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Impact of Foreign Financial Inflow on Economic Growth of Pakistan. Do Remittances, Foreign Aid, and ODA Behave Similarly?

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Abstract This study investigates the impact of external capital flow (Remittances, Foreign Direct Investment and Official Development Assistance) on GDP growth of Pakistan over the period 1973-2014. I apply Autoregressive distributed lag (ARDL) technique to find a long run effect and Error correction (ECM) technique for short run effect. The empirical results show that in the long run there exists a long-run relationship among the growth of gross domestic production and depend variables. The results suggest that, foreign direct investment, and Official Development Assistance have overall significant and positive impacts on GDP growth of Pakistan both in short run and in long run. Finally, Remittances have no significant role to explain the variation in the economic growth of Pakistan.

Keywords: *worker remittance, foreign direct investment, official development assistance, growth, Pakistan*

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1. Introduction

Foreign capital resources have been playing a back bone role in reducing capital deficient, especially for developing countries. Inflows of foreign capital have also been considered as a core element in a process of economic globalization and an integration of the global economy as well as a development catalyst, to complement a domestic financial resource. Resource-deficit countries heavily relied on an inflow of foreign capital to overcome deficit and achieved economic goals. According to a concept of newly industrialized economics of South Asia, the inflows of foreign capital could fulfill the gap of economics deficit capital. A transfer of foreign capital allows a movement of capital resources from one economy to another economy [63]. The inflows of capital resources include borrowing of one government to the other government, short and long term lending and borrowing from banks, investment in private and public bonds, worker remittance, Foreign Direct Investment (FDI), and Official Development Assistance (ODA). The developing countries mostly accumulated a huge amount of external debt and have been suffering serious debt problems. In the past decade, developed community increased a focus on a development within poorest countries, so attention towards capital inflow and their effectiveness in reducing poverty. Papanek [56] categorized foreign capital flows into three main elements, FDI, ODA and all other foreign capital (worker remittance included). From last 20 years, the flows of Worker Remittance, FDI and ODA have grown significantly from developed to developing countries (Nigel and Chris 2013).

The aim of this paper is to investigate the impact of inflow of foreign capital on GDP growth of Pakistan from 1973 to 2014. Few studies have tried to estimate the impact of external transfer on economics growth by using worker Remittance, Foreign Direct Investment with and Official Development Assistance as independent variables in developing countries from different approaches. Neagu and Schiff [52] were pioneers in this field. The later following studies have showed ambiguous results, which raises a need of more studies. To fill this gap it is important to study the impact of inflow of foreign capital on economic growth of Pakistan and find out which main factors among (remittance, FDI and ODA) contribute more to Pakistan`s economy?

1.1. Remittance, FDI and ODA Inflows to Pakistan: Some Stylized Facts

In this section, I introduce the information of Remittance, FDI and ODA inflow to Pakistan. The presence of the foreign capital inflows are direct or indirect, 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 countries to less developed ones. Pakistan standing the 27th largest economy in the world in terms of purchasing power and having the 45th largest in terms of absolute dollar terms. Pakistan economy has different economy faces. The initial period of independency was known as

agricultural country then Pakistan was converted into semi-industrialized country. According to an economic survey of Pakistan [57] foreign debt contributes to the largest share of total foreign capital inflows while foreign aid showed a smallest share (Figure 1).

In the past few years, the Remittance was considered as a gift has grown by leaps and bounds. Pakistan is being ranked number 10 among high remittance receiving countries.

In 2000, the remittance inflow was reported less than $1 billion, whereas its increase in 2011 was about $12 billion which was equivalent to 6% of total GDP share as shown in Figure 3.

During the last decade, Pakistan economy shows a significant increase in worker remittance. A major cause of rise in worker remittance is government policies, trying to lower the remittance cost in order to redirect these flows from unofficially channel to officially channel in Pakistan, thus increasing the size of Pakistani Diasporas [65]. Pakistan receives large share of Remittances from the Middle East followed by North America and Europe.

