

**THE POLITICS OF BILATERAL AID: AN INQUIRY INTO
SELECTIVITY AND EFFECTIVENESS OF THE UNITED STATES
FOREIGN AID TO PAKISTAN**

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THE POLITICS OF BILATERAL AID: AN INQUIRY INTO SELECTIVITY AND
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ETHICAL DECLARATION

I hereby declare that all information in this document has been obtained and presented in accordance with academic rules and ethical conduct. I also declare that, as required by these rules and conduct, I have fully cited and referenced all material and results that are not original to this work.

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ABSTRACT

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This thesis aims to analyze two aspects of the United States (US) foreign aid given to Pakistan bilaterally; namely, selectivity and effectiveness. In relation to the first aspect, it attempts to explore the motives and objectives of the US which led its policymakers to choose Pakistan as a recipient country. For the sake of a comprehensive analysis, the study examines the US bilateral aid both historically and contemporarily and thus it focuses on the allocation of aid to Pakistan during the Cold War period and in the post-Cold War era. The two periods are chosen to understand the primary determinants as well as the change in patterns of US aid flows to Pakistan.

With regard to the second aspect, the study evaluates the role of US bilateral aid in socio-economic progress of Pakistan. This aspect is significant for examining the effectiveness of US aid as claimed by the policymakers in the US and Pakistan. The role of US aid is analyzed for the three major socio-economic indicators, namely, health,

education and poverty reduction. The major focus is to identify whether the US aid contributed to improvement of the three sectors.

In the study, both the donor's and the recipient's perspectives are taken into consideration, and thus the theoretical framework developed is eclectic i.e. it explains US-Pakistan aid relationship in motivations-cum-impacts manner. The realist theory of foreign aid is employed to examine motives of the US for providing aid to Pakistan and public choice theory is applied to evaluate the impacts of the US aid on Pakistan within the context of human development. In addition, a general literature on motives and effectiveness of bilateral aid is reviewed which serves as point of departure for the case study.

This study finds that the allocation of aid from the US to Pakistan both during and in the post-Cold War period was primarily motivated by the former's politico-strategic and security interests. The study does not find claims made by the policymakers in the US and Pakistan regarding aid-effectiveness credible. The study argues that the US bilateral aid remained ineffective and supposedly played a negative role in terms of aggravating the state of corruption, income inequalities and patronage activities in Pakistan. However, as stated in some earlier works, this should not come as a surprise, because the objectives were never really development but rather strategic and security interests of the donor.

Keywords: United States, Bilateral Aid, Motivations and Objectives, Pakistan, Socio-economic Development.

To My Mother

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LIST OF ABBREVIATIONS

CENTO	Central Treaty Organization
CGD	Centre for Global Development
CPIA	Country Policy & Institutional Assessment
DAC	Development Assistance Committee
ERP	European Recovery Program
GCI	Global Competitiveness Index
HDI	Human Development Index
MDGs	Millennium Development Goals
NAB	National Accountability Bureau
ODA	Overseas Development Assistance
OECD	Organization for Economic Co-operation & Development
SEATO	Southeast Asia Treaty Organization
SIPRI	Stockholm International Peace Research Institute
TI	Transparency International
UNDP	United Nations Development Programme
UNESCO Organization	United Nations Educational, Scientific and Cultural Organization
USAID	United States Agency for International Development
WEF	World Economic Forum

1.0 INTRODUCTION

After the end of World War II, the United States (US) emerged as the largest bilateral aid donor. Initially, the US initiated an aid-program called the Marshall Plan, and its recipients were the countries of Western Europe. During the Cold War period the US extended its aid-programs to some other countries; however, the major aid-allocations were made to few countries; Israel, Egypt and Pakistan remained the top three US aid-recipients. Aid flows from the US decreased during the 1990s but saw an upsurge in the succeeding decade, in the wake of the war on terror.

Generally speaking, foreign aid is a contentious issue but US foreign aid is a far more controversial subject due to the reason that there are divergent or rather extremely opposing views on both its purposes and effects. On the one hand, US foreign aid is seen to be dominated by humanitarian and poverty concerns of those living in the global South. Thus, it is emphasized that US aid is aimed at constructing an international community based upon equity, enhanced cooperation and universal principles of human rights. On the other hand, US aid is seen as a foreign policy tool which is wielded to further geo-strategic, political and security objectives. Likewise, there is too much controversy over the role of US aid. Some scholars view it instrumental for economic development of recipient countries; others see it ineffective and counterproductive.

Since its inception in 1947, Pakistan has been receiving both economic and military aid from the US. During the Cold War, Pakistan took side with the capitalist bloc and it

received huge volumes of aid from the US, except for a short-term intermission in the late 1970s, due to the former's nuclear activity which exasperated the US policymakers. After the end of the Cold War, the US suspended all military and a major chunk of economic aid to Pakistan. Unlike the previous attempt, this time the US toughened its stance against Pakistan's nuclear program. In the late 1990s, the US even invoked economic sanctions against Pakistan. However, after the incident of 9/11, the US not only lifted the previously imposed sanctions but also resumed both military and economic aid to Pakistan. In fact, during the first decade of the 21st century, Pakistan found its place among the top five recipients of the US bilateral aid.

This study attempts to identify the actual determinants of the US bilateral economic aid given to Pakistan during the Cold War period and in the post-Cold War era. It investigates whether US motivations behind selecting Pakistan as recipient country for its bilateral aid remained consistent or changed over time. The study also aims to examine how US economic aid affected human development in Pakistan. Human development is, indeed, a complex process which depends on various factors. Nonetheless, a detailed evaluation of Pakistan's socio-economic situation, at least, gives an understanding as to what extent claims made, with regard to the effectiveness of US aid, are credible. Also, whether the US aid made a positive contribution in Pakistan, in the first place, or it rather played an adverse role—gave rise to corruption, income inequalities and patronage politics.

This study argues that the US motivations behind aid provision to Pakistan remained other than developmental needs of the latter. The politico-strategic and security concerns impelled the US policymakers to establish aid-relationship with Pakistan. The

study also claims that US aid money provided to Pakistan did not contribute to the improvement in education, health and poverty reduction in the country. It seems that the US aid exacerbated income inequalities and worsened the state of corruption and clientelist activities in Pakistan.

1.1 OBJECTIVE OF THE STUDY

The US-Pakistan aid relationship has not remained fully precarious; nonetheless, it went through phases of continuity and discontinuity. Pakistan witnessed high aid flows from the US during the Cold War, followed by aid-stoppage in the 1990s and then aid-resumption during the early 2000s.

This study focuses on two different aspects of the US bilateral aid given to Pakistan during the last six decades. First, it explores the US motivations behind the allocation of aid to Pakistan. A detailed examination of the US bilateral aid is made which helps in understanding the reasons which led the US policymakers, first to establish and then to maintain—although with hiatus—aid-relationship with Pakistan. More importantly, it helps in addressing the crucial issue of whether the US aid was directed by her self-interests or motivated by developmental needs of Pakistan. The long time-period is chosen to assess whether the US aid motives remained constant or changed with the changing global scenario—the Cold War, end of the Cold War and the war on terror.

Secondly, it is also significant to evaluate the role of US bilateral aid in terms of its effects on socio-economic development in Pakistan which helps in assessing the role

and contribution of the US aid in Pakistan. For the sake of in-depth analysis Pakistan's socio-economic and governance indicators are examined in detail. An attempt is made to interlink the US economic aid with Pakistan socio-economic progress to draw the relationship between the two in order to see aid effectiveness.

This study attempts to explain that the US aid to Pakistan was not benign and humanitarian in nature because Pakistan, as a recipient country, had to pay price for it. For instance, Pakistan had to take sides with the US during the Cold War period and also had to act as a front line state during the US campaign against terrorism in the wake of 9/11 incident. Also, the US provided aid to Pakistan only when she needed to secure allegiance of the latter and thus aid money acted as an incentive—precisely as a soft power tool. Upon the examination of the US-Pakistan aid relationship it becomes clear of how a powerful country influences and takes advantage of the geographical or strategic position of a weaker or poor state through means other than military. One of the objectives of this study is to show that aid did not remain merely an aspect of the overall ties between the US and Pakistan rather it laid a foundation for and led the two countries to establish a bilateral relationship. Also what was given in the name of 'economic assistance' to Pakistan by the US cannot be seen through 'economic lens' alone due to the involvement of politico-strategic interests of the latter. One the other hand, for the Pakistani politicians, particularly, during the 1970s and 1980s, one of the major motivations behind receiving US aid money was to make the country militarily strong, fearing the hegemonic role of the neighbouring country, India.

1.2 DEFINING FOREIGN AID

In the literature, the common definition of foreign aid is the one given by the Organization for Economic Co-operation and Development (OECD). The organization has used an alternative or rather a euphemistic term for foreign aid, which is, ‘Overseas Development Assistance’ abbreviated as ‘ODA’—refers to “grants and loans allotted to countries and territories on the DAC List of ODA recipients” (comprises more than 150 countries including Pakistan) and which fulfil the criteria of: a) they must be undertaken by the public sector; b) they must be aimed at promoting economic development, and c) they must be provided at concessional terms and contain a grant element of at least 25 per cent.

Prima facie, the OECD’s definition of foreign aid seems plain and neutral but in fact, it is not. The two words ‘assistance’ and ‘development’ show that foreign aid is some kind of help provided by the developed countries to the poor ones with the aim of promoting economic development of the latter. Both these implications are, in fact, the main area of contention in aid-scholarship which divide the scholars on foreign aid, broadly speaking, into two camps—aid-proponents and aid-opponents. Thérien (2002) has used the terms ‘the Right’ and ‘the Left’ for these two groups. The author has stated that the Left are dismissive of the ‘broad definition’ as laid out by the OECD because they consider it non-restrictive which gives “an overblown representation of the developed countries’ generosity” (451). The author has argued that the OECD’s definition of aid is highly influenced by the Right because it gives a wider scope to foreign aid (ibid).

Despite all this criticism, I employ the OECD's definition of foreign aid in this study due to two reasons. First, since foreign aid is given by the OECD countries and particularly, in Pakistan's case, the largest donor is the US—an OECD member—and therefore, it does not seem nonsensical if the OECD's definition is accepted. However, it is not to say that the claim made by the OECD members regarding foreign aid is not contested. In fact, it remains the main area of analysis throughout this study. Secondly and more importantly due to non-existence of an alternative and agreed upon definition of foreign aid, the OECD's definition does not remain an option but rather an inevitable choice.

In the literature, foreign aid has been classified into different categories. For example, Morgenthau (1962) provided a list of six different types of foreign aid, including humanitarian, military, subsistence, bribery, prestige and aid given for economic development (301). Likewise, Riddell (2008) provides a list which more or less includes similar types of foreign aid with the exception of aid provided for strengthening global public goods (91). However, such classification is of no relevance for this study due to several reasons. First, it suffers from too much generalization and foreign aid given both through bilateral and multilateral channels is assorted. Secondly, in this study, the motives, objectives and impacts of the US money (provided in economic aid) to Pakistan are precisely examined. Hence what matters is to get data on the US aid money provided in loans and grants which does not require categorization.

1.3 RESEARCH QUESTIONS

The two primary research questions raised in this study are; first, how have the US self-interests played a role in Pakistan's selection for bilateral aid during and after the Cold War period? Second, how has the US foreign aid affected socio-economic development in Pakistan?

The first question aims to trace down the motivations of the US, as aid-donor, behind selecting Pakistan as a recipient for bilateral aid. It investigates the primary factors which directed the US aid allocation policy vis-à-vis Pakistan and thus it deals with the donor perspective. The second question is concerned with the recipient perspective and it focuses on the utilization and impacts of the US aid in Pakistan.

In order to further elaborate the objective and scope of this study, four additional questions are derived from the primary questions. The secondary questions are:

First, how did the politico-strategic, security and humanitarian considerations influence the allocation of aid from the US to Pakistan? The aim is to identify the primary factors which played role in persuading the US to establish aid-relationship with Pakistan and to analyze whether the recipient's developmental needs (poor socio-economic conditions) proved decisive or the donor's self-interests (geo-strategic and security ambitions) played the determining role in the allocation of aid. Secondly, how did the US aid affect poverty reduction efforts, health and education in Pakistan? This question focuses on the role of US aid in Pakistan which, of course, depends on the utilization of aid money. So, the third question is; how did the Pakistani government make use of aid money provided by the US? If the US aid was misappropriated and as a result did not

prove beneficial then what kind of adverse effects it had on the Pakistani state and government, in terms of worsening inefficiency and increasing dependency?

1.4 ECLECTIC THEORETICAL FRAMEWORK

The first major argument of this study is that bilateral donors give aid for geo-strategic, political and security reasons and so are motives of the US behind providing aid to Pakistan. The allocation of US aid to Pakistan can only be understood within the context of the Pakistan's geo-strategic position as well as its support to the US in the war against communism (during the Cold War) and then its role as a front-line ally in the war on terror (in the post-Cold War period). Thus, the realist interpretation of foreign aid properly forms a part of the theoretical framework as far as the motives of the donor are concerned. The second main argument made in this study is that the US foreign aid remained ineffective in improving human development in Pakistan due to the reason that Pakistani politicians remained concerned about maximizing their own interests and they diverted US aid money provided in economic aid to fulfil their own objectives. The public choice theory squarely addresses this aspect of US bilateral aid. Thus, the theoretical framework developed for this study is eclectic i.e. it is based on two different theories which have their own separate domains. The realist theory is employed to analyze the motives and objectives of the US behind providing foreign aid to Pakistan and the public choice theory is included for evaluating influence of the US aid on human development in Pakistan. Although amalgamation of two theories in a single framework sometimes runs a risk of incompatibility or divergence but in this

study they complement each other. It is due to the reason that the realist theory, in donor-recipient aid relationship, provides basis for evaluation of donor's motivations, whereas, the public choice theory provides some sort of footing for examination of impacts of bilateral aid on the recipient.

1.5 RESEARCH DESIGN AND METHODOLOGY

Pakistan has been receiving foreign aid from the US for almost six decades. The country is one of biggest recipients of the US bilateral aid and thus it is of utmost significance to determine the purposes and effects of aid flows from the US to Pakistan. In fact, foreign aid has always remained a focal point of the bilateral ties between the two countries. The contribution of this study to the general aid-scholarship is that it examines the US- Pakistan bilateral aid relationship holistically i.e. over the period 1948-2015.

Pakistan has remained a country of interest for the US due to the former's unique geo-strategic position; bordering China in the north, India in the east, Afghanistan in the west and Iran in the south-west. However, the bilateral relationship between the two countries has never balanced rather oscillated between harmony and discord periodically. Pakistan played a role of front-line ally for the US during the Cold War and received huge aid from the latter. Immediately, after the end of the Cold War, Pakistan was given the title of a 'rouge state' (due to the country's nuclear activity) by the US and aid flows were stopped. In the year 2001, Pakistan again became an ally of the US in the latter's campaign against terrorism and aid was resumed. In short,

bilateral aid remained a significant factor in the overall US-Pakistan bilateral relationship.

Pakistan has been chosen as a case study of the US foreign aid due to the reason that first, aid-relation between the US and Pakistan is an archetypical example of bilateral aid relationship. The amount of money provided by the US in economic aid to Pakistan is not only enormous and it also stretches over six decades. Second, the US-Pakistan aid-relationship is not merely one of the aspects of the overall relationship between the two countries. In fact, this donor-recipient relationship has played a decisive role in policy preferences of both the US and Pakistan. So, in order to understand the controversy that revolves around the allocation and effectiveness of bilateral aid, the US-Pakistan aid-relationship can prove a classic example. It can help in understanding motives of a major donor behind providing aid and also the validity of claims made by the foreign-aid proponents that allocation of aid is made for humanitarian reasons. It can also help in understanding the role which aid plays in socio-economic development of a recipient country. Whether a bilateral donor really takes socio-economic needs of a recipient into consideration before giving aid or not? Whether donor's politico-strategic interests determines its aid-allocation policy or not? Whether provision of aid by the donor is a straightforward quid pro quo for politico-strategic allegiance of the recipient or not? Whether foreign aid enhances socio-economic development and makes a recipient country self-reliant after a particular time period, as claimed by aid-proponents or is it just rhetoric? Whether changes in global politico-strategic conditions affect allocation and delivery of aid from a donor to a recipient? The examination of Pakistan

as an aid recipient of the US bilateral aid will help in understanding these aspects of foreign aid.

In this research the case study of is preferred over the cross-national study in order to explain the two significant aspects of the US-Pakistan aid relationship in an apt manner i.e. to provide a fairly detailed contextual analysis. The advantage of the case study is that it yields a path for a holistic explanation and thus properly addresses 'why' and 'how' questions. Although, a cross-national study provides better scope for making generalized statements or arguments about the politics and effectiveness of bilateral aid but it leaves little space for making a detailed examination of a particular aid-relationship. Moreover, there can a lack of heterogeneity in behaviour of the same bilateral aid-donor towards different (or more than one) recipients which as a result may call plausibility of cross-national analysis into question. For instance, the US aid-allocation policy remained different towards South Korea and Japan in comparison to Pakistan. The US suspended to Pakistan more than one time (due to the latter's nuclear program) which was not the case with South Korea or Japan. Of course, this is not to say that in the case of South Korea or Japan aid was provided purely for humanitarian reasons because if developmental needs of the two countries were the sole concern then why did the US ignore countries in continent Africa? Secondly, the effects of bilateral aid may vary (recipient) country-wise. For example the effects of the US foreign aid were not same for all aid-recipients which indicate involvement of other factors or variables. Identification and explanation of all variables in cross-national study can create a problem of matching the samples i.e. compatibility issue. The case study, on the other hand, helps in making a detailed epistemological inquiry and a comprehensive

analysis of the aid-relationship. In fact, foreign aid is a complex subject and therefore its proper examination and understanding (both from the donor's and recipient's standpoints) require an extended investigation of aid-giving and aid-receiving activity—which inevitably necessitates a protracted time period. In this study, the US-Pakistan aid relationship is investigated for the Cold War and post-Cold War periods and thus circumstances which brought the two countries into a relationship of 'aid-donor' and 'aid-recipient' in the first place, changes which occurred in aid-pattern over time and impacts of the whole aid-business on the recipient require an in-depth examination.

This research is qualitative and the role and objectives of the US foreign aid to Pakistan are interpreted with reference to the donor's interests. Additionally, the effectiveness of US aid is explained within the context of its contribution and impact on socio-economic development in Pakistan. In the study, quantitative data are also employed; however, it is used to supplement the qualitative analysis. This study is mainly based on secondary data, although; certain sources are used as primary data.

The sources of secondary data are books and research articles on foreign aid as well as the official reports (UNDP human development reports, Pakistan's Ministry of Finance records, reports issued by the World Bank, USAID etc). Newspapers, magazines and electronic media reports are used as primary data. These sources are helpful in providing an understanding of the US-Pakistan aid relationship. Secondary sources provide a comprehension of the nexus between bilateral aid and donors' goals as well as of the relationship between foreign aid and human development. The Official statistics are helpful in providing details of volume of US aid provided to Pakistan over the sixty years or so. Primary sources such newspapers and magazines articles (the Guardian, the

Dawn Newspaper, and the Express Tribune etc) are employed to obtain information relation to Pakistan's socio-economic conditions such literacy rate and general standard of living as well as about the use of US aid in Pakistan.

1.6 OUTLINE OF CHAPTERS

This thesis is divided into six chapters. The first chapter has provided an introduction and objective of the study. It has also defined the theoretical framework employed in this study. Chapter 2 reviews the literature on objectives and effectiveness of foreign aid in general and the US aid in particular. This chapter appraises the arguments and viewpoints of both aid-proponents and aid-opponents in detail and analyze their explanations for and against foreign aid based upon their inclination towards a particular school of thought, for instance, the liberal school, realist school and Marxist/dependency school.

Chapter 3 provides the history of US-Pakistan aid relationship—over the period 1948-2015. It also attempts to explain the goals and purposes of the US bilateral aid and the patterns of aid flows with the changing global situation. In addition to the US economic aid, it briefly examines the US military aid provided to Pakistan during the Cold War and in the aftermath as well as the latter's expenditures on defence. It provides an understanding of how military was/is given priority in Pakistan over social development.

In Chapter 4, a detailed analysis of the use of US aid in Pakistan is made on the basis of the public choice theory. It is explained how the US aid was misappropriated and diverted from the original purposes and was used by the Pakistani ruling elite for protecting their own interests. Then, Chapter 5 gives an overview of Pakistan's socio-economic conditions and establishes their link with the US aid money purportedly given in economic aid.

The final chapter offers a summary of the findings in relation to objectives and effectiveness of US foreign aid to Pakistan and the conclusion drawn on the basis of these findings. It also briefly discusses the limitations of this study.

2.0 LITERATURE REVIEW

2.1 CONCEPTUALIZING FOREIGN AID

In the literature, there is too much controversy over allocation, delivery, selectivity and effectiveness of foreign aid between authors which make the concept of foreign aid quite disputed. Different authors explain the process of aid-allocation in different ways—contingent upon their inclination towards a particular school of thought. Some authors explain foreign aid in altruistic terms, as a form of generosity, expression of humane concerns and a kind of support which is extended by the rich countries to the poor ones. The adherents of this viewpoint belong to the liberal school of thought. Others see foreign aid as a symbol of power politics, neo-imperialism, subordination and foreign policy tool of the developed world which is undertaken to manipulate the underdeveloped countries. The aid-critics belong to the realist, Marxist and dependency schools.

In political realism, it is argued that the donors' political and security interests impel them to extend aid to countries of strategic importance. Thus, foreign aid is seen as a tool of foreign policy of the donor countries used for preserving “hierarchical power relations, security and order in an intrinsically anarchical international domain” (Furia, 2015, 111). On the other hand, the liberals define the purpose of foreign aid in terms of donors' altruistic considerations. It is emphasized that aid is aimed constructing “a more equitable international community based upon cooperation, common rules and universal

principles” (ibid). Lastly, adherents of Marxism, dependency theory and critics of globalization regard foreign aid “as a tool of dominant states at the centre of world capitalism to help them to control and exploit developing countries” (Lancaster, 2007, 4). Thus, foreign aid is considered “the basic operational factor behind the expansion of world capitalism, constraining the recipient's development path to a dependent role in the world market” (Hattori, 2001, 635).

