

# DIGITALES ARCHIV

ZBW – Leibniz-Informationszentrum Wirtschaft  
ZBW – Leibniz Information Centre for Economics

Khan, Muhammad Bahar; Naseem, Imran; Hamidi, Ahmad et al.

## Article

Strategic influence in focus : assessing the roles of defense expenditures, foreign capital, political stability, and energy sustainability in geopolitical dynamics

International Journal of Energy Economics and Policy

## Provided in Cooperation with:

International Journal of Energy Economics and Policy (IJEEP)

*Reference:* Khan, Muhammad Bahar/Naseem, Imran et. al. (2024). Strategic influence in focus : assessing the roles of defense expenditures, foreign capital, political stability, and energy sustainability in geopolitical dynamics. In: International Journal of Energy Economics and Policy 14 (6), S. 476 - 483.

<https://www.econjournals.com/index.php/ijEEP/article/download/17496/8336/40045>.

doi:10.32479/ijEEP.17496.

This Version is available at:

<http://hdl.handle.net/11159/703047>

## Kontakt/Contact

ZBW – Leibniz-Informationszentrum Wirtschaft/Leibniz Information Centre for Economics  
Düsternbrooker Weg 120  
24105 Kiel (Germany)  
E-Mail: [rights\[at\]zbw.eu](mailto:rights[at]zbw.eu)  
<https://www.zbw.eu/>

## Standard-Nutzungsbedingungen:

Dieses Dokument darf zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden. Sie dürfen dieses Dokument nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, aufführen, vertreiben oder anderweitig nutzen. Sofern für das Dokument eine Open-Content-Lizenz verwendet wurde, so gelten abweichend von diesen Nutzungsbedingungen die in der Lizenz gewährten Nutzungsrechte. Alle auf diesem Vorblatt angegebenen Informationen einschließlich der Rechteinformationen (z.B. Nennung einer Creative Commons Lizenz) wurden automatisch generiert und müssen durch Nutzer:innen vor einer Nachnutzung sorgfältig überprüft werden. Die Lizenzangaben stammen aus Publikationsmetadaten und können Fehler oder Ungenauigkeiten enthalten.

## Terms of use:

*This document may be saved and copied for your personal and scholarly purposes. You are not to copy it for public or commercial purposes, to exhibit the document in public, to perform, distribute or otherwise use the document in public. If the document is made available under a Creative Commons Licence you may exercise further usage rights as specified in the licence. All information provided on this publication cover sheet, including copyright details (e.g. indication of a Creative Commons licence), was automatically generated and must be carefully reviewed by users prior to reuse. The license information is derived from publication metadata and may contain errors or inaccuracies.*



<https://savearchive.zbw.eu/termsOfUse>

ZBW

Leibniz-Informationszentrum Wirtschaft  
Leibniz Information Centre for Economics

Mitglied der

Leibniz  
Leibniz-Gemeinschaft



# Strategic Influence in Focus: Assessing the Roles of Defense Expenditures, Foreign Capital, Political Stability, and Energy Sustainability in Geopolitical Dynamics

Muhammad Bahar Khan<sup>1</sup>, Imran Naseem<sup>1</sup>, Ahmad Hamidi<sup>2</sup>, Mohd Khata Jabor<sup>3</sup>,  
Nur Fatihah Abdullah Bandar<sup>4</sup>, Khalid Zaman<sup>5\*</sup>

<sup>1</sup>Department of Pakistan Studies and International Relations, Abbottabad University of Science and Technology, Abbottabad, 22620, Pakistan. <sup>2</sup>Department of Sport Science, Universitas Pendidikan Indonesia, Bandung 40154, Jawa Barat, Indonesia. <sup>3</sup>Faculty of Social Sciences and Humanities, Universiti Teknologi Malaysia, Skudai 81310, Johor, Malaysia. <sup>4</sup>Faculty of Cognitive Sciences and Human Development, Universiti Malaysia Sarawak, Kota, Samarahan, Sarawak 94300, Malaysia. <sup>5</sup>Department of Economics, The University of Haripur, Haripur Khyber Pakhtunkhwa 22620, Pakistan. \*Email: [khalid\\_zaman786@yahoo.com](mailto:khalid_zaman786@yahoo.com)

Received: 17 August 2024

Accepted: 21 October 2024

DOI: <https://doi.org/10.32479/ijeeep.17496>

## ABSTRACT

The study examines Pakistan's geopolitical relevance by examining its military expenditure, FDI, political stability, energy production, and trade openness. The research utilizes a two-stage least squares (2SLS) regression model for 1996 Q1-2022 Q4 to account for explanatory variable endogeneity for credible estimations. The findings show that military expenditure and political instability lower Pakistan's geopolitical relevance, as measured by foreign aid. Rising military spending and political upheaval may deter foreign donations due to regional security and resource allocation concerns. Economic resilience and global integration are connected to energy production, trade openness, and geopolitical importance. Therefore, Pakistan needs them to boost its international standing. The analysis also demonstrates that less foreign assistance is connected with higher FDI inflows, which may increase economic independence. These findings, which support the "guns versus butter" paradigm and economic interdependence, may inspire Pakistan's geopolitical dynamics. This study provides facts on a country's economic, political, and strategic drivers of geopolitical relevance. These findings may assist Pakistan's authorities in finding a balance between military and economic measures to boost its global status.