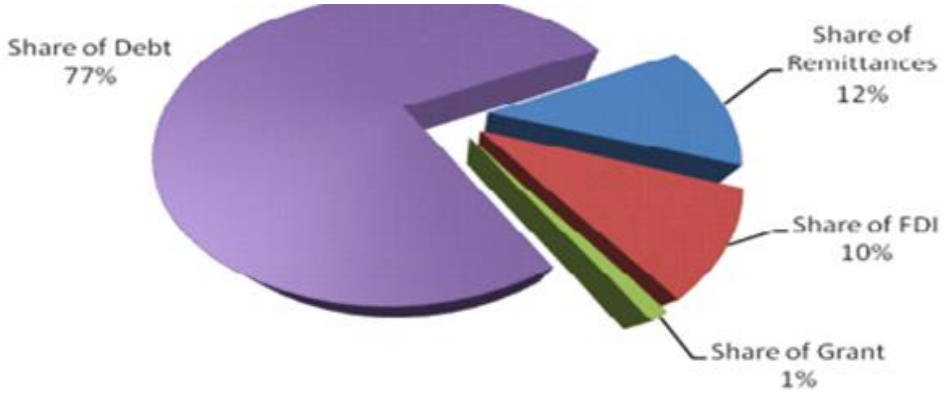

Figure 1. Share of Each Component of Total inflow Variables (2009) Source Author composition

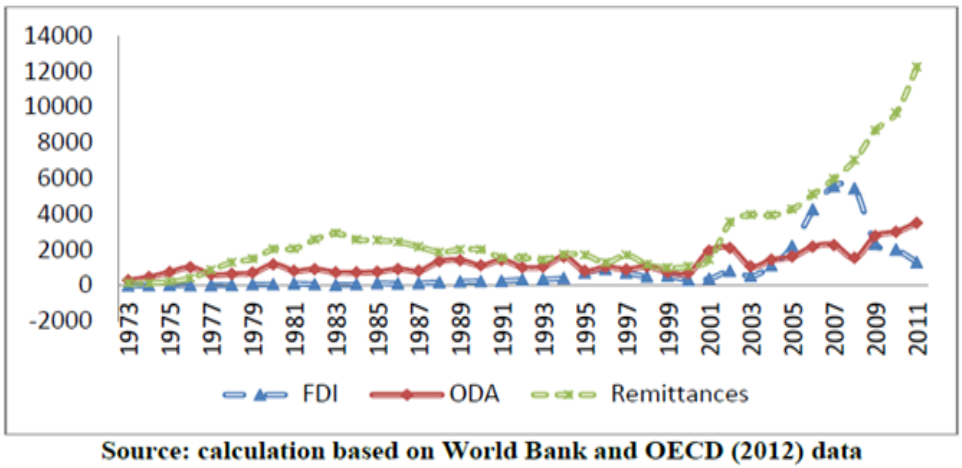

Figure 2. Remittances and other resource flows to Pakistan (US$ million) [Adopted from Ahmed and Martinez, 2013]

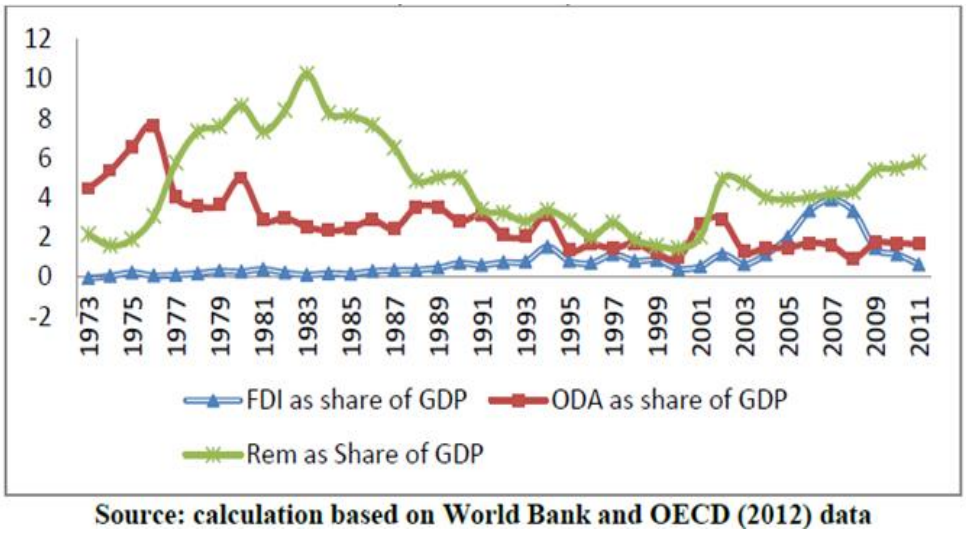

Figure 3. Remittances and other resource flows as a share of GDP to Pakistan (US$ million) [Adopted from Ahmed and Martinez, 2013]