The proponents of the above mentioned theories define the concept of foreign aid from the donor's perspective i.e. they explain motivations and objectives of the donors behind aid-provision. From the recipient's perspective, again, there are different theories which explain the role and function of foreign aid. The ‘big push theory’ of foreign aid is based on W.W. Rostow's model of economic development which has five stages: the traditional society (limited production functions), the preconditions for take-off (evolution of modern science and with it widening of markets), the take off (application of modern industrial techniques to increase growth), the drive to maturity (extension of modern technology to large number of primary goods and rapid industrialization) and finally the age of high consumption (housing, automobiles, household electronic devices etc) (Rostow, 1959). Under the big push theory, foreign aid over a relatively short period can bring the developing countries to the point at which they will not require it any more (Olaniyan, 1996, 15). The role of aid is considered very significant in the third stage. It is argued that underdeveloped countries are trapped in “a vicious circle of poverty, low income, low savings, low investment and low productivity” and therefore these countries need a big push in the form of foreign aid to ‘take off’ (Dang & Pheng, 2015). Under the two-gap theory of foreign aid

helps the poor countries to overcome the problem of ‘saving-investment gap’ and ‘foreign exchange gap’ (Sindzingre, 2012 and Mbah & Amassoma, 2014). The principal–agent theory of foreign aid not only identifies the divergence of interests between the donor and the recipient but also recognizes that the principal (donor country) and the agent (recipient country) may have conflicting views on how to alleviate poverty (Paul, 2006, 5). It further maintains that the principal always uses foreign aid in a stick and carrot manner “to induce the agent to undertake particular actions” (ibid). Finally, the public choice theory considers foreign aid ineffective and possibly damaging for the recipient countries. Under this theory it is argued that the politicians of the recipient countries tend to further their own interests through aid money instead of spending it for economic purposes.

In this study; first, a general overview of bilateral aid is given and secondly, a correlation between of the motives and objectives of aid flows from the US to Pakistan is drawn in relation to its aggregate impact on human development in Pakistan. Hence, the realist and public choice theories are employed to conceptualize the US foreign aid (grants and concessional loans) which was allocated to Pakistan over the period 1948-2015. The two theories are explained in some detail in the following paragraphs.

2.2 THE REALIST THEORY AND FOREIGN AID

The realist theory defines foreign aid from the perspective of donors’ politico-strategic and security considerations. To put it more simply, under the realist theory allocation of foreign aid is interpreted in terms of political imperialism—through aid the powerful

states employ strategies which help them in maintaining control, influence and dominance in the global (anarchic) environment. Also that political and security interests dictate the pattern of aid flows from the dominant states to the weak ones.

The fundamental premise of the realist theorists is that the donors choose countries as aid-recipients which can further their politico-strategic and security interests, and thus the actual motive behind the transfer of money is to influence the political judgments of aid-recipients (Morgenthau, 1962; Mckinaly & Little, 1977; Hattori, 2001; Lagon, 1992; Lancaster, 2007; Furia, 2015). It is, therefore, argued that ‘unreciprocated assistance’ does not exist in the anarchical world, where every state endeavours to increase its influence over other states. In fact, ‘unreciprocated assistance’ is seen as the antithesis of the very behaviour of a state. Schraeder et al (1998) explain that the political realists understanding of international relations is based on a Hobbesian state of nature where national security and self preservation remain the primary objectives.

2.3 THE PUBLIC CHOICE THEORY AND FOREIGN AID

Generally speaking, the public choice is considered an inter-disciplinary theory which falls halfway between Political science and Economics (Buchanan & Tollison, 1984; Mueller, 2004 and Rowley, 2004). The proponents of this theory recognize politicians as egoistic and rational individuals and they argue that economic decisions are influenced by political interests of those at the helm of affairs (Downs, 1957; Mueller, 1976 & 1997; Frey, 1983; Farber & Frickey, 1991; Lewin, 1991; Anwar, 2000; Shughart & Razzolini, 2001; Seldon, 2002; Tullock & Rose-Ackerman, 2004; van Winden,

2007). The public-choice theory, in fact, criticizes the ‘unrealistic assumptions’ made about “benevolent motivation of politicians” (Blankart & Koester, 2006).

Lai (2012) contends that an argument made in the public choice theory is that foreign aid “remains ineffective and further damages recipient countries”, because rulers from both donor and recipient sides have “incentives to misappropriate foreign aid in a manner that serves to their own self interest”. Elayah (2016) Williamson (2010) foreign aid creates at least four problems if seen through the prism of public choice approach. First, it creates a moral hazard problem, second rent-seeking, third dependency, and fourth the Samaritan’s Dilemma. The basic assumption made in the public choice theory is that “bureaucrats and politicians cannot be considered altruistic”, rather they are primarily interested in protecting their own interests (O’Keefe & Potter, 2007). It is thus contended that politicians as self-interested individuals, make use of aid money to fulfil their own objectives. The politicians in aid-recipient countries misappropriate and divert money to buy patronage and to pursue clientelist activities with the ultimate aim of remaining in power (Williamson, 2009; Lai, 2012; Abouraia, 2014; Michael & Omoruvi, 2015 and Elayah, 2016).

2.4 MOTIVES AND OBJECTIVES OF FOREIGN AID

2.4.1 Introduction

Foreign aid is a highly contested subject. It is due to the reason that opposing explanations have been given for the motives and objectives of the donors in aid-scholarship. How and why does aid-giving activity take place? There is no

straightforward answer to this question. On the one hand, it is argued that foreign aid is inspired by geo-strategic, political, commercial and security interests of the donors. On the other hand, it is asserted that development needs of aid recipient countries always remain the donors' major concern. Thus, two opposing views, based on divergent rationales, justify the allocation of aid made by the bilateral donors. Therefore, Morgenthau (1962) has stated that “of the seeming and real innovations which the modern age has introduced into the practice of foreign policy, none has proven more baffling to both understanding and action than foreign aid” (301). It thus becomes intriguing as well as challenging to identify the particular motives of a bilateral donor behind aid provision. In the case of US—a major bilateral donor—some authors have indicated the donor's politico-strategic and security interests behind aid provision while others have signified the donor's humanitarian concerns. For example, the Marshall Plan—under which huge volumes of aid were provided to the Europe in the aftermath of the World War II—was seen by some authors as a foreign policy tool of the US which was aimed at curbing the spread of Communism in Europe. Others have acknowledged it as an assistance extended for the reconstruction of the war-ravaged continent.

TABLE 1. ALLOCATION OF BILATERAL AID

	Donors' Self-Interests	Recipients' Needs
Good	Aid is allocated for geo-strategic, political, commercial and security reasons	Aid remains inspired by developmental needs of recipients
Motivation	Aid acts as an instrument to influence the recipients	Aid is based on altruism to help the poor countries
Adherents	Amin, Bauer, Brown, Hayter, McGillivray, McKinlay, Morgenthau, Mosely and others	Lancaster, Lumsdaine, Ohlin, Sullivan, Winham and others

2.4.2 Self-Interests of Bilateral Aid Donors

2.4.2.1 Donors' Interests During the Cold War Period

In various studies foreign aid has been linked with the donors' self-interests. The major argument made in these studies is that foreign aid is a foreign policy instrument of the developed world undertaken for the manipulation and exploitation of the poor countries. The critics of foreign aid are of the view that allocation of aid cannot be justified on moral or humanitarian grounds due to the involvement of donors' self-interests. In fact, the donors emphasize that aid is provided to enable the poor and 'unprivileged' nations to get rid of the 'poverty trap'. Thus, aid should not be seen with suspicion, because its ultimate objective is 'to uplift the poor'. Aid-critics reject this 'moral duty' stance of

donors. Morgenthau (1962) and Bauer (1976) were the early authors who criticized the moral interpretation of foreign aid. In Morgenthau's view, the US resorted to aid policy, because she had failed to secure her interests through military and diplomacy in the international arena. The author negated the idea that foreign aid could be void of politics or there existed such thing called 'assistance' given on humanitarian grounds to poor nations. In the author's words, "Much of what goes by the name of foreign aid today is in the nature of bribes. The transfer of money and services from one government to another performs here the function of a price paid for political services rendered or to be rendered" (1962, 302). Bauer's criticism of bilateral aid is more generic. The author contended that it would be wrong to equate bilateral aid with voluntary charity, because the former is given for commercial reasons, whereas the latter is purely motivated by 'humanitarian sentiments' (1976, 127).

Some authors have declared foreign aid as a political innovation of the developed world used as a soft power to influence and to gain support of the poor and weak nations. They have strongly asserted that altruism—as claimed by the leaders of the developed countries—is nothing but 'rhetoric' because poverty is not a consideration behind aid provision. The donors provide aid to promote and protect their own 'vested interests' i.e. geo-strategic and commercial interests (Syed, 1970; Raffer & Singer, 1996; Schraeder, Hook & Taylor, 1998; Chowdhury & Garonna, 2000; Akhand & Gupta, 2002; Therien, 2002; Hattori, 2003; Dacy, 2005; Younas, 2008; Travis, 2010; van der Veen, 2011).

Riddell (2008) has precisely commented on the basic purpose of US aid, which in his view is "neither poverty eradication nor even the promotion of economic growth in poor

countries” but rather, “to protect America” (86). According to Brown et al (2015), the US allocates aid for its own politico-strategic and security reasons and thus the policymakers involved in the US aid-policy have always remained “realists at heart”.

Brown (2006) has argued that foreign aid has only served to the political and commercial interests of the donors. The author has given the example of Egypt and Israel—which, during the Cold War period, received more aid than forty Sub-Saharan African countries received collectively (104). de Mesquita and Smith (2009) consider bilateral aid as ‘a deal’ between the leaders of the donor and recipient countries and thus poverty alleviation is not a main reason behind aid dispersal. The authors have contended that as a result of such activity or deal, citizens in the donor country do not get ‘hurt’ rather they are ‘benefited’. Whereas, common citizens in the recipient country face the ‘damaging effects’—in at least two ways. First, they get policies against their choice i.e. the policies are arbitrarily imposed on them. Secondly, aid promotes survival of unscrupulous and inept autocratic leadership in the recipient countries and “thus, citizens in the recipient country get ‘bad policies’ and ‘bad leaders’” (336).

McKinlay (1979) and McKinlay & Little (1978a, 1978b, 1979) have evaluated aid allocations made by the US, Britain, France and Germany (they have examined each donor separately as well as in combination) in four different studies. The main conclusion drawn by the authors in all the three studies is that the four major bilateral donors allocated aid on the basis on their political, commercial and security interests.

Franks (1966) explains that the poor living in underdeveloped countries are ignorant of the fact that their present underdevelopment is a result of their past economic and social

history (17). The author further argues that underdevelopment is not a consequence of 'archaic institutions' and capital shortage, rather "it was and still is generated by the very same historical process which also generated economic development: the development of capitalism itself" (21). Hashmi (1973) explains that the US aid policy revolves around two points; first containment of communism and second expansion of corporate interests (4). Hayter (1981) contends that western leaders use foreign aid as a political weapon to support their 'friendly' governments in the poor countries. Aid is also used to keep some governments away from the left-wing policies. The author declares foreign aid as a deception, because its objective is not to bring development and in her own words, "The existence of aid can be explained only in terms of an attempt to preserve the capitalist system in the Third World" (9). The author contends that aid is creates 'a dependent class' in poor countries which eventually becomes 'an ally of imperialism' (10). Amin (2009) views foreign aid as an instrument that is used by western powers, first, to fulfil their geopolitical objectives and second, to make the recipients client states. "It is therefore not excessive to argue that the objective of aid is to 'corrupt' the ruling classes" (60). The author suggests an alternative to foreign aid which is South-South cooperation and gives the example of Bandung era (cooperation among Afro-Asian countries in the 1950s). The author contends that monopoly of the North can only be dismantled if the countries in the South come together and form an economic coalition (75).

2.4.2.2 Aid-Allocation in the Post-Cold War Period

In the above studies a relationship between foreign aid allocation and donors' geo-strategic, political and commercial interests has been shown for the Cold War period. It was argued that the major donors including the US used foreign aid to further their own interests and thus they remained disinterested in development needs of the recipient nations. However, after the end of the Cold War, it was assumed that "the evaporation of the 'Soviet communist threat' have eliminated a key rationale for allocating aid" (Slater & Bell, 2004, 118). Thus, the donors started paying more attention to other issues including democracy, human rights, good governance and poverty alleviation in the recipient countries. Théârien & Lloyd (2000) have stated that after the end of the Cold War, there was an "unprecedented optimism and consensus in the aid community" that aid could contribute to the development process in the recipient countries (21). Bearce & Tirone, (2010) are also of the view that donors' self-interests declined with the end of the Cold War and therefore aid promoted economic growth in recipient countries in the post-Cold War period. Boschini & Olofsgård (2007) Fleck & Kilby (2010) acknowledge that during the Cold War period aid was strategically motivated, which, as a result, undermined the developmental aspect of aid. However, the authors see 'a new trend' in the US aid allocation policy in the post-Cold War era—more aid has been given "to poor countries of little immediate geopolitical importance" and thus much priority has been given to recipient needs (190).

On the other hand, a vast number of scholars have rejected the viewpoint that there was a turnaround in donors' selection criteria of recipients with the end of the Cold War and

that the donors began to provide aid solely on the basis of humanitarian concerns. For example, Sogge (2002) states that if foreign aid in the post-Cold War period was allocated “according to a simple head count of poor people”, then India, China and some other Asian countries would have got a big portion of it. Yet, in fact, these countries could get only one-third of the total bilateral aid during the 1990s (30). Crawford (2001) and Neumayer (2003) have also denied the claim that after the end of the Cold War, the donors started selecting recipients purely on the basis of altruism. Crawford has given the example of US assistance to Egypt (provided for strategic reasons) and UK assistance to Suharto of Indonesia (an anti-Communist dictator who ruled the country for 31 years). Likewise, Neumayer has contended that the major donors have never overlooked their strategic and economic interests when allocating aid. Round and Odedokun (2003) have observed that over the years 1980-2000, the US allocated one-third of its aid to countries of strategic importance including Israel, Egypt and Jordan. Lancaster & Van Dusen (2005) have stated that in the immediate post- Cold War period, the US geo-strategic interests decreased, but a decade later, the war on terror again heightened the significance of ‘diplomatically driven aid’ (12). Taffet (2007) has examined the purpose of U.S bilateral aid in detail, both during and after the Cold War period. The author has come up with the conclusion that “there can be little doubt that the principal historical rationale for the U.S. aid has been international security, not economic development or humanitarian assistance” (25).

Some authors who even see foreign aid as ‘intrinsically good’—as spur to economic development—agree with the view that the donors’ interests did not diminish in the post-Cold War period. For example, Alesina & Dollar (2000) assert that “bilateral aid

has only a weak association with poverty, democracy, and good policy” (55). Similar argument is given by Burnside & Dollar (2000) and Collier & Dollar (2002). They have showed in their analysis that donors’ interest model appropriately explains the allocation of aid rather than recipients’ needs and performance models.

2.4.3 Foreign Aid and Donors’ Humanitarian Concerns

The aid-scholarship on humanitarian concerns of bilateral donors is not as voluminous as it is on the donors’ self-interest. It is due to the reason that a good number of aid-proponents accede to the viewpoint that politico-strategic and trade interests of the donors play a role in their aid-selectivity decisions. Nonetheless, it is argued in some studies that rich countries of the North give aid to poor countries of the South on altruistic grounds because the developed world consider it as a moral obligation (Ohlin, 1996). Thus, foreign aid is projected as humanitarian ‘in essence’ which is aimed at helping the ‘unprivileged regions’ of the world to get rid of the economic miseries and in van der Veen’s words, “some earnest idealists see aid as a modern form of Kipling’s ‘White Man’s burden’: a worthy, noble enterprise, aimed at lifting those worse off than ourselves out of poverty (2011, 1).

2.4.3.1 Bilateral Donors Remain Altruistic Without Omission

Some authors are of the view that the two divergent goals—donors’ interests and recipients’ needs—can be reconciled in an aid-allocation policy. They, therefore, make the ‘altruistic claim’ about all bilateral donors. For example, Lumsdaine (1993) asserts

that it would be wrong to define foreign aid “on the basis of the economic and political interests of the donor countries alone” because development needs of aid-recipients always find a dominant place in the allocation of aid (29. Trumbull & Howard (1994) Sullivan (1996) agrees with the view that foreign aid is a political process but refutes the argument that it only fulfils objectives of the donors.

Lancaster (2000, 2007 & 2008) believes that it was the Cold War that gave birth to the idea of foreign aid. The author argues that the US aid (in the Cold War period and afterwards) has served to both politico-strategic and developmental purposes. The author cites the instance of the Middle East where the US aid is playing a strategic role. On the other hand, it has also promoted ‘development’ in poor countries because support for democracy, economic development and human rights in poor countries are the ‘values of US diplomacy’ and foreign aid is essential for promotion of these values.

Not only the individual authors but even the United States Agency for International Development (USAID) has explained two competing objectives of the US aid; first, to further “America's foreign policy interests”, and second, to improve “the lives of the citizens of the developing world” (USAID, 2010a).

2.4.3.2 Nordic Donors Are More Altruistic than Major Donors

Some authors are of the view that a distinction needs to be made between bilateral donors when assessing their motives for allocating aid. They argue that all donors do not behave alike when allocating aid, i.e. policies of some donor countries are inspired by development needs of recipients, whereas others give more priority to their own

interests. By and large, the Nordic countries are said to be altruistic donors. Even if this argument is accepted, still the problem is that Nordic countries are not the major donors of the DAC community.

Maizels & Nissanke (1984) & Mosley (1985) & McGillivray (1989) have identified Sweden and Norway as donors providing aid on the basis of development needs of the recipients. However, other major bilateral donors including the US, UK, and France allocate aid for perpetuating their own interests. This argument has also been made in some recent studies. For example, Gates & Hoeffler (2004) have examined aid-allocation criteria of the Development Assistance Committee (DAC) donors. The authors have declared the Nordic donors (Denmark, Sweden, Norway and Finland) altruistic but the US and other western donors (including France and Germany) egoistic in their aid allocation decisions. Some other authors have also analyzed aid-selection policies of the US, UK, Germany, France and Japan and they have declared all these major donors as self-interested and inconsiderate (McGillivray, Leavy & White, 2002; Berthélemy & Tichit, 2004; Berthélemy, 2006a & 2006b; Canavire et al, 2006 and Hoeffler & Outram, 2011).

2.4.4 The Marshall Plan

The Marshall Plan, formally called the European Recovery Program (ERP), was the brainchild of George C. Marshall, the US Secretary of State. Under this plan a huge amount in economic aid (\$13,325.8 million) was given to the European countries over the period 1948-1952 (US Statistics & Reports Division, 1975). In the Foreign

Assistance Act of 1948, the objective of the ERP was defined as, “to promote world peace and the general welfare, national interest, and foreign policy of the United States through economic, financial, and other measures...” Secretary Marshall presented the plan as an economic-package provided to the war-ravaged countries in Europe so that they could achieve prosperity. In his own words, “Our policy is directed not against any country or doctrine but against hunger, poverty, desperation and chaos” (OECD, 2008, 3). Secretary Marshall implied that his plan was not against the Soviet Union or communism. However, Bossaut—a former member of the OECD, asserts that fight against communism was undoubtedly “a strong reason for the American aid to Europe” (ibid, 15). The USAID (2010) declares the Marshall program as “a successful effort that allowed Europe to rebuild its infrastructure, strengthen its economy, and stabilize the region”. It does not explicitly mention that the US, through this aid-program, also wanted to stop spread of communism in Europe. Nonetheless, the USAID mentions that President Truman’s well-known Four Point Program which was aimed at fulfilling two objectives. First, “creating markets for the United States by reducing poverty and increasing production in developing countries” and second, “diminishing the threat of communism by helping countries prosper under capitalism” (USAID, 2010).

In the aid-scholarship, on the one hand, the ERP is projected as an altruistic move of the US which helped the post-World War II beleaguered Western Europe in gaining economic recovery (Winham, 1970 and Cingranelli, 1993). On the other hand, the ERP is defined as a strategic attempt of the US—aimed at containing communism and establishing global hegemony (Weissman, 2013 and Moss et al, 2005).

The ERP is presented as a success by the aid-advocates. However, a counter-argument made by some scholars is that the ERP worked on the fertile ground—the European countries had a talented populace and sound institutions but they lacked financial capital. It was provided by the US and thus they recovered. The US provided them with cheap capital, and as a result, they quickly recovered (Tarp, 2000; Browne, 2006; Adelman, 2007; Taffet, 2007 and Guess, 2013).

2.5 EFFECTIVENESS OF FOREIGN AID

2.5.1 Introduction

Foreign aid is a very critical and contentious subject and so is its effectiveness. Does aid stimulates economic development in the recipient countries? If aid encourages development, then why are the most aid-recipient countries far behind in achieving the target? In the past sixty-years, different countries (including Pakistan) received huge amounts in aid from bilateral donors, nonetheless, at present, these countries are not only aid-dependent but the goal of development also continues to be elusive. On the flipside, if aid does not promote socio-economic progress, then why is it being given? Are there other motives of the donors involved in aid-business besides or even beyond developmental needs of the recipient countries? A vast number of scholars have answered this question in affirmative.

In the literature, aid's effectiveness has been approached from at least three perspectives and thus we see an extensive investigation conducted on this topic. One strand of literature states that aid does not have potential to play a positive role in social

development and economic growth; rather it plays an adverse role. There are various reasons cited for this pessimistic view about aid. It is argued that foreign aid fosters corruption, dependency, rent-seeking and redistributive politics in recipient countries. It makes few individuals powerful and keeps bad governments in power. It decreases recipients' competitiveness in exports, reduces domestic savings, distorts taxes, discourages foreign direct investment and worsens income inequality. It makes the recipient nations donors' client states. It paves a way for capitalist system and creates hegemony of the US and western countries. In short, it promotes bad governance and retards economic development. The adherents of this view assert that aid provision should be stopped to poor countries. On the other hand, another strand of literature gives an optimistic view of the effects of foreign aid. It is argued that aid ensures social progress, eases access to education, health care and saves people from hunger in recipient nations. It increases domestic savings, mobilizes domestic resources, eases foreign exchange constraints, transfers technology and thus contributes in economic growth of the recipients. The advocates of this view emphasize that aid inflows to poor countries should continue. In the third strand of literature, effectiveness of aid is conditioned upon; first, donors' objectives—aid allocation on the basis of recipients' poverty and development concerns remain effective and vice versa and second; recipients' economic policies i.e. aid remains effective if recipients have 'proper economic policies' in place. On reviewing the literature, it becomes quite clear that aid' effectiveness is a highly disputed and unsettled issue.

