Impact of Foreign Aid on Economic Growth of Pakistan.

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Abstract (Using JPAVI Abstract Style)

This study focuses to find out the impact of foreign aid on economic growth of Pakistan. Since Pakistan is among the countries who receive high amount of foreign aid therefore this research aims to find out its impact on economic growth of Pakistan. Gross Domestic Product has been used as a proxy of economic growth of Pakistan. Other variables include foreign aid, which is independent variables and dependent variables includes government expenditure, domestic savings, and Gross Domestic Product. To find out this impact, data on all the above mentioned variables is collected for the period of 25 years that is from year 1991 to 2015. Results from Linear Regression Analysis shows that foreign aid has no significant impact on government expenditure, domestic savings and Gross Domestic Product.

Keywords: Foreign Aid, Economic Growth, Pakistan

ARTICLE INFORMATION

Received: 15 January 2019

Revised: 13 March 2019

Accepted: 10 April 2019

DOI: 10.31580/jpvai.v2i1.474

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INTRODUCTION

This study focuses to find out the impact of foreign aid on economic growth of Pakistan. It is generally thought that foreign aid is a way through which rich countries help poor countries for its population well-being and for its economic and institutional development. Through foreign aid, developing countries can get the foreign currency and it can help a poor country to invest in different project for the betterment of its citizens. Therefore, this study aims to find out whether foreign aid has helped Pakistan or not.

Economic Growth Defined

In this study economic growth of Pakistan is being measured by the growth rate in Gross Domestic Product. According to McConnel Brue, Book of Economics (1996) economic growth can be defined and measured with an increase in real GDP occurring over a period of time. According to a research GDP is the final value of goods and services produced in a country within a year. GDP measures the national income and output for a given country's economy (Awan, 2015).

Foreign Aid Defined

Foreign Aid or Foreign Grant or Foreign Economic Assistance is simply the grant received by foreign countries. According to Dr. Ishrat Hussain, foreign aid comprises of Project Assistance (Foreign grant that covers the cost of machinery and equipment for projects), Commodity Assistance (Grant that covers imports of industrial raw material and essential consumer goods) Technical Assistance (Grant of Experts/Advisory Services, training facilities abroad and supply of supply of equipment for purposes of training and demonstration) and Other Grants (such as Relief Aid).

Foreign Aid Received by Pakistan

Since its inception, Pakistan has received huge amount of foreign aid. According to Economic Survey of Pakistan, our country had received 10,499 Million Dollars in 25 years from 1991-2015. The data for foreign aid received by Pakistan of 25 years is given below:

Source: Economic Survey of Pakistan 1991-2015

Pakistan has remained on the top in the list of Countries that Receive Highest International Aid in the World (see the graph below).

Source: www.worldatlas.com/articles/countries-with-the-most-foreign-aid-in-the-world.html

Donors of Foreign Aid of Pakistan

United States has remained one of the main donors of foreign aid in Pakistan. It has supported Pakistan through different programs such as Economic Support Fund (ESF), Global Health and Child Survival-USAID (GHCS-USAID), International Narcotics Control and Law Enforcement (INCLE) and Nonproliferation, Antiterrorism, Demining and Related Programs (NADR). But US is not the only donor, Pakistan has also received foreign aid from United Kingdom, Japan, Russia and China.

Types of Foreign Aid Received by Pakistan

Pakistan had received foreign aid for both long term and short term assistance. Long term assistance further includes project and non-project (such as food, non-food and balance of payment) purpose. Apart from this it also includes aid for Afghan Refugees and Earthquake Rehabilitation Assistance. In 2015 the composition of foreign aid was as following:

Source: Economic Survey of Pakistan 2015

Role of Foreign Aid on Economic Growth of Pakistan

Impact of foreign aid on economic growth of Pakistan is a controversial topic. Empirical literature showed mixed result, some of the research found that foreign aid has positive impact on the economic growth of Pakistan (Luqman et.al 2013) while others found

showed a negative relationship between both the variables (Awan, 2015).