Table 1. Percentage of worker Remittances from different countries toward Pakistan in 2012

COUNTRIES	PERCENTAGE
Saudi Arabia	27.48
USA	17.03
UK	11.82
UAE	22.47
GCC (Kuwait, Qatar, Bahrain and Oman)	10.72
Others	10.46

The second major source of foreign exchange in Pakistan is FDI. The FDI has increased over the past 10 years. Due to lack of investment policies, inflows of FDI were very low before the 1990's [38]. The liberalization program took place 2 years later in 1992, and then FDI progressed rapidly [37]. It increased from 823 million US dollars to 5.4 billion dollars in merely 5-6 years and contributed to about 4% of the country's GDP. After that, flows have fallen sharply (see figure 2). In year 2011, the flow declined from 840 million dollars to 532 million dollars (State Bank of Pakistan, 2012). So due to 36% decline in FDI, Pakistan was ranked at the 83rd position in the world economy [68]. Terrorism in a country is one of the major reasons of this decline inflow. The USA, UAE, Europe, China and Japan are the major investors in Pakistan. Foreign aid is another mean of external income in a country. In 2011, Pakistan was aided with 3509 Million US dollars for developmental assistance which only contributed to 1.6% of Pakistan's GDP share (see Figure 2 and Figure 3). Due to the low inflow of ODI, Pakistan is not being considered as an aid dependent country. Fluctuations in ODA inflow depend upon various circumstances during various years. The inflows remained high during 1980's and during US-Soviet fiasco in Afghanistan [46]. The flow of aid decreased in the 1998 due to nuclear weapon test conducted by Pakistan. Moreover, the flows of ODA again increased after 2001 when Pakistan became an important asset in war against terrorism led by America in Afghanistan. Pakistan gets major portion of donations from International Development Association (IDA), Turkey, EU institutions, USA, Asian development Bank special funds, UK, Japan, Germany, the United Arab Emirates, and Australia (OECD, 2012) [53].

2. Review of Literature

Mamoun Benmamoun and Kevin Lehnert [48] examined the impact of Worker Remittances, FDI and ODA on economic growth of developing countries by using panel data from 1990-2006. By applying system generalized method approaches, the positive and significant impacts of Remittances and FDI and ODA on economic growth of developing countries are reported. They also found that the contribution of Worker Remittances to economic growth is greater than other foreign capital (FDI, and ODA).

Manelle Lahdhiri and Mohamed Amine [47] found that Remittances and FDI and ODA have positive and significant impact on economics growth of developing countries by using panel data estimation.

Thurl Edwards [25] examined the remittances and aid transfers on economics growth of Latin America. He used fixed effect panel estimation and data taken from 1972-2008. His results showed both a negative relationship of remittances and foreign aid inflows with economic growth of Latin America.

Nigel Driffield and Chris Jones [23] investigated the contribution of Remittances, FDI and ODA to economic growth in developing countries. They used system methodology to check the inherent endogeneities in the relationship. They also examined the importance of institution, not only growth and interaction between institution and other sources of growth. They founded that the overall foreign capital has a positive and significant impact on growth, when institution are taken into account.

Ali Sharafat [63] found that the Worker Remittances, FDI and inflation have long run negative impact on economic growth of Pakistan. In the short-run analysis confirms unidirectional causality running from FDI, services debt and inflation and literacy rate to growth. He used Johansen co-integration technique and Granger causality for his estimation and data taken from 1972-2013.

Dilip and Sanket [19] concluded that due to worker migration, both origin and destination countries gain significant welfare and also help in declining poverty. They also estimated that Remittances are very important external source for funding the economy of developing countries. Amount of Remittances is exceeded from other external capital inflow (FDI and ODI) from the last decade.

3. Data

This study investigates an impact of external capital flow on GDP growth of Pakistan from 1973 to 2014. The data is taken from the World Bank's World Development Indicators. My dependent variable is GDP per capita growth (Current US dollar). Other explanatory variables are Official Development Assistance (Current US dollar), domestic investment (% of GDP), Foreign Direct Investment (Current US dollar), Remittances (Current US Dollar) and Trade (% of GDP). All series are in natural logs form due to removing sharpness in the time series data. This log transformation is the best option for unbiased empirical evidence [36]. I used Microfit software 4.1 for my estimation. The explanations of the independent variable are follows.