TABLE 2. LITERATURE ON AID (IN) EFFECTIVENESS

	Ineffective/Counterproductive	Effective/ Beneficial	Effectiveness Depends On Policies
Arguments	<p>Aid remains ineffective due to presence of redistributive politics, corruption, rent-seeking, poor absorptive capacity in recipient countries.</p> <p>Aid fosters dependency, increases inequality, decreases domestic savings, exports' competitiveness, FDI.</p> <p>Aid perpetuates Capitalism, corporate interests, US & Western hegemony.</p>	<p>Aid promotes socio-economic indicators (health, education, per capita income).</p> <p>Aid reduces poverty and improves standard of living in recipient countries.</p> <p>Aid catalyzes the development process.</p>	<p>Aid promotes economic growth/development in countries with good policies and sound institutions and vice versa.</p> <p>Aid remains effective when donors' objectives are developmental and ineffective if political.</p>
	Boone, Chatterjee et al, Connors, Dietrich, Easterly, Hancock, Mayo, McGuire, Lahiri, Rajan & Subramanian,	Lohani, Addison et al., Bearce & Tirone,	Bauer, Burnside & Dollar, Collier & Dollar, Glennie & Sumner, Isard et al,

Adherents	Sindzingre and others.	Butterfield, Gomanee et al, Kosack, Lensik & White, Sachs and Tarp and others.	Mikesell et al, Raday, and Salisu & Ogwumike among others.
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2.5.2 Aid is Ineffective

Foreign aid is criticized for being fungible. Aid-critics also argue that aid create problems of the Dutch disease and the Samaritan dilemma. Moreover, corruption and poor absorptive capacity of the recipients are also directly associated with bad and/or negative aid's performance.

Svensson (2000) views corruption in recipient countries as a major reason behind aid ineffectiveness. Connors (2012) has examined the impact of foreign aid on poverty in developing countries over the period 1980-2005. The author has concluded that aid failed to reduce poverty in those countries because it was wasted in rent-seeking activities (28). Dietrich (2011) coins term 'aid capture' for aid's ineffectiveness. The author argues that aid is either is diverted from the intended purposes or gets wasted due to lack of recipients' absorptive capacity (3). Rajan & Subramanian (2005) argue that aid creates the problem of the Dutch disease and thus puts adversely affects recipients' export competitiveness. Sindzingre (2012) points out three negative effects of foreign aid on recipient countries. First, that high aid flows to a country result in the Dutch disease. Second, that the donors' political and economic motives diminish aid's effectiveness. Third, that aid creates the Samaritan dilemma i.e. the recipient

governments do not make effort to improve their situation rather become reliant on aid. Chatterjee et al., (2007) examine aid given to different countries (between 1972 and 2000) and conclude that aid had negative impacts on the recipients, because it did not supplement the domestic savings rather reduced the revenue generation (17). Nowak-Lehmann et al., (2012) contend that aid has positive but little impact on investment, but, on the flipside, it has negative impact on domestic savings and real exchange rate (288). Khilji & Zampelli (1991) examine the US aid provided to Pakistan during the Cold War period and they conclude that aid was not spent on the targeted programs. Pakistan transformed the US aid into fungible resources, i.e. aid was used for relaxing taxes (1103). The authors, in another study, expanded their research to seven more countries—Egypt, Jordan, India, Israel, Philippines, Thailand, and Turkey. They drew the similar conclusion, i.e. the US aid remained fungible in these countries as well (1994, 394).

It is also argued that foreign aid not only fosters corruption, income inequalities and rent-seeking in recipient countries but also destroy civil institutions, mobilization of domestic resources and inflows of foreign investment income inequalities in the recipient countries (Griffin & Enos, 1970; McGuire, 1982; Kindleberger & Herrick, 1983; Masud & Yontcheva, 2005; Radelet, 2006; Le & Atallah, 2006; Mallik, 2008; Moyo, 2009 and Liaqat et al., (2016).

Hancock (1989) not only considers foreign aid ineffective but “profoundly dangerous to the poor and inimical to their interests”, because, in the author’s view, it supports and legitimizes dictators, it facilitates bloated and self-serving bureaucracies (189). The author denies the claim that the poor cannot survive without foreign assistance and

asserts that aid converts “tenacious survivors into helpless dependants” (ibid). The author also refutes aid-advocates’ claim that aid works and in his view, if this statement was true then the poor should have been in a better shape than they were half a century ago and aid’s job should have been over by now (190). Lahiri (2007) argue that foreign aid usually remains ineffective due to redistributive politics in recipient countries, i.e. the ruling governments utilize aid in a way that helps them to win the election and stay in power (18). O’Hanlon (1994) contends that the US aid has done bad rather than good to the recipient nations, because it has strengthened the hands of corrupt autocrats (10).

Easterly (2001, 2007) argues that aid has failed in helping poor countries to ‘take-off’ and to achieve self-sustaining growth. The author explains that the Third World countries despite receiving tens of billions of dollars in aid have failed the target of ‘making poverty history’. Easterly and Pfutze (2008) are of the view that aid is provided for strategic reasons and the recipients’ developmental needs are not taken into consideration, and thus it remains ineffective.

Shleifer (2009) Mckinlay & Little (1977) argue that economic growth does not involve only “the injection of capital”, and therefore many countries despite receiving aid could not achieve “the anticipated self-sustaining growth” (63). Boone (1996) argues that poverty is not caused by capital shortage (other factors involved income inequalities etc) and thus, foreign aid may increase governments’ consumptions in recipient countries but cannot play a role in reducing poverty (317).

Wiegersma & Medley (2000) and Burke & Ahmadi (2006) have examined foreign aid’s role in the East Asian countries. According to the authors, it was not foreign aid but the

export oriented policies, land reforms, inflows of foreign direct investment and spending in education and health care were the factors which paved way for economic development in those countries.

2.5.3 Aid is Effective

Some proponents of foreign aid attribute greater role to it—that aid promotes economic development and thus, enhances the standard of living in the recipient countries. Others view aid as a catalyst—it only speeds up the process of economic development. Lohani (2004), Gomanee et al (2005), Gomanee et al (2013), Kosack (2003), Kenny (2008), Mavrotas & McGillivray (2009), Min & Sanidas (2011) and Majhanovich & Geo-JaJa (2013) argue that foreign aid helps the poor people to get food, shelter, health care and education. Aid finances public expenditures in countries with lower levels of human development indicators and thus improve quality of life in those countries. They argue that if the rich countries stop providing aid then poverty, illiteracy, and mortality rates will be aggravated in poor countries. Addison et al., (2005) argue that in the 1990s, poverty increased in the sub-Saharan Africa due to decline in aid volumes (832). Feeny (2003) admits that aid could not put bring development in the Papua New Guinea; however, poverty would have been greater in the country in the absence of aid (90). McGillivray (2003) and McGillivray (2007) also view criticism on aid (that it is harmful or counterproductive) wrong, because they believe that poverty would be higher in the absence aid. Gukurume (2012) and Lensik & White (1998) view foreign aid as a source of financing that can help countries to gain self-sustaining growth. Butterfield (2004) and Klingebiel et al., (2016) contend that the countries which were at

one stage poor and aid-dependent have now achieved self-sustaining growth including Japan, South Korea, Turkey and Brazil. Foreign aid has made possible healthier life and educated masses (311). Pack & Pack (1990), Sachs (2005) and Tarp (2009) view aid as an important instrument for enhancing productivity growth and thus, the development prospects in poor countries. The authors contend that the rich countries provide aid to the poor ones to achieve 'global well-being'. Cleveland (1963), Chenery, & Strout (1966) and Islam (1972) argue that foreign aid has helped different countries in mobilizing domestic resources and achieving saving and investment at high rate which in aid's absence would not have been possible. Crosswell (1999) argues that the record of thirty-one countries that received the US aid between 1962 and 1990 provides 'powerful and circumstantial evidence' that aid is effective (1999).

Some authors emphasize that foreign aid should be seen as a catalyst to economic development i.e. it stimulates the development process. Pronk (2001) and Pronk (2003) argue that aid does not bring development to a country rather it only speeds up the development process. Pronk et al., (2004) state that countries which are in need of foreign aid suffer from poverty, weak institutions and policy. Therefore, it would be wise to provide them aid, because after all aid acts as a catalyst and fosters the conditions necessary for sustained development (60). Rosenstein-Rodan (1961) argues that foreign aid does not directly raise standard of living in a recipient country rather it only shortens the time required for achieving self- sustaining growth. Krueger (1986) considers criticism on foreign aid 'unfair', because aid only acts a catalyst, and therefore, "any fair assessment of aid must recognize that it has been small relative to the task of development" (67). Roodman (2007) argue that aid only supplements the

domestic savings in a recipient country, and therefore, it cannot be considered a decisive factor in economic development. Arndt et al., (2009) find a positive effect of aid on growth i.e. aid stimulates investment in the recipient countries. They argue that it would be ‘unreasonable’ on the donors’ side either to abolish or to reduce aid.

Bearce & Tirone (2010) argue that a distinction needs to be made between aid provided during the Cold War period and in the aftermath. In the former case, aid was primarily driven by donors’ interests, thus it failed to contribute to economic development. However, in the post- Cold War period, the needs of the recipients gained importance and development became a top priority for the donors. Thus, aid was directed to reduce economic miseries in recipient countries (849).

2.5.4 Aid’s Effectiveness Depends on Donors’/Recipients’ Policies

Some proponents of foreign aid do not fully endorse what aid has done in the recipient countries, nonetheless, they believe that it possesses an ‘intrinsic good’ and its potential can be realized only if the ‘proper policies’ are put in place. To put it another way, they assert that aid only works if it is allocated to countries with the right policies—trade openness, controlled inflation, little budget deficits and strong and competent bureaucracy (Bauer. 1959, 1972; Mikesell et al, 1983; Burnside & Dollar, 2000; Tarp & Hjertholm, 2000; Collier & Dollar, 2001; Hansen and Tarp, 2001; Burnside & Dollar, 2004; Isard et al, 2006; Salisu & Ogwumike, 2010; Raday, 2012; Abouraia, 2014; and Glennie & Sumner, 2014). They argue that aid remains ineffective in countries with high trade barriers, high inflation rates, high budget deficits and corruption and weak

and incompetent institutions. The argument is that good policies and sound institutions prevent wastage of aid in corruption, fungibility and unproductive consumption. As a result, aid complements the domestic resources and ensures economic growth. The underlying assumption is that aid is intrinsically good but its positive impacts may be overshadowed or even obliterated by poor capacity of the recipients. However, the fundamental question is: how can a country, in need of foreign aid, be expected to have low budget deficits or low inflation rates? Rather, conversely, it can be argued that some countries are poor--in the first place--because they have weak institutions and/or policies.

It is also argued that political motivations of the donors have a plausible impact on aid's effectiveness. Foreign aid remains effective if it is developmental in character, i.e. if it is not politically motivated. It is emphasized that donors' allocation policies ought to be viewed as a major determinant of aid effectiveness (Gibson et al, 2005; Bearce & Tirone, 2009; Heady, 2005; Bobba & Powell, 2007; Phillips, 2013 and Masaki, 2015).

Carvalho & White (1996) and Stone (2010) relate aid's effectiveness both to the motivations of donors and the capacity of the recipients. The authors argue that donors' political or commercial interests and recipients' poor commitment reduce aid's effectiveness.

Ouattara (2004) and Asiamama (2009) have identified the micro-macro paradox with foreign aid. According to the authors, foreign aid as a whole does not have a significant effect on macro level, i.e. for the human development indicators, but disaggregated aid does have a positive and significant effect on the recipient country. For example, if aid

is allocated to a particular project--a desalination plant or a school—then it remains effective. However, if aid is allocated for improving literacy rate in a country or health care system then it becomes ineffective.

2.6 CORRUPTION AND DONORS' AID-ALLOCATION

Various authors have examined the relationship between corruption (in recipient countries) and the allocation of foreign aid (by the donors). They have provided two opposing explanations in this regard. Some authors are of the view that donors do not allocate (more) aid to less corrupt countries; however, others contend they do.

Svensson (2000) and Büthe et al. (2012) and De la Croix & Delavallade (2014) have observed that donors' decisions in relation to aid allocation are not influenced by high or low corruption in recipient countries. Rather, the donor countries target the countries with low levels of productivity and these countries can be more corrupt at the same time.

Alesina & Weder (2002) and Neumayer (2005) have found that the major donors, the US, Japan Germany, and the UK allocate aid on the basis of geo-strategic, political and historical reasons and therefore they remain less concerned about corruption in the recipient countries. However, Scandinavian countries allocate aid due to humanitarian concerns, and therefore, they do take the issue of corruption into consideration when allocating aid. Dreher et al (2011) have argued the old donors and new ones (including China and Hungary) and even the multilateral agencies do not reward countries (i.e.

give more aid) to countries with good records of transparency, rather they remain indifferent.

The opposing view is that the donors provide (more) aid to less corrupt countries, because fighting corruption is a key to good governance which is always encouraged by the donor community. It is argued that the countries with good political and civil rights record receive more aid than those with poor governance and corruption records (Trumbull & Wall, 1994; Santiso 2001; Berthélemy & Tichit, 2004 and Schudel, 2008)

2.6.1 The Effect of Foreign Aid on Corruption

In some studies, it is argued that foreign aid can have favourable effects for mitigating corruption in the recipient countries, because the optimal use of aid can help in implementing institutional reforms, for example, training the officials, increasing their salaries etc. Also, that aid limits the discretionary powers of the politicians in recipient countries regarding the financial matters, because the donors also get involved in them. This, as a result, leaves little room for monetary corruption (Van Rijckeghem & Weder, 2001; Tavares, 2003 and Kangoye (2013). Dunning (2004) Charron (2011) and Okada & Samreth (2012) have argued that aid helps the recipients in fighting corruption, in particular, when it is provided by multilateral donors, because they put more emphasis on quality of governance.

On the contrary, it is asserted that aid enhances corruption and provides incentives to the politicians of the recipient countries to get engaged in embezzlement activities, which as a result, undermines institutions in those countries and makes the politicians

unaccountable to their citizens. Also, it helps the few powerful individuals to stay in power, and thus, the elite capture remains intact (Knack, 2001; Alesina & Weder, 2002; Dalgaard & Olsson, 2008 and Asongu, 2012)

According to Hancock (1989), the aid money is embezzled by the so-called experts of the foreign aid agencies, as well as, the politicians in recipient countries. In the author's words, "the ugly reality is that most poor people in most poor countries most of the time never receive or even make contact with aid in any tangible shape or form" (190). The Transparency International (2007) in its policy paper has noted that foreign aid in recipient countries does not fully reach to the poor because it is wasted in corruption. It is also mentioned that if aid is given to corrupt politicians then it encourages corruption, instead of making any good.

2.7 FOREIGN AID, ELITE CAPTURE AND PATRONAGE POLITICS

Elite capture and patronage politics are the other two issues associated with foreign aid besides the embezzlement of aid money in recipient countries. In most Third World countries, including Pakistan, a group of people at the helm of affairs called the 'elite' manoeuvre to retain the political power. They, therefore, use aid money to buy political allegiance of the citizens. So, in this way aid is wasted in unproductive activities and is not used for human development.

In the literature, a linear relation is drawn for elite capture, patronage politics and income inequality. It is argued that aid facilitates the elite capture which leads to

patronage politics and eventually to socio-economic inequality in the recipient country. For example, Bardhani and Mookherjee (2012) has stated that the elite capture of political system not only impedes provision of public services, poverty alleviation and land reforms but it results in diversion funds to inferior consumption goods, such as provision of subsidized food to a selected group of poor people for ‘an implicit quid pro quo’ of their political support (17). Bräutigam & Knack (2004) and Tangri & Mwenda (2006) have given the example of the sub-Saharan African countries where foreign aid has given rise to clientelist politics. The authors have contended that aid has not only made the politicians in those countries ‘unaccountable’ to their citizens but has helped them to retain the political power.

Hoffman (2003) is of the view that if aid is provided directly to the governments of recipient countries then it facilitates patronage-based politics. However, if aid is given to the NGOs working in poor countries, then it can contribute to economic development of those countries. In the author’s view, unlike the politicians, people working in the NGOs do not have vested interests.

2.8 CONCLUSION

In the literature, the two underlying reasons explained for aid-selectivity criterion of bilateral donors are; first, donors allocate aid on the basis of their own geo-strategic, political and commercial interests and second that donors provide assistance keeping the developmental needs of recipients in mind. Some authors consider foreign aid as a two edged foreign policy instrument, which on the one hand, perpetuates interests of

aid-donors and on the other, exploits and manipulates aid-recipients. They, therefore, strongly criticize the very concept of foreign aid. Some of these authors view the geo-strategic and political interests as the actual motivations behind aid-provision; others see trade and commercial interests as important determinants. There are some authors who see a reflection of self-interests in donors' aid-allocation but they do not accede to the view that aid plays a detrimental role in recipient countries. Rather, they argue that the donors' interests cannot be seen as an antithesis of recipients needs. Therefore, notwithstanding the fact that donors remain atomistic when allocating aid, it could prove beneficial for recipients. They see other reasons (recipients' economic policies, institutions, etc.) more important factors for aid effectiveness than donors' interests. In some studies it is argued that donors' interests remained predominant in allocation of aid only during the Cold War period. Thus, after the end of the Cold War, donors started directing aid to the countries with great economic needs and on the basis of their commitment to democracy and human rights. In other words, with the collapse of the Soviet Union, western donors' self-interests diminished and they became altruistic in selecting recipients. In one strand of literature, it is argued that donors have always remained altruistic i.e. both during and after the Cold War. The reason given is that bilateral donors consider it their moral obligation to help the 'poor and unprivileged' nations to achieve sustainable development. Thus, allocation of aid is justified on humanitarian grounds. Some of these authors have given the example of the Marshall Plan, which in their view, was carried out to help Europe in gaining economic recovery—although aid-critics provide a different explanation for the Marshall Plan and present it as an anticommunist propaganda package.

The arguments made by all the above authors can be placed broadly in two categories. First, the recipient needs model of aid-criteria—which assumes that foreign aid is extended to countries keeping their needs in consideration and which ultimately indemnifies shortage of domestic resources in those countries. Second, the donor-interests model of aid—which defines aid as an instrument employed to further and protect donors’ politico-strategic and trade interests.

Strictly, aid-critics can be associated with the Realist and Marxist schools of thought. For example, the authors who put much emphasis on politico-strategic interests of donors can be identified as the realists. While the authors who see the US and western donors as proponents of capital system who make use of foreign aid to influence the recipient nations and also egoistic due to the involvement of their trade interests behind aid-allocation seem to have proclivity either to the Marxist or Dependency school. On the other hand, the advocates of foreign aid belong to the liberal school because they see aid-donors altruistic –who always remain concerned about needs of poor countries and provide them with economic assistance.

Some aid-proponents contend that foreign aid could play a positive role in economic development of the recipients but at the same time they endorse the claim of aid-critics that donors’ self-interests influence their aid-policy. These authors can also be placed in the category of liberals, because, first, they do not consider foreign aid as a zero-sum game, and second they do not uphold the view that donors manipulate recipients through aid. Rather, they argue that bilateral aid could prove beneficial both for the donors and recipients. As a matter of fact, the effectiveness of foreign aid is a very contentious issue and has been traced differently by different authors.

Regarding the effects of foreign aid, in general, there are polarized views. Some authors consider aid ineffective and counterproductive, i.e. aid instead of doing good, further aggravates economic conditions in recipient countries. Others consider aid beneficial for economic growth of the recipients. Again, there is disagreement among aid-proponents over aid's role. Some proponents attribute a greater role to aid, for example, that it improves the socio-economic indicators (health, education, per capita income) in recipient countries. Others view aid as playing a supplementary or catalytic role i.e. it only accelerates the development process but is not a decisive determinant for it. On the other hand, some authors condition aid's effectiveness on recipients' policies and donors' objectives. They argue that if the recipients have 'right policies' and well-functioning institutions in place then aid becomes effective and vice versa. Likewise, if the objectives of donors are developmental then aid plays a positive role and vice versa. Now, this large body of literature based on divergent views and interpretations vis-à-vis aid's role undoubtedly makes the topic of foreign aid a contentious issue.

Lastly, with regard to the effect of corruption on the allocation policies of the donors, and on the flipside, the impacts of foreign aid on corruption and rent-seeking activities in the aid-recipient countries, again, there are polarized views in the aid-scholarship. Some scholars draw a causal relationship between foreign aid and the state of corruption in the recipient countries. They argue donors prefer to allocate aid to countries with low levels of corruption. Others reject this claim and contend that the donors direct aid to those countries which can further their geo-strategic, commercial and security interests, and thus the aid-donors pay little attention to corruption in the recipient countries. Similarly, some authors have argued that foreign aid can help in mitigating corruption, bringing

institutional reforms and limiting financial powers of the policymakers in the recipient countries. Others are of the view that foreign aid enhances corruption because it provides opportunity to those at the helm in the recipient countries to get involved in embezzlement of aid money, and make politicians in the recipient countries unaccountable to their citizens.

3.0 HISTORY OF US BILATERAL AID TO PAKISTAN (1948-2015)

3.1 INTRODUCTION

The US-Pakistan relationship has always been shaped by geo-strategic compulsions and security imperatives. During the Cold War, the US tried to fill the ‘power vacuum’ left in the sub-continent after the withdrawal of the European colonial powers, but more importantly it was containment of communism that pushed her for alliance with Pakistan. On the other hand, for Pakistan it is the regional security threat that played a direct role in her alliance with the US. Since the partition of the United India in 1947, the two states--India and Pakistan---have remained at loggerheads which as a result have brought security at the centre stage. Therefore, as Malik (1990) states, “From its very inception Pakistan's preoccupation with its own national security has been the hallmark of its diplomatic history” (284). Since the partition, Pakistan’s political and military leadership started efforts to acquire support, both military and economic, from the US. Nonetheless, how the issue of security remained predominant was reflected in Pakistan’s diplomatic endeavours. As per a US foreign relations declassified document (1987), the US ambassador to Pakistan, Langley, in 1957, wrote a letter to the assistant secretary of State, Rountree. The ambassador mentioned that Pakistan was demanding increase in the US aid and its ruling elite was apparently giving pro-US postures; however, in fact, “these postures are in part dictated by Pakistan’s hatred for India” (490). In the 1950s, for Pakistan, the major strategic concern was neither Russia nor China, rather it was India. However, the US knowingly overlooked Pakistan’s agenda because those at the helm of affairs in Pakistan were prepared, in Riedel’s words, “to

play ball on the U.S. side in the Cold War” (2011, 12). Abbas (2005) is of the view that the military elites were more desperate to obtain hardware and weapons from the US due their perceived threat from India (26).