**Keywords:** Energy Production, Geopolitical Significance, Military Expenditures, Foreign Direct Investment, Political Stability, Trade Openness  
**JEL Classifications:** F52, Q43

## 1. INTRODUCTION

Several factors significantly impacting global geopolitics define a nation's strategic relevance internationally. Military spending, FDI, and energy viability are vital issues. To understand national policy and international relations, one must understand these factors and how they affect a country's geopolitical position (Yasmeen and Shah, 2024; Zhao et al., 2024; Wang et al., 2024). This study explains how Pakistan's strategic location, military force, economic links, and energy resources influence its geopolitical

prominence. It examines Pakistan's military budget, FDI inflows, and energy sustainability to determine its geopolitical position. Countries like Pakistan, with security issues and geopolitical conflicts, must spend disproportionately on the military (Khalid and Mat, 2023). Military spending is often justified by national security and regional and global influence. However, this military spending focus may have unanticipated financial consequences. Pakistan's geopolitical significance may be diminished if the nation persists in its substantial military expenditures (Muhammad et al., 2024). Military spending diverts funds from healthcare,

education, and infrastructure, threatening economic development and stability. Security, economic growth, and social welfare must be balanced, making policymaking challenging (Njifen and Anemann, 2023; Tsitouras and Tsounis, 2024).

Foreign direct investment also affects a nation's geopolitical status. FDI contributes income, technology, expertise, and international alliances, which boosts economic growth. Pakistan's development needs and global economic integration goals are vital for FDI. FDI may boost Pakistan's strategic posture by stimulating economic growth, international alliances, and investor confidence (Khan et al., 2023a; Serfraz et al., 2023). FDI diversifies economies, boosts employment, and fosters innovation, essential to long-term prosperity and stability. Energy sustainability affects a nation's geopolitical prominence (Bakhsh et al., 2024a). In today's interconnected world, dependable energy sources influence national and international power dynamics. Pakistan needs a dependable and diverse energy source to sustain peace and participate in regional geopolitics (Fazal et al., 2023). Energy stability helps the economy function, makes it less vulnerable to outside shocks, and makes the nation more attractive as a global energy partner (Alsagr and Ozturk, 2024; Lei et al., 2023). Energy sustainability is linked to environmental issues gaining prominence in international diplomacy and trade (Huda, 2024).

Based on the study's focus on Pakistan's geopolitical relevance, the study has the following research questions. First, *do defense expenditures and economic development trade-offs exist, and how does Pakistan's military spending influence its geopolitical importance?* This examines Pakistan's military budget and geopolitical situation. The analysis focuses on whether diverting large military spending strengthens or weakens Pakistan's geopolitical power. This study examines this association to see what occurs when a country prioritizes military spending over healthcare, education, and infrastructure. Lawmakers must balance national security with economic development and stability and comprehend these trade-offs. The issue deserves more investigation into how these dynamics affect national security and Pakistan's international influence. Second, *how do economic links affect foreign perceptions of Pakistan, and how does FDI boost its geopolitical importance?* This examines FDI and Pakistan's geopolitics. Pakistan's economy and worldwide position improve with FDI inflows by establishing international links and attracting new investors. This examines how FDI impacts Pakistan's economy and assesses its international standing. These methods include employment creation, technological transfer, and infrastructure building. The findings help to understand how economic integration may increase geopolitical relevance. Finally, *how does a steady and varied energy supply affect Pakistan's strategic direction, and how does energy production affect geopolitical significance?* This research emphasizes energy sustainability since it influences Pakistan's geopolitical relevance. Many countries strategically located in energy-rich regions, including Pakistan, depend on energy for internal and external security. The research seeks to understand how a stable and diverse energy supply helps Pakistan's regional and global strategic position. Energy sustainability and geopolitical influence assessed Pakistan's potential to influence global energy markets

and its desirability as a partner in international energy projects. Sustainable energy's environmental and economic benefits are examined alongside global sustainable development trends and Pakistan's foreign diplomacy.

The study has the following research objectives, i.e.,

1. To examine the influence of military expenditures, FDI inflows, and political stability on Pakistan's geopolitical significance
2. To explore the role of energy production and trade openness in improving Pakistan's geopolitical importance
3. To investigate the relationship between economic, political, and strategic variables in determining Pakistan's geopolitical relevance.

This study contributes to the literature by using Pakistan's statistics on military spending, FDI, energy sustainability, and geopolitical importance. Although these factors have been researched independently, a comprehensive analysis of their combined influence on a nation's strategic direction is needed (Khurshid, 2023; Hanif and Sultan, 2024; Kumari et al., 2024). This research illustrates the costs and advantages of balancing military spending, attracting foreign investment, and ensuring energy sustainability, which would assist policymakers. The study reveals these factors' more significant influence on Pakistan's international standing and educates other states on handling geopolitical challenges.

The study has the following sections, i.e., the data and methodology section is presented after the introduction. Results are further discussed. The final section concludes the study.

## 2. LITERATURE REVIEW

Military power, economic factors, energy sustainability, and human progress have historically affected South Asian geopolitics, notably Pakistan. Pakistan was examined from several viewpoints to understand its role in the "New Great Game," the shifting geopolitical environment. This literature review examines how foreign aid, military expenditure, FDI, energy sustainability, and human development determine Pakistan's geopolitical prominence.

Geostrategic position affects a country's foreign policy, diplomacy, and relations with other nations, determining its power-authenticity. Pakistan's geostrategic location affects Asia's overall and regional politics, as well as international powers' survival struggles, continental supremacy, mineral hegemony, discipline monopolies, and land and sea security interests (Nasim, 2022; Khan et al., 2024). Pakistan's positive role in regional politics fosters peace, prosperity, and progress in South Asia, proving its strategic importance. Its close relationship with China is remarkable regarding business, technology, and regional military strategy. Afghanistan's foreign policy depends on Pakistan's security since it is landlocked and trades via Pakistani land routes (Bhatnagar and Shahab Ahmed, 2021). Pakistan-Iran relations boost Pakistan's strategic relevance, regional prosperity and Muslim unity. Pakistan influences the politics of the Arabian Sea and the Indian Ocean. US-Pakistan relations and the war against

terrorism demonstrate Pakistan's geostrategic importance. Pakistan is crucial to US-China containment. CPEC is crucial to Indian Ocean hegemonic politics, encompassing regional and extra-regional nations (Sengupta, 2024). The cold start doctrine's failure illuminates Pakistan's strategic topography. Pakistan's location is crucial to China's one belt one road program's regional connections (Jamali et al., 2023).