3.1. Models

The underlying theory of my research proposal is motivated by a standard growth model where worker remittances, FDI, and ODA are all introduced as determinants of investment [12]. Every capital flow encourages the investment that leads to economic growth, whereas investment itself is aggregate of private and public investment. Private investment is composed by FDI, Remittance and gross capital formulation.

Consider equation (1) below, the General Model,

$$GDP_t = f\left(ODA_t, DI_t, FDI_t, Rem_t, Trade_t\right) + error \quad 1$$

Where DI is domestic investment, FDI is foreign direct investment, Rem is remittances and the share of remittances devoted to private investment. FDI and remittances generate growth via external private sources. The impact of institutions is modeled via the TFP term and simply equation is

$$GDPgrowth_t = \varphi_0 + \varphi_1 GDPgrowth_t + \varphi_2 Rem_t + \varphi_3 fdi_t + \varphi_4 DI_t + \varphi_5 oda_t + \varphi_6 trade_t + \varepsilon_0. \quad 2$$

3.2. Estimation Strategy

3.2.1. Testing for Nonstationarity Property and Order of Integration

Analyzing the time series properties or non-stationary properties of the variables is imperatives, and the application of Ordinary Least Square (OLS) techniques with non-stationary variables can provide spurious outcomes. Thus, before further estimation the variables, it is necessary to investigate stationary. For this purpose, the study used a unit root test Augmented Dicky-Fuller (1979) to examine the variable whether non-stationary, and if non-stationary the integration order is the same or not.

3.2.2. Augmented Dickey Fuller (ADF) test

The Augmented Dicky Fuller (ADF) tests applied for the existence of unit roots between the variables and determine the integration order of the variables. The ADF test requires the following equations;

$$\Delta y_t = \propto_0 + \propto_1 t + \theta y_{t-1} + \sum_{i=1}^{m} w_i \Delta y_{t-1} + \varepsilon_t \quad 3$$

Where, Δ represents the difference operator, y is the series being tested shows the number of lag Where ε_t is a pure white noise error term and

$$\Delta y_{t-1} = (y_{t-1} - y_{t-2}), \Delta y_{t-2} = (y_{t-2} - y_{t-3}). \quad 4$$

3.2.3. Bound Testing Approach for Conitegration

After the existence of the unit roots among the variables, the study applied autoregressive distributed lag (ARDL) model techniques to establish the long run relationships between GDP, Remmittacne, FDI, ODA, trade, Domestic and Government expenditure, This technique has several advantages compare to other methods.

The ARDL model is introduced by Perasan, Shin and Smith [58]. This technique is applicable irrespective whether the regressors are I (1) or I (0). Another advantage of this technique is selection of model from general to specific and construction proceeds from very general model in a more structured order and statistically valid fashion, so in this way avoid the worse of data mining [39].

Due to advantages of this model, we Lütkepohl [45] argues that an ARDL approach is superior to cointegration since it provides more authentic results in case of small samples such as in our case.). Considering the above benefits of ARDL approach to conintegration, we specify the following model from equation 5 is:

$$\begin{aligned}\Delta lnGDP_t &= \propto_0 + \sum_{i=1}^{p} \varphi_{1i} \Delta lnGDP_{t-i} + \sum_{i=0}^{q1} \varphi_{2i} \Delta lnRem_{t-i} \\ &+ \sum_{i=0}^{q3} \varphi_{3i} \Delta lnFDI_{t-i} + \sum_{i=0}^{q4} \varphi_{4i} \Delta lnODA_{t-i} \\ &+ \sum_{i=0}^{q5} \varphi_{5i} \Delta \ln DI_{t-i} + \sum_{i=0}^{q6} \varphi_{6i} \Delta \ln trade_{t-i} \\ &+ \varphi_7 lnGDP_{t-1} + \varphi_8 lnRem_{t-1} + \varphi_9 lnFDI_{t-1} \\ &+ \varphi_{10} lnODA_{t-1} + \varphi_{11} lnDI_{t-1} + \varphi_{12} lnTrade_{t-1} + \mu_t\end{aligned} \quad 5$$

Whereas q is the optimal lag length, $\propto_0 - \varphi_{6t}$ represents the short run dynamics and $\varphi_{8t} - \varphi_{14t}$, represents long run elasticities.

