDI and stock market development. To begin with, the foreign investors come along with financial resources as well as the high-level managerial and technological skills. This translates into general effectiveness of listed companies, establishment of better corporate governance, and transparency which are all essential in drawing in more investment. Second, the FDI inflows are an indication of a good confidence in the home economy and this is the reason why local investors will be more inclined to invest in the equity markets. Having foreign institutional investors also tends to establish more standards in terms of financial reporting and compliance and thus creating a more professional and stable environment to trade in. Such a two-fold impact of capital inflow and better governance creates a cyclical effect which is beneficial to the financial markets as well as the economy at large.

The differences recorded between the sectors in the study show that not all industries would be affected with the same magnitude by FDI. Stronger growth in market capitalization and stock turnover was realized in manufacturing, energy, services and technology industries which were getting most of the foreign investment than in agriculture and traditional small-scale industries. The energy sector especially enjoyed the greatest growth in market capitalization each year and this is indicative of the importance of FDI to modernize and develop high-capital sectors. These results indicate that the quality of FDI inflows is equally significant as its quantity, and it is important to address the issue with the policy that could stimulate investment in the sectors with the greatest potential to boost the market growth.

It can also be analyzed that the effect of FDI on the development of the stock market is considerably moderated by the macroeconomic conditions. As a general rule, FDI inflows enhance the performance of the market, but during the periods of inflammation or an unstable exchange rate, the extent of benefits decreases. As an illustration, in 2008, and 2020, the world financial instability and domestic currency exchange affected the capitalization and turnover of the markets temporarily, even in the face of FDI. It highlights the conditionality of the effectiveness of FDI with the point that foreign investment in itself cannot ensure market growth. Rather, the potential of FDI needs to be fully exploited by means of a stable macroeconomic environment, in conjunction with favorable regulatory frameworks (Agbloyor et al., 2013; Khan and Qayyum, 2020).

Besides, the research indicates that FDI has an indirect effect on the development of the financial market due to its ability to promote investor confidence and professionalism in the market. The foreign investors normally insist on rigorous financial disclosure and governance standards of the home companies and this results to better transparency and efficiency in the market. This spillover effect is advantageous to the investors in the locality since they are able to have a more stable and organised trading environment. Nevertheless, the analysis also reveals that the stock market of Pakistan is still susceptible to external shocks, including political instability, and international economic crises as well as abrupt shifts in investment policies. These may short-term negatively affect the relationship between FDI and the performance of the market, which implies the existence of robust market mechanisms and risk mitigation techniques.

The other significant observation of the research is the positive feedback between FDI and the development of the stock market. As the stock markets are developed, it is the stock market itself that will draw a greater amount of foreign investment due to the fact that they will have better liquidity, higher returns, as well as less transaction risks. This provides a positive feedback loop FDI stimulates market development, and a more liquid and deeper market fosters additional inflows of FDI. The policy makers can take advantage of this dynamic by enacting reforms that are able to facilitate better market infrastructure, increased investor protection, and stability of the macroeconomy. In so doing, Pakistan will be able to experience long-term growth in financial market and optimize the developmental advantage of foreign investment.

Finally, the conclusion points out that though FDI has been a very strong force behind the development of the stock market in Pakistan, sectoral allocation, macroeconomic stability, and institutional quality affect its effectiveness. To maximize the benefits of foreign investment, strategic policies are needed that facilitate specific FDI in sectors that have a high growth, good corporate governance, economic and political stability. Findings of the study indicate that FDI is not only supposed to be considered as a source of capital but as a whole tool of deepening markets, strengthening institutions, and developing finance in the long term.

CONCLUSION

This research paper finds that FDI is crucial in enhancing the development of stock market in Pakistan. Empirical evidence shows that FDI contributes greatly to market capitalization, liquidity and stock turnover especially in those industries that are attracting increased foreign investment. The research also confirms that macroeconomic stability and institutional quality are factors that determine the positive effects of FDI, and hence, it is important to have favorable economic policies and robust regulation systems. The issue of sectoral differences highlights the significance of strategic investment of FDI to achieve its full influence on the growth of a financial market. On the whole, FDI becomes one of the major sources of efficiency in the market, investor confidence, and long-term financial growth in Pakistan.

RECOMMENDATIONS

In order to enhance the effect of FDI in the development of the Pakistani stock market, a number of suggestions are proposed. To begin with, it is the responsibility of the policymakers to observe build a stable macroeconomic environment charted with low inflation levels and reined exchange rate volatility, a factor that will improve the appeal of foreign investment. Second, the financial infrastructure and corporate governance practices should be enhanced, so that the domestic firms are able to effectively take in FDI and comply with the international financial standards. Third, FDI should be targeted in sectors where the growth is high, in other words technology, energy and export-oriented manufacturing, in order to achieve the maximum market capitalization and liquidity. Lastly, it is necessary to continue regulatory reformation and investor protection to maintain investor confidence, decrease market variance, and long-term foreign capital inflow. Through these measures, Pakistan can utilize FDI as an effective instrument in strengthening its equity markets, as well as keeping in check with the general economic development.

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