Pakistan's geopolitical policy has been heavily influenced by foreign assistance. Several studies have indicated that foreign aid strengthens diplomatic ties and advances the strategic aims of the governments that offer it, impacting geopolitical dynamics (Zaidi and Nirmal, 2023; Rahman, 2023). Pakistan depended on Western aid throughout the Cold War and after 9/11 to strengthen its strategic connections. Scholars say donor countries' views of Pakistan's strategic importance influence aid amount and consistency (Rashed et al., 2024; Zaidi et al., 2024). Foreign aid may enhance alliances and stabilize economies but can weaken domestic policy autonomy and lead to dependency, complicating a country's geopolitical strategy (Awan and Mali, 2023). Military might influence a nation's ability to project power and deter attack, making it an essential geopolitical factor. Pakistan's military expenditure has focused on maintaining a strategic balance in South Asia, notably with India. Realists believe a nation's military might is crucial to its international influence and citizen protection (Holen, 2023). Pakistan's military spending ensures border security and regional influence (Imran Rafiq, 2024). However, studies suggest that overspending on the military might weaken the economy and divert funds from healthcare and education, essential for long-term prosperity. Military strength is vital for geopolitical influence but should not come at the price of socioeconomic aspirations (Meierding and Sigman, 2021).

FDI is often used to assess a country's economic integration and investor confidence. Pakistan has seen FDI inflows fluctuate due to political stability, economic changes, and security concerns (Ashraf, 2023). According to economic theories like Dunning's Eclectic Paradigm (Dunning, 2015), countries with sound economic policies, stable governments, and enough infrastructure attract more FDI. According to empirical studies, FDI increases Pakistan's economy (Khan et al., 2023a; Serfraz et al., 2023). FDI boosts production, employment, and technology transfer. FDI may affect geopolitical importance but can also cause economic shocks and geopolitical concerns, particularly in uncertain political and security environments (Bussy and Zheng, 2023). Energy sustainability is increasingly crucial in geopolitical strategy, affecting domestic stability and external relations. Pakistan's energy problems and dependency on imported fossil fuels harm its economic stability and strategic autonomy (Zhang et al., 2023). Energy security theories hold that a nation's safety and prosperity rely on its capacity to access dependable, long-term energy (Czerwińska and Pacana, 2024). Recent studies suggest Pakistan needs renewable energy investment and energy mix diversification to promote energy security and reduce foreign dependence (Asghar et al., 2023). Strong energy systems allow countries to influence international events, making energy sustainability a geopolitical strategy and domestic need (Bakhsh et al., 2024b).

Healthcare, education, and economic development affect a nation's geopolitical strength. A well-developed population produces a more productive economy, stable society, and educated workforce, which increases geopolitical power (Dindarian, 2023). Pakistan's human development indexes have improved, although health and education remain poor (Ullah and Majeed, 2023). Economic, social, and political aspects are combined in the human development index (HDI) to measure development. Studies link higher HDI ratings to more stable geopolitics and longer-lasting economic growth (Jawad and Naz, 2024; Zorpas, 2024). Thus, improving human development is a moral and strategic need for global relevance. Based on the cited literature, the following are the hypotheses of the study, i.e.,

- H<sub>1</sub>: Military expenditures have a significant negative impact on Pakistan's geopolitical significance.*
- H<sub>2</sub>: FDI inflows positively impact Pakistan's geopolitical importance by improving economic growth, promoting global alliances, and increasing investor trust.*
- H<sub>3</sub>: Energy sustainability significantly impacts Pakistan's geopolitical significance.*

Even while there is much study on Pakistan's geopolitical importance to the "New Great Game," there is no thorough analysis since it focuses on discrete variables like FDI or military expenditure; previous research ignores the interplay of social, economic, and geopolitical factors (Hussain et al., 2023; Akhtar and Niazi, 2024). This study explores how Pakistan's geopolitical prominence affects foreign aid, military power, investor confidence, energy sustainability, and human development to fill this information gap. This extensive research contributes to geopolitical strategic knowledge and helps politicians comprehend national, regional, and worldwide politics.

### 3. DATA AND METHODOLOGY

Table 1 shows the list of variables for ready reference.

Two-stage least squares (2SLS) regression repair skewed and inconsistent ordinary least squares (OLS) estimates caused by endogeneity. Endogeneity happens when the model has measurement errors, simultaneity, or missing variables. The 2SLS technique is proper when one or more explanatory elements are endogenous, yet a causal relationship is hypothesized. Instrumental variables (IVs) linked with endogenous regressors but not the error term allow 2SLS to give consistent and unbiased estimates. The 2SLS initial step involves regressing all model exogenous variables, including instruments, on each endogenous explanatory variable. Important as this step may be, it eliminates the error term's contribution to the endogenous variable's fluctuation, leaving only the instruments' contribution. The dependent variable is fitted to the model's endogenous and exogenous variables in the second phase. Using projected values from the first stage instead of endogenous variables, 2SLS second-stage regressors are assured to be uncorrelated with the error term, satisfying a critical condition of OLS regression. This step computes 2SLS coefficients of the dependent variable's relationship with explanatory factors. These estimates are consistent and unbiased if the instruments are valid-highly



correlated with the endogenous regressors and uncorrelated with the error term. Equation (1) shows the 2SLS equation, i.e.,

$$GEOPOL = \alpha_0 + \alpha_1 MEXP + \alpha_2 FDI + \alpha_3 POLSTAB + \alpha_4 ENRGPRO + \alpha_5 TOP + \alpha_6 HDI + \lambda Z + \varepsilon \quad (1)$$

Where,

GEOPOL shows geopolitics

MEXP shows military expenditures

FDI shows FDI inflows

POLSTAB shows political stability

ENRGPRO shows productivity production

TOP shows trade openness

HDI shows human development index

‘Z’ shows the list of instrumental variables, and

$\varepsilon$  shows error term.