Some researchers concluded that foreign aid increase economic growth as it increases the foreign capital inflow in the country. Other researchers said that foreign aid negatively impact the economic growth of countries as foreign capital inflow does not affect economic growth unless there is no effective utilization of those funds.

Research Gap

This study provides an updated results that shows the impact of foreign aid on economic growth of Pakistan using data of 25 years; from 1991 to 2015. Previously many researches has been done on this topic in Pakistan and around the world but all of them, except one or two, has taken only 2 variables that are foreign aid as independent variable and GDP of a country as dependent variable. Contrary to other researches, our study has 4 variables that as foreign aid as independent variable while GDP, government expenditure and domestic savings as dependent variables. The purpose of choosing these two additional dependent variables is increase/decrease in government expenditure and domestic savings ultimately increase/decrease GDP of the country (Khan and Rahim, 1989). Therefore our study, separately, focuses to find out the impact of foreign aid on government expenditure and domestic saving and then it shows the impact of foreign aid on GDP of the Pakistan.

Variables, Data Range and Model Used

Our research has one independent variable that is foreign aid coming in Pakistan while the dependent variables are growth rate of GDP, domestic savings and government expenditure. This study estimates the impact of foreign aid on economic growth of Pakistan from 1990 to 2015. Linear Regression or Simple Regression Model is used to evaluate this impact.

Objective of Research

Since Pakistan is at 15th position among the highest receivers of International Aid, this research aims to find out how this foreign aid has helped Pakistan and what improvements our country has made after receiving such big amount of aid. This study will help to find out that whether foreign aid is really a blessing or a curse for Pakistan.

Research Questions

- Does foreign aid effect GDP of Pakistan?
- Does foreign aid effect domestic savings of Pakistan?
- Does foreign aid effect government expenditure of Pakistan?

Research Hypothesis

H_{01} : There is no relationship between foreign aid and government expenditure of Pakistan.

H_{a1} : There is a relationship between foreign aid and government expenditure of Pakistan.

H_{02} : There is no relationship between foreign aid and domestic savings of Pakistan.

H_{a2} : There is a relationship between foreign aid and domestic savings of Pakistan.

H_{03} : There is no relationship between foreign aid and gross domestic product of Pakistan.

H_{a3} : There is a relationship between foreign aid and gross domestic product of Pakistan.

LITERATURE REVIEW

Researches in Pakistan

Awan (2015) conducted a research to find out the impact of foreign aid on economic growth of Pakistan. Dependent and independent variables were real growth rate of GDP and foreign aid respectively. The data used was for the period of 1980-2012. Using Ordinary Least Square Method this study found that foreign aid has negative impact on the GDP of Pakistan.

Mehmood et.al (2015) conducts the research with aim of observing the effect of Foreign Aid on economic performance and also on the key indicators of the economy. The research comprises of data for the period of 1971 to 2010. The methodology used in this study is Johansen Cointegration Approach, the variables selected are Foreign Aid as Independent variable, GDP and government expenditures as dependent variables. The Findings of study proves that Foreign Aid has positive impact on economy of Pakistan which ultimately has impact on government expenditures and domestic savings.

Liaquat et al. (2016) observed that Pakistan is not showing maximum possible exports to its major trading partner and there exist lot of potential to increase its exports. The results of their study predicts that Pakistan's bilateral exports flows increases with increase in GDP of importing countries and will decrease by increase in population or market size and distance of importing countries.

Hossain (2013) focused to find out the effect of foreign aid on economic growth of Bangladesh. Foreign aid was independent variable while dependent variable was GDP growth of Bangladesh. The data range chosen for this research was 1980 to 2012 and linear regression model was used to find out the results. Model's results showed that foreign aid has positive impact on GDP of Bangladesh.

