Capital inflows and Economic growth in Pakistan

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ABSTRACT

This study intends to investigate the impact of foreign capital inflow on economic growth of Pakistan during the period of 1985-2010. The empirical analysis is based on multiple regression technique. Results show that foreign direct investment (FDI), foreign portfolio investment (FPI) and remittances are positive and significant relationship with economic growth. While foreign aid shown significant but negative relationship with economic growth. Finding further suggests that foreign direct investment, foreign portfolio investment and remittances enhance the economic growth. And it is recommended that country like Pakistan should enhance the domestic resources to break the vicious circle of foreign aid.

Key Words: *Foreign direct investment, foreign portfolio investment, remittances, foreign aid, economic growth, capital inflow*

INTRODUCTION

Capital inflow in developing country like Pakistan playing a formidable role in economy growth. Various types of capital inflows which are direct or indirect, presence of these inflows are tangible or intangible, physical or unphysical, capital or monetary terms etc. Pakistan is basically a labor intensive country we are not as much as progress in capital intensively. These inflows are coming from developed to less developed countries. Pakistan standing 27th largest economy in the overall economies of the world in terms of purchasing power and having a 45th largest in terms of absolute dollar terms[1]. Pakistan economy has a different faces initially period of its independency it is known as agricultural country but after the time goes it is converted into semi-industrialized country. In Pakistan various industries are screening there importance and showing their services for the country GDPs', they namely are textile, chemicals, processing, agriculture, telecommunications and other industries.

Foreign direct investment is one of the imperative capital flows and it came in host country the form of physical mass like building, profound machineries. Foreign direct investment moreover frequently recognized as transitional enterprise corporation (TNCs) its head office in one country and further sub operating in different countries. FDI is a sort of capital inflow which

[1] This information has been taken from Wikipedia *Google*

is actually on the long term basis and it is consist more than one year and perceptibly it is playing a considerable role in developing country. Pakistan is basically a developing economy and it is commonly known as labor intensive country, labor is cheap in South Asian region. Pakistan also unwrap their boundaries for FDI with some terms and condition .FDI came in Pakistan in early' 1950s. Because Pakistan needs to developed its infrastructure and tried to make those policies which actually attracted foreign investor. FDI did a great contribution in various sectors of Pakistan like oil & gas, telecommunication, pharmaceutical, food and MAP packaging, rubber and rubber products, petrochemical, cements and etc[2].

When Mr. Nawaz Shariff elected first time prime minister. He took charge over the government; he made great socio-economic policies for the betterment of Pakistan, later on Benazir Bhutto came in government and she also continuation of Shariff policies. All of these curse 1990 foreign investment were typically give a lift. Foreign Investment is imminent everywhere. Saudi Arabian group which name was "Ali Raza Group" did made a huge investment in HUBCO plant and other Saudi minister and royal families made a great contribution in other sector of the economy. Than other countries like Japan Canada Switzerland America also through role in other zone of the economy, and this progression was continuing but sudden domestic and global crisis bottom down these investments. But in 2004 in the regime of former president Musharraf with his superior efforts network of investment also popup.

Several aspect made Pakistan is more eye-catching country for foreign investment firstly, this region Pakistan shown a number of sensitivity and latent capacity distresses both regional and global events like earth quake (2005), blast in (2005)' 9/11 war Afghanistan war and others which creating an opportunity of capital inflow. Pakistan is a sufficient market where 140 million breathe their purchasing power becomes departing elevated, having a low cost labor which actually reduces the production cost population over. Pakistan has a strong geographic location with rich culture to attracting foreign investors.

Foreign portfolio investment is a supplementary sort of foreign capital inflow. Foreign portfolio term is associated to the access of foreign portfolio investor into the fund of host country, foreign investor enter in equity and capital market and purchase bonds and stocks from the congregation country. FPI came in Pakistan in early 1990s' and Pakistan was the first country

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[2] For more detail, see FDI and economic growth in Pakistan; A sectoral analysis by Muhammad Arshad Khan and Raja Shujaat Ali Khan, PIDE working paper series PDR; 2011

to reception FPI. Initially Pakistani government had no such policy regarding to international portfolio investor.

