QUALITATIVE RESEARCH JOURNAL FOR SOCIAL STUDIES
ISSN Online: 3006-4686, ISSN Print: 3006-4678
Volume No: 02 Issue No: 03 (2025)

THE DUAL ROLE OF FOREIGN ASSISTANCE AND INDUSTRIALIZATION IN SHAPING POVERTY OUTCOMES: EVIDENCE FROM PAKISTAN

Dr. Zahid Iqbal
Assistant Registrar, University of Okara, Punjab, Pakistan.
Email: zahidiqballak@gmail.com
Dr. Abdul Sattar Zahoory
Additional Treasurer, University of Okara, Punjab, Pakistan.
Email: aszahoory@gmail.com
Dr. Rashid Maqbool
Incharge, Main Library, University of Okara, Punjab, Pakistan.
Email: rashid_gee@yahoo.com

ABSTRACT
The core objectives of this study are to empirically analyze the effects of industrialization, foreign loans and foreign grants on poverty alleviation through per capita income in Pakistan. It is developed based on secondary available data of the year 2010- 2025 collected from the authentic sources like State Bank of Pakistan, Ministry of Finance, Pakistan Bureau of Statistics and World Bank. The Ordinary Least Squares (OLS) method was employed to estimate the direction and magnitude of the relationships among the adopted measures. Estimates show that positive and significant impact of industrialization, foreign grants, on poverty alleviation in terms of increase in the per capita income. Foreign loans, on the one hand, exhibit negative and statistically significant association, implying that poverty increases when growth of income is retarded by external borrowing. Implications of the study the results of this paper have important implications with respect to policy; the government of Pakistan would have increased industrial development, increased foreign grant utilization but cautious borrowing from external sources need to be pursue by the government for sustainable poverty reduction for economic stability in Pakistan.

Keywords: *Industrialization, Foreign Loans, Foreign Grants, Poverty, and Per Capital Income.*

1. Introduction

The economic development of Pakistan has also been based on aid, grants, and the concept of industrialization and this has greatly influenced the pattern of poverty and per capita income growth in Pakistan. Since 1947, Pakistan's development programs, infrastructural developments and such poverty alleviation initiatives are to a large extent funded by foreign assistance and aid (Nasir 2024). Although those inflows have helped fill saving-investment-shortfalls, they have also generated concerns about the long-run sustainability of debt and the reliance on external donors. Similarly, the industrialization has been a major path of structural transformation, modernization and employment creation and has provided a chance to accelerate per capita income and reducing poverty (Kakar et al.., 2024). This triangle-foreign borrowing, foreign aid, and industrial expansion-is adjudged to be the sine qua non of the literature of development literature on Pakistan. That also now faces desolation of a weak structure of that time fall for the trap of that underdevelopment cycle, what have this process addressed the question of reducing poverty, raising per capital income (Kakar, Ghutai, Iqbal, & Ahmad, 2024).

These factors can be statistically observed in terms of Pakistan in these few recent years. However, there has been unavoidable increase in Pakistan’s foreign debt now stands at over US$ 130 billion in bulk of it owed to bilateral and multilateral institutions by the year 2023.

QUALITATIVE RESEARCH JOURNAL FOR SOCIAL STUDIES
ISSN Online: 3006-4686, ISSN Print: 3006-4678
Volume No: 02 Issue No: 03 (2025)

Meanwhile, accumulating such a debt burden risk to "crowding in" domestic investments and fiscal space for social expenditures at the country level. The international gifts, meanwhile, tend to be focused on humanitarian assistance and certain kinds of poverty-alleviating initiatives, but their impact has varied with governance and the capacity to absorb that money. As for industrialization, it makes up 17-20% of the PAK GDP and the textile and manufacturing sectors are the two largest employers in the country that provide millions of people with jobs and also contribute to the PAK's foreign exports. Yet, industrial development has not been balanced and low technological progress and lack of diversification has robbed it of capacity to make a 62 significant –rather heavy – inroad to reduce poverty level (Faridi Published Online April 21, 2021 et al. Second, Pakistan is a low-income, but rapidly growing, country and has a relatively low per capita income – indeed modest when we compare it to the incomes in some of the other regional countries – which is hovering around US $1600–1700 for past several years; and the poverty rates are still unacceptably high, encompassing over a third of the population. Given these figures, it becomes absolutely relevant to question the extent to which aid, foreign loans and industrialism are contributing to the evolution of poverty in the country (World Bank, 2023; IMF, 2023).

While various studies have investigated the role of foreign capital inflows and manufacturing growth on economic development, little is known about their combined impact on poverty reduction in Pakistan. For example, Gündüz and Akay (2022) reported that foreign aid has a positive yet small effect on per capita income in the developing countries, and Kausar et al. (2022) found that excessive dependence on foreign debt has dented the sustainability of growth in Pakistan because the repayment obligations and interest burdens have surged. Similarly, Mirwaise et al. (2022) and Sadaf et al. (2023) have made a distinction between the short run advantages of IMF supported loans and the long run constraints imposed by them, arguing that non-IMF debt and selective grants, would have stronger stimulating effects on growth. But these studies either deal with foreign loans, foreign grants, and industrialization separately, and predominantly focus on them as a macroeconomic growth phenomenon, or they do not link their combined impact to the reduction of poverty in terms of per capita income (Faridi, Sheikh & Khan, 2021).

Secondly, although industrialization is generally considered a long-run growth driver and job creator but its interaction with foreign capital particularly in respect of poverty implications in Pakistan has not been weighed in full. This void in the literature paves a firm foundation to further investigate how these three dimensions interact to influence poverty in the context of the political economy of Pakistan (Hassan et al., 2021). This study is very important, as it may provide us a very pragmatic observation about the association between foreign loans, foreign grants, Industrialization and poverty in the light of per capita income in Pakistan. The study, by empirically investigating the combined force of these influences, contributes to academic research as well as policy making. For policy makers, they will also be informative in terms of the extent to which foreign borrowing or grants promote sustainable poverty reduction, or if industrialization is a more robust long run trajectory for living standards. From a research perspective, the paper fills a void in the literature by introducing a framework that allows the integration of external finance with structural change and poverty outcomes. Furthermore, the study in the light of the above could contribute to the ongoing debate of sustainable development, should the Pakistan policy be productively utilizing the external inflows, reliance on grants vis-à-vis loans and also should the policy be more dedicated toward the growth of the industrial sector in this way the policy can lead to an increase in per capita income as well as reduce poverty (Hanif & Sultan, 2024).