Instrument selection greatly affects the validity of 2SLS estimates. To be significant and exclusionary, the instruments

must substantially correlate with the endogenous regressors, not correlate with the structural equation error term, and fulfill the exclusion constraint. Poorly built instruments promote biased estimates and excessive standard errors, making results unreliable. Researchers employ Hansen’s J-test for overidentifying restrictions and the F-statistic for instrument relevance in first-stage regression to validate instruments. If instruments are weak, reliable estimates may need alternative methods or devices. The two-stage least squares regression method is effective for endogenous explanatory variable econometric study. 2SLS leverages instrumental factors and breaks the estimating procedure into two parts to overcome endogeneity and create more accurate and interpretable causal link estimates. This technique works if the instruments are correctly selected and evaluated. This requires knowledge and statistical testing to provide reliable and relevant results.

## 4. RESULTS AND DISCUSSION

Table 2 shows the descriptive statistics of the variables. According to Pakistan’s average foreign aid, GEOPOL is worth 2.12 billion USD, indicating its geopolitical relevance. GEOPOL varied from 694 million USD to 4.22 billion USD, showing substantial fluctuations in Pakistan’s geopolitical prominence as measured by aid inflows. The 987 million USD standard deviation of GEOPOL suggests that geopolitical dynamics, foreign policy, and global

**Table 1: List of variables**

Variables	Abbreviation	Description	Proxy/measure
Dependent variable			
Geopolitical significance	GEOPOL	Reflects Pakistan’s geopolitical importance, considering factors like diplomatic alliances, strategic partnerships, and international influence.	International aid received (constant US\$)
Independent variables			
Military expenditures (% of GDP)	MEXP	Assesses the financial commitment to defense, indicative of the country’s strategic priorities and potential military capabilities over time.	Military Expenditures as a percentage of GDP
Foreign direct investment (FDI) inflows	FDI	Examines the trends in FDI to gauge the level of international economic engagement and investor confidence in Pakistan.	FDI Inflows (% of GDP)
Political stability and absence of violence	POLSTAB	Tracks the political stability within Pakistan, as a stable political environment can enhance its geopolitical standing.	Political Stability and Absence of Violence Index
Energy production (kWh)	ENRGPRO	Evaluates the capacity and sustainability of Pakistan’s energy resources, crucial for both domestic stability and international partnerships.	Energy production in kilowatt-hours (kWh)
Trade openness	TOP	Analyzes the openness of Pakistan’s economy to international trade, reflecting economic integration and global economic relationships.	Exports+Imports as a percentage of GDP
Human development index	HDI	Considers the overall development status of the country, including education, health, and income, which can influence its geopolitical role.	Human Development Index (HDI)

Source: World Bank (2023)

**Table 2: Descriptive statistics**

Methods	GEOPOL (US\$)	MEXP (% of GDP)	FDI (% of GDP)	POLINSTAB (Index Value)	ENERGPRO (Kilo Watt Hour)	TOP (% of GDP)
Mean	2.12E+09	3.717	0.955	-1.972	3.13E+08	29.458
Maximum	4.22E+09	6.037	3.035	-1.104	8.40E+08	38.330
Minimum	6.94E+08	2.630	0.309	-2.810	0.000000	21.459
Standard deviation	9.87E+08	0.879	0.721	0.581	4.04E+08	4.293

Source: Author’s estimate. MEXP: Military expenditures, FDI: Foreign direct investment, TOP: Trade openness

economic conditions may affect foreign aid. Military expenditures (MEXP), which average 3.72% of GDP, are crucial to Pakistan's strategic goals and global standing. Military expenditure as a percentage of GDP varied from 2.63% to 6.04%, with a standard deviation of 0.88%. Although military expenditures have varied, the standard deviation has been modest, indicating a relatively steady commitment to defense expenditures. Foreign direct investment (FDI) varied from 0.31% to 3.04%, averaging 0.96%. Pakistan's FDI inflows vary with investor confidence and international economic engagement, as evidenced by the standard deviation of 0.72%. The values showed periods of investment enthusiasm and caution, which political, economic, or global economic shifts may have caused. The political stability (POLSTAB) indicator spans from -2.81 to -1.10, indicating political instability and violence. This index averages -1.97. Negative values indicate the period's typical political instability. With a standard deviation of 0.58, there seem to be periods of relative calm followed by political instability or uncertainty. Energy production (ENERGPRO) ranges from 313 million to 840 million kilowatt-hours, with a standard deviation of 404 million. The vast range and sizeable standard deviation demonstrate Pakistan's considerable fluctuations in energy production capacity. Infrastructure changes, energy policy, and external factors like economic demand and energy imports may induce these oscillations. The country's economic integration with the global economy is limited, with an average trade openness (TOP) score of 29.46%. Trade openness ranged from 21.46% to 38.33%. The 4.29% standard deviation shows that trade openness fluctuates with trade policy, economic conditions, and international trade linkages.

