Notes and Comments

The Pakistan Perspective Plan and the Objective of Elimination of Dependence on Foreign Assistance

by

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1. The Pakistan Perspective Plan for the period 1965-85 states "elimination of dependence on foreign assistance" as one of its "explicit aims" [3, p.17]. In this paper we attempt an estimation of the progress towards this objective the country can reasonably be expected to make by 1985 if the Perspective Plan were fully realized.

2. Table 1 [3, p. 19] gives estimates of annual imports and exports at five-year intervals from 1965 to 1985. Table 6 [3, p. 24] provides a breakdown of imports into three categories, viz., "consumer goods", "capital goods" and "intermediate products". If the author understands correctly, none of these categories covers debt services[1]. Imports under these three categories add up to total imports as given in Table 1 [3, p. 19] so that the latter also do not include debt services. We, therefore, interpret the difference between imports and exports, termed "external resources" in [3, p. 19], as measuring estimated *net* inflow of foreign capital. Adding debt servicing to it we would obtain what has been termed "total foreign assistance" in the Plan [3, Table 4, p. 91], or what is more conventionally referred to as *gross* inflow of foreign capital.

3. We shall confine our task to a comparison of gross inflows or "total foreign assistance" in the years 1965 and 1985, the initial and terminal years of the Perspective Plan. A rough estimate, which we consider adequate for our purpose, of gross inflows in 1965 is obtained by taking the average of estimated debt services for 1964-1965 and 1965-1966 [3, pp.96-98, Annexure1]. This amounts to Rs. 340 million. Add this to estimated net inflow for 1965 which is Rs. 3,690 million [3, Table 1, p.19]. We get Rs. 4,030 million as an estimate of gross inflows for 1965. In relative terms this is about 9 per cent of what has been termed "gross national product"[2] in 1965, estimated in the Plan to be Rs. 45,540 million [3, Table 1, p.19].

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1 The same interpretation is found in Chenery and MacEwan [1, pp.236-237].

2 The Plan document apparently overlooks the distinction between gross *domestic* and gross *national* products.

4. We now seek an estimate of gross inflows for 1985, rough but adequate for our purpose again. We take each five-year interval for which the initial- and terminal-year estimates of exports (E_t) and imports (M_t) are given in Table 1 of the Plan [3, p.19]. We interpolate figures for the inbetween years by using the respective average annual compound rates of growth over the respective five-year intervals. The results are presented in Columns (1) and (2) of our Table 1. Column (3) of our table gives the resulting estimates of net inflows (F_t).

5. We take from an unofficial IBRD study [4] an estimate of Pakistan's outstanding indebtedness (B_t) at the beginning of the year 1965. This is 837.4 million in dollars, or 3,986 million in rupees converted at the official exchange rate. We now make the assumption that foreign aid will be available throughout the Perspective Plan period at the (concessional) rate of interest of 3 per cent per annum, which Griffin [2, p.617] estimates to be the approximate average rate of interest on public debts outstanding at the end of 1964. This is a sweeping assumption, but for the purpose of Perspective Planning this again may be considered adequate. We then compute the time-path of B_t by using the following equation:

$$B_{t+1} = B_t + F_t + iB_t.$$

TABLE I

(in million rupees)

Year	E_t (1)	M_t (2)	F_t (3)	B_t (4)	iB_t (5)
1965	3050	6990	3690[a]	3986	120
1966	3340	7350	4010	7796	234
1967	3657	7729	4072	12040	361
1968	4004	8127	4123	16473	494
1969	4384	8545	4161	21090	633
1970	4800	8985	4185	25884	777
1971	5220	9450	4185	30846	925
1972	5677	9845	4168	35956	1079
1973	6173	10306	4130	41203	1236
1974	6714	10788	4074	46569	1397
1975	7300	11300	4000	52040	1561
1976	7924	11710	3786	57601	1728
1977	8602	12135	3533	63115	1893
1978	9337	12576	3239	68541	2056
1979	10135	13033	2898	73836	2215
1980	11000	13500	2500	78949	2368
1981	11545	13968	2423	83817	2515
1982	12116	14453	2337	88755	2663
1983	12716	14955	2239	93755	2813
1984	13345	15474	2129	98807	2964
1985	14000	16000	2000	103900	3117

[a] The Plan records a drawing-down of foreign exchange reserves to the extent of Rs. 250 million in 1965.

With F_t given (Column (3) of our Table I) for all years from 1965 to 1985, B_{1965} given as rupees 3,986 million and i assumed to be .03, it is a matter of simple iteration to calculate B_{1985} by using the above difference equation. The resulting estimate of B_{1985} stands at rupees 1,03,900 million.

6. We now make another sweeping assumption which also we consider adequate for obtaining a perspective of where the country is being led by the "Perspective Plan". We assume that the total flow of debt services, due to the above Rs. 1,03,900 million debt that would be outstanding in 1985, will be a constant from 1985 onwards for a period of n years by the end of which this debt would be fully repaid. It is shown in the appendix that this constant flow which we denote by S, is given by the quantity.

$$\frac{B_{1985}.i\,(1+i)^n}{(1+i)^{n-1}}$$

Thus with $i = .03$ and $B_{1985} =$ Rs. 1,03,900 million, we have
$S =$ Rs. 6,984 million if $n = 20$;
Rs. 5,301 . . . . . . $n = 30$.

7. We consider these two values adequate for obtaining a general perspective. Adding $F_{1985} =$ Rs. 2,000 million [3, Table 1, p. 19] to S, we obtain estimates of gross inflow of foreign capital in 1985 as Rs. 8,984 million and Rs. 7,301 million for the two respective values of n. As a proportion of what has been termed "gross national product" in 1985 (Rs. 1,87,300 million) the former would be close to 5 per cent and the latter close to 4 per cent.

Our final results are summarized below:

	1965	1985		
		n = 20	n = 30	
Gross inflows	4030	8984	7301	
Gross inflows / "Gross national product"	9%	5%	4%	(approximate values)

8. Thus the general perspective appears to be that in absolute terms the requirement of "foreign assistance" in 1985 will be about double that in 1965; in relative terms it will fall from 9 per cent of "gross national product" to about 4—5 per cent.

Whether this can reasonably be called any progress towards, not to speak of attainment of, the Perspective Plan objective of "elimination of dependence on foreign assistance" may be suggested as a good question. One may also be dubious about the possibility of refinancing these debt-service charges by new borrowing in the post-Perspective Plan era at the same low terms at which foreign aid is being currently available. One, therefore, wonders what the Planning authorities' thoughts are on exactly how the country would service the huge debt-service charges it will be burdened with in 1985 and thereafter if the Perspective Plan is implemented successfully.

The author's own thoughts on the whole problem will be presented in a subsequent paper.

Appendix

Imagine debts outstanding at the beginning of year T to be repayable in n years with a constant annual flow S of debt services, and with a compound annual rate of interest i. Then

$$B_{T+t+1} = B_{T+t} - (S - iB_{T+t}) \text{ for } t = 0,1,2, \ldots , n.$$

The solution of this difference equation is

$$B_{T+t} = B_T(1+i)^t - \frac{S}{i} [(1+i)^t - 1] \text{ for } t = \text{ as above.}$$

Putting $B_{T+n} = 0$ we have

$$S = \frac{B_T \cdot i (1+i)^n}{(1+i)^n - 1}$$

REFERENCES

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