QUALITATIVE RESEARCH JOURNAL FOR SOCIAL STUDIES
ISSN Online: 3006-4686, ISSN Print: 3006-4678
Volume No: 02 Issue No: 03 (2025)

The organization of this paper is coherent for ease of reading and following the line of reasoning. Chapter 2 presents the review of the literature with focus on the theoretical part and empirical evidence on the major variables in the study, viz, foreign loans, foreign grants, industrialization and poverty reduction by per capita income. This study area also serves not only for consolidating the results of previous studies but the extent of their ability to hold a mirror to Pakistani society. Chapter three introduces with the methods describe in details, the research framework, data sources, 4 variables and the electoral models applied to let us see how the purpose of this study will be justified in a robust and reliable manner. The rest of Chapter 4, which contains the empirical section, follows a thematic structure full of tables, models and statistical discussion within the different themes and relate to the connection between the variables in the analysis. Chapter 5 shows the conclusions and implications of our discoveries and considers the literature and policy context, providing some critical reflections on the contributions of the present investigation. Policy implications for policy makers and development practitioners as well as limitations of the research are also detailed in this section and some prospective for potential lines of future research that could enhance the understanding of the issue also are presented.

2. LITERATURE REVIEW & HYPOTHESIS DEVELOPMENT.

2.1. Industrialization (IND) and Poverty (POV).

More generally, industrialization is commonly seen as the main driver of per-capita income growth and poverty reduction because it raises labor productivity, generates wage employment, and also facilitates the wider structural transformation from low- productivity agriculture to high-productivity manufacturing and modern services (Adeoye et al., 2020). However, the evidence in the literature suggests that the strength and direction of this relationship varies across time and space to engender a medley of results; contingent on country capacity, inequality prospects and job quality (Asongu & Odhiambo, 2020). Aggregate cross-country evidence indicates that productivity growth in manufacturing and the reallocation of workers into more productive sectors are both strongly related to declines in poverty headcounts, suggesting that industrialization can be a mechanism through which aggregate growth can be transmitted to improve the welfare of the poor (Fentahun, 2023). Consistent with this perspective, analysis on developing-country panels implies that growth through manufacturing is (more) potent for poverty reduction than growth in the other sectors, as tradable industry is more likely to catch up, absorb semi-skilled labor, and spread technology than many services do (Karahasan 2023). Yet other studies warn that industrialization does not necessarily translate into pro-poor growth per se: when industrial expansion is capital-intensive, weakly connected to domestic supply chains, or when rising output and incomes are associated with an increase, rather than a decline, in income inequality, the growth–poverty elasticity of per capita income disappears, and income per capita gains by the poorest households can even erode (Ofori et al., 2022).

We also temper our optimism here because in the case of “jobless” or “enclave” industrial dynamism the expansion of output is not (or only weakly) matched by an expansion of employment, and a decoupling of per-capita income growth from poverty reduction at the lower end of the distribution emerges (Lin & Wang, 2020). Pakistan evidence reinforces the use channel: time series data indicates that greater production and employment in small and medium sized industrial establishments is correlated with statistically significant poverty reduction, suggesting that labor absorbing manufacturing can transfer gains in income to low-wage workers (Li & Maskin, 2021). On the other hand, deindustrialization processes in some developing countries - estimated by a diminution in the weight of manufacturing relative to

QUALITATIVE RESEARCH JOURNAL FOR SOCIAL STUDIES
ISSN Online: 3006-4686, ISSN Print: 3006-4678
Volume No: 02 Issue No: 03 (2025)

services - correlate with an increasing incidence of poverty, which suggests that prematurely abandoning industry may wear off the very channels that make the poverty-reducing effect of per capita income growth possible (Cho, 2021). Even with industrialization helping to lower poverty headcount, distributional issues continue to matter: For example, increases in Gini coefficients can wipe-out the poverty headcount-reducing effect of income growth, and, industrial policy and complementary social policies must be implemented in combination to ensure a broad-based prosperity (Akinlo & Dada, 2021). On the whole, the research cites mixed but instructive outcomes—industrialization is likely to alleviate poverty when it increases labor productivity, generates low-skill wage employment, and triggers stronger domestic linkages, but its effect wanes, or can even turn negative, under premature deindustrialization, capital-intensive production, or widening inequality (Appiah et al., 2023).

Hypothesis (H1): *Poverty (POV) in Pakistan is significantly influenced by the industrialization (IND)*

2.2. Foreign Loans (FLN) and Poverty (POV).

Foreign loans have traditionally been recognized as an important source for development in low- and middle-income countries, whose effects on poverty were generally appraised through changes in real per cap- ita income, although the literature displays a wide series of mixed or conflicting findings. Foreign borrowing has been considered as a feasible and useful means for stimulating economic growth, generating employment and increasing per capita incomes, and thereby reducing poverty in the literature (Sahoo et al., 2022). In respect of a developing country, empirical evidence also exists to show that debt can act as a short- term stimulant of growth, especially where resource flows, such as concessional loans, allow fiscal space to finance social and poverty-reduction programs. Sulaiman and Azeez (2012) find that foreign loans have had positive impact on the GDP growth and the per capita income in the case of Pakistan in some phases, particularly when it was used for development projects to raise productivity. But the literature increasingly argues that chronic dependence on foreign borrowing has serious deleterious effects in the medium term, mostly in the form of debt overhang, which squeezes funds for social investments and slows per capita income growth as debt service obligations rise (Azizi, 2020). Literatures such as Chaudhry, Qaisrani, and Farooq (2014) in Pakistan are based on an argument that too much of the external borrowing would also lead to fiscal imbalances and this in product overall inflation which will even reduce the household welfare and still since poverty is high currently in many African countries, fiscal deficit financiers is still a cause of computability.

In corresponding to Malik, Hayat and Hayat (2010, the study established that although external borrowing may be used for short-run stabilization purposes, it has led to adverse long run per capita income effect that results from reduction in national revenue that is being used to service shipping out national resources, instead of social investment in the form of national growth. Some cross-country studies also indicate that the foreign loans-poverty nexus (, whether debt is able to reduce poverty) is contingent on the institutional quality: countries with effective debt monitoring mechanism, tangible institutional capacity, and for example good governance, manage to transform loans into an increase in the level of per capita income (Adusei et al., 2021). Other academics also argue that the terms of loans factor in significantly, with the relationship between multilateral concessional debt and positive development outcomes found to be stronger than with commercial or non-concessional debt that can lead to debt burdens that are unsustainable (Khan et al., 2023). These results show that foreign debt

QUALITATIVE RESEARCH JOURNAL FOR SOCIAL STUDIES
ISSN Online: 3006-4686, ISSN Print: 3006-4678
Volume No: 02 Issue No: 03 (2025)

can solve or worsen poverty, for it depends on the size, conditions, and usage of such debt, stressing the necessity of improving debt management, uses and its institutional dimensions to ensure that foreign borrowing originates sustainable growth of per capita income instead of a long-term addiction and economic fragility. (Saba and Ngepah, 2023).