Generally speaking, different events including the early Cold War period, the US-Soviet détente, the 1979 Soviet invasion of Afghanistan, Pakistan’s nuclear program and the 9/11 attacks have played role in the US-Pakistan alliance as well as detachment. In the 1950s and 1960s Pakistan cherished its alignment with the US, but in the 1970s it became disenchanted with its former powerful patron. In the 1980s, Pakistan again became a frontline ally of the US and remained so until it was treated as a rouge state by its erstwhile ally during the 1990s. The 9/11 incident again made Pakistan the closest ally of the US outside the NATO. This chequered history of US-Pakistan bilateral relationship provides an account of aid trends and too in a straightforward manner. Pakistan received a good amount of bilateral aid when it was on friendly terms with the US and vice versa. Some authors started criticizing the US-Pakistan aid relationship from the very beginning. For example, during the embryonic phase of the relationship, Ahmed (1974) declared the story of the US aid to Pakistan as “a story of buying political allegiance with hard currency” (26). The author viewed the US aid as an instrument of ‘neo-colonialism’ that perpetuated American domination, Capitalism, and Pakistan’s underdevelopment. The author further commented that Pakistan’s ruling classed could not even prove that they had bought “development at the expense of sovereignty” and despite aid inflows over the period 1950-73 failed to improve socio-economic conditions in Pakistan (ibid). Hagerty (1988) also saw the US aid with great suspicion and declared it a tool for ‘buying friends’ so that the US foreign policy

objectives could be pursued with ease (238). The author asserted that the US aid could not be considered a charity. (239)

3.2 US-PAKISTAN AID RELATIONSHIP DURING 1950s AND 1960s

According to Haqqani (2005), Liaquat Ali Khan, the first prime minister of Pakistan visited Washington in 1950 at the US President, Harry Truman's invitation. During the visit the prime minister declared "Pakistan's alignment with the United States". He also pledged to fight "the communist menace" and described the U.S. actions in Korea as being aimed at "saving Asia from the dangers of world communism" (18). However, in fact, the Prime Minister was preoccupied by the conflict with neighbouring India over the territorial issue, Kashmir. Therefore he told Truman, as Hashmi (1973) notes, "We know that you are determined to defy aggression. In such a task you will find Pakistan amongst your friends" (6). What the prime minister implied was that Pakistan defied both the Soviet and Indian aggression. Haqqani (2013) states that, Bogra, Pakistan's ambassador to the US in 1952, was of the view that Pakistan could secure the US aid by representing itself 'as a frontline state' against communism (59). The author says that during the early 1950, the Pakistani ruling elite failed to make plans to deal with the economic crisis, and therefore, they adopted a formula that "the Americans will soon rescue us" (61). Also, Pakistan wanted to strengthen its military position against India, which in the ruling elite's view, was not possible without the US support (63).

Formally, Pakistan's cooperation with the US began in the mid-1950s after signing the US sponsored pacts aimed at containing communism. The US had a broad agenda to put

a check on spread of communism but Pakistan had a regional security threat from India. Thus, the two countries decided to negotiate a defence agreement in May 1954 due their own and divergent interests. Khan (2010) calls it “an arrangement between two unequal partners” (65). Now, why did Pakistan choose taking side with the US but not with the Soviet Union? First, Pakistan’s political and military leadership, due to their western ideals, were more inclined towards the US (ibid). This point is also vindicated by Ahmed (1999), who argues that the pro-western Pakistani ruling elite made the country “a natural ally for the US in its strategy of encircling the Soviet Union in the 1950s” (181). Sunawar & Tatiana (2015) state that the political power lied with a group of western-trained administrators and military leaders “who favoured a policy of economic development through austerity and foreign aid, and close alignment with the U.S” (4). According to Riedel (2011), the US secretary of state, Dulles, paid a visit to South Asia in 1953 with an aim to build a regional alliance “akin to NATO to contain Russia and China” (12). India opposed this plan but Pakistan welcomed it because it viewed the US aid of great significance (ibid). Thus, Pakistan quite willingly joined the anti-communist chorus. Pakistan’s alliance with the Capitalist bloc was supported by both its pro-western ruling elite and the Islamists who opposed Communism. Therefore, the US Vice President, Nixon (later became the President) commented that the people of Pakistan had “less complexes than the Indians” (13). Kasuri (2015) Pakistan’s former foreign minister says that due to the military and economic strength of the US, it was assumed that the US could prove a generous ally (64). Secondly, the political leaders, in particular, belonged to the feudal background, and therefore, they were conservative

and anti-communist” (ibid). Lastly, as Siddiqa (2001) states, “India declined to play role in containment of communism” (91).

In May 1954, the Mutual Defence Assistance Agreement was signed which enabled Pakistan to acquire military assistance from the US. In the same year, Pakistan joined the South East Asian Treaty Organization (SEATO) and in the following year the Baghdad Pact (which later became CENTO). Siddiqa (2001) says that after joining the two pacts, Pakistan became a part of the states that were supposed to deter the influence of the Soviet Union (91). Ayub Khan (1967), the military dictator who ruled Pakistan between 1958 and 1968, states that “by 1954 Pakistan was compelled to align herself with the west in the interests of her security” (116). In 1959, Pakistan signed another bilateral defence agreement with the US. Thus, in the decade of the 1950s Pakistan entered into four different agreements with the US due to which Pakistan was regarded as, in Khan’s words, ‘America’s most allied ally in Asia’ (ibid, 130). Khan says that the reasons behind signing the agreement were; first, securing Pakistan’s position against the Indian threat; and second, Pakistan needed economic assistance and technical know-how for developing its human capital. “For us, our own needs of development were paramount and that was the reason we joined the pacts” (ibid, 154). Haqqani (2005) claims that in the quest for US support, the military dictator, went as far as telling a US official that “our army can be your army if you want” (29).

According to Haqqani (2013), between 1954 and 1959 Pakistan received \$425 million in military aid and \$855 million in economic aid from the US (83). Sisson (1985) states that during the 1950s, the U.S. aid made up approximately 80 percent of the total foreign aid received by Pakistan (118). By 1958, Pakistan had received a good volume

of aid but nonetheless the country was in serious economic crisis. Yet, the ruling elite nonetheless believed that aid could help the country in economic development. For example, in his biography the President of Pakistan, Ayub Khan (1967) has commented that the domestic resources were not sufficient for development; therefore, Pakistan had to rely on foreign aid. The US and western countries were in the position to provide economic assistance to Pakistan (118). Though, he accepts that aid was used by the big powers as an instrument to buy loyalties of the smaller states during the Cold War, but maintains that it was beneficial (ibid, 184). Haqqani (2005) states that “the US eagerness to contain communism during the 1950s” became useful for Ayub Khan to extract “a good price for Pakistan’s participation in anti-communist treaties” (86).

In 1961 the US congress passed Foreign Assistance Act 1961 and aid inflows continued to Pakistan. In 1965 a war broke between Pakistan and India over Kashmir (a long standing territorial dispute). Husain (2009) says that Pakistan viewed the US sponsored SEATO and CENTO “as guarantees that the United States would come to its rescue if its territorial integrity was threatened by India” (13). However, during the 1965 war, the US not only declined to help Pakistan but also invoked sanctions against it. According to Zaidi (2011), the US suspended both economic and military aid, but resumed it after two years but at much lower levels (3). According to Lerski (1968), Pakistan considered this suspension of aid as a betrayal and “complained bitterly about Washington's failure to come to her assistance” against India during the war (412).

The 1965 war escalated Pakistan’s security concern, and therefore, the foreign minister of Pakistan, Zulfikar Ali Bhutto (later became Pakistan’s President and Prime Minister) during an interview with the Guardian stated, “If India builds the bomb, we will eat

grass or leaves; even go hungry, but we will get one of our own” (Jones, 2003, 187). Cohen (2007) argues that Bhutto considered the nuclear program vital because his understanding was that the nuclear power would help Pakistan in “matching with the Indian military power” (80). Lepoer (2001) has noted that Pakistan, as a result of its loyalty, received more than \$700 million in military aid from the US between 1955 and 1965. Pakistan also received more than \$5 billion given in economic aid from the US between 1951 and 1982 (2). Kasur (2015) states that at least until 1962, Pakistan continued to view her alliance with the US “not as a bulwark against communism but primarily as a means to bolster itself against India” (66). However, Rizvi (1993) asserts that throughout the Cold War period the US remained obsessed with the influence of the Soviet Union, and therefore, Pakistan’s relevance for the US depended on the former’s role in advancing the latter’s global strategy. On the other hand, Pakistan wanted to become at par with India, and thus, sought to secure economic and military assistance as well as political support from the US (85).

3.3 STRAINED RELATIONS AND AID INFLOWS IN 1970s

The US-Pakistan relations remained strained during 1970s; first, as Ahmed (1999) points out, Pakistan’s relationship with the US became a casualty of the U.S.-Soviet detente, which reduced the strategic significance of Pakistan for the US (182). Malik (1990) also mentions that in the 1970s detente of the US with the Soviet Union put Pakistan in a disadvantageous position and the US aid volume to Pakistan reached to a low level (295). Secondly, it was Pakistan’s nuclear program that annoyed the US.

Shahi (1987) states, “Pakistan enjoyed a kind of honeymoon relationship with the US” until 1960 (163). Between 1960 and 1970 the relations between the two countries remained bumpy and chaotic and in the following decade the relationship became adverse. Pakistan withdrew both from the SEATO and the CENTO.

After India’s nuclear explosion in 1974, Pakistan’s strategic imperative was to achieve nuclear capability. Therefore, as Siddiqa (2001) points out, Pakistan’s nuclear program became “the centrepiece of the diplomatic relations” between the US and Pakistan (92). The US asked Pakistan to forego nuclear program and Kissinger (the secretary of State) threatened that “the Democrats would make a horrible example of Pakistan” if Pakistan failed to comply (175). Malik (1987) calls the relations between the US and Pakistan during 1970s “less than friendly” (129). The author says that the US tried to prevent Pakistan from acquiring the nuclear capability and suspended all new development assistance in 1977. The US further increased pressure and in 1979, economic and military aid was fully suspended (ibid). Lepoer (2001) argues that the major reason behind complete suspension of US aid to Pakistan in 1979 and that was Pakistan’s secret endeavour of uranium enrichment facility (3).

Pakistan’s nuclear program was, of course, a matter of high concern for the US, but the changing global conditions during the 1970s also put Pakistan in a disadvantageous position. According to McMahon (2003), in the 1970s, the US and the Soviet Union came together and agreed on minimizing the danger of nuclear war and signed the arms control agreements (SALT I and SALT II). Moreover, the two superpowers established trade links and sought ways for technology sharing (122). Thus, the 1970s was the decade of détente between the two powers. McGhee (1987) explains that in the 1950s

and 1960s the US provided massive aid to Pakistan, but due to the reduction of the communist threat the US strategic interest in Pakistan diminished (32). Higgs (2006) provides a detailed account of the major events that took place in the 1970s in international arena where the US was directly involved. In January 1973, an agreement was signed between the US and North Vietnam that paved a way for the withdrawal of the US troops from Vietnam (137). Also in May 1971, Kissinger, the US Secretary of State, made a secret trip to China followed by Nixon arrival in 1972. Both these trips were aimed at mending relations with China (140). On the other hand, the US policymakers also believed that it was vital for the US to convince the Soviet Union's leaders for arms control negotiations (ibid). All these events reduced Pakistan's geo-strategic significance for the US. Riedel (2011) gives an example of the adverse US-Pakistan relationship in the 1970s. The author says that the US president, Carter, travelled to South Asia in 1977 and visited India and Iran but did not bother to visit Pakistan. "The message was clear: Pakistan and America were no longer allies" (27). Cohen (2007) says that in 1979, the US-Pakistan relations "reached their lowest imaginable point" (302). In July 1979, President Carter, invoked sanctions against Pakistan and suspended all economic and military. Khan (2010) says that the US "turned the 'most allied ally' of the 1950s into a vital pariah" (68).

According to Husain (1985), the total amount that Pakistan received in US bilateral aid, between 1953 and 1979 was almost \$6 billion (5). Haqqani (2013) says that Pakistan received \$1 billion in US economic assistance between 1972 and 1977 but military aid during that period provided was \$1.87 million (224). Zaman (1985) points out that the US net disbursement of aid to Pakistan was 6.1 per cent until 1965 which fell to 3.1 per

cent in 1975 and was less than 1 per cent between 1978 and 1981 (56). According to Ahmed (1974), Pakistan received \$875.29 million in the first decade (1951-60) and \$1936.7 million in the following decade (1960-70). Rizvi (1993) says that the US share of total foreign economic assistance provided to Pakistan between 1951 and 1960 was 68.4 per cent, which declined to 50.6 per cent in the 1960s. In the seventies it was 14.9 per cent (87). The details of the US aid flows are given in detail in graph 3.1.

3.4 THE IMPACT OF THE SOVIET INVASION ON US-PAKISTAN AID RELATIONSHIP

In December 1979, the Soviet Union invaded Afghanistan and as a result Pakistan again became a front-line ally of the US. According to Jones (2003), President Carter not only lifted the sanctions (imposed only six-month before the Soviet invasion) but also the issue of Pakistan's nuclear program became "a secondary concern" for the US (200). Siddiq (2001) states that the Soviet invasion of Afghanistan provided an opportunity to Pakistan to acquire the US aid because at that time Washington desperately needed an ally in South Asia "to counter what was perceived as the Soviet threat to the free world" (14). According to Haqqani (2013), in July 1980, the US president's special representative to Pakistan, Walters, visited Pakistan and discussed the nuclear issue with then Pakistan's President Zia. The president promised Walters that Pakistan would not develop a nuclear weapon (228).

According to K.M. Arif, the vice chief of Army staff in 1980s, Pakistan accepted to play a front-line state's role for the US because the country needed aid for its own

domestic and security reason. Arif (2001) states that “the Soviet intervention provided an opportunity to Islamabad to take advantage of it without compromising her principles” (185). He further contends that the US media, before the Soviet invasion of Afghanistan, would call General Zia a dictator but after the invasion all of a sudden the media discovered him as ‘a good guy’ (ibid, 190). Khan (2010) argues that the US “transformed her ‘sanctioned ally’ into the ‘frontline state role’ (69). Kasuri (2015) opines that in 1979, Pakistan’s military dictator (and self-appointed President) Zia ul-Haq, all of a sudden, became “a darling of the West” because his assistance was required “to reverse the Soviet invasion of Afghanistan” (72). Hagerty (1988) says that during the Cold War, the US sought to limit the Soviet influence which provided a backdrop to the US aid relationship with Pakistan. The author argues that the provision of US aid to Pakistan should be seen in the context of global competition between the US and the Soviet Union (242). Mohanty (2013) says that in 1980s, the Reagan administration assured that Pakistan’s nuclear program would not be a focal point in diplomatic relations. Also, the restoration of democracy was called ‘an internal matter of Pakistan’ by the US (89). Sunawar, & Tatiana (2015) state that Pakistan was a country of strategic importance for the US because Pakistan’s cooperation could play a vital role in Soviet’s defeat in Afghanistan and it did (10). During the Cold War, the US in pursuance of its self-interests, supported the military dictators in Pakistan and thus, in Cohen’s words, the US “ceased to be viewed as the beacon of democracy” (2005, 8). Pakistan showed allegiance to the US and in return received military and economic assistance.

However, after the Soviet withdrawal from Afghanistan, the US discarded Pakistan. In Wirsing & Roherty's words, Pakistan "became an essential anchor of the entire south-west Asian region" (1982, 589). Initially, the US offered an aid package of \$400 million, which according to Lepoer, was turned down by Pakistan's President Zia-ul-Haq who called the amount 'peanuts' (2001, 3). As a result, in 1981, the US negotiated an aid package of \$3.2 billion (ibid). This amount was provided between 1981 and 1985 which made Pakistan the third major US aid recipient (Post, 1985, 71). In the mid-1980s, the US promised another aid package of \$4.02 billion. According to Haqqani (2013), the second aid package was to be dispersed for the next six years (267). Malik (1990) argues that the generous attitude of the US towards Pakistan was due to two major imperatives that characterized the Cold War the containment of communism and the establishment of international US hegemony (296).

However, after the Soviet defeat in Afghanistan, once again Pakistan lost its strategic importance and the US once again raised Pakistan's nuclear issue. According to Ahmed (2011), in October 1990, the US suspended both military and economic aid to Pakistan. It was seen as "a betrayal after services rendered between 1979 and 1989" by Pakistan (16).

3.5 THE US AID IN THE 1990s AND 2000s

In the 1980s, the US with connivance of Pakistan's ruling elite even encouraged the rise of Islamic militant groups under the assumption that these groups would be instrumental in the Soviet's defeat. Once the goal of Soviet's defeat in Afghanistan was achieved, the

US left Pakistan in a lurch. As Lepoer (2001) points out, the nuclear activity of Pakistan came in the limelight and in October 1990, the US all suspended economic and military assistance to Pakistan due to the latter's nuclear program (1). Later in the mid-1990s the US also imposed sanctions on Pakistan. However more importantly, the US did not bother to dismantle the previously created Islamic militant groups. These groups later became monsters for Pakistan and put existence of the country in danger. Kasuri (2015) argues that the prevailing violence and instability in Pakistan—that have negatively impacted its economy and also a bad name that the country has acquired all over the world--are the direct repercussions of Pakistan's alliance with the US in 1980s (72).

According to Haqqani (2013), India tested its nuclear weapons in 1998 and became a nuclear power (296). Pakistan by then had acquired nuclear capability and announced to make nuclear tests as a response to India. President Clinton telephoned Sharif (then Prime Minister of Pakistan) and offered “planes and huge amounts of financial aid” if Pakistan showed restraint and also invited Sharif for an official visit to Washington (ibid). However, Prime Minister Sharif did not accept the offer. Pakistan made underground nuclear tests and as a result the US imposed economic sanctions on Pakistan (ibid). Shaikh (2009) argues that in the last decade of the twentieth century, the US not only bereaved Pakistan of the military and economic support but also pushed it into international isolation (198). So, after the Soviet defeat in Afghanistan, once again Pakistan lost its strategic importance and the US once again raised Pakistan's nuclear issue.

Cohen (2007) argues that on the eve of 9/11, Pakistan was a state with “a stagnant economy, a military government, international pariah status, and political and social

institutions in disarray”. (90). However, after the 9/11 attacks, President Bush imitated his old predecessor Carter and lifted all sanctions and resumed aid to Pakistan in exchange for Pakistani cooperation (304). Haqqani (2005) states that the military dictator, General Musharraf, also followed his predecessors and sought “the right price for cooperation in the war against terrorism after September 11, 2001” (29). Thus, there were remarkable parallels between the crisis and turnarounds that Pakistan witnessed at the time of the Soviet invasion in 1979 and on the eve of 9/11 (ibid). Armitage et al., (2010) vindicate Cohen’s view and explain that in the wake of terrorist attacks on the US, Pakistan became significant for the US in its counter-terrorism campaign in Afghanistan (29).

Mohanty (2013) is of the view that the three military dictators of Pakistan, Ayub (1958-69) Zia (1978-88) and Musharraf (1999-2008) projected Pakistan as an ally of the US in the latter’s global agenda. However, all three dictators “had India on their minds and wanted American military shielding” (47). Moreover, the US cared only about its self-interests and turned a blind eye to Pakistan’s economic development.

3.6 THE US AID AGREEMENTS

The first official delivery of the US was made to Pakistan in 1948 but interestingly, a general foreign aid act passed by the Congress was the Foreign Assistance Act of 1961. The Enhanced Partnership Act 2009 (commonly known as Kerry-Lugar Bill) was the second Act that dealt with the US bilateral aid to Pakistan. Under the Foreign

Assistance Act 1961, both economic and military aid was given, however; the Enhanced Partnership Act 2009, solely dealt with the delivery of economic aid to Pakistan.

The objectives of the US aid, specified in section 101 of the Foreign Assistance Act of 1961 are: alleviation of world poverty, promotion of self-sustaining economic growth in poor countries, enhancement of individual civil and economic rights, integration of developing countries in global economic system and promotion of good governance. Section 620 of the Act categorically states that the US shall not provide assistance to any communist country unless the President reports to Congress that “such assistance is vital to the security of the United States” or “the recipient country is not controlled by the international communist conspiracy” or “such assistance will further promote the independence of the recipient country from international communism”. Sec 620E/958 of the Act is particularly concerned with Pakistan. It states, “The Congress recognizes that Soviet Forces occupying Afghanistan pose a security threat to Pakistan” and, “Assistance to Pakistan is intended to benefit the people of Pakistan by helping them meet the burdens imposed by the presence of Soviet forces in Afghanistan and by promoting economic development”.

Three amendments have been made to the Foreign Assistance Act of 1961. The first amendment was made in 1976 called the Symington Amendment which prohibits the US aid to a country involved in nuclear enrichment activity. President Jimmy Carter invoked the Symington amendment against Pakistan in 1979 due to its clandestine nuclear activity. The Glenn Amendment was made in 1977. This amendment prohibits to a country that detonates a nuclear explosive device. President Bill Clinton invoked sanctions against Pakistan under the Glenn Amendment in 1998 after Pakistan had

made nuclear tests. The Pressler Amendment was made in 1985. After this the amendment the U.S. president was required to certify on annual basis that Pakistan did not possess a nuclear weapon. Else, Pakistan would not receive most (not all) of the US aid. In 1990, President George Bush did not issue the certificate which resulted in substantial reduction of aid volumes (Hathaway, 2000).

The Enhanced Partnership Act 2009 promised \$7.5 billion economic assistance to Pakistan between 2010 and 2014 i.e. \$1.5 billion each year (Section 102). More importantly, section 4 of the 2009 Act specifies the objectives of aid which include promotion of education, healthcare, water management and energy programs as well as promotion of sustainable development in Pakistan. Epstein & Kronstadt (2013) explains that the amount promised in economic aid under the Enhanced Partnership Act 2009 was not met and the reasons given by the US officials were “budgetary and implementation constraints” (13).