Table 3 shows the correlation estimates. Geopolitical importance is negatively correlated with military spending, as measured by foreign aid. This negative correlation indicates that the international community regards increasing military spending as an indication of security concerns or aggression. Foreign aid or diplomatic relations may decrease. Foreign support may drop if donor countries see large military expenditure as a depletion of development money or a warning of political upheaval or conflict.

The connection between FDI inflows and GEOPOL is -0.265, although less than military expenditures. This inverse link indicates that FDI falls during geopolitical relevance, as shown by growing foreign aid. Pakistan's geopolitical importance may be caused by instability or foreign dependency, which may signal investors' need for more trust or caution. Despite receiving much foreign aid, Pakistan's political and economic atmosphere may need to be more suitable for private investment due to governmental unpredictability and instability. GEOPOL negatively correlates

-0.533 with political stability (POLSTAB), showing that more foreign aid leads to less stable regimes. According to this connection, politically unstable nations get more foreign aid, which boosts their geopolitical relevance. This may be because other nations are more inclined to help stabilize strategic nations. This may be an attempt to maintain foreign influence in Pakistan or prevent additional unrest in a crucial region. A positive correlation exists between GEOPOL and energy production (ENERGPRO) at 0.464. This positive association suggests that Pakistan's geopolitical relevance would increase with its energy output. If Pakistan increased its energy production, it might gain domestic stability, economic growth, and regional influence, elevating its worldwide standing. Nations with large energy production capacities frequently get more foreign aid as global powers seek energy supplies or stable alliances. The negative connection between GEOPOL and trade openness (TOP) is low. A nation's geopolitical significance relative to its foreign aid receipts declines as trade openness grows. This suggests that donor nations may provide more money to countries with poorer economic integration or that Pakistan may become less reliant on foreign aid as it trades more. The negative link may also reflect international trade dynamics; economic integration may reduce the demand for geopolitical help like foreign aid. MEXP and POLSTAB have a positive correlation of 0.689. This suggests that military investment improves political stability. Thus, a strong military may help Pakistan maintain peace and deter external and domestic threats. The negative correlation of -0.618 between ENERGPRO and MEXP may reflect a trade-off in funding between the energy and military sectors or that energy security stabilizes military expenditure. Trade openness (TOP) is positively connected with FDI, showing that increased trade openness increases FDI. Economic theory suggests that open economies attract foreign investment due to their superior investment environment, lower trade barriers, and larger markets. According to the slight negative association between FDI and POLSTAB, other economic or geopolitical variables may drive FDI. Table 4 shows the 2SLS estimates.

The coefficient for the GEOPOL one-loop period is positive and statistically significant. This supports the model's strong autoregressive component, which governs Pakistan's geopolitical relevance over time. The lagged term suggests that long-term factors influence Pakistan's geopolitical prominence. International support from long-term geopolitical concerns, foreign policy aims, or strategic partnerships may explain this tenacity. This finding supports studies on path dependence in international relations, which holds that a country's historical geographical position impacts its economic and diplomatic connections (Fatima et al., 2024; Khan et al., 2023b).

**Table 3: Correlation matrix**

Variables	GEOPOL	MEXP	FDI	POLSTAB	ENERGPRO	TOP
GEOPOL	1					
MEXP	-0.588	1				
FDI	-0.265	0.146	1			
POLINSTAB	-0.533	0.689	-0.149	1		
ENERGPRO	0.464	-0.618	-0.395	-0.279	1	
TOP	-0.316	0.406	0.440	-0.081	-0.289	1

Source: Author's estimate. MEXP: Military expenditures, FDI: Foreign direct investment, TOP: Trade openness

**Table 4: Two stage least squares regression estimates**

Dependent variable: GEOPOL				
Variables	Coefficient	Standard Error	t-Statistic	Prob.
GEOPOL(-1)	0.389765	0.189997	2.051426	0.0513
MEXP	-7.26E+08	2.21E+08	-3.290608	0.0030
FDI	-6.99E+08	3.80E+08	-1.840862	0.0798
POLSTAB	-9.03E+08	3.24E+08	-2.783737	0.0106
ENERGPRO	1.696854	0.456498	3.717115	0.0010
TOP	0.939413	0.442894	2.121080	0.0440
C	2.69E+09	2.72E+09	0.987729	0.3345
Statistical test				
R-squared	0.865446	Mean dependent var		2.17E+09
Adjusted R-squared	0.814362	Standard deviation dependent var		9.70E+08
S.E. of regression	8.60E+08	Sum squared resid		1.55E+19
F-statistic	213.333659	Durbin-Watson stat		1.750712
Prob (F-statistic)	0.000000	Second-Stage SSR		1.21E+19
J-statistic	2.01E-43	Instrument rank		6

Source: Author's estimate. MEXP: Military expenditures, FDI: Foreign direct investment, TOP: Trade openness

The negative and statistically significant relationship between GEOPOL and military expenditures (MEXP), suggests that military spending rises as geopolitical relevance declines, as evidenced by foreign aid. This may be due to worldwide worry that militarily strong states threaten peace and stability or take money that might be used for development. This finding supports the “guns versus butter” strategy, which proposes a balance between military spending and social welfare (Chavarro Miranda et al., 2017). If they regard greater military expenditure as a focus on defense and security, donors that prioritize economic development and stability above militarization may not assist. This study supports prior empirical studies that show a negative association between military expenditure and foreign aid, significantly when defense spending rises in response to instability or internal unrest (Akram, 2023; Muhammad et al., 2023).

The coefficient for the negative and statistically significant relationship between GEOPOL and FDI shows that as Pakistan's dependency on aid decreases, its integration into the global economy rises via foreign investment, which is supported by reduced foreign aid and more FDI. This may be because FDI flows tend to occur in nations with more stable economies and administrations, providing investors confidence in their investments' prospective returns. More FDI may suggest economic self-sufficiency or a decline in traditional aid, hence the negative correlation. This supports economic theories that countries with greater needs or lower economic resilience get more foreign aid (Ciullo et al., 2023; Pradhan et al., 2023).

