

ELIMINATION OF FOREIGN AID: A CASE STUDY OF PAKISTAN

GHULAM ALI*

Most of the underdeveloped countries endeavour to achieve and sustain a growth rate of gross domestic products, substantially higher than the rate of growth of population. Higher growth rate of economy requires higher investment funds. But domestic savings of developing countries fall short of investment requirements, and therefore, there emerges a gap between investment and savings, which is to be filled by external assistance. Moreover, the capacity of the underdeveloped countries to produce capital goods is rather limited, and increase in investment invariably leads to increase in import bill. Their exports fall short of their import requirements, which results in another gap, known as trade gap. It is observed that in most of the developing countries, trade gap is a dominant gap and Pakistan seems to be no exception to that. The policies should be addressed to eliminate the dominant gap. Therefore, there is a need to have estimates of trade gap besides the resources gap.

Most of the developing countries are under huge burden of foreign debts. To achieve economic independence, they frame deliberate policies to eliminate resources and trade gap, within specified time constraints in which foreign inflow is expected to be zero. The studies done in Pakistan have mainly focused on the resources gap. In the Perspective Plan of Pakistan [21], it was expected that net aid requirement would fall to zero in twenty years span of time. The plan envisaged a growth rate of 7.2% of gross domestic product. Chennery and MacEwan [5] in their model to maximise stream of consumption have come to the conclusion that foreign inflow will be zero by 1983. Rehman [23] criticized the above mentioned studies on the ground that these did not include debt servicing. Naqvi [17] also based his study on investment and saving gap only. But these studies were based on prior to East Pakistan separation data and relatively higher

* The author is a former staff Economist at the Pakistan Institute of Development Economics. He is thankful to A.R. Kemal, Senior Research Economist PIDE for guidance. The author is greatly indebted to OLE David Koht Norbye, Senior Research fellow, DERAP, The Chr. Mahelson Institute Bergen, Norway and Dr. Professor Jones Paul, Senior Fulbright Hays Scholar and Professor of Economics, University of New Mexico, United States of America for highly useful comments, encouragement and inspiration. However, author alone is responsible for any lingering omission.