

The Study of Aid Dependency and External Debt on Pakistan's Economy

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Abstract

The study estimates the condition of Pakistan's external debt using the three gap models i.e., Trade Deficit, Fiscal Deficit and Saving-Investment Gap. The main findings of the paper suggest that there are a number of financial problems in Pakistan's economy, which have weakened the financial muscle of the country. The shortfalls are financed by external debt which is created severe negative impact on Pakistan's economy. Pakistan has plenty of problems which have contributed to this aid and debt dependency. The financial crises started from 9/11 which forced Pakistan to be a key ally to United States. All this deteriorated economy by fiscal deficits, capital flight, decreased FDI and increasing trade deficits every year. Certain debt indicators have also examined which magnify the worst financial crises in Pakistan's economy. Each and every Pakistani has now been trapped in a debt trap with a total amount of more than Rs. 9 Trillion, where additional debts and aids are the only source for the government to meet its expenses.

Keywords: Economics; External Debt; Fiscal Deficit; Aid; Finance; Pakistan; Trade Deficit

1. INTRODUCTION

Pakistan is a country full of possessions. It has fertile land for agriculture, capable human resources for putting best efforts in any venture and excellent geographical location to massively attract trade from the whole globe. Yet, dilemma remains the same. Pakistan is still counted as an underdeveloped country (UDC). In an investment and capital starved countries as Pakistan, taking debt from other countries and foreign aid, has authentically judged as a very essential and important tool of financing, sponsoring and implementing different socio-economic development programs as a helping hand. However, the disorder which Pakistan always faced is of the efficient and effective use of the external assistance; which no doubt in many times has been influential and greatly involved in achieving accelerated development of many lesser developed countries across the world and Pakistan in particular. On the other hand many nations also have failed to use it appositely and in an optimum manner. Following the pattern, such countries have piled up noteworthy amounts of debt arrears and liabilities having no benefits in terms of over-all development and economic expansion. Current situation around the globe and in Pakistan particularly is showing a very pessimistic view if last two decades are analyzed.

As a matter of fact, it is estimated Rs. 52,941 is the debt which is on the shoulders of every Pakistani, where total external and internal debt Pakistan today accountable to more than Rupees Nine trillion. Whereas, in mid-nineties, the same figure was around Rupees 30,000 which was to be borne by each Pakistani citizen. The government of PM Nawaz Shareef came up with an initiative of Qarz Utaro Scheme which somehow gave a relieving cushion to the debt servicing piles.

Today there is a total financial dichotomy in the country. In these worsening situations, it is again said that national treasury is facing an additional burden of Rupees 14 billion due to 12 percent increase in military pensions in 2007-2008. On the other side of the coin, futuristic look is giving much cynical and gloomy representation. It is expected that external debt will be climbing to 43% in the next five years; to \$73 Billion from \$51 Billion today approximately.

Though the incapability and powerlessness of numerous countries to use the provided external supply in terms of aid or debt, it is further attributed to many other characteristic factors, the insufficient and scarce absorptive competence is termed as the rule of thumb applicable in many UDC's as a limitation on the well-organized and proficient utilization of external resources. The normal debt indicators which are commonly practiced in Pakistan are:

- 1- Debt : GNP ratio
- 2- Debt : Debt Service Liability
- 3- Debt : Foreign Exchange Earnings

Above all debt indicators show that Pakistan has been dependent on external borrowings in the form of debt and aid since 1947. Be it for the usage for financing fiscal deficits, wars or Balance of Payment, Pakistan has been

surviving with debt lumber. The current and future perspectives do not look positive either which calls for further debt rise through external sources.

2. REVIEW OF LITERATURE

Ashfaq (2005) discusses that discrete views are prevailing concerning the usefulness of external assistance to the UDCs. As many of the economist say that aid and debt are much useful in lessening the monetary tailback and blockage to enlargement of many developing countries like Pakistan, no matter the essence of taking assistance is satisfied or not (Cassen 1994; Papanek 1972). The challengers declare that foreign assistance either in terms of aid or debt always caused disastrous effects on the maturity of the recipient country. A number of gives a moderate point of views on the same debate. The association linking external debt and economic escalation has been observed broadly in recent years. These studies have mostly focused on the destructive influence of a country's "*debt overhang*" which means the addition of a stockpile of liability so hefty as to terrorize the country's ability to pay back its precedent loan.

