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Impact of Foreign Capital Inflow on the Economic Growth of Developing Countries

ABSTRACT

This paper analyzes the effect of Foreign Capital Inflow (FCI) on economic growth of a selected developing economy. The data used in this study were collected from the period of 1984 to 2016. Empirical analysis has been performed by using fixed effect model and random effect model techniques. The result shows that foreign direct investment and remittances affects economic growth of the developing countries positively in the long run as well as short run. On the other hand, the official development assistance has positive impact on economic growth only in the long run. So, developing countries should focus on the foreign direct investment, remittances and official development assistance in the long run for the sake of economic growth. It is recommended that the policy makers should focus on the foreign cash flows to increase the flow of money in economy in the sense of investment and increasing consumption.

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Key Words: *Foreign Capital Inflows, Gross Domestic Production, Labor Force, Gross Capital Formation.*