Luqman et.al (2013) focuses to find that whether the foreign aid contributes in economic growth of Pakistan or not. The analysis is based on time series data for the period of 1972-2011. The study has used the Auto Regressive Distributed Lag (ARDL). The variables included GDP as a dependent variable and Foreign Assistance as independent variable. The findings of study supported the claim that financial sector has developed due to inflow foreign assistance and secondly that foreign aid has also positively impact economic growth.

Ahmed et.al (2011) focused to investigate the impact of foreign aid on Pakistan's economic development. This research used data for the period of 1990-2010 and Time Series Method. The dependent variable was foreign aid while GDP was used as independent variable. The results of the study showed that foreign aid has positive impact on Pakistan's economic development

Javid and Qayyum (2008) did a research to find the nexus between foreign aid and growth of Pakistan. Foreign aid was the independent variable while the dependent variable was GDP growth. The researchers used the data range from 1960 to 2008 and ARDL cointegration approach. The results showed that foreign aid has insignificant and positive impact on GDP in long run while it has negative and significant impact on GDP in short run.

Shaikh (2008) conducted a study to find out the impact of foreign aid on economic growth of Pakistan. The study used per capita GDP as dependent and foreign aid as independent variable. The researcher collected the data of 1972-2008 and used Ordinary Least Square Method. This study revealed that foreign aid has negative impact on per capita GDP of Pakistan and hence it has negative impact on economic growth of Pakistan.

Khan and Ahmad (2006) conducted a study to find out whether foreign aid is a blessing or curse for the economic growth of Pakistan. To find out this impact the two researchers took Foreign aid as their independent variable while GDP was dependent variable. The data range was from 1972-2006 and the ARDL Model was used. Results showed that foreign aid has insignificant impact on economic growth of Pakistan. Hence they concluded that foreign aid is not a blessing for Pakistan and therefore it should reduce its dependence on foreign aid.

Mohey-ud-din (2005) studied the effect of foreign aid on economic growth of Pakistan. Foreign aid was the independent variable while GDP and BOP were the dependent variables. To find this impact the researcher used data from 1960 to 2002 and Quadratic Regression Model. Results showed that foreign aid can have positive impact on GDP as it helps to overcome BOP deficit only if appropriate fiscal, monetary and trade policies are implemented.

Mullick (2004) studied the impact of foreign aid on Pakistan's economic growth after the tragedy of 9/11. The study conducted on the data for the period (1980-2003). The methodology used was Ordinary Least Square Method, the dependent variable is percentage change in GDP and independent variable was US economic aid. The results of the study revealed that foreign aid has positive relationship with economic growth of Pakistan. He also suggested that foreign aid is important for Pakistan's sustaining development

Khan and Rahim (1989) studies the effect of foreign aid on domestic savings and economic growth of Pakistan. Foreign aid was the independent variable while domestic savings and GDP was the dependent variable. The data range of 28 years was used that is from 1960 to 1988. Using regression analysis they found that foreign aid has positive but insignificant impact on the economic growth of Pakistan.

Researches around the World

Albiman (2016) found out the impact of large inflows of foreign aid on economic growth of Tanzania. The study used foreign aid as independent while GDP as dependent variable. The data was collected from 1976-2014 and Dynamic Ordinary Least Square Method was used to find the results. The study showed that foreign aid has negative impact on the economic growth of Tanzania.

Abdu (2015) studied the impact of foreign aid on economic growth of India for the period of 1981-2011. The study used domestic saving and real GDP as dependent variables and foreign assistance as independent variable. The Co-Integration Model was used to find the results. The findings of the study reveal that foreign aid had positively impacted the domestic saving of India which ultimately affects the growth of Indian economy positively.

Abouraia (2014) conducted a study to find out the impact of foreign aid on economic growth of Philippines. Dependent variable of study was GDP while the independent variable was foreign aid received by Philippines. Researcher used Regression Analysis and data for the period of 2009-2012. Results showed that foreign aid has positive impact on foreign aid in Philippines.

