

Abstract

This study attempts to ascertain the importance of foreign capital inflows (FCIs) in Pakistan. We do so by first finding the key determinants of FCIs in Pakistan. Secondly, we attempt to investigate the relationship of FCIs with economic growth and finally we study the impact of FCIs on unemployment, poverty and income inequality. FCIs in this study are combination of foreign direct investment, remittances, foreign aid and external debt. Using data from 1973-2008 for Pakistan we found that growth is key determinant of FCIs both in aggregated and disaggregated forms. Moreover, FCIs have positive impact on economic growth in Pakistan. We also found that FCIs do help in reducing unemployment. Impact on poverty and inequality, however, was found to be insignificant. Results suggest that though FCI is beneficial for growth, the spillovers of the growth are not reaching the poor segment of the society. Policy makers should therefore focus on utilizing these foreign resources, especially remittance inflows, to strengthen domestic financial sector, reduce poverty and inequality.

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