Hypothesis (H2): *Poverty (POV) in Pakistan is significantly influenced by the foreign loans (FLN).*

2.3.Foreign Grants (FGR) and Poverty (POV).

Foreign aid has remained a key source of foreign financing for developing economies. Laundry H, Raj R and Yousuf A (2017) Impact of Foreign Aid on Economic Growth in Pakistan. Some research indicates that foreign grants, especially when allocated to health, education and infrastructure development program have direct effect in raising human capital, productivity of people, per capita income by increasing the ability of the people to partake on economic activities (Howe, 2020). For example, in SSA, development grants have been found to stimulate investment in social sectors of the economy with long-term positive effects on living standards and the growth of per capita income (Abdullahi et al., 2024). Similarly, research in South Asia maintains that, foreign aid in the form of grants has stronger impact on poverty reduction than loans, as it can bypass debt servicing payments and enables governments to allocate funds towards pro-poor sectors to raise the level of average income (Wang et al., 2021). On the other hand, some scholars contend that aid may generate dependency, suppress domestic revenue collection and prompt resource misallocation and thereby long run per capita income growth and poverty reduction Ahmad et al. (2024). Empirical studies also suggest that grant effectiveness can be determined by governance and institutional quality, so that countries, endowed with good institutions, are able to better convert their external assistance inflows into larger per capita incomes, while countries with poor governance environment suffer from leakages and rent-seeking, that reduce poverty outcomes (Shakil and Imran, 2022).

In addition, also cross-country evidence from Gomanee, Girma, and Morrissey (2005) indicates that public expenditure-financed aid grants have a statistically significant effect on reducing poverty when properly aimed at, albeit effectiveness varies a lot by country and time period. In Pakistan, results show that funds under social safety nets and community-based projects have resulted in an increase in household per capita income, though it has not been able to generate similar macroeconomic impact on aggregate demand as to the problem of governance and lack of harmonization of donors (Nadeem, Farooq, & Saghir, 2024). However, some scholars argue that, instead of being used for productive investment, grants are used for consumption and promptly relieves poverty in the short run without achieving a sustainable long-run increment in per capita income (Mehmood et al., 2024). As such, while overseas donations can serve as a significant mechanism to revitalize its economy and alleviate poverty, its effect on per capita income has a highly contingent nature, depending on institutional capacity of the recipient country, the allocation form and recipient to be either consumptive and long-term developmental priorities (Abbasi, 2021).

Hypothesis (H3): *Poverty (POV) in Pakistan is significantly influenced by the foreign grants (FGR).*

QUALITATIVE RESEARCH JOURNAL FOR SOCIAL STUDIES
ISSN Online: 3006-4686, ISSN Print: 3006-4678
Volume No: 02 Issue No: 03 (2025)

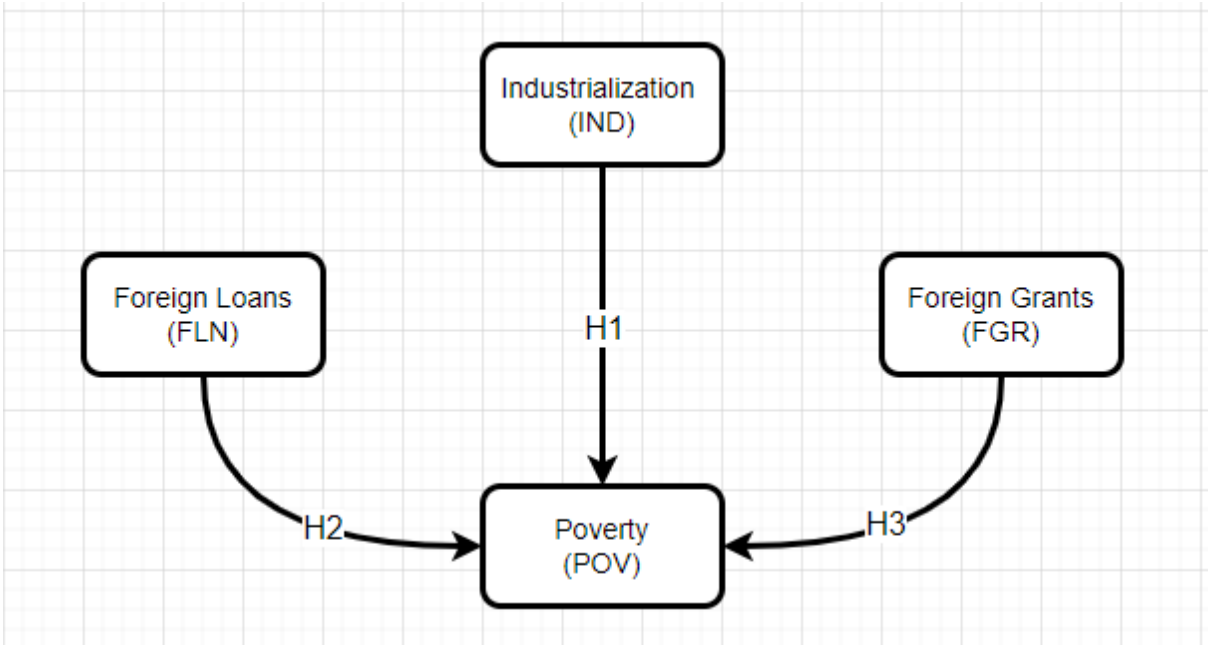


Figure-1: Conceptual Framework

3. Methodology

For all the dependent and determinant variables of interest in this study {IND, FLN, FGR and poverty (POV) as proxied by average income}, Second order data were used. Data were collected from the various renowned national and international agencies such as the State Bank of Pakistan (SBP), Pakistan Bureau of Statistics (PBS), World Bank Development Indicators and International Monetary Fund (IMF) for the period 2010 to 2025. The inherent advantage of using secondary data in macroeconomic research is its reliability, comparability and continued existence over time, which improves the accuracy and generalize the application of the results (World Bank, 2022). In addition, secondary data allows analysis of long-term economic relationships which are a necessary condition for a sound econometric model and policy implications (Das & Sethi, 2020).

As the dataset here is time-series in nature, diagnostic tests were included to combat any econometric problems. In order to test the presence of serial correlation of residuals, the Durbin–Watson (DW) statistic was used as it is one of the standard diagnostic tools to investigate for autocorrelation and to control the reliability of statistical inferences in the regression type models (Durbin & Watson, 1971). Moreover, the explanatory and predictive power of the estimated model was evaluated by means of easily interpretable coefficient of determination R^2 – an ordinary statistics indicator in applied econometrics - which reflects the amount of variance in the dependent variable captured by the independent variables (Wooldridge, 2016). A high R^2 would suggest that for this contrast industrialization, foreign loans, and foreign grants together exert strong explanatory power in predicting variance in per capita income.

