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## DOES FOREIGN AID AFFECT ECONOMIC GROWTH IN PAKISTAN? A DISAGGREGATE ANALYSIS

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### **Abstract**

Pakistan receives huge amount of aid flows every year like other developing countries but still stagnant and aid dependent. This reality forced a vigorous debate on effectiveness of aid. The objective of present study is to examine the effectiveness of foreign aid and other variables such as (bilateral aid, multilateral aid, inflation, trade openness, US aid, UK aid and Japanese aid) on economic growth of Pakistan over the period 1972-2014. When we disaggregate aid in terms of bilateral aid, multilateral aid, aid from United States, aid from UK and aid from Japan, all the aid sources showed insignificant relationship with the economic growth of Pakistan in the short run. Bounds test for Cointegration accepts the hypothesis that no long run relationship exists between the variables. So in the absence of long run relationship study takes the analysis towards short run relationship by using multivariate Granger Causality test. The causality test results showed that total foreign aid, bilateral aid, aid from United States and aid from UK does not causes economic growth significantly in Pakistan over the period 1972-2014. On the other hand multilateral aid and Japanese aid significantly causes growth. Granger Causality test results shows bi-directional causality between multilateral aid and economic growth. The study is useful for policy implications because results show that multilateral aid have significant relationship with economic growth in Granger Causality test. So authorities should give priority to multilateral aid over bilateral aid.

**Keywords:** Economic Growth, Bilateral aid, Multilateral aid, Inflation, Trade openness, ARDL, ADF, Granger Causality

**JEL Classification:** E31; O40; B22

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