3.7 OVERALL US AID DISBURSEMENT (1949-2015)

The total amount of economic aid given to Pakistan between 1948 and 2015 was \$19.3717 billion (in real terms) out of which \$4.6 billion were given in loans. During the same period, the total amount of given in military assistance stood at \$7.5 billion out of which \$1.7 billion were given in loans. So, the total amount of bilateral aid that Pakistan received from the US between 1948 and 2015 (in absolute value) stood at \$26.9 billion out of which \$6.3 was provided in loans. According to the Centre for Global Development report (2011), Pakistan received \$67 billion (in constant 2011

dollars) from the US in foreign aid between 1951 and 2011. However, if the actual amount that Pakistan received in US aid between 1948 and 2015 is adjusted to constant dollars in 2015, then the overall amount reaches to \$74.1 billion. Out of the total amount given to Pakistan, the military aid makes up \$24.6 billion. In other words, Pakistan received about \$49.6 billion (measured in 2015 constant dollars) in economic aid from the US between 1948 and 2015.

FIGURE 1 ALLOCATION OF US ECONOMIC AID TO PAKISTAN (1948-2015)

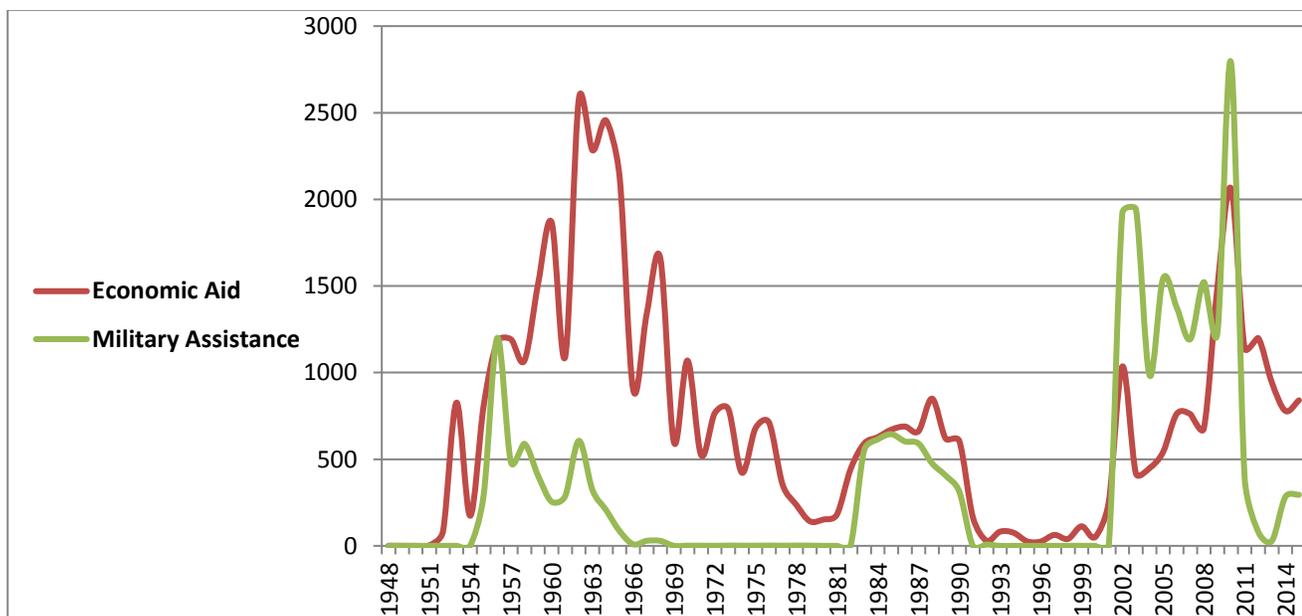


Source: Author, based on the U.S. Overseas Loans and Grants (Greenbook), USAID (2015) data, the CGD Report (2011).

The Department of State (1977) provided two ultimate aims of the US bilateral aid to Pakistan. First, aim is that it was motivated by “humanitarian considerations widely and deeply felt by the American people” (3). Second, Pakistan's geopolitical position with regard to the Soviet Union, China and the Middle East gave it “an obvious strategic importance for the United States”. However, the detailed examination of the US-

Pakistan aid relationship clearly shows that it has always been the geo-strategic importance of Pakistan that played a decisive role in the US aid allocation to Pakistan. The aid inflows fluctuated with changing global geo-strategic and political conditions. For example, in 1950s and 1960s Pakistan received a reasonable amount of US aid but in 1970s when the US was relatively on friendly terms with its Cold War rival, aid volumes declined. The similar episode repeated in 1980s (high aid inflows), 1990s (aid levels declined) in 2000s (again high aid inflows). The fluctuating US aid inflows are shown, figure 2 below.

FIGURE 2 US AID TO PAKISTAN IN MILLIONS (USD)



Source: Ibid

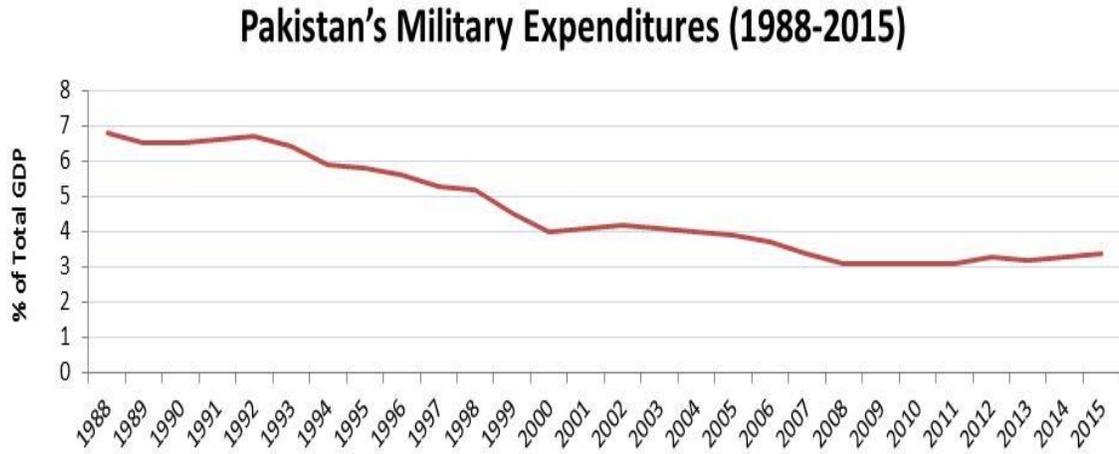
Although Pakistan received \$24.6 billion in military aid from the US, its total military expenditures for 27 years (between 1988 and 2015) alone stood at \$174.3 billion (in 2014 constant dollars) as per Stockholm International Peace Research Institute report

(SIPRI, 2015). This gives credence to an assertion that the economic aid that Pakistan received from the US was diverted to military expenditures because for a third world country like Pakistan it becomes hard to finance such huge military expenses solely from its own earnings. This problem will be analyzed in the next chapter in detail.

Furthermore, the US completely suspended military aid to Pakistan in the 1990s, but provided around \$16 billion between 2002 and 2015. However, Pakistan's military expenditures decreased during the latter period.

From mid-1990s onwards there was a sharp decline in Pakistan's military expenditures in relation to its total GDP. For example, in the year 1988, the share of military expenditures was 6.8 per cent of the total GDP which declined exactly to half i.e. 3.4 per cent in 2015, despite the fact that during these years the size of military expanded. From the very beginning, Pakistan's nuclear program has been controlled by the military and probably this was a reason that the military needed a huge amount of money for making and protecting the nuclear bomb during the 1980s and 1990s.

FIGURE 3 PAKISTAN’S MILITARY EXPENDITURES (1988-2015)



Source: SIPRI (2015)

The data for Pakistan’s military expenditures is not available for the early four decades, the 1950s, 1960s, 1970s and 1980s (except for the years 1988 and 1989). Nonetheless, the above graph gives an idea about the decline in the military expenditures in time. For example, Pakistan’s military size became almost doubled between 1985 and 2015— from 482,800 total armed personnel to 935,800 personnel (The World Bank, 2016). Also, Pakistan has been fighting the war against terrorism since 2001; however, the military expenses of the country have not remained as huge as they were in the late 1980s and during the decade of 1990s. This raises a question why did Pakistan’s military expenses decrease despite the increase in its military size and role? Probably, it was due to the reason that the military needed enough money to perpetuate the clandestine nuclear activity and once the target of making nuclear bomb was achieved, the expenditures of the military decreased.

3.8 CONCLUSION

It is quite evident from the pattern of the US aid flows to Pakistan that the geo-strategic and security interests of the US shaped her policy of aid-allocation, and thus, aid was not given for humanitarian or developmental reasons. In other words, the US self-interests remained the primary determinants behind selecting Pakistan as an aid-recipient country for the bilateral aid. In fact, the US-Pakistan aid relationship completely validates the viewpoint of the realists. Although, the US policymakers claimed that aid provided to Pakistan was aimed at alleviating poverty and supporting the so-called self-sustaining economic growth in Pakistan, the aid-patterns depict a different picture. For instance, during the 1950s and 1960s Pakistan was 'America's most allied ally' and therefore received significant economic aid from the latter. However, during the 1970s, Pakistan's geo-strategic significance for the US became less important, if not fully irrelevant, due to the US-soviet détente (the SALT I and the SALT II). Thus, for the US, instead of Pakistan's geo-strategic position the latter's nuclear program became the real subject matter which first changed into a bitter dissension between the two countries, and ultimately reached to a flashpoint in the year 1979 when the US suspended aid and invoked sanctions and Pakistan as a retaliation announced her withdrawal from the SEATO and the CENTO. However, within six months, after the Soviet invasion of Afghanistan in December 1979, Pakistan once again became the US front-line ally and the sanctions were lifted and aid was resumed. As mentioned above, during the 1980s, Pakistan received huge amount of money in economic aid from the US and the aid flows remained uninterrupted until the announcement of the Soviet Union's withdrawal from Afghanistan in 1990. In the next

year i.e. 1991, Pakistan's nuclear activity, once again came under discussion and in the same year the US once again suspended aid and imposed sanction on Pakistan. The US-Pakistan aid relationship witnessed the repetition of the 1980s episode after the 9/11 attacks—Pakistan again became a front-line ally of the US in the latter's war against terrorism and received the highest amount of both economic and military aid in her history from the US. In short, it was Pakistan's geo-strategic significance and America's political and security interests which determined the trajectory of aid-relationship of the two countries.

On the other hand, the Pakistani politicians remained concerned about India's hegemonic regional role, and therefore, they wanted to gain the US support. During the 1950s Pakistan entered into the US-backed security agreements and remained as a member of the SEATO and the CENTO until 1979. In the 1980s, Pakistan took sides with the US against the Soviet Union and again during the 2000s became ally of the US in the war on terror. As a result, Pakistan received 'generous' amount of aid from the US—received around 50 billion dollars in economic aid alone over the period 1948 and 2015 of which grants made up more than 80 per cent of the total aid. Of course, this 'generosity' was not void of the self-interest and the US used aid as an instrument to buy Pakistan's loyalty both during the Cold War period and in the aftermath. Whether, Pakistan succeeded in using aid money for strengthening her economic position or failed to do so will be discussed in the next two chapters in detail.

4.0 US FOREIGN AID, POLITICIANS' SELF-INTERESTS AND PUBLIC CHOICE THEORY

4.1 INTRODUCTION

In this study, the public choice (PC) theory is employed to examine the role of the US bilateral aid in Pakistan. The PC theory considers foreign aid ineffective—even possibly destructive for the development of the recipient nations. The adherents of the PC theory consider politicians atomistic who remain concerned about protecting their own interest, which is ‘to stay in power’. The politicians, therefore, have incentives to misappropriate foreign aid in a way that help them to fulfil this objective. The misappropriation of foreign aid manifests into embezzlement of aid money (monetary corruption), diversion of aid money from targeted areas or intended purposes (fungibility issue) and utilization of aid money for buying patronage (clientelism).

Now, first, it is important to examine whether the US took corruption in Pakistan into account when allocating aid or not. This will provide an understanding of the altruistic or self-interested character of the US. However, it is more significant to analyze the relationship between corruption in Pakistan and the US aid, which is the actual subject matter. Secondly, it is also pertinent to assess the relationship between the elite capture in Pakistan and the US aid as well as wastage of aid money in activities that help the Pakistani ruling elite to stay in power. Furthermore, the issue of aid fungibility and trade-off between the US aid and Pakistan’s domestic revenue are important for

understanding how the aid money supplements the domestic resources in Pakistan instead of complementing them.

4.2 THE EFFECT OF US AID ON CORRUPTION IN PAKISTAN

With regard to the US aid to Pakistan two assumptions can be made. First, the US aid encourages or fosters corruption in Pakistan. Second, the US aid is wasted in corruption by the Pakistani politicians. As a matter of fact, these assumptions cannot be made solely on the basis of general literature, but they need to be supported by the specific data. Therefore, in the following paragraphs the relationship between US aid and corruption in Pakistan is focused.

It is argued that corruption harms the effectiveness of aid in Pakistan because it goes into corruption. For example, Jones (2003) has stated that the public institutions in Pakistan are weak, officialdom is corrupt, rule of law is poor and in some cases non-existence. Therefore, aid money provided to Pakistan by different donors is not spent on development rather it goes into the pockets of corrupt officials (285). It is also argued that it is, in fact, the aid money that encourages corruption in Pakistan. For example, Fair et al (2010) have analyzed the impact of US aid on corruption in Pakistan. Their findings are that the US provided aid to Pakistan without checks and balances which, as a result, fostered corruption and eroded the state institutions. Even some US policymakers have shown concern over the prevalence of corruption in Pakistan. For example, during the approval of a huge aid package to Pakistan in 2009, the US officials showed concerns that aid money might go into corruption if given directly to

the Pakistani government (The New York Times, 2009). However, at the end, due to its own geo-strategic interests the US negotiated and provided the entire aid package (\$7.5 billion) ‘directly’ to the Pakistani government.

In the following paragraphs, a brief overview of the state of corruption and accountability mechanism in Pakistan is given. This overview does not draw a direct positive causal relationship between US aid and corruption in Pakistan but it does provide a picture in which an inverse relationship between the two cannot be contemplated either.

4.3 CORRUPTION IN PAKISTAN

The state of corruption in Pakistan has been evaluated by various authors as well as national international organizations and the picture provided is, of course, not encouraging. Rehman (1998) has provided the details of five successive governments dismissed in the 1990s over corruption charges. The elected prime ministers were dismissed but they managed to come to power over and over again. For example, the incumbent prime minister, Nawaz Sharif, was dismissed three times over corruption charges in 1990s by two different non-partisan Presidents—who held such power under the constitution (later this power was taken away) and once by a military dictator. This whole episode clearly shows how powerful a small group of elite is in Pakistan. The author has quoted a presidential order issued in the aftermath of dismissal of a prime minister in 1996. It stated, “corruption, nepotism and violation of rules in the administration of affairs of the government and its various bodies, authorities and

corporations has become so extensive and widespread that the orderly functioning of the government in accordance with the provisions of the constitution and the law has become impossible and in some cases national security has been endangered. " (129). Hussain (1999) has argued that in Pakistan corruption has remained widespread both during civilian and military regimes (376). Burki (1999), in his study has used the data that he had gathered as a (caretaker) finance minister of Pakistan over the period 1996-1997. The author has estimated that around 25 per cent of Pakistan's GDP (\$15 billion) was wasted in corruption between 1993 and 1996 (178). As per Ebben & de Vaal (2009) estimation, around 30 per cent money in Pakistan goes either to kickbacks or bribes. Najam (2016) has provided a figure of \$94 billion that Pakistan lost in corruption and tax evasion between 2008 and 2012. Khan (2007) is of the view that corruption was 'sporadic' in Pakistan during the 1950s and 1960s but it became pervasive and rampant in the 1990s. In 2011, de Kok, the European Commission Ambassador, declared unrestrained corruption in Pakistan a bigger threat to the economy than terrorism (The Express Tribune, 2011). Lodhi (2011) have declared much of officialdom in Pakistan corrupt. Hussain (2014) has argued that accountability mechanisms in Pakistan are not used for curbing corruption but rather for victimization of the opponents.

The World Bank, in 2014, rated the countries between 1 and 6 on the basis of transparency, accountability and levels of corruption in the public sectors. The countries with high levels of corruption and poor accountability were given 1 point. Pakistan received 2.5 points. In the Transparency International (TI) index 2010, Pakistan was placed in the second quintile (level of corruption between 30 and 49.9 per cent). In

other words, in the category of the second most corrupt countries in the world. In 2016, Pakistan retained the same position which clearly shows the poor accountability mechanism of the country. The TI has ranked Pakistan 116 in the list of 176 countries on its CP Index 2016. FAFEN, a non-governmental organization, conducted a survey in 2016 and interviewed 6030 (randomly selected) individuals at 603 locations. It concluded that 64 per cent of Pakistanis were of the view that corruption prevailed in government departments.

In the World Bank report (2016), Pakistan has been again identified as a country with poor corruption and governance records. In the report, the performance of countries has been evaluated on the basis of four major governance indicators: control of corruption, government effectiveness, rule of law and accountability. Data gathered for each indicator is based on both primary and secondary sources (ten or more than ten sources employed for each indicator). On the basis of the first indicator, two estimations have been made; first, use of the public power for private gains (petty and grand) and second the elite capture of the state. For these two estimations, Pakistan has been given -0.7 points for the year 2015 on the scale ranging between -2.5 to 2.5. In other words, Pakistan has been put in the list of corrupt and 'elite-captured' countries. Pakistan has received negative points for the other indicators as well, including the government effectiveness which provides perceptions of competency and independence of the bureaucracy from political influence and provision of public services. Also, on the basis of the rule of law and accountability, Pakistan's performance has been declared poor. The details of the World Bank governance indicators are given in table 3.

Table 3 THE WORLD BANK GOVERNANCE INDICATORS (1996-2015)

Year	Control of Corruption Estimate	Control of Corruption Percentile Rank	Government Effectiveness Estimate	Government Effectiveness Percentile Rank	Rule of Law Estimate	Rule of Law Percentile Rank	Voice & Accountability Estimate	Voice and Accountability Percentile Rank
1996	-1.153	8.78	-0.588	30.73	-0.665	28.71	-0.67	28.85
1998	-0.961	15.61	-0.449	36.10	-0.765	24.88	-0.64	30.77
2000	-0.821	22.44	-0.577	31.22	-0.946	19.62	-1.32	11.06
2002	-0.925	21.95	-0.394	41.46	-0.754	28.23	-1.22	14.42
2003	-0.729	27.32	-0.385	40.49	-0.729	28.23	-1.26	12.98
2004	-1.059	12.68	-0.453	39.51	-0.833	20.57	-1.23	14.90
2005	-1.037	14.15	-0.420	40.00	-0.881	21.53	-1.06	16.83
2006	-0.761	24.39	-0.360	41.95	-0.838	23.44	-0.90	24.04
2007	-0.747	23.30	-0.463	38.83	-0.878	21.53	-0.97	20.19
2008	-0.802	21.84	-0.699	28.64	-0.975	19.23	-0.87	23.08
2009	-1.045	14.35	-0.778	24.88	-0.842	21.33	-0.90	22.27
2010	-1.070	13.33	-0.759	24.88	-0.739	27.49	-0.84	26.07
2011	-1.052	14.22	-0.812	21.33	-0.910	19.72	-0.87	24.88
2012	-1.063	13.27	-0.776	25.12	-0.901	19.25	-0.88	22.54
2013	-0.935	17.54	-0.790	24.17	-0.870	21.13	-0.83	24.41

2014	-0.813	21.63	-0.749	22.60	-0.780	23.56	-0.76	27.09
2015	-0.761	23.56	-0.661	27.40	-0.788	23.56	-0.76	27.09

Source: The World Bank, 2016

In the World Bank Country Policy and Institutional Assessment (CPIA) report (2016), an assessment of the public sector institutions of 95 countries has been made on the basis of three factors namely, transparency, accountability, and corruption. The countries have been given points between 1 (poor performers) and 6 (high performers). Pakistan has received at average 2.5 points over the period 2005-2015.

Not only corruption is pervasive in Pakistan but accountability mechanism of the country is also weak. The National Accountability Bureau (NAB)—the organization responsible for curbing corruption in Pakistan—issued a report in 2002 (during the military regime) in which it was acceded that corruption was harming the development process and hindering measures against poverty. In the report, Pakistan’s political system was declared ‘highly elitist’ and therefore as “an impetus to corruption” (16). Ironically, the same organization which issued the report failed in making any positive difference in Pakistan. Rather, it facilitated and continues to facilitate corrupt individuals through plea bargain. For example, the NAB ordinance 1999 solicits voluntary return of “the assets or gains acquired through corruption or corrupt practices” and it authorizes the chairman of NAB to acquit the individual involved in corruption if he/she agrees to return the money/assets obtained through corrupt practices (Article, 25, Section I & II). The Supreme Court of Pakistan, more recently observed,

“The NAB advertises in newspapers, telling people involved in corruption that they can get away with it by opting for voluntary return. NAB is facilitating corruption in the country” (The Dawn Newspaper, 2017). On the other hand, the military dictator who held strong stance against corruption (after assuming power in 1999), eventually submitted to the political pressure and issued an infamous ordinance called the ‘National Reconciliation Ordinance’ (NRO) in 2007. Under the NRO all corruption cases against the politicians were withdrawn (filed between 1986 and 1999). Two years later the Supreme Court of Pakistan turned down the NRO (The Dawn Newspaper, 2009), but the state of corruption remained ‘unimproved’. For example, in 2015 alone, the NAB received 29996 complaints of corruption.

High levels of monetary corruption and poor commitment of the government in Pakistan have become clear from the above discussion.. Therefore, it would be safe to conclude that the US aid has failed to reduce corruption in Pakistan. The second aspect is whether the US aid has been/is being wasted in corruption. In a corruption-riddled country like Pakistan, where the politicians and public officials get involved in embezzlement of billions of dollars, how can it be expected that US aid money does not go into their pockets—provided that there is lack of accountability to donor due to the geo-strategic reasons and also because of lack of checks and balance in the political system.