Uncertainty in the FPI flow result is impulsive behavior of various economic variables like money supply, stock market volatility and exchange rate level. Various studies has been conducted a propos to FPI for the developing countries. If FPI is instable than policy maker should perform precise strategy for the macroeconomic stability [Patro and Wald (2005)]. In the highlight of cost and benefit analysis various number of studies has been conducted, which shown that FPI could have an adverse effect when we count to long term benefit, but in short term FPI bring real benefit to the economy growth and development and boost up the domestic financial market and the economy in intact [Kaminsky and Schmuker (2001)]. In the era of financial crisis many countries had a bad experience of finance adverse shock and unpredictability of portfolio intensifies[3].

Another form of capital inflow is foreign aid and it refers to various terminologies like ODA official development assistance, grant, loan, technical assistance and economic assistance. Aid comprises in terms of money cash, grants, assistance like foods and others. Main principle of foreign aid is to boost up the receipt economy. Flow of Foreign aid is generally from developed country (donor country) to lesser developing countries receipts countries. With good macroeconomic policies and having a sustainable political condition foreign aid preserve well for the economy. But the various study suggest that excess of foreign aid could disaster for the economy growth. Foreign aid came in Pakistan early 1960s'. Aid came with respective of two terminologies one is for projected and other is for non projected aid, which were mainly and mostly consist of projected aid which is almost 170$ million and food consist of 119$ million and 48$ million lesser part non food items. And after that this ratio is being increased and till know. Trend showing that whenever Pakistan facing a any sort of fascinating situation they are stood in receipts of aid Pakistan facing some hard hitting natural disaster like earth quake which came in 2005 at the place of Azad Kashmir. Due to this mega earth quake lots of casualties and infrastructure were shattered. Around 6 $ billion dollar aid came in Pakistan for projected aid and

[3] See Demirguac-Kunt and Detragiache 1995

non projected aid. Pakistan is still receiving foreign aid in the adjacent of terrorism war, this aid is in the form of military improvises. This is happening from last three or four years[4].

A remittance is another form of capital inflow which refers to funds (money) sends by non resident to their household (resident) in the home country through various possessions like checks, electronic mails and mainly funds sending through banks and etc. Remittances are very helpful for the developing countries and in many terms like thriving of foreign exchange reserve, encourage the performance of liquidity it has correlation with economic growth. Remittances strengthen the gross disposable national income of the country. In Pakistan remittances is the highly foreign inflow to boost up the exchange reserve. Mainly remittances coming in Pakistan from various countries United Arab Emirates is holding top position than USA, Saudi Arabia bad other countries.

LITERATURE REVIEW

THEOROTICAL BACKGROUND:

Many models suggest that foreign resources are beneficial for underdeveloped countries. One of these models is import-export gap and investment-saving gap. All these inflows could encourage the economy. FDI has numerous of categories which are akin to; green field investment, merger and acquisition type of investment, horizontal foreign direct investment and vertical foreign direct investment. FDI playing an indispensable role in developing countries and around the globe, it came up with new technological progression like capital enhancement, process with new dimension, product innovation, organization competitive rivalry regarding to technological changes, bring modernism management skills in the host market and get excess through in the real economic development. Economic growth and FDI has shown positive relationship between each other, it enhances both economic growth and development, FDI creates an employment opportunity, try to maintain supply and demand fluctuation, elevate exchange rate, and export amplify.