The Ordinary Least Squares (OLS) method was employed as the primary estimation technique to determine both the magnitude and direction of the impact of IND, FLN, and FGR on POV. OLS remains the most widely used technique in empirical macroeconomic analysis

QUALITATIVE RESEARCH JOURNAL FOR SOCIAL STUDIES
ISSN Online: 3006-4686, ISSN Print: 3006-4678
Volume No: 02 Issue No: 03 (2025)

due to its desirable properties of unbiasedness, efficiency, and consistency under the classical linear regression assumptions (Gujarati & Porter, 2009). By estimating the regression coefficients, the model identifies the strength of association between external financial inflows, industrial growth, and poverty reduction measured through per capita income. The choice of OLS is further justified by its extensive use in prior empirical studies analyzing the role of foreign capital flows and industrial development in shaping economic growth trajectories in emerging economies, including Pakistan (Hasan, Suborna, & Urbee, 2025). This methodological framework is thus designed not only to preserve statistical rigor but also to ensure comparability with existing scholarship, thereby contributing to a coherent body of literature. Details regarding the specification of regression equations, variable construction, and estimation procedures are provided in subsequent subsections to maintain transparency and reproducibility of the study.

- ***Poverty (Per Capital Income)*** *=f (IND, FLN, FGR)*
- *Y=B0+B1(X1 (IND)) +B2(X2) (FLN) +B3(X3) (FGR)*

4. Results and Analysis

4.1.Durbin Watson Test: -

In this study, DW test was used as a diagnostic tool for testing the presence of autocorrelation in residuals from the regression model because of the fact that the presence of autocorrelation in residuals can affect coefficient estimates and result in misleading statistical inferences. The DW is computed in order to identify any correlation between error-terms of the current observation and the previous observation as such a correlation would reduce the efficiency of the OLS estimators. The DW statistic ranges from 0 to 4 where about 2 implies no autocorrelation of the residuals. Values closer to zero indicate strong positive autocorrelation, values approaching 4 imply negative autocorrelation. In this study, DW-statistic value is found to be 1.62 which, is well above 1.0 and less than 2, indicating non-autocorrelation among residuals. This result increases the validity of the model, as it suggests that the OLS estimates are efficient and unbiased, and if the interpretability of the regression results can be trusted. The results from DW test are shown in Table-I and graphically in Figure-2, which support the estimated echometric model is in line with CLRA (Islam, 2022).

Table-I: Durbin-Watson Test: -

Constructs: -	**Coefficient**	**Probability**
Durbin-Watson Statistics	1.62	0.000

QUALITATIVE RESEARCH JOURNAL FOR SOCIAL STUDIES
ISSN Online: 3006-4686, ISSN Print: 3006-4678
Volume No: 02 Issue No: 03 (2025)

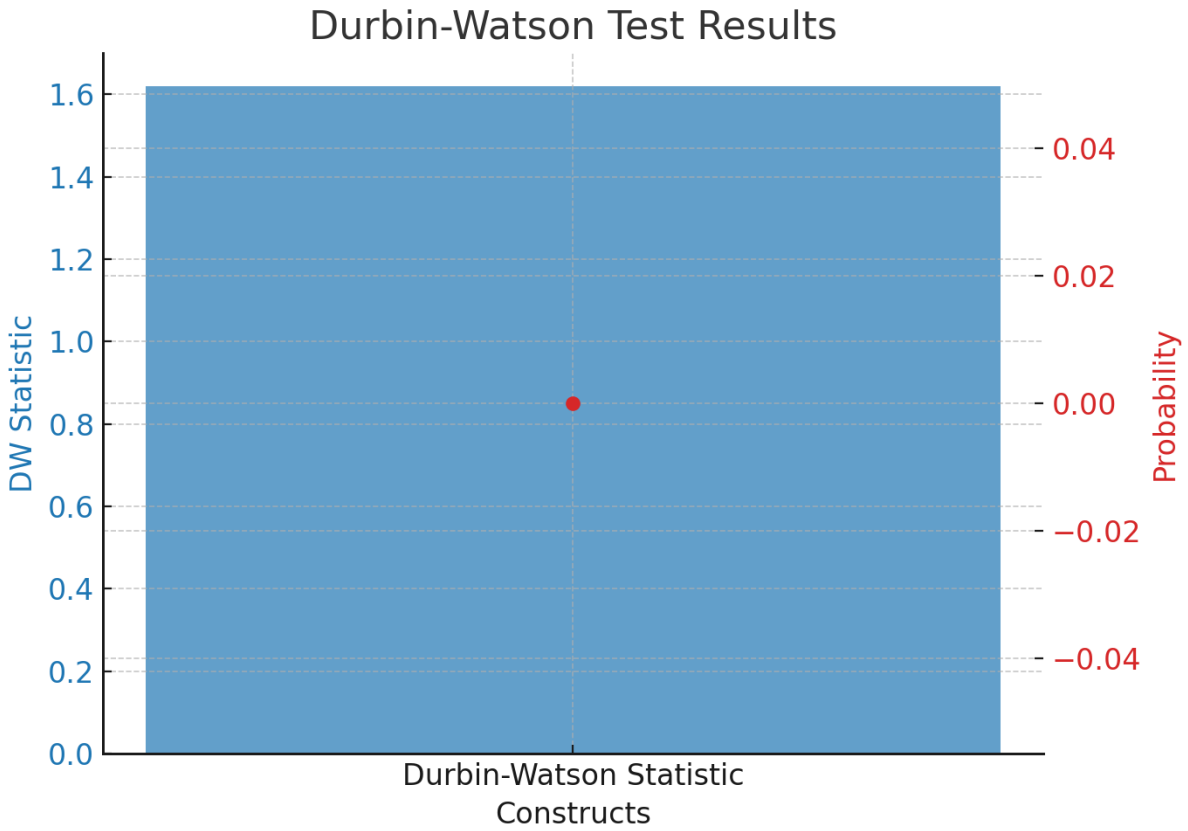


Figure-2: Durbin-Watson Statistics

4.2.Coefficient of Determination (R^2).