Hayat *et al* (2010) discuss explaining the known facts that Pakistan does not enjoy a good reputation for aid and external debt. It has almost unmatched witnesses of significant economic assistance from about each part of the globe. He further argues that Since Pakistan's emergence of world map; it is facing crucial problems in balance of payments deficit. To finance this balance of payments deficit and losses, Pakistan majorly looks on taking external debt from many countries and multilateral funding institutions. Even though; Pakistan shows a mushroom growth in its economy in the presence of serious economic and highest degree of political in-stability. Although it also showed variability with the passage of time but the situation at this point is worse where the growth rate of GDP is just 2% which was 7% in 2007. The outstanding accumulation of external debts have bulged with more than Rs. 1,000 billion in 2009; where it has increased by approximately 30 percent if compared to the previous financial year. As far as debt is related, International Monetary Fund (IMF) debt further damaged the economic condition. As a matter of fact, the monetary deficits in 2009 pushed the economy to take more debt stocks from IMF equaling to an amount of \$3.8 billion is known to be the key factor for the rise in total debt lumber. Also, Pakistan have had massive balance of payment problems for a long time, which is one of the potential problem for which the government had to raise \$ 7.6 Billion from IMF in the shape of Stand-by Agreement in 2008. An additional sum of \$ 3.2 billion was also provided summing the total debt amount in the agreement to more than \$ 11 billion. As a matter of fact, the Pakistani government is taking out subsidies provided to the nation on account of paying debt amounts from many of the multilateral funding institutions (Nosheen, Iqbal, & Sadiqua, 2010).

The bad and declining economic conditions also creates problems in Pakistan foreign exchange reserves. It was \$ 14 Billion in June 2007 showing a drastic decline of 75.71% by the mid of 2010 to just \$ 3.4 Billion. Prior to the events of September 11, 2001, Pakistan's economy was caught in a vicious debt trap. U.S. bilateral aid to Pakistan started in 1951. Inflation on the other hand also deteriorated the economic growth of Pakistan; where prices are in doubt and mass public is not able to afford a good well-being in such circumstances (Asghar, Ahmed, Ullah, Bedi-uz-Zaman, & Rashid, 2011). Pakistan, in total, received a massive amount of \$2 billion dollars between 1953 and 1961. On the other side, by the early 1960's, aid reached \$400 million per year. At the peak level, we get to know that in the first phase of the same decade, only United States provided fifty percent of the total aid Pakistan was receiving; which covered one third of the development budget and financed more than half of the import bill. It was the time by 1982, US was giving \$ 5.1 Billion to Pakistan as an aid on an annual basis.

Ibrahim (2009) discusses U.S. aid to Pakistan via U.S. Tax payers which has funded Pakistani corruption. It explains the situation getting additional worse when sanctions were imposed by the G-8 countries on bilateral and multilateral lending as a consequence of Pakistan's nuclear tests in May 1998 and subsequently because of the military coup in October 1999. Pakistan was able to reschedule US \$ 3.96 billion of its bi-lateral liabilities through the Paris Club in 2000. The reschedule was, however, on the short-term basis and dependent on the IMF agreement, which was being finalized at the time with all its stringent conditionality. The post September 11, 2001, events once again brought Pakistan into the limelight of global geo-strategic interests. The most significant benefit which Pakistan attained in respect of its external debt problem was the restructuring agreement with the Paris Club in December 2001. Under the agreement, the debt repayment period was extended to a span of 38 years with a grace period of 15 years. This means that Pakistan's debt servicing liabilities will decline by US \$ 2.7 billion between 2002 and 2004 and according to the State Bank; the net present value of external debt is expected to decline somewhere between 27 and 43 per cent between 2002 and 2017. All these problems faced by Pakistan are quite alarming and shows a need of taking massive and severe steps to take the position in a controllable mode, as further delay will make Pakistan drift herself into many other financial as well as social

issues.