Foreign private investment has both constructive and depressing impact on the economy growth like growth in industrial sector, foreign investor wouldn't taken under the control of host

[4] This information has been taken from the dawn article and wikipedia.

government, they have the authority to bring back their earning investment, unemployment reduces, to get the path for the export. Foreign private investment has disadvantages as well like foreign investor bring back their earning amount to their country and this shown the positive impact on their economy, foreign investor try to give job their own people because they perceived that they are much better than the host country's' people

Foreign portfolio investment essentially uplifts the domestic stock market. With this up thrust in domestic market firms P/E ratio has going to high and this would constructed a lower financial cost, which can produce a elevated amount of further investment opportunities. P/E ratio consists of two phrases which are current price per share and earning per share. Earning per share (EPS) is the vital for the firm performance and it can be measured with the help of current or future performance of the firm[5]. Economic mainstream suggested various talking on FPI, some mainstream suggest that FPI crating a non-debt creating country, and others suggested that it helps the domestic stock market and improving the performance of primary and secondary market condition[6]. Foreign investor are normally depends upon the mounting of the local stock market and its capability to chances of investment for foreigners FPI is basically a short term venture which is almost less than a year. Many studies have been conducted regarding to FPI which is in concern to developing countries. Although FPI and FDI both are foreign and directly sort of investment but there is a different regulatory system. Both are operated in different mode.

Aid comprises in terms of money cash, grants, assistance like foods and others. Main principle of foreign aid is to boost up the receipt country economy. Flow of Foreign aid is generally from developed country (donor country) to lesser developing countries receipts countries). Foreign aid is basically deals with macroeconomic perspective and its important point to reduce the poverty reduction and also to quantify the impact of aid on poverty reduction. [7]With good macroeconomic policies and having a first-class political condition aid can good for the economy. But the various study suggest that excess of foreign aid could disaster for the economy growth. Aid and growth has a mix relationship with each other sometimes it becomes positive effect with good macroeconomic policies but some time it shown harmful effect on the

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[5] See Investment analysis portfolio management book pg 671-672 by Frank Reilly and Keith Broom

[6] See for more detail in "Foreign Portfolio Investment, stock market and economic development: Acase of India by Parthapratim Pal in *November 18-20 2006*

[7] See ADB journal *Poverty and Foreign aid evidence from cross country data*, by Abuzar Asra,Gemma Estrada, Yangseon Ki and, M.G.Quibria March 2005

economy and this is due some reason firstly, government are unable to find out the usage of aid and which zone of the economy sector needs to be more considered, sometimes developing countries heavily depending upon the aid which is not a good indication for the economy.

A remittance is another form of capital inflow which refers to funds (money) sends by nonresident to their household (resident) in the home country through various possessions like checks, electronic mails and mainly funds sending through banks and etc. Remittances are very helpful for the developing countries and in terms of foreign exchange reserve, encourage the performance of liquidity it has correlation with economic growth. Remittances strengthen the gross disposable national income of the country. In Pakistan remittances is the highly foreign inflow to boost up the exchange reserve.

EMPIRICAL STUDIES

Arshad and Sujaat (2011) empirically investigated the study about foreign direct investment and economic growth in Pakistan with sector analysis over the period of 1981-2008 by using time series analysis. In this study they used granger causality test and panel co integration test applied for this taken observation. For this purpose they used variables they namely are; economic growth, foreign direct investment, and residual time effect. This study mainly proposed to long run relationship between these two variables. Both are significant and having a directly relationship with each other. The study findings recommend that FDI enhance growth in primary sector while growth is enhancing in manufacturing sector.

Duasa and Salina (2009) investigated the study of foreign portfolio investment and economic growth in Malaysia throughout the period of 1991-2006. In this study ganger causality test and Toda and Yamamoto's (1995) non-causality analysis were used to quantify their taken observation. Various two variables in this study they namely are; real gross domestic product, foreign portfolio investment FPI and dummy variable. Real gross domestic product taken as dependent variable and FPI taken as an independent variable. Both variable real gross domestic product and FPI have showing their significance with different methods. In last study finding suggest that FPI is attracting to the country a propos to macroeconomic variable.