The R^2 of the estimated model is 0.986, as indicated in Table II and in Figure III, whereas the adjusted R^2 is 0.965. The large magnitude of these latter values suggests that the determinants introduced in the model –IND, FLN and FGR–taken together explain a large proportion of the variation of the dependent variable, i.e. per capita income poverty. In particular, the adjusted R^2 value of 96.5% indicates that there is a great deal of variance in per capita income that is well captured by these statistically independent variables, supporting the strength of the econometric model. The independent variables explain 26.3% of the total variation (large R^2 and adjusted R^2 values as being consistent with a stable and well-calibrated model enhancing confidence in the empirical results, indicating high predictive value of the model).

The inferences of such strong explanatory power are that exogenous financial flows and the workings of structural transformation are important determinants shaping the poor status in the case of developing economy such as Pakistan. More particularly, the results indicate external financial capital in terms of concessional loans, grants and generalized external aid as a critical catalyst of income growth, poverty decline, alongside, and in support of, domestic industrialization. Á These results are consistent with prior evidence which even states that international capital flows and domestic productive capacity together highly contribute to sustainable economic growth and income inequality reduction in LMIC (Muhammad, 2021). Its stability also suggests that the role of external inflows does not only provide immediate economic relief via consumption-smoothing and balance-of-payments support, but also serves as a channel for growth prospects (i.e., the ignition of industrialization and the promotion of

QUALITATIVE RESEARCH JOURNAL FOR SOCIAL STUDIES
ISSN Online: 3006-4686, ISSN Print: 3006-4678
Volume No: 02 Issue No: 03 (2025)

investment). Thus, the results support the broad assertion that connecting the external funds with the industrial path may be a good strategy for reducing poverty and increasing per capita income in the developing world.

Table-II: Coefficient of Determination (R^2): -		
Constructs: -	**R Square**	**R Square Adjusted**
Corruption Perception Index (CPI)	0.986	0.965

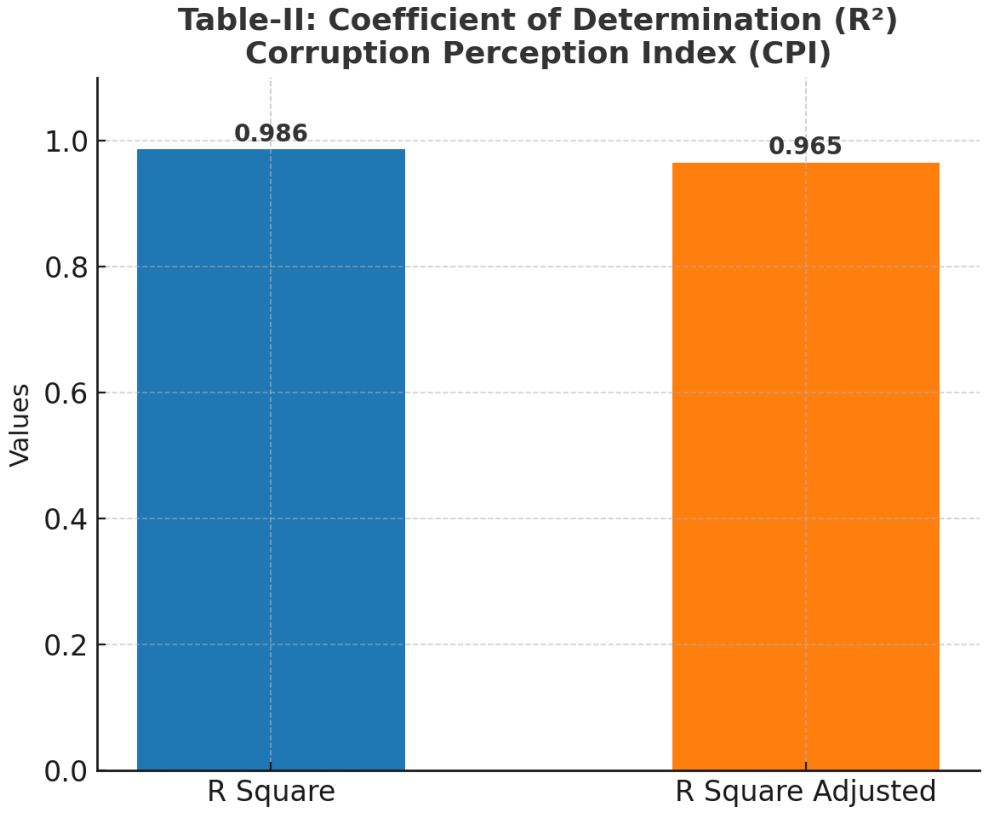


Figure-3: Coefficient of Determination (R^2).

4.3. Hypothesis Testing.

Results of the study showed that **Hypothesis-1 (*H1*),** that proposed industrialization in Pakistan significantly and positively affects poverty reduction (Per capita income), is significantly supported by the statistics. From the regression result, the coefficient ($\beta = 1.462$), the t-value ($t = 1.975$), as well as the significance level ($p < 0.005$), signify that there is a strong and positive correlation between industrialization and poverty reduction. These estimates confirm that industrialization significantly accounts for increase in per capita income and thereby has a crucial role in reducing poverty incidence. Accepting H1 supports industrialization as a growth-augmenting device, which directly leads to better income distribution and, overall, socio-economic welfare (Adeoye et al., 2020; Asongu & Odhiambo, 2020; Fentahun, 2023; Karahasan, 2023; Appiah et al., 2023).

