TECHNICAL SESSION-2: PUBLIC POLICY AND MARKET EFFICIENCY

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Paper Title: Foreign Aid vs. Trade

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Abstract: The study examines the impact of foreign aid and trade reforms on Pakistan's economy by developing a CGE model. In scenario 1, it eliminates the import tariffs on the 10 major import items of Pakistan such as cooking oil from Indonesia; textiles, chemicals, basic metals, machinery and electrical equipment from China; mining, coke and petroleum from the United Arab Emirates; and mining and chemicals from the Kingdom of Saudi Arabia. The simulation results show that eliminating the import tariff reduces domestic production in many sectors. Among them, however, the mining, textile, and chemical industries still grow moderately. On the other hand, domestic production of all other sectors increases moderately indicating that access to more economic intermediate inputs allows these industries to contribute to economic growth. In scenario 2, it introduces a foreign aid of USD 10 billion from USA to Pakistan. The simulation results show that the foreign aid reduces the domestic production in all the sectors, the inflation rises and exports reduce.

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