

EFFECT OF USAID ON GDP GROWTH RATE IN PAKISTAN

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ABSTRACT. USAID has been working in several countries around the world especially focusing in developing countries. The major focus of its policies is to uplift the economy, promote education, improve health and living standard of the people in developing and under developed countries. Based on its economy, Pakistan is a developing country. Current research was done to evaluate the efficiency of USAID programs and its effect on GDP Growth Rate and living standard of people in Pakistan. We used time series data for 41 years from 1970 to 2010 from World Bank national accounts data and OECD national account data file. We applied regression on dependent variable (GDP growth) and independent variable (US economic aid). Results indicate that USAID has played role in the uplift of economy of Pakistan but due to weaknesses of management aid is not properly utilized. USAID should directly have connection and relation to local NGOs to improve the living standard of local people. Furthermore, around 70% population of country live in rural areas and related to agriculture, so USAID should focus more on this sector.

Key words: NGO, World Bank, Economy, Living standard.

INTRODUCTION

USAID for fifty years bulk of the US bilateral economic aid program has been administrated by US agency for international development [1]. It is responsible for many relief programs like economic growth, global health, reducing poverty, improving governance, improving health, education and promotes stability. It provides \$5.21 for economic growth. Its basic purpose is to improve the global economic environment. Through aid agriculture program focus on reducing poverty and hunger, trade promotion activities for farmers and sound environmental management practices for sustain able agriculture. Programs for managing natural resource and protecting global environment, promoting urban development. There are different forms of aid like Cash transfer; Equipment and commodities; Economic infrastructure; Trainings and Small grants. USAID has contributed in improving the economy of Pakistan but not at full potential. Pakistan is using this aid in investment and trying to improve the human development to steer country on right direction [2], [3] described that aid objective for Pakistan is to invest in water resources management system, expansion of agricultural and rural development, and investment in energy. They further described that now a days, the key challenge for Government of Pakistan is energy crisis and it has \$5 billion in circular debt in power sector. They said US provides economic sport fund (ESF) to pursue economic reforms like improving management, roads, power supply and promote agriculture sector; which is key component and sport link between formers and markets.[4]

explained different reasons affecting economic growth other than aid. These are more recent development appears in 21st century that it effect on economic growth in long run and effective on economic growth in short run. It also depends on what impact of USAID on economic development. While analyzing economic growth only concentrate at that specific country and not on cross countries. [5]. Described briefly about aid for economic growth that \$120 billion aid is issued in 2010. According to him, there is no exact relation among aid and GDP growth but in start a large amount of aid was used in agriculture which has a very important role in economic growth but now it has fallen nearly 12% to 4%. But now due to politicians and environmentalists, think that agriculture is contributing to problems and the amount of aid using in agriculture was diverted to social sector. But if used properly it has strong effect on economic growth. He said that 1% increase in economic aid, increase GDP per capita 0.27% in long run. Here we take GDP growth rate as an indicator of economic stability and growth in the country. A county cannot be stable until it has a sound economic system. As agriculture sector is the back bone of Pakistan's economy, agriculture employs provide 21% of Pakistan's GDP. So any effort to improve the farmers lives is necessary for development, for this purpose we analyze the contribution of US department of agriculture (USDA) and USAID in agriculture to Pakistan because sustainable agriculture sector is necessary for stability of Pakistan

(a) Aim of research:

The main objective of the present research was to analyze the effect of USAID on GDP growth of Pakistan. This will be achieved by investigating the following aspects:

- To analyze how USAID affects the living standard of common people.
- To study the impact of USAID on GDP growth of Pakistan.

(b) Research Questions:

The followings questions were investigated to convey the above mentioned objectives:

- Whether foreign aid is beneficial for economy.
- Whether USAID is necessary for economic growth.
- What roles USAID play to improve GDP growth of Pakistan?
- Whether USAID affects the public expenditure and investment in Pakistan.

METHODOLOGY:

In present research, we used time series data for 41 years from 1970 to 2010 from World Bank national accounts data, and OECD national account data file (Table: 1). We apply regression on dependent variable (GDP growth) and independent variable (US economic aid).

Table 1: Data on GDP growth rate and Economic Assistance through USAID from 1970 to 2010.

Year	GDP Growth Rate.	Economic Assistance through US aid.
1970	2.71	570.93
1971	8.37	31.21
1972	-2.25	261.87
1973	-1.95	387.63
1974	4.08	219.13
1975	0.57	326.02
1976	1.13	336.78
1977	1.96	209.4
1978	0.71	55.49
1979	4.61	23.31
1980	0.39	0
1981	6.57	0
1982	4.31	200.07
1983	2.94	383.29
1984	3.17	415.84
1985	1.54	447.53
1986	4.02	460.91
1987	2.04	469.53
1988	3.01	635
1989	4.23	421.27
1990	1.78	422.37
1991	1.45	141.78
1992	2.21	0.57
1993	4.93	7.98
1994	-0.78	0
1995	1.15	10.1
1996	2.3	0
1997	2.13	0
1998	-1.63	0
1999	-0.09	6.72
2000	1.13	0
2001	1.91	0.54
2002	-0.12	744.74
2003	1.27	284.81