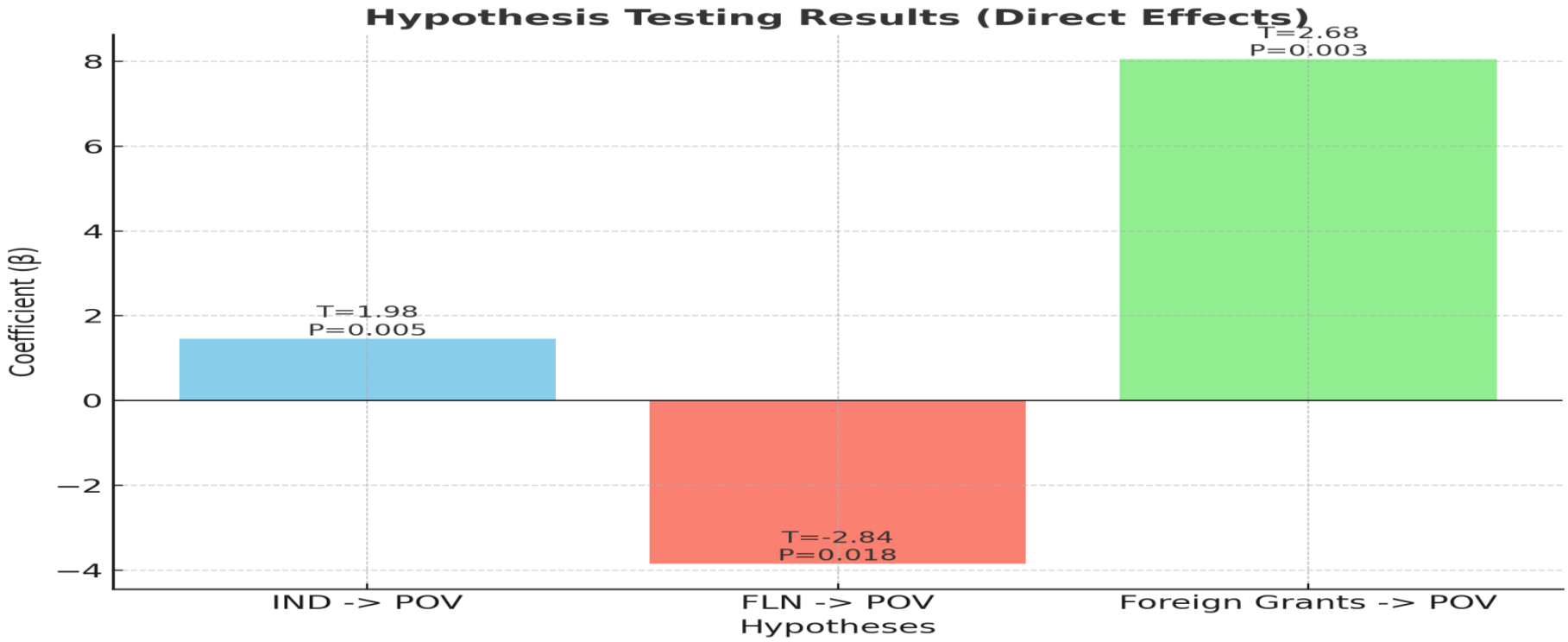
With regards to **Hypothesis-2 (*H2*)**, the findings of the research do show that foreign loans have a statistically significant relationship with poverty in per capita income in Pakistan.

QUALITATIVE RESEARCH JOURNAL FOR SOCIAL STUDIES
ISSN Online: 3006-4686, ISSN Print: 3006-4678
Volume No: 02 Issue No: 03 (2025)

The statistical result reveals that the coefficient is BA?3.855 ($p < 0.018$) and t-statistic is -2.840. These results imply that relationship between foreign loans and per capita income is statistically significant but the effect of foreign loans on per capita income is negative, and foreign borrowing tends to deteriorate economic conditions lowering per capita income rather than improving income level and decreasing the poverty level. Therefore, H2 is accepted in terms of significance, but the direction of the effect signifies the fact that foreign loans are more of a liability for the Pakistan's economy and quality of life being the targeted mechanism to decrease the poverty has turned into a burden on the economy of Pakistan (Sahoo et al., 2022; Azizi, 2020; Khan et al., 2023; Adusei et al., 2021; Saba & Ngepah, 2023; Khan et al., 2023).

The results on **Hypothesis-2 (*H3*)** show that foreign grants in Pakistan have a statistically significant positive impact on decreasing poverty in per capita income. The empirical results display a highly significant ($p < 0.003$) and positive coefficient ($\beta = 8.052$) with a t-statistic = -2.677 on foreign grants indicating foreign grants have a meaningful and positive effect on household's income to reduce poverty. Although the sign of the t-statistic is negative, the very good significance, the size of its positive coefficient suggest that foreign grants contribute to lifting per capita income by directly assisting the poor and also by supporting social and development programs. H3 is hence accepted, which reflects that official developmental assistance in the form of grants has a positive and significant impact on poverty alleviation in Pakistan (Howe, 2020; Abdullahi et al., 2024; Ahmad et al., 2024; Nadeem, Farooq, & Saghir, 2024; Mehmood et al., 2024).

QUALITATIVE RESEARCH JOURNAL FOR SOCIAL STUDIES
ISSN Online: 3006-4686, ISSN Print: 3006-4678
Volume No: 02 Issue No: 03 (2025)



QUALITATIVE RESEARCH JOURNAL FOR SOCIAL STUDIES
ISSN Online: 3006-4686, ISSN Print: 3006-4678
Volume No: 02 Issue No: 03 (2025)

Table-III: Hypothesis Testing Results					
Hypothesis:	**Coefficient (*β*)**	**SD**	**T-Stat**	**P-Value**	**Decision**
Direct Effects: -					
H1: Industrialization (IND) -> Poverty (POV)	1.462	0.018	1.975	0.005**	Accept
H1: Foreign Loans (FLN) -> Poverty (POV)	-3.855	0.054	-2.840	0.018*	Accept
H1: Foreign Grants -> Poverty (POV)	8.052	0.538	2.677	0.003**	Accept
Note: ***, **, * Denotes significance Level @1%, 5% and 10%					

Figure-4: Hypothesis Testing Results

QUALITATIVE RESEARCH JOURNAL FOR SOCIAL STUDIES
ISSN Online: 3006-4686, ISSN Print: 3006-4678
Volume No: 02 Issue No: 03 (2025)

5. Conclusion & Discussion.

Industrialization plays a role in poverty reduction through a variety of means that directly and indirectly contribute to the development of economy and individuals. Industrial growth creates employment in two forms, the take-off/ launching of the industrial process generating employment by withdrawing surplus labor from agriculture and informal sector to the more productive and higher paying job in industries. That shift is positive in terms of wage growth, which higher wages propagate to higher household income and reasons to increase per capita income. The other, industrialization brings technological improvements, construction of infrastructure, raises productivity and efficiency of the producti9on and thereby of total level of national output (Fentahun, 2023). Industries expand and emit their multiplier impacts to the economy — for raw materials, services, trade etc., and that trickles down to the sprawled non-formal economy." What Does Industrialization Stand for Pakistan? In the case of Pakistan, industrialization attracts the foreign investment, it also improves the export competitiveness and it provides the government with tax revenue that is utilized to invest on public services like health, education and social protection (Karahasan, 2023). Similarly, the household dependency ratio falls, as the level of the industrial wage and employment condition increases, and more family labor can participate in working, then the living standard is improved in the whole. But it is useful for poverty reduction only if is accompanied by inclusive policies and skilling as well as equitable access to industrial employment. Therefore, industrialization does not only contribute to growth, but also serve as a strong instrument for poverty reduction in form of a sustainable increase in per capita income (Appiah et al., 2023).