Kemal et al (2004) and empirically investigated about the study of financial development and economic growth. For this moment they took panel data for the 19 highly income countries over the period of 1974-2001. For this purpose he used methodology of Nair Reichert and Weinhold's (2001) of panel causality analysis has been used. For this consideration they used various variable they namely are; panel growth model of economic growth by regressing (GRGPC) and other conditioners variables. All conditioners variable are supposed to be general model. Error term e used its name were identified by idiosyncratic. All variables are supposed to be stationary in this model. Two results is being exploited from this study firstly; financial development and economic growth shown non dynamic fixed effect at same time. Secondly; financial development may be harmful for economic growth when inflation is rising.

Sethi (2007) examine the study international capital flows and economic growth in India by using time series analysis for the period of April 1995 to April 2007. In this study they used different statistical technique like Dicky-Fuller (DF), Augmented-Dicky fuller (ADF) and Phillips-Person (PP) test. Various variables were taken under consideration in this study they namely are real gross domestic product, FDI, FPI, FII and error term. All variables are statistically significant. The finding suggest that FII has shown negative impact on economic growth while FDI and FPI shown positive impact.

Shahzad et al (2010) empirically investigated the study of causality relation between foreign direct investment trade and economic growth in Pakistan over the period of 1998-2009 by using time sequence analysis. For assess this time series analysis they worn vector auto regression model VAR, vector error correction model VECM and causality test. In this study various variable were taken under consideration their namely are; gross domestic product GDP, foreign direct investment FDI, international trade (export and import). All variable are integrated and co integrated with each other and their study shows that there is causality relationship exist between the variables. The study suggests that with high-quality trade course of action, FDI could be more beneficiary for Pakistan economy growth.

Abuzar et al (2002) look at the study of poverty and foreign aid and evidence from cross country data of 80 countries over the period of 1960-1998. For this purpose they used generalized method of moment GMM regression. In this study various variable were taken under deliberation; they namely are poverty is used as an dependent variable, aid is taken as percentage of gross national income GNI and it is indicated by development assistance, openness is taken as trade and percentage of GDP. All variable are correlated with each other. The study findings suggest that aid becomes positive when it is comparatively judicious but when aid value shown unproductive or exceed than critical value which is defined by absorptive capability.

Greene and Villanueva (1991) declare identified the private incitement in developing countries during 1975-87 is analyzed. For this purpose he used time series analysis data and used new classical model techniques for his study. He reflect in ratio of privet sector investment to GDP as an dependent variable and others independent variable such as real deposit internist rate, lagged% change in real GDP per capita, the ratio of public sector investment, comity's crème price in clan and a dummy variable. And all variable accept dummy variable are all statistically significant. The policy implication about his study is ratio of deist to GDP has since semen more impotent.

Sosinub and yeodine (2001) empirically investigated the foreign private investment and economic growth in Nigeria for developing countries of Sub-Sahara Africa (SSA) during (1970 to 2005). In this study the test including in this study are unit root test co-integration and error correcting model analysis. They considered in come growth measured by GDP, foreign, private investment; Domestic investment growth rate growth of net export coefficient is being used. All taken variable were statically significant. Policy implication would be, if Nigerian gent. Go for further and favorable incentive to energies then Nigerian economy will boost up.

Zafar and Sattar (2005) investigates the impact of remittances on economic growth and Pakistan economy during 1972-73 to 2002-03 and time seines data is being used for this purpose. In this study multiple regression frame work is used GDP at current price, worker remittances (WR), public investment (IG),private investment (IP),inflation rate, external deist, change in term of trade, per capita income and squared per capita income. These are all factor suppose to be a explanatory variable. They gathered out two equations eq 1eg: representing that some important explanatory variable like private arrestment and income variable are statically insignificant. In the end they advocate that there a positive relation step between worker remittances and economic growth

Ismail (2007) empirically examine the economic determinant of foreign direct investment in developing countries and transition economic for 17 developing countries by using a panel data during 1989:01-2006:04 .In this study they consider semen explanatory variable , these are respectively previous period FDI, GPP growth, wage, Trade rate, The real invest rate, inflation rate, dominate Invent. All variable are statistically significant except inflation and wage, Inflation and wage showing the negative relationship. They employing various econometric techniques; they are namely auto correlation and heteroskedasticity test applied. They suggested that inflow of FDI has a great potential to boost up the economies.