The existence of cointegration is based on the calculated value of F-statistic. The upper critical bound (UCB) is based on the assumption that all variables are integrated at I (1) and the lower critical bounds (LCB) should be integrated at level I (0).

If the computed F-statistic value lies below the lower bound, then there is no cointegration among the variables. If the F-statistic value is above the upper bound, then the decision is in favor of cointegration between variables. It shows that there is long run relationship among variables. However, if the estimated value of F-statistic lies between lower and upper critical bounds then decision about cointegration will be inconclusive. In such a situation, we rely on the significance of the lagged error correction term (ECMt-1) for cointegration to explore the long run relationship between variables.

Unrestricted Error Correction Model (UECM) has flexibility to accommodate lags that captures the data generating process within the general to specific framework of specification [39].

In addition appropriate modification of the orders of ARDL model is sufficient to simultaneously correct for residual serial correlation and problem of endogenous variables.The following ECM is employed for this study

$$\begin{aligned}\Delta \ln GDP_t &= \propto_0 + \propto_T T + \sum_{i=1}^{q} \varphi_{it} \Delta \ln GDP_{t-1} \\ &+ \sum_{i=0}^{q} \varphi_{2t} \Delta \ln Rem_{t-1} + \sum_{i=0}^{q} \varphi_{3t} \Delta \ln FDI_{t-1} \\ &+ \sum_{i=0}^{q} \varphi_{4t} \Delta \ln ODA_{t-1} + \sum_{i=0}^{q} \varphi_{5t} \Delta \ln DI_{t-1} \\ &+ \sum_{i=0}^{q} \varphi_{6t} \Delta \ln trade_{t-1} + \lambda \ln EC_{t-1} + \varepsilon_t\end{aligned} \quad 6$$

Whereas, q1, $\propto_0 - \varphi_{6t}$ represent optimal lag length, λ is the speed of adjustment parameter and EC represent error correction term derived from long run relationship as given in equation (6).

3.2.4. Sensitivity Analysis and Stability Test

The cumulative sum of recursive residuals (CUSUM) and the cumulative sum of squares of recursive residuals (CUSUMsq tests are applied for checking the stability of the model. Examining the prediction error of the model is another way of ascertaining the reliability of the ARDL model. If the error or the difference between the real observation and the forecast is infinitesimal, then the model can be regarded as best fitting.

4. Results

ARDL has the advantage of avoiding the classification of variable into I (0) or I (1) as there is no need for unit root pre-testing. According to Ouattara [55], in the presence of I(2) variables, the computed F-statistics provided by PSS (2001) become invalid because bounds test is based on the assumption that the variables are I(0) or I(1) or mutually cointegrated. Therefore, the implementation of unit root test in the ARDL procedure might still be necessary to ensure that none of the variable is integrated at order 2 i.e. I(2) or beyond. For this purpose, Augmented Dickey Fuller (ADF) unit-root test has been employed to find out order of integration of concerned actors in the study.

Table 2. Unit Root Results

Variables	Constant and Trend. At Level P value	Constant and Trend. At 1st difference P value	Order of Integration
GDP-growth	0.0026		I(0)
Rem.	0.6552	0.0003	I(1)
ODA	0.0405		I(0)
FDI	0.0463		I(0)
DI	0.0044		I(0)
Trade	0.0027		I(0)

The above Table 2 shows the result of Unit root test. It shows that GDP growth, FDI, DI, ODA and Trade series have no unit root or in other words series are stationary at level I (0).Yet Remittances has unit root which at 1st difference of this series becomes stationary I (1), so I take the difference of this series.

The ARDL bounds testing statistic requires suitable lag length of variables. According to Lütkepohl [45], dynamic link among the series can be extracted while using proper lag.

Although Pesaran and Smith [58] argue that the Schwarz Bayesian Criterion (SBC) should be preferred because of more parsimonious specifications as compared to other model specification criteria. The optimal number of lags for each variable is shown as ARDL (1, 0, 1, 1, 2, and 0). The selected lag length according to SBC is reported in Table 3.