The significant political stability coefficient is  $-9.03E+08$  ( $P = 0.010$ ). According to this negative correlation, foreign aid reduces political stability. Foreign financiers may stabilize Pakistan's geopolitical atmosphere or reduce risks of political instability. The research shows that foreign aid typically promotes political stability in geopolitically significant nations. This supports the theory that

nations may affect domestic politics or acquire support for regimes that support their strategic aims using foreign aid (Huong, 2023). It also supports empirical evidence that emerging countries with unstable governments often seek international aid to prevent further instability (Okara, 2023; Pickering and Kisangani, 2023).

Energy production (ENERGPRO) and GEOPOL positively correlate ( $r = 1.696$ ,  $P = 0.001$ ). Energy is crucial to economic development and geopolitical strategy. Hence, increased energy production capacity increases geopolitical significance. Energy production indicates a nation's economic health and growth possibilities, impacting its standing and clout. Strong diplomatic connections with nations having rich energy resources or production capacity are strategically beneficial since they are generally seen as global energy market leaders. This view may offer these nations additional negotiating power (Liang et al., 2023; Szulecki and Overland, 2023). This finding supports the resource-based international relations theory. This theory holds that countries with abundant or strategic resources like energy influence worldwide events (Pang et al., 2024). It also supports studies that show energy drives geopolitical dynamics, particularly in places where major countries worry about energy security (Ibekwe et al., 2024; Yang et al., 2023).

Trade openness (TOP) also correlates positively and statistically with GEOPOL, which shows that Pakistan's geopolitical prominence increases with its commercial openness. A more open trade policy reflects a country's commitment to cooperate, follow international trade rules, and integrate the global economy, which may strengthen its geopolitical standing. This validates what researchers have long suspected, i.e., states with lower trade barriers have less geopolitical affinity due to shared economic interests (Aiyar et al., 2024; Fujita, 2023). Trade openness may strengthen a country's international status by showing its integration within the global economy. This may motivate donor countries who favour open economies to assist. This is particularly true for rising states seeking worldwide economic and political advancement.

The model's R-squared score of 0.865 and adjusted R-squared of 0.814 indicate that its explanatory variables explain a significant portion of Pakistan's geopolitical importance. The regression model's strong F-statistic suggests that the independent factors impact the dependent variable, bolstering its importance.

## 5. CONCLUSION AND POLICY IMPLICATIONS

The research findings shed light on the most significant variables in terms of their influence on geopolitics. Military expenditure decreases Pakistan's geopolitical importance. Increasing military expenditure may deplete economic resources but not enhance a country's strategic position. This finding questions the long-held idea that larger military spending impacts international politics. The negative link with FDI inflows shows that geopolitical influence is multidimensional. The economy grows with FDI, but geopolitical relevance seems unaffected. This may be due to the intricate link between FDI, geopolitics, and global investment.



Strong energy production supports local needs and a nation's ability to engage in major international alliances. Therefore, sustainable energy infrastructure investments are crucial. Because states with continuous energy access may impact international events, energy security via a combination of renewable and fossil fuels and other emerging technologies might considerably boost geopolitical relevance.

Political instability, a significant negative aspect, may reduce a country's geopolitical relevance. This shows how politically stable environments boost foreign influence. Energy production, however, boosts geopolitical relevance. This result suggests that energy and industrial skills boost a nation's strategic position because they boost energy security and international relations. Trade openness positively correlates with geopolitical status, supporting the idea that economic integration may strengthen a nation's international stature. These outcomes significantly affect policies. Increasing military expenditures may not improve geopolitics; therefore, policymakers should consider this issue. Improving a country's energy output, economic openness, and political stability may be a more balanced approach to global influence. Investments in sustainable energy infrastructure and political stability may provide long-term geopolitical advantages. Governments should facilitate international investment and economic integration to boost their geopolitical position. Future research should examine how regional dynamics, diplomatic approaches, and technology affect geopolitical importance. Alternative methodologies and more variables may help explain the complex link between numerous geopolitical aspects. Trend studies may also illuminate how energy production, political stability, FDI, military expenditure, and other variables affect geopolitical relevance in different contexts.