In recent times, the worst state of corruption in Pakistan has been pointed out by different international organizations. For example, in the Global Competitiveness Index (GCI) —created by the World Economic Forum (WEF), more than ten ‘problematic

factors' for doing business in Pakistan are identified for the year 2015. Corruption is pointed out as the biggest problem followed by poor taxation.

TABLE 4 PROBLEMATIC FACTORS FOR DOING BUSINESS IN PAKISTAN

Corruption	16
Tax rates	12.7
Inflation	8.8
Access to financing	7.9
Inefficient government bureaucracy	7.6
Government instability/coups	6.9
Policy instability	6.6
Inadequate supply of infrastructure	5.6
Inadequately educated workforce	5.3
Crime and theft	4.9
Poor work ethic in labour force	4.7
Foreign currency regulations	3.3
Complexity of tax regulations	3.2
Restrictive labour regulations	3.1
Insufficient capacity to innovate	1.9

Source: Based on the WEF Data, 2016

Furthermore, in the GCI Pakistan is placed amongst the 'worst' performers and is ranked at 124, 133 and 129 in the list of 144, 148 and 144 countries, for the years 2013, 2014 and 2015 respectively. If a comparison of two years 2013 and 2015 is drawn, then Pakistan has performed poor because the country has slipped further down in the list, from the rank of 124 to the rank 129.

TABLE 5 PAKISTAN' RANKING ON THE GLOBAL COMPETITIVENESS INDEX

Global Competitiveness Index	Pakistan Ranking	Score (1-7)
GCI 2014–2015 (out of 144)	129	3.4
GCI 2013–2014 (out of 148)	133	3.4
GCI 2012–2013 (out of 144)	124	3.5

Source: ibid

In the GCI, three major indicators are included namely; first, basic requirements (weightage given to this indicator is 60%), second, efficiency enhancers (weightage 35%) and lastly innovation factors (weightage 5%). Each indicator has sub-indicators called the 'pillars' and Pakistan's ranking against all the pillars remained poor, as shown in table 6.

TABLE 6 GLOBAL COMPETITIVENESS INDEX 2014-15

GLOBAL COMPETITIVENESS INDICATORS	PAKISTAN RANKING (Out of 140 Countries)	SCORE (1-7)
BASIC REQUIREMENTS (60.0%)	131	3.4
1st pillar: Institutions	119	3.3
2nd pillar: Infrastructure	117	2.7
3rd pillar: Macroeconomic environment	128	3.5
4th pillar: Health and primary education	127	4
EFFICIENCY ENHANCERS (35.0%)	107	3.6
5th pillar: Higher education and training	124	2.8
6th pillar: Goods market efficiency	116	3.9
7th pillar: Labour market efficiency	132	3.3
8th pillar: Financial market development	99	3.5
9th pillar: Technological readiness	113	2.9
10th pillar: Market size	28	5
INNOVATION/SOPHISTICATION (5.0%)	89	3.4
11th pillar: Business sophistication	86	3.7
12th pillar: Innovation	89	3.1

Source: ibid

4.4 THE ELITE CAPTURE IN PAKISTAN AND THE US AID

In Pakistan, the elites have remained at the helm of affairs both during the civilian and military regimes. For example, Noman (1990) has provided the precise number of landlords and businessmen who held seats in Pakistan's National Assembly in 1985—during the military regime. Out of the total 238 members, 157 were landlords and tribal leaders, and 54 were business tycoons (127). In the MHDC report (1999), it is mentioned that during the civilian rule in 1991, one-third of the cabinet was made up of landlords in Pakistan and they along with the industrialists made up half of the cabinet (48). Husain (1999) has argued that in Pakistan over the period of 1947-1999 a small group of influential elites dominated the political scene and maximized their own benefits. Grare (2008) states that the major reason behind the failure of 'true democracy' in Pakistan is "the monopoly of power enjoyed by a tiny and incestuous elite, military and civilian" and this tiny class has "collectively hijacked the state" (8). Nieva & Galasso (2014) are of the opinion that in Pakistan, a nexus between elite's political domination and wealth concentration is evident from the increased inequality in the country. The authors argue that the narrow interests of the elites do not allow them to build the state capacity and to enhance economic development in the country. According to Hussain (2014), the legislatures of Pakistan have always remained dominated by few influential families (3). The elite domination of the political system has impeded the necessary reforms (resource distribution, taxation land reforms, etc.) needed for the economic development of the country (5).

The assertions made by the above authors are authenticated by the World Bank report (2014) on income inequalities in Pakistan. The income inequality quintile ratio, i.e. the

ratio of the average income of the richest 20 per cent people in Pakistan to the ratio of the average income of the poorest 20 per cent of the population, identified for Pakistan for the year 2013 is 4.4. More importantly, it is evident from the statistics cited in the report (given in table 7) that there has not been any significant change in the last three decades or so in income inequalities in Pakistan and therefore the poor people have remained deprived. For example in the year 1987 the lowest 20 per cent of the population held 8.3 per cent of the income and twenty-six years later in 2013, they held 9.2 per cent of the income. Likewise, the richest 20 per cent of the population held 42 per cent of the income in the year 1987 which fluctuated insignificantly over time and stood at 40.7 per cent in 2013.

TABLE 7 PAKISTAN: INCOME SHARE HELD BY QUINTILES

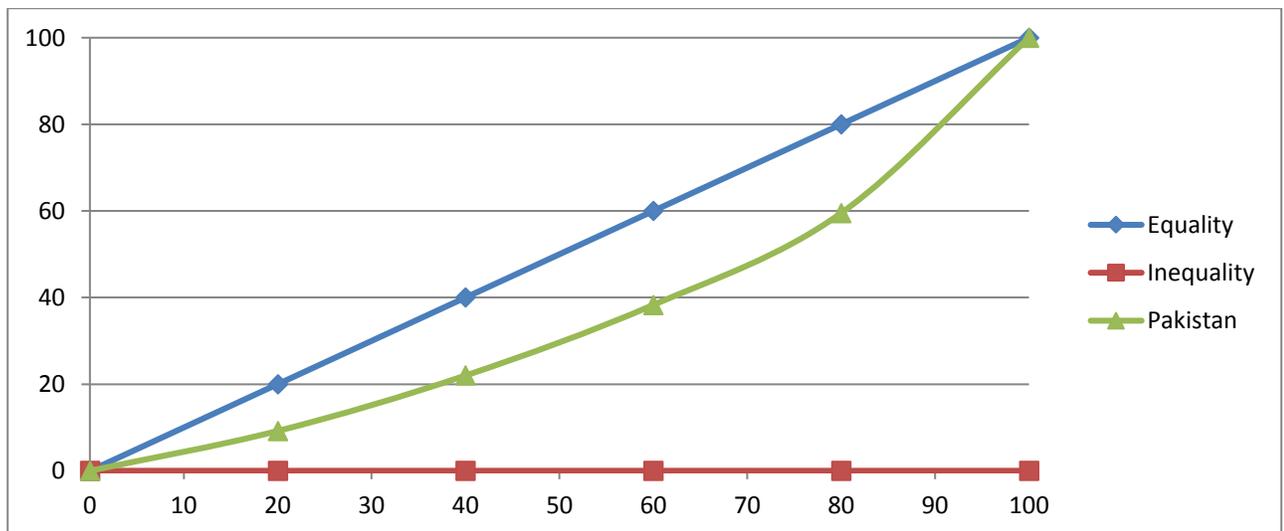
Year	Lowest 20 %	Second Lowest 20 %	Third Lowest 20 %	Fourth Lowest 20 %	Highest 20 %
1987	8.32	12.35	15.94	21.23	42.17
1990	8.08	12.26	16.29	21.6	41.77
1996	9.95	13.44	16.54	21.07	39
1998	8.73	12.43	15.8	20.61	42.44
2001	9.39	13.05	16.31	21.11	40.15
2004	8.82	12.52	15.82	20.91	41.93
2005	9.02	12.47	15.67	20.53	42.31

2007	9.12	12.62	15.88	20.88	41.51
2010	9.56	13.14	16.41	21.19	39.7
2011	9.35	12.84	16.14	20.95	40.72
2013	9.2	12.88	16.36	21.27	40.28

Source: The World Bank, 2014

The above statistics show that over the period 1989-2013, (at average) the above 40 per cent of the population held 62 per cent of the income, whereas the below 60 per cent of the population held 38 per cent of the income. On the basis of the above statistics, if the Lorenz Curve is drawn for the year 2013, then income inequality in Pakistan can be illustrated (in figure 4) as follows.

FIGURE 4 LORENZ CURVE FOR PAKISTAN



Source: Author, based on the World Bank Data, 2014

4.5 THE US AID AND PATRONAGE POLITICS IN PAKISTAN

Many authors have argued that Pakistan, besides few other countries, is under the elite rule and therefore the ‘few’ powerful are ‘free’ to favour certain individuals or groups for their political loyalty. The elite even provide ‘hard cash’ to people in exchange for their support. For example,

Kitschelt & Wilkinson (2007) have stated that in India, Pakistan, Thailand and Zambia, “patrons directly purchase clients' votes in exchange for money, liquor, clothes, food or other immediately consumable goods” (19).

Hasnain (2008) has examined the role of patronage politics in Pakistan between 1988 and 1999 (the longest democratic period in Pakistan’s history) and has concluded that during that period the Pakistani politicians used resources for patronage purposes rather than public goods. Therefore, Pakistan significantly underperformed in infant mortality rate as well as primary enrolment rate than countries with similar income levels. Looney (2004) has also given the example of the 1990s, when the economy suffered due to “the political use of public resources” (771). Hussain & Hussain (2009) have observed that political power in Pakistan is constituted “within the framework of patron –client relationships”. The ruling elite access “state resources for arbitrary transfer as patronage to selected individuals for building political support within a structure of dependency” (291). This transfer of resources has reinforced the country dependency on external assistance (ibid). Lodhi (2011) has stated that ‘few families’—dominating the political system in Pakistan—are involved in clientelist activities (57). Markey (2013) has also mentioned that the powerful elite in Pakistan divert state resources from the general

public and distribute them on patronage basis (30). According to Naviwala (2015), Pakistan received \$7.5 over the period 2010-2014 from the US in economic aid. However, after five years it was hard to find evidence that a portion of aid was actually spent on education, because Pakistan is mired in patronage politics. Martin (2016) has examined patronage politics in Pakistan in detail. The central argument of his study is that patronage politics in Pakistan has undermined the public sector, and as a result, has affected the poor adversely.

In Pakistan, patronage or clientelist activities of the politicians in recent times have manifested into the Benazir Income Support Program (BISP), the Prime Minister's Youth Business Loan', the Interest Free Loans Scheme and the Laptop scheme. Under the BISP hard cash is provided to the people. The total amount allocated for this scheme between 2012 and 2016 was \$4.15 billion (BISP, 2017). Under the Prime Minister's Youth Business loan and Interest Free Loans schemes, 2.5 million individuals were given loans on low interest and even non-interest basis between 2012 and 2015. Around \$8 billion were allocated for those two schemes (Prime Minister's Youth Programme, 2016). Moreover, instead of focusing on poor literacy rates and developing a proper educational mechanism, the government initiated a scheme in 2013 and started providing laptops to the undergraduate and graduate university students. 3.8 million laptops were distributed to the students (almost all of them eligible voters) between 2013 and 2016. Initially, the PM's daughter became the head of this scheme. Around \$35 million dollars were allocated in the federal budgets between 2011 and 2016 to the category called 'Expenditures outside the Public Sector Development Programme'. This category mainly included schemes under which hard cash (in the form of grants) and

interest free loans were provided to the people. This clearly shows how the Pakistani ruling elites waste public funds in clientelist activities. Now, the question is whether the US aid money, was also wasted in clientelist activities in Pakistan. A straightforward answer to this question is not possible. However, it can be inferred from the above discussion that if the Pakistani ruling elite misappropriate public funds for their personal gains, the US aid money cannot be an exception either.

4.6 THE ISSUE OF FUNGIBILITY AND US AID TO PAKISTAN

Generally speaking, foreign aid is said to be fungible—used for purposes other than development. It is argued that the politicians in recipient countries divert external aid to defence or used it to relax the domestic revenue. Therefore, aid fails to reach the poor and thus remains ineffective. The fungibility issue of aid has been discussed in the previous chapter. In the following paragraphs, fungibility of the US bilateral aid to Pakistan is focused within the context of the PC theory.

One of the main assertions made in the PC theory is that politicians and public officials usually behave as self-interested individuals. They, therefore, tend to manipulate public funds with the ultimate objective of retaining political power. The same goes true for foreign aid. With regard to the US economic aid to Pakistan, it is argued that aid acts as a fungible resource. First, the US aid is diverted from economic to defence purposes (military expenditures and nuclear program). Second, it is used as a substitute for domestic taxes, as Pakistan's low tax to GDP ratio makes it obvious. In fact, diversion and substitution are two aspects of the same issue i.e. aid fungibility. Yet, for the sake

of clarity, in relation to the US aid to Pakistan these two aspects are discussed separately.

4.7 THE DIVERSION OF US ECONOMIC AID TO DEFENCE

It is argued that Pakistan has always remained concerned about the threat from her long-term adversary, India. Therefore, Pakistan has continuously attempted to consolidate its defence position. Pakistan during the 1970s and 1980s spent huge money on the nuclear program and she continues to spend a big portion of its budget on the military. Siddiqa (2001), Cohen (2007) and Lodhi (2011) have argued that Pakistan's territorial dispute with India over Kashmir and fears of India's regional hegemony have forced the Pakistani leadership (both civilian and military) to make security the top priority. Therefore, Pakistan's spending on defence has remained high, and as a result, the country's spending on human development has remained low.

As per the US Foreign Relations declassified document (1987), in 1957, the US ambassador to Pakistan, Langley, wrote a letter to the assistant secretary of State, Rountree in which the ambassador had mentioned the poor performance of US aid in Pakistan. Two reasons were identified by the ambassador behind the failure of US aid; first, widespread corruption in Pakistan and second, the country's huge spending on defence (487). The ambassador had stated, "The drain on the economy is such that US aid, as important as it is, only serves to maintain precarious living standards and while this is important, it is difficult for the man in the street to appreciate a benefit" (488). Looney (2004) has stated that Pakistan indeed diverted money from the civilian sector

over the period 1958-73 and spent it on defence which impeded its economic ‘take-off’. Tahir (2012) has stated that inflows of aid to Pakistan remained highly correlated with arms imports. The author has argued that the issue of fungibility cannot be decoupled from aid. Jones (2003) has mentioned Pakistan’s spending in statistical terms. According to the author, 73 per cent of Pakistan’s total government spending went to defence between 1947 and 1959, followed by 46 per cent in the 1960s and 61 per cent in the 1970s. In the year 1998 alone, Pakistan spent \$3.2 billion on defence (264). In the MHDC report, it is mentioned that in 1999 Pakistan made one-fifth of its budget spending on social sectors and the remaining amount went to defence and debt servicing. Ali (2008) has argued that in 2001, Pakistan spent \$2.5 billion on defence and only \$1.75 billion on the overall development (147). Zaidi (2010) has contended that Pakistan, in the past, has spent “twice as much on defence than it has on education and health combined” even during the peace time. Ibrahim (2009) has analyzed the US aid relationship with Pakistan after 9/11. The author has argued that the US aid money was not only wasted in corruption in Pakistan but was also used “to train and stock the Army for conventional warfare, with India viewed as the main threat”.

Some authors have argued that Pakistan ‘siphoned off’ money from US economic aid for perpetuating its nuclear program. For example, Levy & Scott (2008) are of the view that Pakistan’s nuclear program was funded by the US aid as “hundreds of millions of dollars of which had been diverted by the Pakistan military” (14). The authors contend that the US aid money allocated for development projects was spent on the purchase of nuclear apparatus, and thus, the US taxpayers ‘unwittingly’ funded Pakistan’s nuclear program (88). The authors seem to imply that Pakistan misled the US about the

utilization of aid money. However, in fact, the US was contented with Pakistan's assistance against the communist bloc (later in the war on terror) and therefore she did not pay heed to the 'misuse' of aid money. According to Farwell (2011), in the 1980s, Pakistan's finance minister, Ghulam Ishaq Khan (later became President) used the US aid for financing the nuclear program and to purchase apparatus for uranium enrichment were purchased with US aid money (7). In the author's words, "that U.S. tax dollars funded the nuclear program was extraordinary" (8). On the other hand, during a TV interview in 2010, Dr. A.Q. Khan, the founder and creator of Pakistan's nuclear bomb, denied the claims made by the above authors. Dr Khan said that for the continuation of the nuclear program (which started in 1974) \$20 to \$25 million would be required each year, but this required amount would be 'withdrawn' from the defence budget of Pakistan (The Express News, 2010). However, if this argument is accepted, then again, as argued by the authors in the previous paragraph, Pakistan's defence budget itself was facilitated by the US aid.

Israel like Pakistan is also a biggest recipient of the US military and economic aid. Between 1948 and 2012; Israel received \$115 billion from the US in bilateral aid (Sharp, M, 2012). The major reasons given for allocation of aid to Israel by the US include the former's geo-strategic importance for the latter, first, in containing communism in the Middle East during the Cold War and second, playing role in the US-led war on terror (Berrigan, 2009 & De Garmo, 2016). Precisely, after the humiliating defeat of five major Arab countries (Egypt, Syria, Jordan, Iraq and Lebanon) at the hands of Israel in the 1967 War, the US started seeing Israel as a strategic asset evident from the increase in volumes of US aid to Israel in the years that

followed the 1967 War. For instance, as Ali (2013) points out, US economic aid to Israel jumped from \$186 million in the year 1970 to \$240 million in 1971, \$429 million in 1972 and \$433 million in 1973 (387). On the other hand, both survival and security (as in case of Pakistan) have remained major concerns of Israel since its inception in 1948 (Jakobsen, 2012). Thus, the Israeli policymakers see US aid an important factor in strengthening their country's defence position against the hostile neighbouring Arab countries. However, unlike Pakistan, Israel has not faced the issue of aid fungibility i.e. diversion of aid money from economic purposes to military use, which is probably due to the reason that Israel received more money in military aid than economic aid from the US. Also, Israel despite its smaller territory and military size in comparison to Pakistan, received more than three times aid for military purposes from the US than did Pakistan. For example, Pakistan received almost \$25 billion in military aid from the US between 1955 and 2015, whereas, Israel received around \$80 billion during the same period. Only between 2001 and 2008, Israel received around \$22 billion from the US (in military aid (Berrigan, 7, 2009)).

Upon examining the composition of Pakistan's GDP, it becomes clear that Pakistan has spent a fair share of its GDP on defence and military. The World Bank report (2016) provides a comprehensive view of Pakistan's GDP composition. In the report, it has been identified that Pakistan's gross domestic investment (or gross capital formation) over the period 1960-2015 remained (at average) 17 per cent of the GDP, whereas, the country's household consumption and expenditures made up around 80 per cent of the GDP. In other words, Pakistan is a consumption-oriented country. The investment includes the government outlays; first, on improvements of land (fences, watercourse,

canals, drains etc); second, on machinery and equipment purchases (including military apparatuses/hardware) and lastly the construction of infrastructure (hospitals, schools, railways, residential buildings etc). Precisely, the military expenditures fluctuated over time but on average made up 4.4 per cent of the GDP between 1990 and 2015. During the same period, Pakistan's health and education expenditures jointly made 3.4 per cent of the GDP. The government consumption (on average) made up 10 per cent of the GDP. It included the current expenditures (on goods and services including employees' compensation), as well as expenditures on the country's national defence and security (excluding military expenditures). Household/private consumption (goods and services) is identified to make up around 80 per cent of the GDP. The imports of goods and services as percentage of the GDP in relation to exports remained high, and thus, external balance on goods and services over the period 1960-2015 (on average) held 6 per cent of the GDP. The imbalance between imports and exports affected the gross domestic savings (remained 10 per cent of the GDP) and also created problem in the balance of payments. For example, the current account deficit, in the year 2015, stood at 1.6 billion dollars (-0.6 per cent of the GDP). The details of the GDP composition are shown in table 8.

TABLE 8 PAKISTAN'S GDP COMPOSITION

Year	1960	1965	1970	1975	1980	1985	1990	1995	2000	2005	2010	2015
Gross Capital Formation (% Of GDP)	11.56	21.47	15.79	16.23	18.48	18.32	18.94	18.55	17.23	19.08	15.80	15.48
Household Final Consumption & Expenditure (% of GDP)	..	..	80.96	84.67	83.10	81.97	73.76	72.42	75.38	76.95	79.72	80.00
General Government Final Consumption & Expenditure (% of GDP)	10.59	10.77	10.15	10.64	10.04	12.10	15.14	11.74	8.64	7.84	10.32	10.95
Military Expenditure (% of GDP)	..	..	..	..	..	6.8 (Year 1988)	6.5	5.8	4	3.9	3.1	3.4
Imports Of Goods & Services (% of GDP)	..	..	14.67	22.39	24.10	22.81	23.37	19.42	14.69	19.56	19.35	17.02
Exports of Goods & Services (% of GDP)	..	..	7.77	10.85	12.49	10.42	15.54	16.71	13.44	15.69	13.52	10.59

External Balance On Goods & Services (% of GDP)	..	..	-6.90	-11.54	- 11.61	-12.39	-7.83	-2.71	-1.25	-3.87	-5.84	-6.43
Gross Domestic Savings (% of GDP)	..	..	8.89	4.69	6.87	5.93	11.10	15.83	15.98	15.21	9.97	9.05
Balance Of Payment (Current USD Billion)	..	..	..	..	-0.87	-1.07	-1.66	-3.35	-0.09	-3.60	-1.40	-1.60

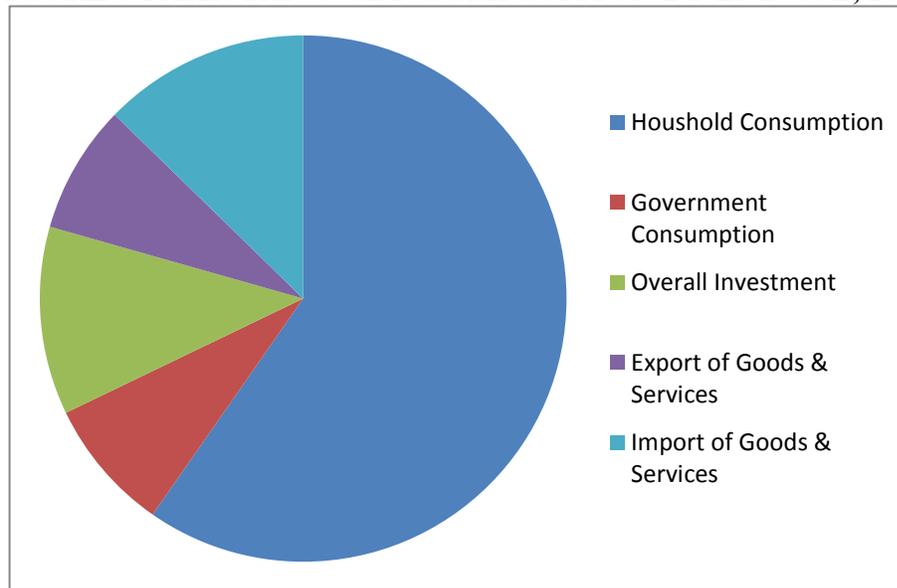
Source: Based on the World Bank (2016) & the IMF (2016), SIPRI (2015) Data.