Table 3. The selected lag length selection

Variables	Coefficient	Std.Error	t-value	t-prob
GDP_1	0.105931	0.3211	0.330	0.0052
Rem	-0.100712	0.2342	-0.430	0.0071
FDI	0.625407	0.4545	1.38	0.0679
FDI_1	0.567645	0.7695	0.738	0.0253
ODA	0.303987	0.6032	0.504	0.0097
ODA_1	-1.42992	1.229	-1.16	0.0606
DI	0.526939	1.192	0.442	0.0075
DI_1	2.1273	1.122	1.90	0.1461
DI_2	-1.88288	2.521	-0.747	0.0851
Trade	-2.79041	0.4525	-6.17	0.0000

The existence of a long-run relationship is crucial for valid estimation and inference about the model parameters. If a long-run equilibrium relationship is exists, then ARDL technique can be used to estimate short run and the long run coefficients. The calculated F-statistic value is sensitive to the selected lag technique. The total regressions generated by ARDL is [(p+1) k] = (6+1)2 = 39 for each calculated equation; where K indicate the lag lenght and P indicate the number of variables.

The value of F-statistic is calculated from equation (5) BY applying OLS technique in Table 4. The value of F-statistic exceeds Upper critical bound, based on the critical values provided by Narayan. (2005).

So the value of F-statics (4.578) is higher than Upper Bound value (3.61) is indicates the existence of long run relationship in our model.

Table 4. Bounding testing for the existence of a Level Long-Run Relationship

	Value	Bound Critical value Unrestricted intercept and no trend		
			I(0)	I(1)
F-stat	4.5782	99%	3.15	4.43
		95%	2.45	3.61
		90%	2.12	3.23

Table 5. Long Run Elasticities

Variables	Coefficient	Std.Error	t-value	t-prob
Constant	53.8380	12.82	4.20	0.0003
Rem	-1.13060	0.3705	-0.430	0.0063
FDI	1.06458	0.3522	3.02	0.0054
ODA	2.08587	0.9520	2.19	0.0372
DI	0.953056	0.4666	2.04	0.0431
Trade	0.606873	0.281	2.14	0.0368
log-likelihood	-12.5483	-47.031	DW	2.64
R^2	0.97422	ARCH 1-1 test:		0.9816
F(27,6) =	[0.007]	Normality test:		0.9532

Table 6. Error Correction model

Variables	Coefficient	Std.Error	t-value	t-prob
Drem	-0.100712	0.234	-0.430	0.007
DFDI	0.625407	0.454	1.38	0.067
DODA	0.303987	0.603	0.504	0.009
DDI	0.526939	1.192	0.442	0.007
DTrade	-2.79041	0.4525	-6.17	0.000
ecm_1	-0.373421	0.1888	-1.98	0.058
R^2	0.835386		F(7,26)	0.000
log-likelihood	47.031		DW	2.64

Table 6 shows the long run marginal impact of Worker Remittance, Foreign Direct Investment and Official Development Assistance on GDP.

These results suggest that worker remittances have insignificant impact on economic growth of Pakistan. An average, 1 percent increases in Remittance decrease GDP by -1.13060 per percent in the long run. This result is in

line with the findings of Dilip and Sanket [19] for developing countries. Barajas, A., Chami, R.,at al [17] founded negative impact of Worker Remittance on economic growth. One of the reasons of insignificant impact of worker remittance is due to unproductive use of remittance in our society where people use their money in purchasing imported items and real estate sector which freezes the circulation of money thus leading to insignificant and sometimes negative impact of the remittance on GDP growth.

This study finds positive relation between Foreign Direct Investment and GDP. AS 1 percent increase in Foreign Direct Investment is expected to increase GDP by 1.06458 per percent and these results are statically significant at 5 % level of significance. Nigel Driffield& Chris Jones [23] found the positive impact of FDI on economics growth of developing countries. Mohey-ud-din, Ghulam (2004) also found strong positive impact of FDI on economic growth of Pakistan. Due to new protection policies and politically stability investors are highly interested in investing to Pakistan economy.

The long run impact of Official Development Assistance is positive and significant on GDP. On the base of our finding, as 1 percent increase in Official Development Assistance will lead to an increase of 2.08587 per percent in GDP.

The study of Boone [9] also confirmed the positive effect of Official Development Assistance on economic growth. Burnside and Dollars [12] also concluded the effectiveness of ODAs in terms of economic growth depends on the economic growth policies implemented by less developed countries. Both authors hypothesized the effect of ODA on economic growth in case of less developed countries is conditioned by economic policies that affect economic growth.