Mullick (2004) discusses the fact that though Pakistan has been a front-line ally to The United States for the war on terrorism to curb the threats on the US soil; but received a sum of \$2.4 billion in foreign aid. He further argues that after the terrorist attacks on the WTC on September 11, 2001 many of the rich and developed nations pondered over the fact that foreign aid to UDCs has now turned to a new phenomenon with a blend of new priority and importance unlike previous times. All is due to the reason of such UDCs falling into the hands of radical extremists and fanatics which finance the poor and misuse their status of 'poverty'. It is just due to Pakistan's involvement to help the US and NATO forces to defeat the Al-Qaida and Talibaam in Afghanistan and the US are allocating massive aid in an injecting manner similar to 80's. But, the result could become much fierce. There can be a financial 'dead-lock' in the country if the US and NATO move out of the Afghan land in next 10 years. Our system in Pakistan will be so dependent on aid and grants that when it will be removed; there is a growing fear of over-all 'system-collapse'. He stresses on the immediate need of autarky and self dependence like India and China.

Martin (2009) argue about Pakistan Capital Crisis that Pakistan's government has reached an agreement with the International Monetary Fund (IMF) for a sum of \$ 7.6 B in the form of loans followed by massive hefts of impositions on the economy of Pakistan. Despite of the huge sum, Pakistan's financial dichotomy still persists and the state has requested additionally for a sum of \$ 4.5 billion. The research states that Pakistan's badly affected capital situation is distressing the nations over all trade and industry efficiency, leading towards socio-political 'havoc'. One of the key reasons of the same problem was of 'flight of capital' and lack of Foreign Direct Investment (Hashmi, 2009). Also, the debt burden Pakistan is facing in such monetary and socio-economic problems has made it very difficult for a common Pakistani to win bread for his family. It also spotlights different research groups which have recently issued reports on the prevailing circumstances in the country that further recommends on the actions that US can assist improving the economic system. The role of Congress has also been highlighted may consider many of the recommendations and take severe actions to increase in US's non-military assistance and establishment of 'reconstruction opportunity zones' in the country. It is barely on the mercy of time which will show the effectiveness of what such recommendations will bring; prosperity or disaster. The US is interested in a firm and established democratic Pakistan which can act as a front-line ally to the US interests in Afghanistan and South Asia. The US wants to assist Pakistan on the basis of regional and global terrorism which is the major threat to the US after September 11, 2001. Now, the US think-tanks are pondering over the fact that a financial stalemate in the country will might weaken multilateral endeavors to soothe South Asia and restrain the growing emergence of Islamic extremism; so there is an immediate need of capital assistance in a rapid and quick way.

Anwar & Michaelowa (2004) spotlights the political economic circumstances which US has to keep in mind for aid to Pakistan. It is a worth mentioning the fact that Pakistan has many resources of its own to support its monetary gaps; but its involvement in war against terrorism is one of the biggest examples of having such losses. United States for the same reason is the most imperative and biggest bilateral donor. Many of the studies also show than political lobbying and getting under developed countries in a viscous cycle of the debt trap is commonly done by the US to virtually handle their economies (Perkins, 2004). As a result, the external assistance Pakistan has been given was all on the basis of political interests of the donor countries and show minimal or negligible improvement in the economic and fiscal structure of the country. Over the years, the sums of aids and external debts have been getting a sky-high increase but the monetary situation is worse since 1947.

3. THEORETICAL FRAMEWORK

---Figure1:

4. METHODOLOGY AND CHOICE OF ANALYTICAL TECHNIQUE

4.1 Research type

In order to conduct my research study the most suitable data I have gathered is secondary in nature collected from reliable and consistent data sources and no primary data has been collected, hence my study will be referred to as *secondary research*.

4.2 Data type & Reference Period

- Data type is purely secondary in nature as no primary data has been acquired.
- Reference period for my research is from 1995-2009

4.2.1 Limitations

Capital Flight data has not been shown in any of the study or archives of State Bank of Pakistan. It is kept confidential as many politicians are also accused of withdrawing their assets from Pakistan and other money laundering cases which are still pending in the Supreme Court of Pakistan. Therefore, it is a potential limitation of data in the study.

