

Foreign Aid and Economic Growth in South Asia

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Abstract

The main objective of this paper is to investigate the impact of foreign aid on Economic growth in South Asia. Still there is an inconclusive debate in determining the exact relationship between foreign aid and economic growth. Foreign aid basically consist with two types namely grants and loans. High debt burden and political influences make foreign aid less effective. To opposite that opinion, some empirical findings prove that foreign aid is important to increase the economic growth, assistance for human health, immediate humanitarian assistance in disasters and long-term development programs in developing countries. So still there is no robustness regarding the impact of foreign aid. This paper aims to find out the impact of foreign aid on economic growth and give some recommendation for a better economic status. Panel data of four South Asian countries are used for this analysis from 1990-2017. This study basically focuses on the impact of concessional loan and official development assistance on the economies of four (04) South Asian countries. They are India, Pakistan, Bangladesh and Sri Lanka. Ordinary Least Squares model is used to test the model. According to the findings of the model, it has been proven that foreign aid doesn't make a significant impact on economic growth in South Asia from 1990-2017. So it is better not to depend on foreign aid. Because if a country has to pay higher proportion of aid repayments from its GDP, it is difficult to allocate resources on development purposes. Therefore, the developing countries should develop appropriate policies to depress debt burden. Government should effectively manage budget to avoid unnecessary current expenditure. Tax base should regulate to enhance the government revenue rather than depend on other nations. It is important to empower the transparency and accountability of governing bodies.

Keywords: Foreign aid, Economic growth, Concessional loan, Ordinary Least Square, Policies

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