Mishra et al (2010) examine the study of foreign institutional investment and real growth in India with during the period of 1993:Q1 to 2009:Q2. For this consideration they used time series analysis data. In this study they used Granger causality test and VAR scaffold. In this study they used few variables they namely are foreign institutional investment (FII), and real economic growth (EG) error term. Both two variables have shown the significance with each other. And study analyze that policy maker should create an opportunity for the foreign institutional investment (FII).

Ahmad and Qayyum (2008) inspect the study of dynamic modeling of primate investment in agricultural sector of Pakistan for the period of 1986-2006. In this study they used ECM (error correction modeling) to quantify their observation, but in later part of the study dynamic error correction model for private investment and this can be obtained with another technique called (ADL) autoregressive distributed lags approach. They reflect on a range of variables for this study, they namely are PIAG (real private fixed investment in agriculture), Y (Real Gross domestic product) IG (Real public development expenditure), CR (real consumption expenditure, UN (uncertainty measure and Et (random error). Finding and suggestion of this study is based upon stabilization and consistency in government policies and political steadiness.

Hasnain and Masood (2002) empirically examine stuck between foreign capital inflow and domestic saving during 1972-2000.Co-integration technique and error correction modeling is being used in this study and other test like augmented dickey fuller (ADF) test and Phillips-Peron (P.P) test were also performed. Time series data has been taken for this study. They considered saving rate, per capita GNP, and foreign capital in flows as percent of GDP. They suggest that there is no such relationship and no co-integrity between saving and capital inflow.

Mai-Anh query (2009) in the study can Vietnam economic growth enlightened by investment or export: A vector analysis over the period of and having a database of 1986-2007. For the purpose and quantify their observation they used vector auto regression VAR analysis. In this study various variable were taken for further enhancement of the study; they specifically are GDP, investment, export and productivity. Export variable is supposed to be exogenous variable and it will effect others variable in VAR model. The study judgment suggest that neither investment nor export will uplift the productivity efficiency.

Singh and Weisrie (1998) examine the study of emerging stock markets, portfolios capital flows and long-term economic growth with micro and macroeconomic perspective over the period of 1983-1987, 1988, 1988-1995. In this study an assortment of various used they namely net portfolio capital flow, net direct investment, net portfolio investment, other investment and official flows. Policy recommendation for this study is LDC's should promote bank-based system, influence the scale and composition of capital flow and prevent a market for corporate control from emerging economies.

Barajas et al (2009) empirically investigated the study of achieve worker remittances endorse economic growth? In this study panel data has taken for 88 beneficiary countries over the phase of 1970-2004. Inside this study panel regression technique were used for all countries and emerging countries to enumerate their inspection. A mixture of variable is used in this study they specifically are remittances, private flows, welfare and poverty. The study findings entail that there is no such relation between remittances and economic growth in long-run.

Froot and Ramadorai (2001) investigated the study informative content of international portfolio flows. In this study panel data were worn for the pooled of 25 countries which included eight developed countries and 17 developing countries. They used VAR (vector auto regression) or VECM vector error correction model to evaluate this result. They used various variables in this study; they namely are log changes in fund prices, SSC flows (f) and fund prices. All variables are supposed to be endogenous variable. Policy recommendation for this study is price pressure has a strong correlated with international portfolio flows. Foreign investor should have better information when they want to investment in their portfolio in local market.