4.3 Research Hypothesis

4.3.1 Basic Research Hypothesis

First Hypothesis

1H_0 : External aid and debt has a negative correlation with the GDP growth in Pakistan from 1995-2009

1H_A : External aid and debt has a positive correlation with the GDP growth in Pakistan from 1995-2009

Second Hypothesis

2H_0 : Economic growth will not be continual by rising external debt and foreign aid to Pakistan

2H_A : Economic growth will be continual by rising external debt and foreign aid to Pakistan

4.4.0 Data Sources

The data sources for my research study are as follows:

- WDI
- Economic Survey of Pakistan
- Statistics Bureau of Pakistan
- State Bank of Pakistan

4.4.1 Data reliability and internal consistency

WDI is a renowned database developed by World Bank. The data from WDI is completely reliable to be used in the research.

4.4.2 Data analysis tools and techniques

Multiple regression: To measure the increasing effect of independent variables on the dependent variable and to obtain a single regression line for all variables, which will be further used in hypothesis testing.

The final regression equation comes to be: $EDEBT\%GDP = 20.4 - 6.29 Grants\%GDP - 3.77 FDI\%GDP - 2.41 DEBTSERV\%GDP + 2.35 TDeficit\%GDP + 5.84 FDEFICIT\%GDP - 0.024 SAVGAP\%GDP$

Table: 1

The regression equation is

$$\alpha = 33.6 - 5.42 \beta_1 - 3.27 \beta_2 - 1.852 \beta_3 + 2.17 \beta_4 + 4.84 \beta_5 + 0.66 \beta_6 - 0.09 \beta_7 - 0.350 \beta_8$$

Where:

α : External debt as a percentage of GDP

β_1 : Grants as a percentage of GDP

β_2 : FDI as a percentage of GDP

β_3 : Debt servicing as a percentage of GDP

β_4 : Trade Deficit as a percentage of GDP

β_5 : Fiscal Deficit as a percentage of GDP

β_6 : Saving-Investment gap as a percentage of GDP

β_7 : Exchange rate fluctuation

β_8 : Aid as a percentage of GDP

Regression Analysis:

According to the Regression, it was seen that R-squared statistics appears to be 95.0% which proves that the variability shown by External debt as a percentage of GDP (dependent variable) is explained by all the independent variables. However, there are two problems with the model:

1- Unavailability of Capital flight data. It is an important variable which should be a part of the model.

2- Problem of 'multicollinearity', as most of the independent variables have their economic relation on their own too. To deal with the problem, there are certain variables excluded from the model.

Final Model

Out of thee the Independent Variables, six best variables are chosen for statistical analysis. All the equations are

estimated by the method of OLS:

Table2:

Table3:

T-Critical at 95% confidence interval come out to be 2.365. It is to be compared by T- Stats of individual variable. If the T-Stat is greater than T- Critical, it tends to reject the Null hypothesis and accept the alternative hypothesis showing a significant impact of the dependent variable on the independent variable.

On the other hand, R-squared statistics that the model as fitted explains that 94.1% of the variability in the dependent variable is explained by all independent variables. The adjusted R- Squared statistic, which is more suitable for comparing models with numerous numbers of independent variables, comes out to be 89.8%

The standard error of the estimate shows that the standard deviation of the residuals is 2.88. The same value can be used to construct prediction limits for newer observations by selecting the Reports option from the text menu. On the other hand, The Mean Absolute Error (MAE) of 1.77 is the average value of the residuals.

The DW test (Durbin-Watson) statistic test is used to determine if there is any significant correlation evident based on the order in which they are occurring in the data under consideration in which they occur in your data file. Since the DW value is greater than 1.4, there is probably not any serious autocorrelation in the residuals. Detailed analysis show that it is inconclusive to determine whether serial correlation exists or not at 0.05.