The results have proved that the interaction between ODA and a policy have a positive relationship. Similarly, the effect of ODA is limited in case of growth as well as in terms of reducing poverty.

Results show that Private Domestic Investment has positive impact on economic growth of Pakistan and and significant at 5 level. As 1 percent increase in Domestic Investment, raises 0.95305 per percent in GDP in long run. Same result was found by Haq, Anwar Ul. [32] that both foreign and private investment has positive impact on economic growth of Pakistan. The Domestic and foreign investment always courage to GDP growth.

According to our long run results Trade has positive impact on GDP in long run and significant at 5 percent level. As 1 percent increase in trade will 0.606873 increase in GDP of Pakistan. Below Table 5 shows the long run Statics.

Results of short run estimation are presented in Table 6. The adjusted F statistics and R2 turn out satisfactory our short run estimation. The magnitude and sign of the coefficient of the error correction term (ECM) determines the short-term adjustment process.

In the models, coefficients of the ECM turn out statistically significant and numerically -0.3734, these results imply that converging to the equilibrium path, the error-correction process converge equilibrium path less than in a year. The significance and the negative sign of the ECM also confirm the existence of a long-run equilibrium relationship between economic growth and the independent variables.

Regression results estimated in this paper show that foreign direct investment, domestic investment and Official Development Assistance contribute positively to GDP growth in Pakistan. However, the effects of Remittance, and trade on GDP growth are statistically insignificant. Fatima Nishat (2010) also found negative relation of trade with economic growth of Pakistan. Government expenditure (DGov) and ECM shows negative and significant coefficients.

4.1. Sensitivity Analysis and Stability Test

The straight line in Figure 4 and Figure 5 shows the 5 percent critical bounds for the cumulative sum (CUSUM) and cumulative sum of squares (CUSUMsq) which have been used to check for parameter stability. In (2000, 2001) Pesaran suggested that CUSUM and CUSUMsq are adequate in testing for stability of coefficients in such kind of models. The graph of CUMSUM is significant at 5 Percent significance levels (plots lies between the critical bounds) indicating the stability of the parameters in model.

The Lagrange Multiplier (LM) statistic test is also used for serial correlation check. The F-value is 0.69, which shows that there is not any problem with the serial correlation in the estimated model.