## REFERENCES

- Aiyar, S., Malacrino, D., Presbitero, A.F. (2024), Investing in friends: The role of geopolitical alignment in FDI flows. *European Journal of Political Economy*, 83, 102508.
- Akhtar, I., Niazi, N. (2024), A review on the great game in Afghanistan: A realist perspective on the geopolitical struggle for control. *Journal of International Relations and Peace*, 1(1), 15-22.
- Akram, S. (2023), Political instability in Pakistan: An examination from 2018 to present. *Harf-o-Sukhan*, 7(3), 220-237.
- Alsagr, N., Ozturk, I. (2024), How do energy security risk and ICT affect green investment? *Economic Analysis and Policy*, 82, 1044-1055.
- Asghar, R., Sulaiman, M.H., Mustaffa, Z., Ullah, N., Hassan, W. (2023), The important contribution of renewable energy technologies in overcoming Pakistan's energy crisis: Present challenges and potential opportunities. *Energy and Environment*, 34(8), 3450-3494.
- Ashraf, J. (2023), Does political risk undermine environment and economic development in Pakistan? Empirical evidence from China-Pakistan economic corridor. *Economic Change and Restructuring*, 56(1), 581-608.
- Awan, A.H., Malik, S. (2023), Framing development in the third world: An analysis of US foreign economic policy during the cold war. *Pakistan Journal of American Studies*, 41(2), 1-19.
- Bakhsh, S., Zhang, W., Ali, K., Anas, M. (2024a), Energy transition and environmental stability prospects for OECD economies: The prominence role of environmental governance, and economic complexity: Does the geopolitical risk matter? *Journal of Environmental Management*, 354, 120358.
- Bakhsh, S., Zhang, W., Ali, K., Oláh, J. (2024b), Strategy towards sustainable energy transition: The effect of environmental governance, economic complexity and geopolitics. *Energy Strategy Reviews*, 52, 101330.
- Bhatnagar, S., Shahab Ahmed, Z. (2021), Geopolitics of landlocked states in South Asia: A comparative analysis of Afghanistan and Nepal. *Australian Journal of International Affairs*, 75(1), 60-79.
- Bussy, A., Zheng, H. (2023), Responses of FDI to geopolitical risks: The role of governance, information, and technology. *International Business Review*, 32(4), 102136.
- Chavarro Miranda, F., Grautoff Laverde, M., Riaño Cruz, J.D. (2017), Model for economic growth and public spending focused on security: The Colombian military strategy approach (2002-2009). *Revista Científica General José María Córdova*, 15(20), 27-45.
- Ciullo, A., Strobl, E., Meiler, S., Martius, O., Bresch, D.N. (2023), Increasing countries' financial resilience through global catastrophe risk pooling. *Nature Communications*, 14(1), 922.
- Czerwińska, K., Pacana, A. (2024), Analysis of energy security based on level of alignment with the goals of Agenda 2030. *Energies*, 17(12), 2813.
- Dindarian, K. (2023), Demographics, education and employment dynamics. In: *Embracing the Black Swan. Future of Business and Finance*. Cham: Springer.
- Dunning, J.H. (2015), The eclectic paradigm of international production: A restatement and some possible extensions. In: Cantwell, J., editor. *The Eclectic Paradigm*. London: Palgrave Macmillan.
- Fatima, S., Amna, M., Saeed, H. (2024), Pakistan power position under the influence of China-Pakistan economic corridor: An analysis of economic and strategic opportunities. *Annals of Human and Social Sciences*, 5(2), 86-98.
- Fazal, I., Khan, W.A., Ali, M.I. (2023), Geo-economic benefits of the CPEC project for Pakistan. *Pakistan Social Sciences Review*, 7(4), 573-589.
- Fujita, T. (2023), Is a free trade agreement more than merely a trade policy? People's preferences for free trade agreements and the security factor. *Foreign Policy Analysis*, 19(3), orad012.
- Hanif, R.A., Sultan, I. (2024), The economic dependency of Pakistan: Reasons, challenges and prospects. *Pakistan Journal of Social Sciences*, 44(2), 251-260.
- Holen, S.V. (2023), A duty to protect? Legal consciousness among military officers in armed conflict. *Journal of Law and Society*, 50(1), 17-38.
- Huda, M.S. (2024), Renewable energy diplomacy and transitions: An environmental peacebuilding approach. *Environmental Innovation and Societal Transitions*, 50, 100815.
- Huong, T.T.L. (2023), A comprehensive analysis of the correlation between foreign aid and energy security in emerging countries: Does institutional quality matter? *Economic Analysis and Policy*, 77, 952-968.
- Hussain, R., Chaichi, A.A., Gasura, M.A.K. (2023), Afghanistan at the center of the new great game: Implications for Pakistan. *Annals of Human and Social Sciences*, 4(2), 440-450.
- Ibekwe, K.I., Etukudoh, E.A., Nwokediegwu, Z.Q.S., Umoh, A.A., Adefemi, A., Ilojiana, V.I. (2024), Energy security in the global context: A comprehensive review of geopolitical dynamics and policies. *Engineering Science and Technology Journal*, 5(1), 152-168.
- Imran Rafiq, M. (2024), A deepening political crisis, military involvement and economic woes: Evidence From Pakistan. *Journal of Asian and African Studies*. <https://doi.org/10.1177/00219096241230496>
- Jamali, A.B., Liu, H., Hussain, M. (2023), Regional connectivity and inclusion of new partners in China-Pakistan economic corridor: Prospects and challenges. *Asian Journal of Middle Eastern and Islamic Studies*, 17(1), 31-48.