The Final Regression equation is:

$$\alpha = 18.5769 - 6.29 \beta_1 - 3.77 \beta_2 - 2.41 \beta_3 + 2.35 \beta_4 + 5.84 \beta_5 - 0.024 \beta_6$$

Where:

- α : External debt as a percentage of GDP
- β_1 : Grants as a percentage of GDP
- β_2 : FDI as a percentage of GDP
- β_3 : Debt servicing as a percentage of GDP
- β_4 : Trade Deficit as a percentage of GDP
- β_5 : Fiscal Deficit as a percentage of GDP
- β_6 : Saving-Investment gap as a percentage of GDP

4.1 Statistical Analysis

As the regression equation suggests:

$$\alpha = 18.5769 - 6.29 \beta_1 - 3.77 \beta_2 - 2.41 \beta_3 + 2.35 \beta_4 + 5.84 \beta_5 - 0.024 \beta_6$$

1- Grants and External Debt

- Dependent Variable: External Debt as a Percentage of GDP
- Independent Variable: Grants excluding technical assistance as a percentage of GDP

In this relation, the result is significant at 95% confidence level. Keeping all other variables constant, one unit change in External debt as a percentage of GDP creates negative 6.29 units change in Grants excluding technical assistance (as a percentage of GDP).

T-stat for β_1 comes out to be 2.44; where T-Critical is 2.365 at 95% confidence level. In this way, the research tends to reject H_0 , showing that Grants are significant to external debt. The Hypothesis is:

H_1 : Grants as a percentage of GDP has significant impact on External debt as a percentage of GDP

$H_{1:\beta_1} \neq 0$

2- Foreign Direct Investment and External Debt

- Dependent Variable: External Debt as a Percentage of GDP
- Independent Variable: FDI as a percentage of GDP

It states that keeping all other variables constant, a negative change of 3.77 in FDI (as a percentage of GDP) adds 1 unit of External Debt (as a percentage of GDP). Hence, lesser the FDI, more is the external debt.

On the other hand, t-stat for β_2 is **2.367**; where T-Critical is 2.365 at 95% confidence level. Since t-stat is greater than t-critical, the researcher tends to reject H_0 which shows that there is significant impact of Foreign Direct Investment on External Debt. Thus:

H_1 : FDI as a percentage of GDP has significant impact on External debt as a percentage of GDP

$H_{1:\beta_2} \neq 0$

3- Debt Servicing and External Debt

- Dependent Variable: External Debt as a Percentage of GDP
- Independent Variable: Debt Servicing as a percentage of GDP

Keeping all the variables constant, a negative change of 2.41 in Debt Servicing as a percentage of GDP adds 1 unit of External Debt (as a percentage of GDP). Hence, lesser the debt retirement is, the more is the external debt piling is seen in Pakistan (1995-2009)

On the other hand, t-stat for β_3 is **2.588**; where T-Critical is 2.365 at 95% confidence level. Since t-stat is greater than t-critical, it tends to reject the null hypothesis and accept alternative which states that Debt Servicing (as a percentage of GDP) has significant impact to external debt (as a percentage of GDP).

Thus:

H₁: Debt servicing as a percentage of GDP has significant impact on External debt as a percentage of GDP

$H_{1:\beta_3} \neq 0$

Trade Deficit and External Debt

Dependent Variable: External Debt as a Percentage of GDP

Independent Variable: Trade Deficit as a percentage of GDP

Keeping all the variables constant, 2.35 units change in Trade Deficit (Trade deficit increases i.e. Imports > exports) as a percentage of GDP creates a positive change of 1 unit of External debt as a percentage of GDP. Hence, greater the trade deficit is, the more is external debt evident in Pakistan (1995-2009)

On the other hand, t-stat for β_4 is **4.170**; where T-Critical is 2.365 at 95% confidence level. Since t-stat is greater than t-critical, the researcher tends to reject the null hypothesis and accept alternative hypothesis which states that Trade Deficit (as a percentage of GDP) has significant impact with external debt (as a percentage of GDP). Even the said relationship is significant at 99% confidence interval as t-critical at 0.01 is 3.355. Thus:

H₁: Trade Deficit as a percentage of GDP has a significant impact on External debt as a percentage of GDP

$H_{1:\beta_4} \neq 0$

4- Fiscal Deficit and External Debt

- Dependent Variable: External Debt as a Percentage of GDP
- Independent Variable: Fiscal Deficit as a percentage of GDP