Bitew (2014) studied the effect of foreign aid on economic growth in Ethiopia. The data was used for the period of 1960-2013 and Time Series Model was used. The dependent variable was the growth rate GDP of Ethiopia and independent variable was foreign aid. The results of the study reveal that, in the long run foreign aid has positively impact on the economic growth of Ethiopia.

Fasanya and Onakoya (2012) studied the contribution of foreign aid in the acceleration of economic growth of Nigeria. The study used the data for the period of 1970-2010 and Augmented Dikey Filler (ADF) was used for the findings of the study. The dependent variable is economic growth while Independent variable was foreign aid. The findings of the study showed a positive impact of foreign aid on Nigeria's economic growth.

Qayyum and Haider (2008) aimed at finding the impact of foreign aid and foreign debt on economic growth of sixty developing countries. Foreign aid and foreign debt were the independent variables while GDP, inflation and labor force were dependent variables. The data range from 1984 to 2008 was taken and Fixed Effect Method was used to find the results. Study showed that Foreign aid have positive and significant impact on GDP and labor force while external debt have negative and significant impact on the GDP and labor force of the developing countries.

Ekanayake and Chatrna (2008) studied the effect of foreign aid on economic growth in developing countries. Foreign aid and GDP were the independent and dependent variables respectively. The

researchers collected the annual data of 85 developing countries covering Asia, Africa, and Latin America and the Caribbean for the period 1980-2007. The study showed mixed results that is in some of the cases the results showed that foreign aid has positive impact on GDP growth while in some cases the results showed a negative impact of foreign aid on GDP growth.

Khalidi (2008) studied the impact of foreign aid on economic development of Jordan for the period of 1990-2005. The study used regression model for analysis of data, the dependent variable was economic development while foreign aid was used as independent variable. The results showed a positive relation between foreign aid and economic development of Jordan.

Moreira (2005) focused on evaluating the effect of foreign aid on economic growth of the 48 country. The study covered brief research on data of 48 countries across the world for the period 1970-1988. Research's dependent variable were savings and economic growth while independent variable was foreign aid. Using Regression Analysis the researcher found that the foreign aid has positive impact on savings and economic growth.

METHODOLOGY

Theoretical Model

Khan and Rahim (1989) gave a model that showed a link between foreign aid, domestic savings, government expenditure and ultimately economic growth. The details of the model are given below:

Foreign Aid comes in a country through two ways one is through Government and other is through private firms. But in Pakistan we usually get foreign aid through our Government. The increase in foreign capital through foreign aid will help the Government to invest more in the investible resources that is the government expenditure will increase. The increase in government expenditure will increase the number of projects in a country which will ultimately help in increasing the employment rate of the country. With the more employment people will have more money to save and hence domestic savings will increase. And finally increase in domestic savings will lead to increase in GDP and will ultimately lead to more rapid economic growth.

Independent Variable

Our study has one independent variable that is foreign aid coming in Pakistan. The foreign aid is defined as following:

FOREIGN AID

Organization for Economic Cooperation and Development defines Foreign Aid as “foreign aid (or the equivalent term, foreign assistance) as financial flows, technical assistance, and commodities that are (1) designed to promote economic development and welfare as their main objective (thus excluding aid for military or other non-development purposes); and (2) are provided as either grants or subsidized loans”.

Dependent Variable

This study has three dependent variable; Gross Domestic Products, Domestic Savings and Government Expenditure. These are defined below:

GDP:

Business Dictionary defines Gross Domestic Product (GDP) as the value of country's overall output of goods and services during one fiscal year.

DOMESTIC SAVINGS:

Economic Times defines Domestic Savings as GDP minus final consumption expenditure. It includes savings of households sector, private corporate sector and public sector.

GOVERNMENT EXPENDITURE:

Financial Times defines Government expenditure or Public Expenditure as government's spending in order to achieve its planned budget.

Data Range, Collection and Source

Our study is based on secondary data only. To find out the impact of foreign aid on economic growth of Pakistan we have used the data range of 16 years that is from 1999 to 2015. Our primary source of collection of all the data regarding GDP growth, government expenditure, domestic savings and foreign aid are Annual Economic Survey of Pakistan and State Bank of Pakistan. Since there are four variables and seventeen years so the number of observations is 64.