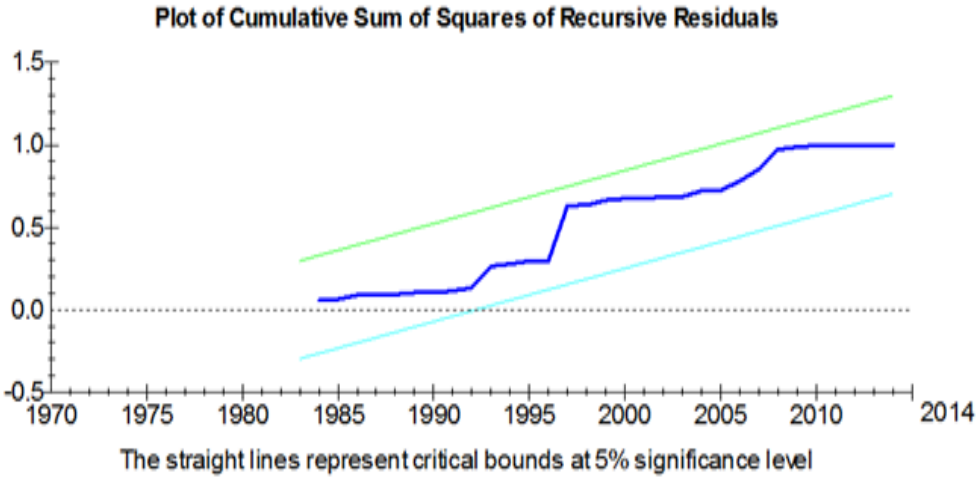

Figure 4. Plot of Cumulative sum of Recursive Residuals (CUSUM**)**

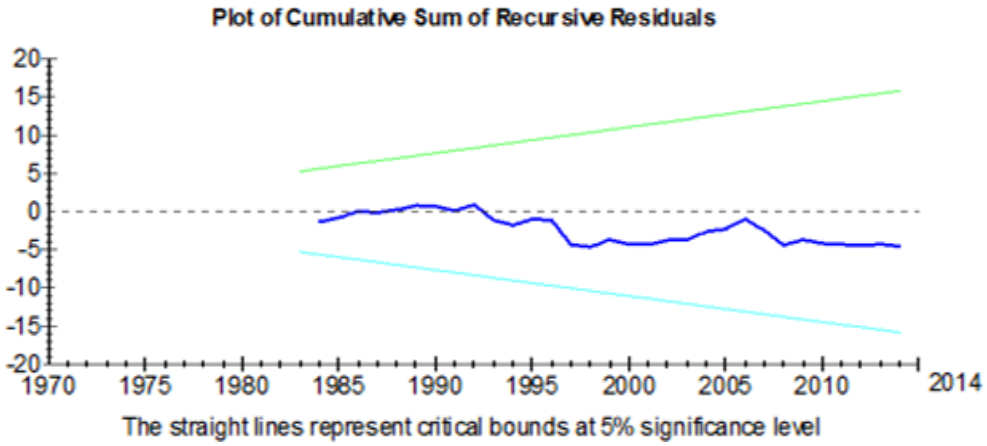

Figure 5. Plot of Cumulative sum of Squares of Recursive Residuals (CUSUMq)

5. Conclusion and Discussion

In this study i tried to find the impact of foreign capital (Remittances, FDI and ODA) on economic growth of Pakistan in long and short run (by using ARDL technique) over the period of 1973 to 2014, while using time series data. These results confirm a long run relation between variables and provide evidence in the support of GDP growth of Pakistan.

Impacts of all these variables are found positive in long run analysis except remittance. FDI, ODA, DI and Trade lead the Pakistan economy positively (see Table 6). In the literature, I also found the positive impact of this variable on economic growth as presented by Mamoun Benmamoun and Kevin Lehnert [48]. Nigel Driffield and Chris Jones [23] also founded the same result for these variables. They also included that intuitional role is very important for the signification of these variables. To make better use of inflow of capital intuitional role is very important. Due to new protection policies and politically stability investors are highly interested in investing to Pakistan economy. Mohey-ud-din, Ghulam [49] also found strong positive impact of foreign capital on economic growth of Pakistan.

According to time series data results Foreign Direct Investment has positive and significant impact on Pakistan economy both in long run and in short run. This is due direct linkage of FDI with the cash circulation in any economy. FDI came to Pakistan especially in services sector which is the biggest sector tor of Pakistan of it come to its share in GDP that is almost 60 percent. Nigel Driffield& Chris Jones [23] found the positive t of FDI on economics growth of developing countries.

Our long run and short run analysis also confirms the negative impact of Remittance on economic growth. Sort of negative impact is emerged in the economies with large and sustained remittance inflows relative to size the size of the economy. Remittances are used for consumption in order to increase the welfare and the recipient household instead of improving the overall growth of the economy.

Due to a large and sustained remittance inflow, adverse impact on growth may occur, because labor force participation is reduced. Other reasons of negative impact is unproductive use of remittance in our society where people use their money in purchasing imported items and reduction in the exports of the economy due to appreciation of the real exchange rate. Investment in real estate sectors which freezes the circulation of money, thus leading to insignificant and sometimes the negative impact of the remittance on GDP growth.

However, Official Development Assistance impact on GDP growth in Pakistan is found to be strongly positive both in long run and in short run. There are some key issues which may undermine the impact of foreign aid on economic growth. These include donors conditionality attached to aid inflow, stable macroeconomic environment in aid recipient country, institutional quality, governance issues; donors tide the some portion of aid and donors strategic motives for the allocation of aid. Among these two reasons are highly concerned in the management of aid inflow into Pakistan and its contribution for Pakistan economy. These reasons are donor's strategic interest in aid allocation to Pakistan and macroeconomic policy instability in Pakistan

Short run analysis results also show that trade has negative and significant impact but contributes to GDP of Pakistan. These results are confusing but we found lot of literature to support our results, especially in case of Pakistan. According to Nabeel Rafique, at al [63] the negative relation of trade with economic growth of Pakistan was found. Additionally, due to export of raw materials at cheap rates and import of final goods at expensive rates, negative impact of economic growth occurs. This phenomenon is also known as "Dutch Disease Effects".

Overall we can say inflow of foreign capital enhance the economic growth both in short run and in long run. There is only need to use these capitals in a proper way.

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