Neanidios and Varvarigos (2005) examine the study study of the impact of foreign aid on economic growth for the 74 recipients countries by using panel data over the period of 1972-1998. For this purpose they considered various variable; their names are; average growth of per capita GDP which is denoted by g, log real $GDP_{it,}$ $loggdp_{it,}$ aid_{it} (aid to GDP-ratio), measure of volatility of aid $volaid_{it}$. They used OLS (POLS) technique, generalized method of moments GMM. The study result shown that when foreign aid has is used as productively it will made positive effect on economic growth and on reverse side unproductively shown the negative impact. The study finding suggests that aid should be used effectively in the most industrious segment.

METHODOLOGY

Data has been collected from the assorted sources and websites during the period of 1985-2010; State Bank of Pakistan (SBP), Hands Book of Statistic of Pakistan, and International Financial Statistics (IFS) has been used for this intention. Multiple regression technique will be quantified for this study. In this cram we have more than one independent variable.

$$GDP = \alpha + \beta_1 FDI_1 + \beta_2 FPI \ + \beta_3 FA + \beta_4 REMT + \varepsilon$$

Whereas,-

GDP = gross domestic production

FDI = foreign direct investment β_1= Coefficient of Foreign Direct Investment

FPI = foreign portfolio investment β_2= Coefficient of Foreign Portfolio Investment

FA = foreign aid β_2= Coefficient of Foreign Aid

REMT = remittances β_2= Coefficient of Remittances

ε represent the error term involved

i= 1, 2, 3, 4…n

ESTIMATION AND RESULTS

Table 4.1 Descriptive Statistics

Variables	N	Minimum	Maximum	Mean	Std. Deviation
Real Gross Domestic Product	25	-3046.16	16805.22	5444.28	5615.08
Foreign Direct Investment	25	4.252	8.596	6.292	1.174
Foreign Aid	25	-0.513	0.693	0.049	0.255
Remittances	25	6.891	8.963	7.731	0.579
Foreign Portfolio Investment	25	-1.093	0.958	0.135	0.511

Above table revealed the all description of the data, which enclose all five variables. Real Gross domestic product is a dependent variable; other remaining variables are independent.

Table 4.2 Pearson Correlation

	Gross domestic product	Foreign direct investment	Foreign Portfolio Investment	Remittances	Foreign Aid
Gross domestic product Sig. (2-tailed)	1.00000	0.55690* (0.0038)	0.49296* (0.0123)	-0.05404** (0.7975)	0.49296* (0.0123)
Foreign Direct Investment Sig. (2-tailed)	0.55690* (0.0038)	1.00000	-0.21949 (0.2918)	0.04532 (0.8297)	0.63244* (0.0007)
Foreign Portfolio Investment Sig. (2-tailed)	0.49296* (0.0123)	-0.21949 (0.2918)	1.00000	0.14263 (0.4964)	0.04824 (0.8189)
Remittances Sig. (2-tailed)	-0.05404 (0.7975)	0.04532 (0.8297)	0.14263 (0.4964)	1.00000	0.17582 (0.4005)
Foreign Aid Sig. (2-tailed)	0.62609* (0.0008)	0.63244* (0.0007)	0.04824 (0.8189)	0.17582 (0.4005)	1.00000

* Significant level at 5 %
** Significant level at 10%

Above table of Pearson correlation has shown the significance among the variables. In this table of Pearson correlation show the insignificant and negative correlation between foreign aid and gross domestic product which comprises -5.3 % (0.05 > 0.795). While other variables of direct investment, portfolio investment and remittances shown the significant and positive relationship between real gross domestic product which comprises 55.6%, 49.2% and 62.6% respectively.