- Jawad, M., Naz, M. (2024), Elasticity of environmental, social, sustainable and management stocks: An analysis of market breakdown, technology and growth while COVID-19 pandemic. *Journal of Sustainable Finance and Investment*. <https://doi.org/10.1080/20430795.2024.2368184>
- Khalid, A., Mat, B. (2023), India's hybrid warfare in Balochistan: Challenges and way forward for Pakistan. *The Journal of Defence and Security*, 18(1), 43-II.
- Khan, I., Xue, J., Zaman, S., Mehmood, Z. (2023a), Nexus between FDI, economic growth, industrialization, and employment opportunities: Empirical evidence from Pakistan. *Journal of the Knowledge Economy*, 14(3), 3153-3175.
- Khan, A., Rani, F., & Khan, P. (2023b), India and Pakistan Trade: A Vision for Peace. *Global Political Review*, 8, 29-38.
- Khan, M., Alam, R., Yasir, M. (2024), China-Pakistan economic corridor (CPEC) and regional economic dependency: Fostering peace and stability in the region. *Jahan-e-Tahqueeq*, 7(1), 899-916.
- Khurshid, N. (2023), Does the causality between environmental sustainability, non-renewable energy consumption, geopolitical risks, and trade liberalization matter for Pakistan? Evidence from VECM analysis. *Heliyon*, 9(11), e21444.
- Kumari, J., Kumar, J., Kumar, D. (2024), Political determinants influencing foreign direct investment inflow in Pakistan. *FWU Journal of Social Sciences*, 18(2), 52-62.
- Lei, L., Ozturk, I., Murshed, M., Abrorov, S., Alvarado, R., Mahmood, H. (2023), Environmental innovations, energy innovations, governance, and environmental sustainability: Evidence from South and Southeast Asian countries. *Resources Policy*, 82, 103556.
- Liang, L., Jin, L., Selopal, G.S., Rosei, F. (2023), Peace engineering in practice: China's energy diplomacy strategy and its global implications. *Sustainability*, 15(2), 1442.
- Meierding, E., Sigman, R. (2021), Understanding the mechanisms of international influence in an era of great power competition. *Journal of Global Security Studies*, 6(4), ogab011.
- Muhammad, F., Khan, A., Hussain, J., Baig, T., Baig, S. (2024), Influence of military expenditures, industrial growth, and financial development on economic growth, and environment in heterogeneous political regimes in Pakistan. *Journal of the Knowledge Economy*, 15(1), 2439-2459.
- Muhammad, M., Chaudhry, M.A., Syed, S.H., Saeed, M. (2023), Instability of government revenues and expenditures: Implications for budget deficit in Pakistan. *Quality and Quantity*, 57(6), 4971-4983.
- Nasim, A. (2022), Pak-China Geostrategic Interdependence: Impact on rising economies of Asia. *South Asian Studies*, 37(01), 95-110.
- Njifen, I., Anemann, A. (2023), Military expenditures and human capital development in sub-Saharan Africa: A system GMM approach. *Development Studies Research*, 10(1), 2163678.
- Okara, A. (2023), Does foreign direct investment promote political stability? Evidence from developing economies. *Economic Modelling*, 123, 106249.
- Pang, L., Liu, L., Zhou, X., Hafeez, M., Ullah, S., Sohail, M.T. (2024), How does natural resource depletion affect energy security risk? New insights from major energy-consuming countries. *Energy Strategy Reviews*, 54, 101460.
- Pickering, J., Kisangani, E.F. (2023), Foreign military intervention and cabinet government stability. *Political Research Quarterly*, 76(3), 1074-1088.
- Pradhan, R.P., Arvin, M.B., Nair, M.S., Bennett, S.E. (2023), Does foreign aid affect innovation and institutional quality in middle-income countries? *Evaluation and Program Planning*, 100, 102340.
- Rahman, M.S. (2023), China's foreign policy towards Bangladesh and Pakistan: In the context of geo-strategic issues (Early 21<sup>st</sup> Century). *Journal of Community Development Research (Humanities and Social Sciences)*, 16(1), 56-70.
- Rashed, N., Shabanikiya, H., Alizamani, L., Jamali, J., Kokabisaghi, F. (2024), International aid management in Afghanistan's health sector from the perspective of national and international managers. *BMC Health Services Research*, 24(1), 1001.
- Sengupta, A. (2024), Globalization and the geopolitics of multi-layered connectivity. In: *India's Eurasian Alternatives in an Era of Connectivity. Europe-Asia Connectivity*. Singapore: Palgrave Macmillan.
- Serfraz, A., Qamruzzaman, M., Karim, S. (2023), Revisiting the nexus between economic policy uncertainty, financial development, and FDI inflows in Pakistan during covid-19: Does clean energy matter? *International Journal of Energy Economics and Policy*, 13(4), 91-101.
- Szulecki, K., Overland, I. (2023), Russian nuclear energy diplomacy and its implications for energy security in the context of the war in Ukraine. *Nature Energy*, 8(4), 413-421.
- Tsitouras, A., Tsounis, N. (2024), Military outlays and economic growth: A nonlinear disaggregated analysis for a developed economy. *Peace economics, Peace Science and Public Policy*, 30(3), 341-391.
- Ullah, K., Majeed, M.T. (2023), District-level multidimensional poverty and human development in the case of Pakistan: Does institutional quality matter? *GeoJournal*, 88(1), 561-581.
- Wang, Q., Zhang, C., Li, R. (2024), Impact of different geopolitical factors on the energy transition: The role of geopolitical threats, geopolitical acts, and geopolitical risks. *Journal of Environmental Management*, 352, 119962.
- World Bank. (2023), *World Development Indicators*. Washington D.C: World Bank.
- Yang, Y., Xia, S., Qian, X. (2023), Geopolitics of the energy transition. *Journal of Geographical Sciences*, 33(4), 683-704.
- Yasmeen, R., Shah, W.U.H. (2024), Energy uncertainty, geopolitical conflict, and militarization matters for Renewable and non-renewable energy development: Perspectives from G7 economies. *Energy*, 306, 132480.
- Zaidi, S.M.S., Akhtar, M.Z., Sargana, M.H. (2024), Foreign aid: An agent for socioeconomic development? A case study from an emerging economy: Pakistan. *Politics and Policy*, 52(3), 670-691.
- Zaidi, S.M.S., Nirmal. (2023), Emerging realities in the international political system: Transforming state's foreign policy. *Herald of the Russian Academy of Sciences*, 93(6), 376-389.
- Zhang, L., Abbasi, K.R., Hussain, K., Abuhussain, M.A., Aldersoni, A., Alvarado, R. (2023), Importance of institutional quality and technological innovation to achieve sustainable energy goal: Fresh policy insights. *Journal of Innovation and Knowledge*, 8(1), 100325.
- Zhao, D., Chaudhry, M.O., Ayub, B., Waqas, M., Ullah, I. (2024), Modeling the Nexus between geopolitical risk, oil price volatility and renewable energy investment: evidence from Chinese listed firms. *Renewable Energy*, 225, 120309.
- Zorpas, A.A. (2024), The hidden concept and the beauty of multiple "R" in the framework of waste strategies development reflecting to circular economy principles. *Science of the Total Environment*, 2024, 175508.