Keeping all the variables constant, a positive change of 5.84 units in fiscal deficit as a percentage of GDP creates a positive change of 1 unit in Pakistan's external debt. On the other hand t-stat for β_6 is **4.318**; where T-Critical is 2.365 at 95% confidence level. Since t-stat is greater than t-critical, it tends to accept the null hypothesis and accept alternative hypothesis which states that Fiscal Deficit (as a percentage of GDP) has positive significance with external debt (as a percentage of GDP). Even the said relationship is significant at 99% confidence level as t-critical at 0.01 is 3.355

Thus:

H₁: Fiscal Deficit as a percentage of GDP has significant impact on External debt as a percentage of GDP

$H_{1:\beta_5} \neq 0$

5- Saving Investment Gap and External Debt

- Dependent Variable: External Debt as a Percentage of GDP
- Independent Variable: Saving Investment gap as a percentage of GDP

Keeping all the variables constant, a negative change of 0.024 unit in Saving Investment gap (i.e. Saving > Investment) as a percentage of GDP creates a positive change of 1 unit in Pakistan's external debt. In the case of Pakistan, savings tend to be much lesser than investment. The overall situations are not good in this regard.

On the other hand t-stat for β_6 is **0.98**; where T-Critical is 1.57 at 15% confidence level. Since t-stat is lesser than t-critical, the researcher tends to accept the null hypothesis which states that Fiscal Deficit (as a percentage of GDP) has no significant impact on external debt (as a percentage of GDP). In the given time period, the model suggest Saving Investment gap has not acted as an agent for piling external debt.

Thus:

H_0 : Saving- Investment Gap as a percentage of GDP has insignificant impact on External debt as a percentage of GDP
 $H_0:\beta_6=0$

Limitation of the Study

In the study conducted, all the variables which were leading to inaccurate results were removed from the models. Though they exert strong impact on the independent variable, but were not enabling proper results. The R-square statistics at 92.23% shows a good percentage of variability explained by the dependent variable for all the independent variable.

However there are some limitations with the research which were observed that led to ambiguous and unpredictable results. These are:

- × Non availability of Capital out flow from the country. The data is not given to public due to various money laundering scams where politicians are also accused for taking their assets out from the country. Capital Outflow is a major variable which causes a country to rely on external sources to take debt.
- × Pakistan has been relying heavily on USA and other countries for meeting military expenses. This is another potential reason for foreign aid dependency of Pakistan. Since, the data for aid given to Pakistan for defense is maintained by Military itself, it is also not available to public notice. Therefore, it is another problem faced in determining the factors of foreign aid and debt dependency in Pakistan.
- × Most of the data is inconsistent within different bodies. World Development Indicators show different values for variables; where State Bank of Pakistan shows the same thing different. Consistency of data is the first priority for conducting the research for which maximum efforts are exerted.
- × In Saving Investment gap, WDI provides Gross saving data for couple of years but Investments are taken from Statistics Bureau of Pakistan which is a limitation.
- × On the other hand, there were many independent variables which had some relations in themselves, which is called as multicollinearity. This also caused some issues in regression analysis. Best efforts have been made to reduce the problem in the model.

5. Conclusion

The primary purpose of the study was to investigate the outcomes of the debt burden Pakistan has taken from external sources. It was observed that the over-all debt situation is in critical shape. Pakistan has been taking a lot of debt from many external bilateral and multilateral institutions. Out of all, International Monetary Fund and World Bank take the lead of the total proportion of the debt undertaken. It is also evident that the debt indicators have also been showing an alarming situation over the fifteen years of data observed; i-e 1995 till 2009. Exports have not been presenting a good contribution in the economy, thus causing Trade deficit. On the other hand, Fiscal deficit also causes a loop to go to external sources for debt. Pakistan has been engaged in taking additional debts to retire the previous one, which has put many question marks on Pakistan's integrity and financial rating.

Pakistan's policies regarding debt management seems to be inaccurate and inconsistent. Infact, this has been a sole source of many of the economical issues causing hiked inflation, interest rate, increased velocity of money, decreased subsidy by the Government, corruption, exchange rate fluctuation etc. International Monetary Fund has compelled Pakistan to make economic policies according to their own will. The recent conflict of levying RGST is widely criticized in the public as well as the political arena. As a matter of fact, exchange rate depreciation in the open market is another incidence after getting IMF loan. The Government of Pakistan seems to be in total chaos as Pakistan is going to negative growth rate year by year.