2004	2.98	316.56
2005	5.49	374.04
2006	5.78	488.46
2007	4.29	498.91
2008	3.8	392.05
2009	-0.22	1,076.25
2010	1.74	1,529.53

RESULTS:

As the regression indicate that our independent variable positively effecting the dependent variable as T, F and P values are statistically significant. Through aid our country developed at some extend but not at full potential level. We conclude that USAID is received for improving the living standard but actually it is not happening. As 70% population of our country is related to agriculture so USAID must use to improve this sector to improve the living standard of people. USAID is receiving to improve the economy of country but due to weaknesses of management aid is not properly utilized. USAID should directly have connection and relation to local NGOs to improve the living standard of local people. Through aid, we include that, instrument increase through which employment level increased and which has an important role in growth of GDP. But we should concentrate on the correctly use of the aid to improve the economy and not waste it on the activities which are not beneficial for economy. Economic growth means to increase employment rate. That in turns increases the income level of common people which also increases the living standard. So the USAID must be used in promoting job opportunities. Job facilitating environment especially for women to increase their income and aid also be used in training women upgrade their skills. Finally we conclude that aid is provided to improve economic condition of our country that will happen when every department of our country to get improve. Through aid we should properly improve our all private and public departments like health, education, agriculture, industrial, technology and energy. Due to improvement in these departments, Pakistan can achieve the goal of economic stability. We should work properly so that the aim of getting aid would also be full filled and living standard of common people gets improved

Table 2: Summary Output for regression analysis

<i>Regression Statistics</i>	
Multiple R	0.060181
R Square	0.003622
Adjusted R Square	-0.0226
Standard Error	2.346476
Observations	40

Table 3: Analysis of variance showing significance of data

	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	1	0.76052	0.76052	0.138127	0.712215
Residual	38	209.226	5.505948		
Total	39	209.9865			

Table. 4: Statistical significance of data

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>
Intercept	2.400455	0.503861	4.764122	2.77E-05	1.380442	3.420468
570.93	-0.00044	0.001178	-0.37165	0.712215	-0.00282	0.001946

DISCUSSION:

[6] concluded that economic growth depend on aid, investment inflows, stable macro-economic environment in aid receipt countries, institutional quality etc. They analyzed the situation of Pakistan over the period 1961 to 2008 that how aid effect economic growth at aggregate level and disaggregate level. He conclude that aid /GDP alone is introduced into the growth equation it has insignificant positive coefficient in long run and negative and weekly significant in short run. He also concluded that sound economic management policy in terms of low inflation, trade openers and low budget deficit is crucial for aid effectiveness. [7] Described both positive and negative effects of foreign aid. As positive it helps in boosting GDP, laid foundation of industrial and agriculture sector overcome budget deficit and BOP deficit for social sector development. But negatively in increase the burden of that debt. He said that policies of any country are much important for effectiveness of debt so, He said that debt effectively work only in presence of appropriate policies. [8] Concluded that Pakistan, in the form of aid, gotten about US \$ 73.14 billion from 1960 to 2002, but spent it on none development expenditure. They said that the cost of aid in the form of harsh promises with donors turn the blessing of aid to curse for Pakistan. Although the aid received from US effects positively to over domestic investment and the economic growth. They said that government should provide suitable environment for economic activities to reduce dependency to USAID so that it create the sustainable and stable economy, without the help of foreign aid. [3] described that US analysts suggests that US interest are in helping to stable Pakistan that it can rule effectively and want to fight against the terrorism. They said that for bilateral relation Pakistan must introduced reforms in the country through USAID otherwise there would be miss trust between the two governments. Another report on "Pakistan food and agriculture project" described that USAID has a very little role in the land reforms in Pakistan. Land reforms are very important for agriculture sector improvement but unfortunately neither political nor religious authorities focus on land reforms. This paper more emphasizes on the irrigations reforms, engineering plans, dairy and horticulture and wheat production improvement strategies. According to this report USAID support through the Empower Pakistan: firms (EPF) program in reducing poverty and to increase the human capital, health, and education, and for good governance program in rural areas and to enhance social stability. [9] Described that USAID must be focus on strengthen social and economic policies, the banking system, policies of social safety for the poor in the Muslim countries. This paper focuses on three areas; social and economic policy to increase the rate of economic growth

and increase the women's living standard. [9] Concluded that USAID is helping in various sectors of country like energy sector, civilization, health and education. USAID is helping Pakistan to develop economy or citizens. He also said that it mutually agreed upon by government of US and Pakistan that is implemented in partnership with Pakistani civilian, governmental and non-governmental organization. Since October 2009 US provided more than \$5.3 billion in civilian assistance. For growing industrial sector and economy and provide basic service for a nation. He also explained another way of aid by US that is technology and training. [4] Proposed that aid help in health, education, support democracy an economic environment. It also updates efficiency and productivity aspects to improve to economic growth. [10] Described that 35% of investment to Pakistan are of US and Pakistan's 18% exports go to US. Although he said that US economic aid is small in amount that has not so much effect on economic growth but US is the most important trading partner of Pakistan.

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