***Current USD: Value of \$ in 2010**

The GDP Composition of Pakistan has not significantly changed over the period 1960-2015. For example investment stood at 15 per cent of the GDP between 1960 and 1965 and it remained the same between 2010 and 2015. Similar was the case with other household and government consumption and expenditures which stood at 80 per cent and 10 per cent of the GDP respectively. However, two points are important to be mentioned here. First, the military expenditures declined over the period but it failed to manifest into high spending in health and education. The state of human development in Pakistan is discussed in the next chapter in detail. Secondly, the balance of trade remained disturbed and Pakistan has had trade throughout its history. More importantly, the deficit has not shrunk over time but remained the same. For example,

in the year 1960, the external balance of goods and services made 6.9 per cent of the GDP and in the year 2015 it stood at 6.43 per cent, which means that Pakistan has failed to improve its export competitiveness.

FIGURE 5 PAKISTAN'S GDP COMPOSITION BY END USE, 2015



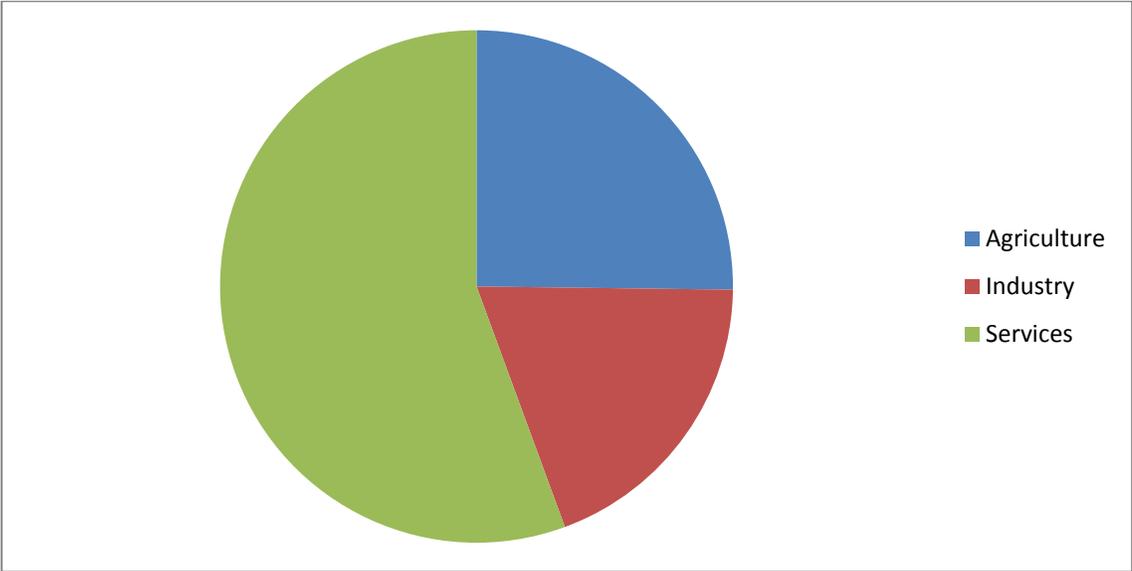
Source: Author, Based on the World Bank (2016) & IMF (2016) Data

Despite high inflows of the US economic aid to Pakistan during the 1980s and 2000s, the country's GDP composition (by the end use as well as by the sectors of origin) remained unchanged. In the latter period, the military expenditures declined but it could not yield to increase in spending in social sectors or high domestic savings.

Furthermore, in the last six decades, Pakistan has not only failed to narrow down its trade deficit but also failed in bringing changes both in the agricultural sector (land reforms, transportation and irrigation facilities, use of proper seed and fertilizers etc)

and in the manufacturing sector—necessary for high industrial exports (technology upgradation, labours skills enhancement, quality production etc). At present, the economy of Pakistan relies heavily on the services sector which accounts for 55.6 per cent of the GDP followed by the agricultural sector with contributes 25.2 per cent in the GDP and lastly the industrial sector which shares 19.2 per cent of the GDP.

FIGURE 6 GDP COMPOSITION BY SECTOR OF ORIGIN, 2015



Source: Author, Based on the World Factbook (2016) Data

4.9 THE TRADE-OFF BETWEEN FOREIGN AID AND DOMESTIC REVENUE

Another aspect of aid fungibility, as discussed in the literature, is that aid is used in recipient countries in a way that it substitutes for the domestic revenues instead of complementing them. It is argued that if aid is not utilized to augment the domestic revenue but to reduce the ‘tax burden’ then it remains ineffective. Under the PC theory,

when aid acts as a fungible resource then it possibly can become harmful for the recipient country. Nonetheless, aid as a fungible resource, does serve to the interests of the politicians in that country; first, because non-imposition of taxes makes the politicians popular, and second, they become less or even non-accountable to their citizens. In the following paragraphs, the fungibility issue is discussed within the context of Pakistan. It is particularly focused how the US aid has remained fungible and served the interests of politicians in Pakistan.

4.10 THE EFFECTS OF US AID ON PAKISTAN'S DOMESTIC REVENUE

In the literature, Pakistan's poor tax-to-GDP ratio is directly associated with the country's reliance on foreign aid. It is argued that the tax system in Pakistan is weak due to which sufficient taxes are not collected. Thus, the country inevitably relies on the external assistance, particularly, on the US aid. Three major issues are identified in the tax system of Pakistan, including tax evasion, tax amnesty and indirect taxes. In the MHDC report (1999), it is noted that tax amnesties (concessions, exemptions, tax breaks, and tax holidays) are given out to the rich and the powerful groups in Pakistan (83). It is also mentioned that in the 1990s, tax-to-GDP ratio improved (due to suspension of US bilateral aid) nonetheless, the elite's tax evasion continued. Therefore, tax burden was instead shifted to the poor as indirect taxes were imposed (ibid). In a World Bank report (2004), a widespread collusion between taxpayers and tax officials in Pakistan are identified to be ensuing in tax evasion. Aftab (2014) and Iqbal & Mehar (2015) have argued that due to Pakistan's reliance on indirect taxes—which are

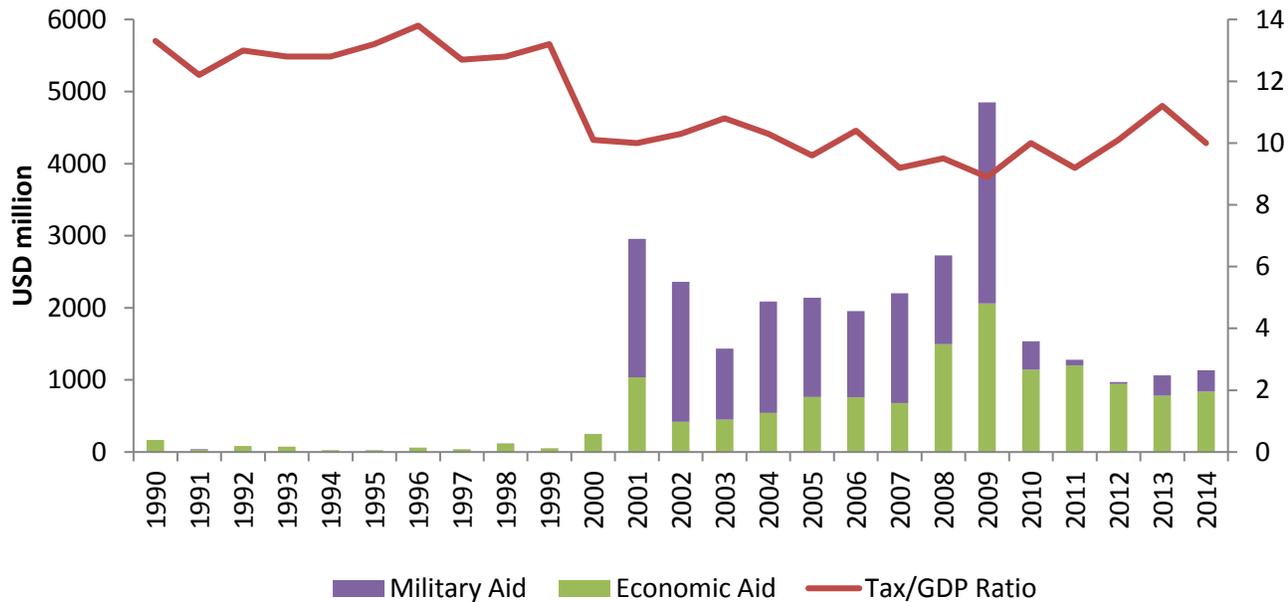
regressive in nature—the poor people bear the brunt. Additionally, tax evasion erodes revenue collection in the country. According to Jones (2003), a glaring example of Pakistan’s weak tax administration is evident from the fact that since the country’s inception no one has ever served a prison sentence for tax evasion.

The above three issues are said to be responsible for tax evasion in Pakistan. Hussain (1999) argues that Pakistan’s tax-GDP ratio is lower in comparison to countries with identical income levels. Also, the collusion of the businessmen with tax collectors, which the author calls a ‘tacit arrangement’, results in “widening gulf between those at the top and the bottom of the ladder” (382). In the author’s view, Pakistan’s fiscal policy is an instrument of ‘the few’ who accumulate wealth and keep large segments of the population deprived (ibid). Leitch (2001) also equates tax evasion in Pakistan with the domination of elite in the legislatures. Siddiqui (2006) has mentioned that Pakistan’s tax-GDP ratio remained 13.1 per cent during 1960s, 17.4 in 1970s, 13.8 per cent in 1980s, 13.4 in 1990s and 10.8 over the period 2000-2005. In the Economic Survey report (2016), the tax to GDP ratio mentioned for the period between 2005 and 2015 is 9.5 per cent. In fact, in these two studies the tax-GDP ratio has not been linked to foreign aid, however, it can be inferred from the given statistics that Pakistan’s tax-GDP ratio remained high in the absence or during low aid inflows, for example in the 1970s and 1990s. But, it remained low when aid inflows were high particularly in the last 15 years.

The World Bank statistics (2016) show that Pakistan’s tax revenue as percentage of GDP fluctuated in the 1990s and 2000s but remained high in the former decades as compared to the latter. For example, the lowest tax-GDP ratio was 12.2 and highest was

13.8 in years 1991 and 1996 respectively. During the 2000s, the lowest tax-GDP ratio was 8.9 in 2009 and highest was 11.1 in 2013. Lodhi (2011) has made a comparison of Pakistan's tax-GDP ratio with India and Turkey. For fifty years, at average tax-GDP ratio remained 10, 17 and 24 in Pakistan, India and Turkey respectively (42). In the NIS report (2014), it is emphasized that Pakistan's business class and members of Parliament avoid paying taxes and make use of legal loopholes, so the country has one of the lowest tax-GDP ratios in the world. In the PILDAT report (2015), Pakistan's tax-to-GDP ratio is declared lowest in Asia. In the State Bank of Pakistan report (2008), it has stressed that curbing tax evasion would lead to the generation of revenue equivalent to 2.5% of Pakistan's GDP. Khan (2014) has also argued that the powerful class receives tax exemptions in Pakistan which results in loss of revenue. For example, in the fiscal year 2013-14, the tax exemptions amounted \$4.7 billion, which is equivalent to 2 per cent of the country's GDP. Cyan et al (2016) have identified a downward trend in tax collection in Pakistan for the period 1995-2015. The below graph clarifies, increase and decrease in Pakistan's tax-GDP ratio with suspension and resumption of the US aid.

FIGURE 7 COMPARISON OF PAKISTAN’S TAX-GDP RATIO IN PRESENCE/ABSENCE OF US AID



Sources: Author, Based on Data obtained from US Overseas Loans and Grants (Greenbook) 2015, the World Bank and Federal Board of Revenue, Pakistan.

The above graph provides a comparison of Pakistan’s tax to GDP ratio between 1990 and 2014. This particular period is selected due to the reason that in the first eleven years— 1990 to 2000—the US aid remained suspended. Whereas, in the next fifteen years—2001 to 2014—Pakistan received the biggest amount of bilateral aid of its history from the US. From 1990 to 2014 Pakistan’s tax-GDP declined with the increase in US aid.

TABLE 9 PAKISTAN'S FISCAL INDICATORS AS PERCENT OF GDP (1985-2015)

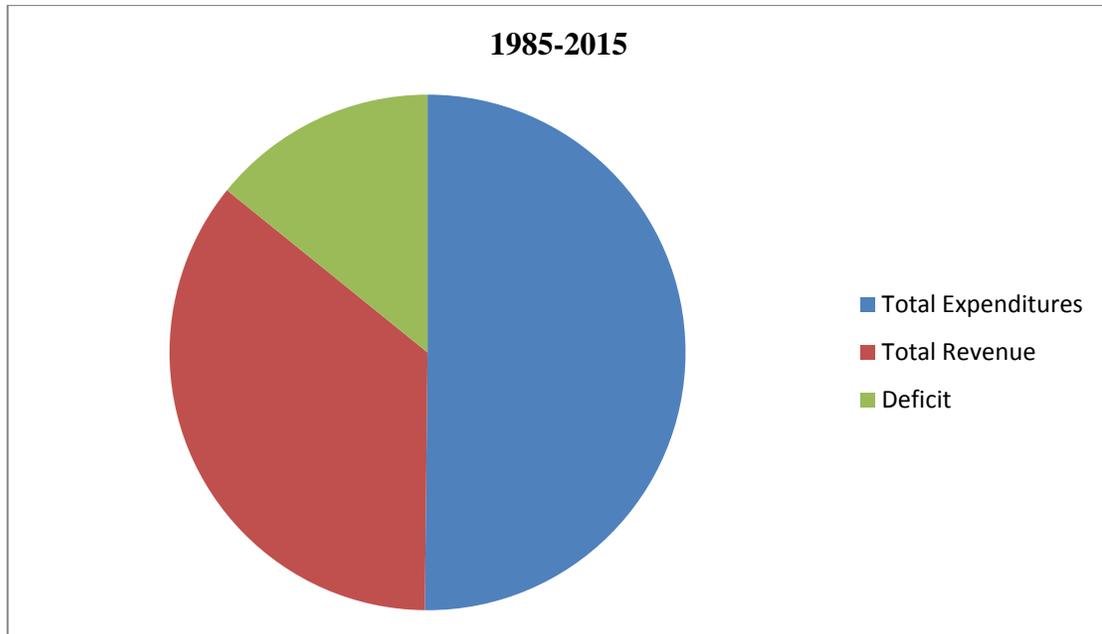
Year	GDP Growth	Fiscal Deficit	Expenditure			Revenue		
			Total	Current	Development	Total Revenue	Tax Revenue	Non-Tax
1985-86	7.6	6.9	21.7	17.0	4.7	14.6	12.3	2.3
1986-87	5.5	6.3	21.6	16.9	5.7	15.3	12.4	2.9
1987-88	6.5	5.8	21.2	17.1	4.1	15.4	13.1	2.3
1988-89	7.6	6.4	22.2	17.7	4.5	15.8	13.3	2.5
1989-90	5.0	6.5	23.8	18.3	5.5	17.3	13.5	3.8
1990-91	5.4	8.8	25.7	19.3	6.4	16.9	12.7	4.2
1991-92	7.6	7.5	26.7	19.1	7.6	19.2	13.7	5.5
1992-93	1.76	8.1	26.2	20.5	5.7	18.1	13.4	4.7
1993-94	3.74	5.9	23.4	18.8	4.6	17.5	13.4	4.1
1994-95	4.96	5.6	22.9	18.5	4.4	17.3	13.8	3.5
1995-96	4.85	6.5	24.4	20.0	4.4	17.9	14.4	3.5
1996-97	1.01	6.4	22.3	18.8	3.5	15.8	13.4	2.4
1997-98	2.55	7.7	23.7	19.8	3.9	16.0	13.2	2.8
1998-99	3.66	6.1	22.0	18.6	3.4	15.9	13.3	2.7
1999-00	4.26	5.4	18.7	16.5	2.2	13.5	10.7	2.8
2000-01	1.98	4.3	17.2	15.5	1.7	13.3	10.6	2.7

2001-02	3.1	4.3	18.3	15.7	2.8	13.6	10.3	3.3
2002-03	4.8	3.7	18.5	16.2	2.2	13.4	10.0	3.4
2003-04	7.5	2.4	16.7	13.5	3.1	13.6	10.3	3.3
2004-05	7.7	3.3	17.2	13.3	3.9	13.3	9.6	3.7
2005-06	6.6	4.3	18.5	13.6	4.8	13.8	10.2	3.6
2006-07	7.0	5.6	17.6	12.7	4.9	12.0	9.2	2.8
2007-08	4.8	6.4	20.1	15.7	4.4	13.7	9.4	4.3
2008-09	1.7	5.4	19.2	15.7	3.5	13.8	8.9	4.9
2009-10	2.8	6.2	20.2	16.0	4.4	14.0	9.9	4.1
2010-11	1.6	6.6	18.9	15.9	2.8	12.3	9.3	3.0
2011-12	2.7	6.8	19.6	16.3	3.3	12.8	10.2	2.6
2012-13	3.5	7.9	21.5	16.4	5.1	13.6	11.1	3.5
2013-14	4.4	5.5	20.2	15.9	4.9	14.7	10.2	4.3
2014-15	4.7	5.3	19.6	16.1	4.1	13.3	11.0	3.3

Source: Based on Pakistan Economic Survey (2016) Data

The total expenditures (current and development) made up 58.5 per cent of the GDP over the period 1985-2015 in Pakistan. During the same period, the total revenue receipts (tax and non-tax) of the country stood at 41.5 per cent and thus the budget deficit (at average) remained 17%.

FIGURE 8 PAKISTAN’S TOTAL EXPENDITURES, REVENUE AND DEFICIT (1985-2015)



Source: Author, Based on Pakistan Economic Survey (2016) Data

Many authors have discussed that Pakistan’s weak tax system has made the country dependent on external aid. It is argued that insufficient tax collection and unbridled tax evasion in Pakistan have been relieved by the US aid. For example, Haqqani (2013) is of the view that the US aid in Pakistan has not been utilized to mobilize the domestic resources. Rather, it has been used as a substitute for the domestic revenue (86). Chaudhry & Munir (2010) have argued that Pakistan received huge aid from the US in the 1980s but those aid inflows adversely affected the tax efforts in Pakistan. It happened due to the reason that the military regime during that period did not want to risk its position by imposing new taxation because it could not afford to incur ‘public wrath’. Thus, the huge aid inflows from the US “provided well-justified ground for it” (440). Jalal (2014) has contended that external aid facilitates the Pakistani politicians

and they, therefore, always call for more aid instead of making tax reforms. Paul (2014) has declared the Pakistani elite astute in “milking the geostrategic rent, but not developing or extracting sufficient resources from its society” (33).

Prasad & Nickow (2016) have drawn a comparison between Pakistan and South Korea—both US aid recipients— and have shown that in the former’s case aid failed whereas in the latter’s it did not. While making comparison between the two countries, the authors have missed some of the aspects, for example, Pakistan’s huge spending on defence, the Korean leaders’ astuteness vis-à-vis improving their country’s export competitiveness and enhancing trade relations with the US etc. Nonetheless, their comparison is based on two important factors, quite relevant for this study; corruption and taxation. The authors have observed that the levels of corruption in both countries remained high but in Korean case, corruption did not hinder development due to the presence of strong tax administration. However, in Pakistan’s case corruption coupled with tax evasion and therefore aid from the US could not contribute to economic development. The authors have further stated, “Pakistan became aid dependent because it did not develop its tax collection mechanism. Korea avoided aid dependence because it did” (1623). In other words, Pakistan could have avoided its dependence on US aid if its policymakers had it strengthened the tax collection. Hussain (2014) has argued that Pakistan’s economic growth is a ‘borrowed one’ and thus unsustainable, because it depends on the flow of aid that comes from the US and western countries (9).

Some authors have suggested that Pakistan needs to make reforms in its tax system— necessary for reducing reliance on aid and economic recovery. For example, Jones (2003) firmly states that reform of the tax administration is the most significant

economic task for Pakistan for reducing its reliance on external assistance. According to Zaidi (2010), Pakistan is the 26th world's largest economy in purchasing power parity but its revenue generation capability is worst due to the reason that the country's elite is not ready to pay and collect taxes. The author asserts that the major reason behind Pakistan's poor taxation system is foreign aid which is used by the ruling elite in a way that it rescues the country from complete economic collapse. In the author's words, "Pakistan's elite has no reason to support reform as long as these bailouts come with no conditions attached" (12). In Pakistan, not the civilian governments but even the military dictators have remained wary of tax reforms, because a tiny influential group of landlords and businessmen has always remained part and parcel of the political system.