Model Used

Since we have only one dependent variable that is foreign aid we have used Linear Regression Model to find out the results.

Reliability of Data

A test of reliability named Cronbach's Alpha was conducted, using SPSS, to know the percentage reliability of the data concerned with all four variables. The test found that the data is 0.642 or 64.42% reliable. The below given table shows the results of reliability test:

Table 3.1 Case Processing Summary

		N	%
Cases	Valid	25	100.0
	Excluded ^a	0	.0
	Total	25	100.0

Table 3.2 Reliability Statistics

Cronbach's Alpha	N of Items
.642	4

DATA ANALYSIS

Foreign Aid and Government Expenditure

DESCRIPTIVE ANALYSIS

Table 4.1 Descriptive Analysis of GDP and Foreign Aid

	Mean	Std. Deviation	N
EXP	1375008.84	1120936.356	25
F.A	419.90	205.957	25

Table 4.1 shows that mean of government expenditure is 1375008.84, while its standard deviation is 1120936.356. On the other hand the mean value of foreign aid is 419.90 while its standard deviation is 205.957.

Table 4.2 Correlations

	EXP	F.A
Pearson Correlation	1.000	.350

Sig. (1-tailed)	F.A	.350	1.000
	EXP	.	.043
	F.A	.043	.
	EXP	25	25
N	F.A	25	25

Table 4.2 shows that the number of observations for foreign aid and government expenditure were 25 each. And Person Correlation between foreign aid and government expenditure is 0.350 or 35.0 %.

Table 4.3 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.350 ^a	.122	.084	1072810.770

a. Predictors: (Constant), F.A
b. Dependent Variable: EXP

Table 4.3 shows that the R square of foreign aid and government expenditure is 0.122 or 12.2% while the Adjusted R Square is 0.084 or 8.4%.

Table 4.4 Anova

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	368473168149 9.234	1	368473168149 9.234	3.202	.087 ^b
1 Residual	264712278335 28.125	23	115092294928 3.832		
Total	301559595150 27.360	24			

a. Dependent Variable: EXP
b. Predictors: (Constant), F.A

Table 4.4 shows the Anova results when government expenditure was kept as dependent and foreign aid was independent variable. It shows that β Coefficient of foreign aid and government expenditure is 0.087 or 8.7%.

INTERPRETATIVE ANALYSIS

Table 4.5 Results of all Tests

Tests	Results
Pearson Correlation	0.350
R Square	0.122
β -Coefficient	0.087

Table 4.5 shows results of different tests. Pearson Correlation is 0.350 which is less than 0.50 hence it shows that there is no significant relationship among foreign aid and government expenditure. R-Square is 0.122 which is again less than 0.50 hence it also shows that foreign aid does not significantly effects government expenditure. In addition to this, β -Coefficient also shows that there is no significant relationship between foreign aid and government expenditure because 0.087 is lower than 0.50.

Chart 4.1 Scatterplot of Government Expenditure and Foreign Aid

Chart 4.1 shows the scatterplot of government expenditure and foreign aid. It shows that the data is too scattered and hence there is no significant relationship between government expenditure and foreign aid.

Foreign Aid and Domestic Savings

DESCRIPTIVE ANALYSIS

Table 4.6 Descriptive Statistics

	Mean	Std. Deviation	N
SAVINGS	930250.56	643363.233	25
F.A	419.90	205.957	25

Table 4.6 (on previous page) shows that mean of domestic savings is 930250.56, while its standard deviation is 643363.233. On the other hand the mean value of foreign aid is 419.90 while its standard deviation is 205.957.