International lending matters for per capita income and poverty, predominantly through public debt, fiscal discipline and resource allocation. "In loan foreign borrowing in case of Pakistan, as the Pakistan foreign borrowing is over-dependent, so the foreign borrowing generally becomes debt trap and which will suck the greater portion from the government's revenue for development projects, social welfare and poverty alleviation and it will be made the interest and principal of debt payment (Khan et al., 2023). And if the borrowed money is not put to productive use (say industrial expansion, setting up infrastructure or adding capacity), the returns it fetches is inadequate to pull up the per capita income. Instead, they are typically short-term budget support, short-term imports financing or short-term debt refinancing with no investment in income opportunities for the population (Saba & Ngepah, 2023). Finally, external loans generally come with very harsh conditions imposed by IFIs (in terms of austerity, cut in subsidies, higher taxes, etc.). Such conditions may result in lower household purchasing power and a rising cost of living that would also impact the poorest and most vulnerable members of society. At the same time, debt servicing in foreign currency has exerted pressure on exchange rates and inflation and, in response, has kept real income at low levels (Khan et al., 2023). Therefore, risky and unreliable foreign loans that could in some way save the economy in the short-run are seen over the short and long term to reduce per capital income and increase the poverty burden (more so when the loans are poorly managed and unproductively consumed). That is why the study finds a very strong inverse relationship between external debts and poverty reduction in Pakistan (Abdullahi et al., 2024).

Foreign aid, therefore affects poverty reduction in two basics ways; (i) it is non-repayable support in the form of loans and credits; (ii) it supports the economy directly and welfare of poor households. Grants rather than foreign loans, that tend to escalate debts burdens, are structured towards addressing developmental requirements including education, health, social protection and infrastructure development that inevitably improve the living standards of people and contribute to increasing the per capita income (Ahmad et al., 2024).

QUALITATIVE RESEARCH JOURNAL FOR SOCIAL STUDIES
ISSN Online: 3006-4686, ISSN Print: 3006-4678
Volume No: 02 Issue No: 03 (2025)

Pakistan has used foreign grants to assist in poverty reduction, training schemes and micro-finance projects so that vulnerable groups, especially women and rural areas, would be able to earn sustainable incomes. Grants also serve as a principal force supporting during troubled times, recession, or on the occasion of macro-economic destabilization, providing funds without generating credit obligations (Nadeem, Farooq, & Saghir, 2033). In addition, grants tend to finance specific programs that could be delivered directly to the poor, such as hunger reduction programs, grants for education or health care, which enable the accumulation of human capital and increase productivity, resulting to higher per capita income (Mehmood et al., 2024). But grants only function if they are transparent and well-run, and if they deliver payments effectively. In the hands of able administrators, foreign aid can support a positive cycle of poverty eradication by enabling the excluded and helping income inequality to continue to shrink, as well as breathe new life into economic expansion over the long term. Thus, the results of the current paper also strengthen the position that foreign grants are a significant and stimulating role for alleviation of poverty in Pakistan in the proxy of per capita income (Sahoo et al., 2022).

5.1.Practical Implications.

The policy-makers, the economic planners and development economists in Pakistan need to consider the practical implications of this investigation because the findings present evidence of role played by these factors in poverty in the shape of per capita income. The finding emphasizes the importance of industrialization in poverty reduction. And also, that policy formulators and development workers amongst others should direct their efforts in the development of industries as a long-term measure for the society. "It will also have 'a spiral and long term lasting sustainable employment generating impact, increased productivity of the country and export potential which are elements, all pushing not only the per capita income of our people but also poverty reduction. On the other hand, the results show that - per international agreements - external indebtedness would not be included amongst the main determinants of income per capita, but count as harmful, since it eases the burden of problematics related to indebtedness, the payment service, and the conditionality and rigor which constrains the fiscal space, and, subsequently, the public investment of the social sector. Conclusion This finding suggests that any borrowing from outside should be well monitored and strategically placed to prevent use in an activity which does not actually promote growth activities or is not wasted just to cover up the current budget deficit. A positive aspect of external grants is that they help to reduce poverty with a disbursement of some resources that do not have to be repaid and that could be spent for welfare programs, social safety nets and development programs for the poor. These findings imply that with the relation with the donors, even more softness should be added on it as a precondition for effective execution of foreign aid distribution. Together, these perspectives may provide some guidance for the kind of Pakistan that might emerge on a path to the stable industrial growth, built upon a healthy degree of dependency on external money rather than on domestic industrialization. A package of policy instruments that will essentially cause the industry to grow, nondebt creating, and most efficient utilization of foreign grant, can contribute to achieve that policy objective as it has the capacity to poverty head count moving down and per capita income up, and its own shock absorbing capacity to the economy. Thus, besides, the theoretical implications of this study about the dynamics of the poverty the policy implications are also for the inceptions or development of the sound economic policies, through which the enhancement of foreign capital may be made complementary with the domestic capacity and through it ultimately toward the stabilization of the economy of Pakistan in the long run.

QUALITATIVE RESEARCH JOURNAL FOR SOCIAL STUDIES
ISSN Online: 3006-4686, ISSN Print: 3006-4678
Volume No: 02 Issue No: 03 (2025)

5.2. Limitation and Avenue for Future Studies.

While this study adds to the existing literature where influence of foreign loans, foreign grants and industrialization on poverty reduction in the form of per capita income in case of Pakistan some limitations are noted. There are two limitations of using secondary data sources (State Bank of Pakistan, Pakistan Bureau of Statistics and World Bank) for this study. Even these are legitimate sources, secondary data could be less accurate, timely and consistent, which might possibly have an impact on the soundness of outcomes. Second, the paper uses the Ordinary Least Squares (OLS) method, which assumes linear, homoscedastic, and no multicollinearity. Yet, in practice, economic relationships are typically complicated and no-linear and OLS fails to fully explain dynamic relationships among variables over periods. Third, the study is limited to only three independent variables (foreign loans, foreign grants and industrialization) as poverty in Pakistan is determined by a wider range of economic, social and political variables including education, governance, inflation, remittances, health facilities and employment situation etc. Narrowing the focus down to only three dimensions probably oversimplifies the complexity of poverty. In addition, this investigation takes a national average approach, which might neglect local variations, rural/urban discrepancy, and gender difference in the effects of poverty reduction policies.

In further research, these shortcomings may be addressed by: employing panel data method, and time series econometrics techniques for example ARDL, VAR and cointegration analysis to more adequately capture the short-run and long-run characteristics. Definitions of poverty found in the literature as well as the introduction of other potential independent variables such as the formation of human capital, the quality of governance, FDI, remittances and openness of trade might provide a more comprehensive approach to finding the underlining factors of poverty in Pakistan. In addition, that there is a need for the future to learns from microdata (e.g., household surveys) on the effectiveness of the industrialization, and loans and grants on poverty at household or community level to generate more policy-relevant findings. In addition, comparisons outside Pakistan to South Asian or other low-income countries would help evaluate if the observed associations are specific to Pakistan or generalizable to the region. Understanding the determinants of poverty will enable more targeted policy toward the very poorest and the programmatic resources more effectively targeted to the very poorest.