Table 4.3 Result Summary

Variables	**Beta**	**t - stat**	**Probability**	**VIF**
Constant	-34439.6	-3.39	(0.0007)	0
Foreign Direct Investment	2398.2*	2.92	(0.0034)	1.86
Foreign Aid	-5070.5*	-2.34	(0.0191)	1.05
Remittances	3122.1**	1.93	(0.0539)	1.82
Foreign Portfolio Investment	6791.3*	6.01	(<.0001)	1.13
Adjusted R^2 0.795		F-stat 19.47 Probability (<.0001)		

* Significant level at 5 %
** Significant level at 10%

Here is the equation of the model which we have constructed in the form of multiple regression equation.

$$GDP = -34439.6* + 2398.2*(FDI)_1 + 6791.3*(\text{FPI}) + 5070.5*(\text{FA}) + 3122.1**(REMT)$$

Foreign direct investment has shown the positive and significant result which means if foreign direct investment will coming to Pakistan than our economy will boost up. This has been proof from the various literatures.

Foreign portfolio investment also shown the positive and significant relation to the economy and this also has been proof from the various studies while remittances also shown positive and significant relationship between economy growth and remittances. This also has been proof from the various studies.

Foreign aid has shown the significant but negative relationship with economy growth. This is because when foreign aid is coming to Pakistan in the form of loan and grants. It has shown the various impacts upon our economy. Firstly, when loans coming to Pakistan it creating a number of disaster like increase in inflation, interest on loan (which shown in the form of increase in taxes), misuse of loan and other various things. Grants are another form of aid, which is not returnable, but recipient's countries are responsible for main purpose but in case Pakistan, Pakistan isn't taking any sort of advantages from the grants this is due to poor economic policies, corruption within the government, we get relaxed when grant came in and have no such policies to how to use this, vicious circle of poverty, no effectively used. This also has been substantiation from the various studies.

The F value is the ratio of the mean regression sum of squares divided by the mean error sum of squares. Its value will range from zero to an arbitrarily large number. And in model its value is 19.47 and it has shown the significant p (<0.0001). Here the value of R-Square is 0.795 that means the independent variable in the model can predict 79.5% of the variance in dependent variable. Adjusted R-Square gives the more accurate information about the model fitness if one can further adjust the model by his own.

CONCLUSION AND RECOMMENDATIONS

In this paper assorted types of foreign capital were being taken, such as foreign direct investment, foreign portfolio investment, foreign aid at aggregate level and remittances. Country like Pakistan is profoundly reliant on these foreign capitals. Foreign capital playing an imperative function in Pakistan economy augmentation. Various literatures have been premeditated in the background of Pakistan. Pakistan is tranquil reliant on these foreign capitals and most of these capital playing and significant role in the economy growth of Pakistan. On this contrary we compose a model of economic growth and foreign capital inflows. We used multiple regression technique for this rationale over the period of 1985-2010. We had some difficulties in propos to statistical data.

Result suggest that foreign direct investment, remittances, foreign portfolio investment shown the positive and significant relation ship with economy growth of Pakistan, result are confirmed with the studies of Cheng Hsiao and Yan Shen (jul, 2003), Anand Bansal and J.S. Pasricha (2010), Abdul Qaiyum Suleri and Kevin Savage (November, 2006). But foreign aid shown significant but negative relationship with economic growth of Pakistan, this also has been proved from the various literature Muhammad Arshad Khan and Ayaz Ahmed (2007), Ishaq and Ahmed (2005). The finding reveals that foreign aid is significant but it hasn't such relationship with economic growth in Pakistan. This is due to corruption in our government, fiscal impudence, infrastructure lackness, lack of social services contribution, non development expenditure, and country becomes a boundary of dependency in the foreign aid circle, minimization in public investment, inflation raising, increasing in taxes which is actually burden by consumer.

It is recommended that the Government should provide a risk free environment for the foreign investor and local investor to get invest more. In this charge there will be a more surge of foreign Private investment. Government must have to finish the corruption and endow with a pure strategic plan to utilize foreign aid in a right strait. To break the vicious circle of foreign aid government should enhance the domestic resources.

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