		SAVINGS	F.A
Pearson Correlation	SAVINGS	1.000	.422
	F.A	.422	1.000
Sig. (1-tailed)	SAVINGS	.	.018
	F.A	.018	.
N	SAVINGS	25	25
	F.A	25	25

Table 4.7 Correlations

Table 4.7 shows that the number of observations for foreign aid and domestic savings are 25 each. And Person Correlation between foreign aid and domestic savings is 0.422 or 42.2 %.

Table 4.8 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.422 ^a	.178	.143	595718.620

a. Predictors: (Constant), F.A
b. Dependent Variable: SAVINGS

Table 4.8 shows that the R square of foreign aid and domestic savings is 0.178 or 17.8% while the Adjusted R Square is 0.143 or 14.3%.

Table 4.9 Anova

Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	177173448 2397.880	1	177173448 2397.880	4.992	.035 ^b

Residual	816225551 9520.282	23	354880674 761.751
Total	993399000 1918.162	24	

a. Dependent Variable: SAVINGS
b. Predictors: (Constant), F.A

Table 4.9 shows the Anova results when domestic savings were kept as dependent and foreign aid was independent variable. It shows that β Coefficient of foreign aid and domestic savings is 0.035 or 3.5%.

INTERPRETATIVE ANALYSIS

Table 4.10 Results of different Tests

Tests	Results
Pearson Correlation	0.422
R Square	0.178
β -Coefficient	0.035

Table 4.10 shows results of different tests. Pearson Correlation is 0.422 which is less than 0.50 hence it shows that there is no significant relationship among foreign aid and domestic savings. R- Square is 0.178 which is again less than 0.50 hence it also shows that foreign aid does not significantly effects domestic savings. In addition to this, β -Coefficient also shows that there is no significant relationship between foreign aid and domestic savings because 0.035 is lower than 0.50.

Chart 4.2 Scatterplot of Foreign Aid and Domestic Savings

Chart 4.1 shows the scatterplot of domestic savings and foreign aid. It shows that the data is too scattered and hence there is no significant relationship between domestic savings and foreign aid.

Foreign Aid and Gross Domestic Product

DESCRIPTIVE ANALYSIS

	Mean	Std. Deviation	N
GDP	174316.52	53913.893	25
F.A	419.90	205.957	25

Table 4.11 Descriptive Analysis of GDP and Foreign Aid

Table 4.11 shows that mean of GDP is 174316.52, while its standard deviation is 419.90. On the other hand the mean value of foreign aid is 419.90 while its standard deviation is 205.957.

		GDP	F.A
Pearson Correlation	GDP	1.000	.398

	F.A	.398	1.000
Sig. (1-tailed)	GDP	.	.024
	F.A	.024	.
N	GDP	25	25
	F.A	25	25

Table 4.12 Correlations

Table 4.12 shows that the number of observations for foreign aid and domestic savings are 25 each. And Person Correlation between foreign aid and domestic savings is 0.422 or 42.2 %.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.398 ^a	.158	.122	50526.583

a. Predictors: (Constant), F.A

b. Dependent Variable: GDP

Table 4.13 Model Summary

Table 4.13 shows that the R square of foreign aid and GDP is 0.158 or 15.8% while the Adjusted R Square is 0.122 or 12.2%.

Table 4.14 Anova

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	1104347123 7.227	1	1104347123 7.227	4.326	.049 ^b
1 Residual	5871751768 5.013	23	2552935551 .522		
Total	6976098892 2.240	24			

a. Dependent Variable: GDP

b. Predictors: (Constant), F.A

Table 4.14 shows the Anova results when GDP was kept as dependent and foreign aid was independent variable. It shows that β Coefficient of foreign aid and GDP is 0.049 or 4.9%.

INTERPRETATIVE ANALYSIS

Table 4.15 Results of different Tests

Tests	Results
Pearson Correlation	0.398
R Square	0.158
β -Coefficient	0.049

Table 4.15 shows results of different tests. Pearson Correlation is 0.398 which is less than 0.50 hence it shows that there is no significant relationship among foreign aid and GDP. R- Square is 0.158 which is again less than 0.50 hence it also shows that foreign aid does not significantly effects GDP. In addition to this, β -Coefficient also shows that there is no significant relationship between foreign aid and GDP since 0.049 is lower than 0.50.