Thus, it is concluded that external aid and debt has a negative correlation with the Gross Domestic Product of Pakistan. On the other hand, it is also evident that economic growth will not be continual with the rising external debt and foreign aid. Pakistan must get out of the debt web. Also, exclusion from the so called "War against terrorism" should be the first priority of Pakistan which has been causing fiscal deficits in Pakistan's economy; making it necessary to contact other external 'players'. Pakistan should be able to 'drive' its economy by its own, not on America's political powers. Hence, incidence of external aid and debt tends to be more of a political one controlled by USA which also controls IMF and other global financial institutions.

Pakistan has now taken a road which leads to Stone Age. The situation calls for an urgent financial mechanism. Failing to do so calls for severe consequences for the upcoming generations; who might have to fight for the existence of Pakistan. Thus:

¹H_A: External aid and debt has a positive correlation with the GDP growth in Pakistan from 1995-2009

¹H_A≠0

²H_A: Economic growth will be continual by rising external debt and foreign aid to Pakistan

${}^2H_A \neq 0$

6. Direction for further research

There are numerous researches done for determining the factors causing foreign aid dependency of Pakistan. However this research will help to open new doors of conclusions in which three gap models (trade deficit, fiscal deficit and saving-investments gap) could be used in further detail in order to determine their involvement in rising external debt ladders. Also, political factors should be looked into details, as these are of mere importance in determining the external debt taken.

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Table: 1
Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.975(a)	.951	.886	3.03945

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1080.689	8	135.086	14.622	.002(a)
	Residual	55.430	6	9.238		
	Total	1136.118	14			

a Predictors: (Constant), AIDGDP, TDEFGDP, GRANTSGDP, SAVINVGAP, FISCDEFGDP, DEBTSERVGDP, EXCHRATEFLUC, FDIGDP

b Dependent Variable: EDEBTGD

Coefficients(a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta	B	Std. Error
1	(Constant)	33.631	14.915		2.255	.065
	GRANTSGDP	-5.423	2.311	-.307	-2.347	.057
	FDIGDP	-3.269	1.889	-.479	-1.731	.134
	DEBTSERVGDP	-1.852	1.192	-.258	-1.553	.171
	TDEFGDP	2.174	.652	.764	3.333	.016
	FISCDEFGDP	4.840	1.880	.476	2.575	.042
	SAVINVGAP	.066	.313	.032	.211	.840
	EXCHRATEFLUC	.009	.048	.039	.181	.862
	AIDGDP	-.350	.442	-.146	-.793	.458

a Dependent Variable: EDEBTGDP

Table 2. Final Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.970(a)	.941	.898	2.88358

a Predictors: (Constant), SAVINVGAP, GRANTSGDP, FISCDEFGDP, TDEFGDP, DEBTSERVGDP, FDIGDP

Table 2.1. ANOVA(b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1069.598	6	178.266	21.439	.000(a)
	Residual	66.520	8	8.315		
	Total	1136.118	14			

a Predictors: (Constant), SAVINVGAP, GRANTSGDP, FISCDEFGDP, TDEFGDP, DEBTSERVGDP, FDIGDP

b Dependent Variable: EDEBTGDP

Table 2.3. Coefficients(a)

Model	Unstandardized Coefficients		Standardized Coefficients		t	Sig.	1.86
	B	Std. Error	Beta	B			
1	(Constant)	20.402	5.874		3.473	.008	2.365 95%
	GRANTSGDP	-6.293	2.048	-.356	-3.073	.015	3.355 99%
	FDIGDP	-3.771	1.614	-.553	-2.367	.048	
	DEBTSERVGDP	-2.413	.932	-.336	-2.588	.032	
	TDEFGDP	2.354	.565	.828	4.170	.003	
	FISCDEFGDP	5.844	1.353	.574	4.318	.003	
	SAVINGGAP	-.024	.231	-.012	-.103	.921	

a Dependent Variable: EDEBTGDP

As the model suggests:

R-squared = 94.1 percent
 R-squared (adjusted for d.f.) = 89.8 percent
 Standard Error of Est. = 2.88
 Mean absolute error = 1.71887
 Durbin-Watson statistic = 2.02604
 F- Stat= 21.439

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