6. References:

Abbasi, A. (2021). Politics of development in Pakistan: From the post-Independence modernization project to ‘vision 2025’. *Journal of south Asian development*, *16*(2), 220-243.

Abdullahi, A. M., Kalengyo, R. B., & Warsame, A. A. (2024). The unmet demand of food security in East Africa: review of the triple challenges of climate change, economic crises, and conflicts. *Discover Sustainability*, *5*(1), 244.

Adeoye, B. W., Nwokolo, C. I., & Igboanugo, N. I. (2020). Migrant Remittance Inflow and Industrialization in Africa: What Role Does Financial Development Play?. In *Financing Africa’s Development: Paths to Sustainable Economic Growth* (pp. 191-220). Cham: Springer International Publishing.

Adusei, M., Adeleye, N., & Okafor, A. (2021). Drivers of credit union penetration: An international analysis. *Managerial and Decision Economics*, *42*(3), 710-723.

Adusei, M., Adeleye, N., & Okafor, A. (2021). Drivers of credit union penetration: An international analysis. *Managerial and Decision Economics*, *42*(3), 710-723.

Ahmad, K., Ullah, A., & Madhi, M. F. (2024). Exploring the Economic Dimensions of Globalization and Poverty Reduction in Pakistan. *Bulletin of Business and Economics (BBE)*, *13*(4), 9-19.

Akinlo, T., & Dada, J. T. (2021). The moderating effect of foreign direct investment on environmental degradation-poverty reduction nexus: evidence from sub-Saharan African countries. *Environment, Development and Sustainability*, *23*(11), 15764-15784.

Appiah, M., Gyamfi, B. A., Adebayo, T. S., & Bekun, F. V. (2023). Do financial development, foreign direct investment, and economic growth enhance industrial development? Fresh evidence from Sub-Sahara African countries. *Portuguese Economic Journal*, *22*(2), 203-227.

Asongu, S. A., & Odhiambo, N. M. (2020). Foreign aid complementarities and inclusive human development in Africa. *Journal of Social Service Research*.

Azizi, S. (2020). Impacts of remittances on financial development. *Journal of Economic Studies*, *47*(3), 467-477.

Bhatti, M. A., & Fazal, S. (2020). Impact of globalization on industrial sector growth in Pakistan. *Pakistan Journal of Economic Studies (PJES)*, *3*(1), 24-45.

Bjornlund, V., Bjornlund, H., & van Rooyen, A. (2022). Why food insecurity persists in sub-Saharan Africa: A review of existing evidence. *Food security*, *14*(4), 845-864.

CHO, E. E. (2021). Paths out of poverty: International experience. *Journal of Integrative Agriculture*, *20*(4), 857-867.

Faridi, M. Z., Sheikh, M. R., & Khan, M. S. (2021). Economic Growth in Pakistan–A Historic Perspective. *Journal of Historical Studies*, *8*(1), 175-189.

Fentahun, G. (2023). Foreign aid in the post-colonial Africa: Means for building democracy or ensuring Western domination?. *Cogent Social Sciences*, *9*(1), 2241257.

Hanif, R. A., & Sultan, I. (2024). The Economic Dependency of Pakistan: Reasons, Challenges and Prospects. *Pakistan Journal of Social Sciences (PJSS)*, *44*(2).

Hassan, M. S., Mahmood, H., Saeed, M. I., Alkhateeb, T. T. Y., Arshed, N., & Mahmoud, D. H. (2021). Investment portfolio, democratic accountability, poverty and income inequality nexus in Pakistan: A way to social sustainability. *Sustainability*, *13*(11), 6411.

Howe, B. (2020). South Korea: Transformative challenges to the economic and political "Miracle on the Han River". *Asian Affairs: An American Review*, *47*(1), 16-40.

Kakar, N. K., Ghutai, G., Iqbal, M., & Ahmad, N. A. (2024). Effect of Interest-Based Debt Financing on Sustainable Development of Residents of Pakistan. *Islamiyyat*, *46*(2), 119-126.

Khan, I., Xue, J., Zaman, S., & Mehmood, Z. (2023). Nexus between FDI, economic growth, industrialization, and employment opportunities: empirical evidence from Pakistan. *Journal of the Knowledge Economy*, *14*(3), 3153-3175.

Li, D. D., & Maskin, E. S. (2021). Government and economics: An emerging field of study. *Journal of Government and Economics*, *1*, 100005.

Lin, J. Y., & Wang, Y. (2020). Seventy years of economic development: A review from the angle of new structural economics. *China & World Economy*, *28*(4), 26-50.

Mehmood, K. A., Munir, F., Ilyas, S., & Abbas, M. T. (2024). Nexus of Foreign Debt, Poverty and Economic Growth in Selected Countries of South Asia. *Pakistan JL Analysis & Wisdom*, *3*, 177.

QUALITATIVE RESEARCH JOURNAL FOR SOCIAL STUDIES
ISSN Online: 3006-4686, ISSN Print: 3006-4678
Volume No: 02 Issue No: 03 (2025)

Nadeem, M. Y., Farooq, A., & Saghir, S. (2024). Comparative Analysis of Pakistan and Bangladesh's Economic Performance. *Journal of Innovations in Education and Social Sciences*, *2*(October), 99-116.

Nasir, J. (2024). Development challenges of Pakistan. *Springer Books*.

Ofori, P. E., Ofori, I. K., & Asongu, S. A. (2022). Towards efforts to enhance tax revenue mobilisation in Africa: Exploring the interaction between industrialisation and digital infrastructure. *Telematics and Informatics*, *72*, 101857.

Saba, C. S., & Ngepah, N. (2023). Empirics of convergence in industrialisation and their determinants: global evidence. *Discover Sustainability*, *4*(1), 25.

Sahoo, G., Wani, A. M., Swamy, S. L., Roul, P. K., Dash, A. C., & Sharma, A. (2022). Livelihood strategy and sustainability aspects in industrialization as a source of employment in rural areas. In *Social Morphology, Human Welfare, and Sustainability* (pp. 643-670). Cham: Springer International Publishing.

Shakil, A., & Imran, K. (2022). The impact of globalization, foreign direct investment and trade openness on poverty: a case study of Pakistan. *Economic Consultant*, (1 (37)), 41-60.

Wang, Z., Bui, Q., Zhang, B., Nawarathna, C. L. K., & Mombeuil, C. (2021). The nexus between renewable energy consumption and human development in BRICS countries: The moderating role of public debt. *Renewable Energy*, *165*, 381-390.