Chart 4.3 Scatterplot of GDP and Foreign Aid

Chart 4.3 shows the scatterplot of gross domestic product and foreign aid. It shows that the data is too scattered and hence there is no significant relationship between GDP and foreign aid.

Summary of Results

Table 4.16 Summary of Results

HYPOTHESIS	RESULTS	HYPOTHESIS REJECTED/ACCEPTED
H_{01} : There is no relationship between foreign aid and government expenditure of Pakistan.	Pearson Correlation 0.350	H_{01} : Accepted H_{a1} : Rejected
H_{a1} : There is a relationship between foreign aid and government expenditure of Pakistan.	R-Square 0.122	
	β -Coefficient 0.087	
H_{02} : There is no relationship between foreign aid and domestic savings of Pakistan.	Pearson Correlation 0.422	H_{01} : Accepted H_{a1} : Rejected
H_{a2} : There is a relationship between foreign aid and domestic savings of Pakistan.	R-Square 0.178	
	β -Coefficient 0.035	
H_{03} : There is no relationship between foreign aid and gross domestic product of Pakistan.	Pearson Correlation 0.398	H_{01} : Accepted H_{a1} : Rejected
H_{a3} : There is a relationship between foreign aid and gross domestic product of Pakistan.	R-Square 0.158	
	β -Coefficient 0.049	

CONCLUSION

The main aim of this study was to examine the impact of Foreign Aid on Economic Growth of Pakistan. To find out this impact, Gross Domestic Product (GDP) was used as a proxy of Economic Growth. This study uses data range from 1991 to 2015 to provide an updated view of impact of foreign aid on economic growth of Pakistan. To get a clear view, this study have three dependent variables such as government expenditure, domestic savings and GDP while the

independent variable is foreign aid. The reliability of data relating to all these results was found using Cronbach's Alpha and it was measured to be 64%. To find out the impact of foreign aid on government expenditure, domestic savings and ultimately GDP, Linear Regression Model was used.

The results of Pearson Correlation, R-Square and β coefficient showed that foreign aid has no significant impact on government expenditure, domestic savings and GDP as all of these results were less than 0.50 significance level. Based on these findings, it is concluded that foreign aid is just increasing a dependence of Pakistan as it has no effect on Pakistan's economic growth and hence, government should try to reduce its dependence on foreign aid. Or in order to get benefit of foreign aid, it should be combined with proper governance.

Recommendations

This study has used data of 25 years that is from year 1991 to 2015, a further study can be conducted by using data of more previous years than 1991. Moreover, this study uses only Gross Domestic Product as a proxy of economic growth of Pakistan, a further study can be conducted by using more variables such as Gross National Product (GNP).

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APPENDIX A:

Data of all Dependent and Independent Variables

Year	Foreign Aid (Million Dollars)	GDP (PKR)	Government Expenditure (PKR)	Domestic Savings (PKR)
1991	615	99066	260138	120865
1992	459	106709	326628	194272
1993	348	109133	334675	172044
1994	299	1144088	364321	242217
1995	304	118803	421763	255366
1996	201	126643	506875	256978
1997	237	128799	549875	305424
1998	185	133299	592403	415630
1999	154	138876	686009	369250
2000	125	144301	741439	647892
2001	136	147140	708057	740028
2002	903	151718	948735	796896
2003	349	158888	861181	850401
2004	277	170777	896513	886222
2005	356	186076	1001006	1001725
2006	765	196903	1196364	1199778
2007	627	207804	1364482	1349429
2008	527	218170	1920691	1163816
2009	570	218957	2101546	1330961
2010	648	224607	2577020	1461070
2011	626	232746	2441700	1779000
2012	410	241676	2612000	1571000
2013	370	250505	3441000	1945000
2014	492	260591	3759100	2005000
2015	516	271638	3761700	2196000