4.11 CONCLUSION

In the above discussion two major questions were traced. First, how do the Pakistani politicians misappropriate the US aid money in a manner that results in wastage? Second, how is US aid used by the Pakistani politicians for maintaining and consolidating their political power? As mentioned above, in aid-corruption scholarship, two opposing arguments are made. First, it is argued that misappropriation of foreign aid does occur and manifests into monetary corruption i.e. the politicians simply embezzle or steal aid money. The second argument is that foreign aid discourages corruption in the recipient country—the recipient becomes accountable to the donor and also the public officials, as a result of aid inflows, receive good salaries which discourage them from entering into malpractices. Now, regarding the US aid to

Pakistan, again, two assertions can be made. First, that US aid has encouraged corruption in Pakistan—provided an ‘embezzlement-opportunity’ to Pakistani politicians. Second, that US aid has discouraged corruption in Pakistan. However, both these arguments need to be substantiated by the relevant data. As mentioned above, in different studies it is identified that corruption was ‘sporadic’ until the 1990s (before a long-term suspension of US aid) but from then onwards it became ‘rampant’. For example, in the 1990s, five successive governments in Pakistan were toppled over corruption charges. However, after the resumption of US aid in the 2000s, the state of corruption remained the same in Pakistan—as have pointed out in the official reports of national and international organizations. In short, it is difficult to state that the US aid encouraged corruption in Pakistan because levels of corruption remained high even in the absence of aid, however, it is quite easy to conclude that the US aid did not reduce corruption in the country either. For instance, in the year 2016, corruption was declared the biggest problem for doing business in Pakistan.. Thus, keeping the state of corruption in view, to assume that the politicians and public officials in Pakistan possibly have siphoned off the US aid money too—provided for geo-strategic reasons and without accountability—would not be an erroneous assumption. Secondly, it is argued that foreign aid is diverted from the targeted purposes and is utilized for buying patronage and pacifying taxes—which, as a result has helped the ruling elite to stay in power. In the case of Pakistan, the US aid acts as an instrument which helps the ruling elite to avoid taxes. For example, Pakistan’s tax-to-GDP ratio over the period 1985-2015 (at average) remained 10 per cent. It even fell below 10 per cent with high US aid inflows during the 2000s. In short, US aid was not used by the Pakistani ruling elite for

mobilizing the country's domestic resources but was diverted for relieving the revenue. Even the military rulers could not afford to impose taxes on the industrialists and the landlords in Pakistan, because they did not want to lose their support. They thus avoided imposing taxes in a quid pro quo for political support. Moreover, the ruling elite, instead of taking real measures for enhancing human development in Pakistan, chose to provide even hard cash (apart from providing interest-free loans, laptops) to common citizens for obtaining their political support. In fact, the high level of poverty in Pakistan encourages clientelism, and the politicians exploit this situation. Lastly, it was argued by both Pakistani and American authors that money given in economic aid was spent on defence (or more specifically to acquire nuclear capability) in Pakistan. However, the authors have not provided any empirical evidence for it; probably, due to the reason that Pakistan had initiated the nuclear activity clandestinely per se, let alone the diversion of aid money towards it. But, as the relevant data show (cited above), Pakistan's military expenditures as a share of the GDP stood at 6.8 per cent in the year 1988 which started declining after that and reached to 3.4 per cent in 2015. On the other hand, during the same period the size of military expanded. So, why did the decline in military expenditures occur? As a matter of fact, Pakistan's nuclear program, from its very inception, remained under the control of the army and therefore they needed a large amount of money (during the 1970s and 1980s) for acquiring atomic bomb (eventually they succeeded in it) and thus, their expenditures were high too. Now, can it be stated the military siphoned off some money from the US economic aid for obtaining the nuclear weapon? Broadly, did the Pakistani policymakers use tax revenue for the nuclear program and the US aid for substituting the tax revenue? Probably, they did

because, it is beyond comprehension that a Third World country like Pakistan (with 10 per cent tax-GDP ratio) conducted an expensive project of establishing nuclear weapon—which involved establishment of laboratories, smuggling of apparatuses from other countries, intelligence gatherings etc—and afforded it from its own resources. Finally, if the US economic aid was wasted in corruption, clientelist and fungible activities, then didn't the US aid make any contact with the poor in Pakistan at all? To put it another way, did US aid make any contribution in enhancing human development in Pakistan? This question will be addressed in the next chapter.

5.0 THE US AID AND PAKISTAN'S SOCIO-ECONOMIC INDICATORS

5.1 INTRODUCTION

An overview of the socio-economic conditions in Pakistan can be helpful in providing an idea of effectiveness and contribution of US economic aid, provided bilaterally. Haq and Sen have argued that income is only means to development, whereas ends of human development depend on individuals' capabilities vis-à-vis access to education, health and nutrition. Therefore, income does not reflect living standard of people in a society. Sen (1999) has stated, "Without ignoring the importance of economic growth, we must look well beyond it" (14). Likewise, Haq (1995) has asserted that it would be wrong to assume an automatic link between income and human lives in a society. In line with the argument made by the two architects of the Human Development Index (HDI), in this study an overview of the living standard of people in Pakistan is given beyond the income levels.

On the HDI scale—a combination of three indicators, namely, life expectancy, education and per capita income—Pakistan's position has remained poor. Currently, Pakistan is retaining the 147th position in the list of 188 countries on the scale. Pakistan's position in the three indicators in relation to the neighbouring country India, in particular, and to the South Asia in general, has remained low—as shown in table 10 below.

TABLE 10 PAKISTAN’S RANKING ON THE HDI

Groups	HDI value	HDI rank	Life Expectancy	Expected years of schooling	Mean years of schooling
Pakistan	0.550	147	66.4	8.1	5.1
India	0.624	131	68.3	11.7	6.3
South Asia	0.621	—	68.7	11.3	6.2

Source: UNDP, Pakistan (2015)

5.2 THE EFFECTS OF US AID ON POVERTY IN PAKISTAN

Pakistan has always remained mired in poverty trap, both unidimensional (based on income per capita) and multidimensional (based on various indicators). Different authors have discussed the issue of poverty in Pakistan and its negative consequences for the masses and development of the country. More recently, in December 2016, a report was submitted in the National Assembly of Pakistan by the Ministry of Planning and Development, in which 29.5 per cent of Pakistan’s population (that make up 55 million people) were mentioned to be living below the poverty line i.e. on less than \$1 a day (The Dawn Newspaper, 2016). In Pakistan Economic Survey 2015-16, the same percentage of population is mentioned living on less than 1\$ a day.

Probably, the most comprehensive examination of poverty in Pakistan has been made by Chaudhry et al (2015) in a time-series analysis based on three indicators: income, health and education. The authors apply, first, the union approach under which an individual is considered 'poor' if deprived in at least one dimension of poverty. Then they analyze poverty from the intersection approach in which individuals are viewed poor if they are deprived in all dimensions of poverty. The authors, for income-based poverty line, use \$ 1.08 per day for 2004 \$1.25 for years 2008 and 2010. They use primary education (grade five) as a minimum criterion for education-based poverty. However, in this category people above the age of 20 are included only. Lastly, for health-based poverty they consider a person below the poverty line if he/she lacks a clean source of drinking water. The authors indicate that on the basis of income-based poverty, in the years 2004, 2008 and 2010, percentage of people (of the total population) below the poverty line were 20.8 per cent, 16.2 per cent and 17.5 per cent respectively (339). For education-based poverty, the authors indicate 59.1 per cent, 55.4 and 54.9 per cent people below the poverty line in the years 2004, 2008 and 2010 respectively (341). Lastly, for health indicator, the authors point out 10.9 per cent, 15.1 per cent and 14.6 per cent people below the poverty for the three periods respectively (343). The authors then measure poverty from the intersection perspective which is more stringent, nonetheless, comprehensive if compared to the union approach. From the intersection perspective, the individuals are considered poor if they fall short on any of the three dimensions. The authors identify 72.6 per cent 69.8 per cent and 69.5 per cent people (of the total population) in Pakistan as poor, in 2004, 2008 and 2010

respectively (347). To put it another way, less than one third of the total population in Pakistan remained above the poverty line between 2004 and 2010.

The second most comprehensive analysis of poverty in Pakistan has been made by the UNDP (2014) on the basis of Multi-dimensional Poverty Index, or MPI. In the MPI, ten indicators have been used, three for literacy, two for health care and five for standard of living. Literacy rate has been examined on the basis of; first, years of schooling and second child school attendance percentage. A minimum limit of 8 years has been set for the two indicators. Furthermore, two basic indicators, child mortality and nutrition have been used for health care evaluation. Lastly, for standard of living, six indicators, including facility of electricity, drinking water, sanitation, floor (a household with sand or dung floor considered deprived) , cooking fuel (a household using dung, wood or charcoal for cooking considered deprived) and assets ownership (a household lacking more than one of radio, TV, telephone, motorbike, refrigerator and vehicle considered deprived). The last measurement of assets ownership seems stringent taking Pakistan, an undeveloped country, into consideration. However, the overall poverty measurement used in the report is moderate or even restricted. In the report, an individual or a household falling below three or less than three of the ten indicators has been regarded poor. Hence, 43.5 per cent of the total population for the year 2007 and 45.6 per cent population for 2013 have been mentioned to have lived below the poverty line.

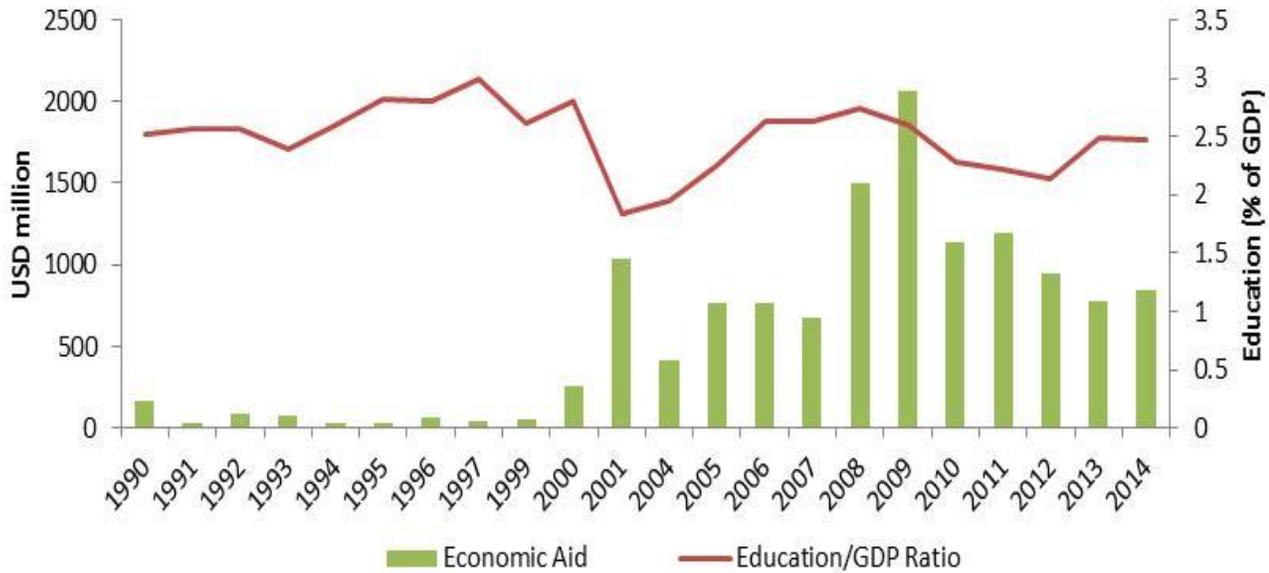
The US aid is not probably the cause behind poverty in Pakistan, but it did not help in alleviating poverty in the country either. Of course, uplifting people from poverty requires an efficient and broad strategy. Nonetheless, the above statistics reveal the so-called ‘contribution’ and ‘effectiveness’ of the US aid in poverty alleviation in Pakistan.

In fact, poverty when gauged unidimensionally become quite disputed for the reason that it gives an incomplete picture. Even if poverty in Pakistan is measured purely on the basis of \$1 income per capita then the figure of 55 million people in Pakistan raises the question, whether the poor made any contact with the US aid at all.

5.3 THE US AID AND EDUCATION

Broadly speaking, the role of education is considered instrumental for empowering people, raising socio-political awareness, enhancing skilled manpower and labour productivity, advancing technological innovation and in short, perpetuating socio-economic development. The dismal performance of Pakistan in the field of education is evident from the country's pronounced illiterate populace of 80 million out of 200 million. Under the Constitution of Pakistan, "The state shall provide free and compulsory education to all children of the age of five to sixteen years in such manner as may be determined by law" (Article, 25-A). However, in practice, the government expenditure on education has at average remained less than 2.5 per cent of its GDP. Surprisingly, Pakistan's spending on education remained high in the 1990s (when US bilateral aid remained suspended) in comparison to the 2000s (when Pakistan received huge volumes of US economic aid). It is not to claim that the US bilateral aid encouraged low public spending on education in Pakistan because the increase in education was only marginal. However, aid inflows from the US did not encourage Pakistan's spending on education either. The comparison of Pakistan's spending on education during the two decades is mentioned in figure 9 below.

FIGURE 9 PAKISTAN’S SPENDING ON EDUCATION AS PERCENT OF GDP



Source: Author, based on Data Obtained From US Overseas Loans and Grants (Greenbook) 2015, The World Bank (2015) and UNESCO (2015).

Lievan (2011) has mentioned that Pakistan’s literacy rate was 55.9 per cent in 2010. In the World Bank and the UNESCO reports, Pakistan’s adult literacy rate (individuals 15 years of age or above) in the year 2015, is noted as 56 per cent and 56.44 per cent respectively. However, in Pakistan Economic Survey 2015-16, the overall literacy rate in Pakistan, noted for the same year, is 60 per cent. As per statistics of Alif Ailaan (2016), 47 per cent of the children in Pakistan (around 24 million) remained out of school in the year 2015, out of which 53 per cent (or 13 million) were girls. 45 per cent of government schools were identified as dilapidated i.e. lacked basic facilities including furniture, boundary walls, running water and electricity. In the same year, Pakistan was declared a country having the second highest number of out-of-school

children. The statistics of out-of school children, as given in the governmental report, NEMIS (2017), are not encouraging either. The report sketches a gloomy picture of the state of education in Pakistan. It is mentioned that there are only 145,829 primary schools—providing education up to grade five for 51.17 million children (8). Moreover, 44 per cent of the children (around 22.64 million) are identified to be out-of-school. The 21 per cent of the primary schools in the country are said to be run by *a single teacher*. Regarding schools’ infrastructure, 40 per cent of the primary level schools are pointed out to be operating without electricity and 25 per cent without boundary walls (21).

In the UNDP report (2016), it is identified that in Pakistan both mean years of schooling (average number of years of education attained by adults aged 25 years or above) and expected years of schooling (number of years of schooling expected for a child of school entrance age) saw an upward trend between 1990 and 2015, shown in table 11 below.

TABLE 11 MEAN/EXPECTED YEARS OF SCHOOLING IN PAKISTAN IN COMPARISON TO INDIA AND SRI LANKA

Year	Mean Years of Schooling			Expected Years of Schooling		
	Pakistan	India	Sri Lanka	Pakistan	India	Sri Lanka
1990	2.3	3	8.3	4.6	7.6	11.3
1991	2.4	3.1	8.5	4.7	7.7	11.4
1992	2.5	3.2	8.6	4.8	7.9	11.5

1993	2.6	3.3	8.8	4.9	8	11.3
1994	2.7	3.4	8.9	4.9	8.1	11.8
1995	2.8	3.5	9.1	5	8.2	11.9
1996	2.9	3.7	9.3	5.1	8.2	12
1997	3	3.9	9.4	5.2	8.2	12.1
1998	3.1	4	9.6	5.2	8.3	12.3
1999	3.2	4.2	9.8	5.3	8.3	12.4
2000	3.3	4.4	10	5.4	8.3	12.5
2001	3.5	4.5	10.9	5.5	8.4	12.6
2002	3.8	4.6	10.2	5.6	8.6	12.7
2003	4	4.7	10.2	5.6	9.2	12.8
2004	4.3	4.7	10.3	6.1	9.4	12.9
2005	4.5	4.8	10.4	6.5	9.7	13.1
2006	4.4	4.9	10.5	6.7	9.9	13.2
2007	4.4	5	10.6	7.3	10.2	13.3
2008	4.3	5.2	10.6	7.3	10.5	13.4
2009	4.5	5.3	10.7	7.5	10.4	13.5
2010	4.6	5.4	10.8	7.5	10.8	13.6
2011	4.7	5.3	10.8	7.6	11.3	13.7
2012	5	5.6	10.9	7.7	11.5	13.8

2013	5.1	5.8	10.9	7.8	11.6	14
2014	5.1	6.1	10.9	8.1	11.6	14
2015	5.1	6.3	10.9	8.1	11.7	14

Source: Based on the UNDP Data (2016)

Two points are needed to be mentioned here. First, the upward trends in both indicators continued both during the 1990s when aid remained suspended and the 2000s when aid was resumed. Second, if trends in the two indicators are compared with trends experienced by two other countries located in the sub-Continent, Sri Lanka and India, then they do not seem impressive. For example, in Sri Lanka, the expected and mean years of schooling noted for the year 2015 was 14 and 10.9 respectively. Likewise, for India, the two were 6.3 and 11.7 respectively.

The situation of higher education in Pakistan is equally bad. Leghari (2012) has stated that only 8 per cent of people in Pakistan get access to higher education and in comparison, 28 per cent people in Indonesia, 31 per cent in Malaysia and 38 per cent in Turkey manage to get higher education (The Dawn Newspaper, 2012). Recently, Pakistan has made some progress in higher education, for example, in the NEMESIS (2017) report, it is identified that in the year 1998 the total number of universities in Pakistan was 37 which rose to 74 in 2002, 129 in 2008 and 163 in 2016. Out the 163 universities, 91 are public universities and remaining are private ones. The total enrolment (undergraduate, graduate and post-graduate) mentioned in the report is 56 per cent for male students (753 thousand) and 44 per cent for female students (602 thousand). In 2015, the Higher Education Commission (HEC), Pakistan provided

statistics of the total number of PhDs produced over the five year time period (2010-2014) by all the universities in Pakistan. In total, 5536 students completed PhD degrees , which seems a good number but not in the sixth largest country of the world with population around 200 million of which 60 per cent are above 15 year-of-age (The World Bank, 2015).

5.4 THE US AID AND HEALTH

Pakistan's performance in health sector has equally remained poor as in education sector. As per the Economic Survey Report 2014-15, the total number of hospital in Pakistan are 1,142 in which around 175000 doctors provide health services to the population of 200 million. In other words, doctors to total population ratio is one doctor for every 1140 people. Life expectancy shown in the report for year 2015 was 66.3 years. It is mentioned that the government spending on health between 2014 and 2015 remained 0.9 per cent of the GDP. Malkani (2016) also argues that Pakistan is one of the three countries which spend minimum portion of their GDP on health in the world. As per Pakistan Medical and Dental Council (2016) statistics, in total 159074 doctors and 17,125 dental surgeons (1 surgeon/11679 people) are working in Pakistan. Pakistan is among the three countries in the world (besides Afghanistan and Nigeria) where polio disease (which leads the infected person to irreversible paralysis) still exists (WHO, 2016). Tuberculosis (TB) is said to among ten top causes of death in the world (ibid, 2017). Sixty per cent of the people infected by TB in year 2015 belonged to six countries including Pakistan (ibid).

In the World Bank report (2015), an improvement in mortality rates and life expectancy in Pakistan are identified. In more than two decades (1990-2014) life expectancy increased only by six years, but there was a sharp decline in mortality rates—from 106 to 65. Again, if these statistics are compared with those of India and Sri Lanka then Pakistan is lagging behind. Between 1990 and 2014, mortality rates in India fell from 125.8 to 47.7 (per 1000 births) and life expectancy improved by eight years from 60 to 68. During the same period, in Sri Lanka mortality rates fell from 21.2 to 10 and life expectancy increased from 69.5 to 74.7. Mortality rates and life expectancy in Pakistan over the period 1960-2015, in comparison to India and Sri Lanka are given in table 12.

TABLE 12 PAKISTAN’S MORTALITY RATE/LIFE EXPECTANCY IN COMPARISON TO INDIA AND SRI LANKA

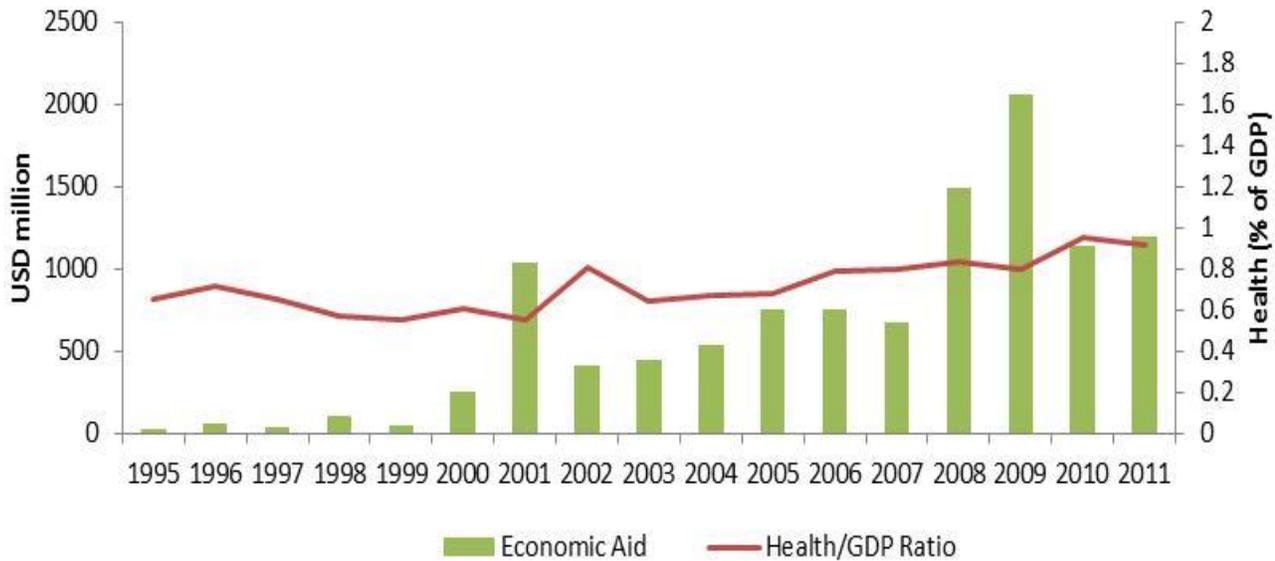
Year	Mortality rate/1,000 births			Life Expectancy		
	Pakistan	India	Sri Lanka	Pakistan	India	Sri Lanka
1960	192	165.1	72.7	45.3	41.1	59.7
1965	160.1	153.2	60.4	49.5	44.3	61.8
1970	141.1	142.8	53.6	52.9	47.7	64.3
1975	129.4	130.3	48.7	55.3	51	66.2
1980	122.1	114.3	39.4	57	53.8	68.3
1985	114.8	100.6	25.2	58.6	55.8	69.3
1990	106.1	88.3	18.1	60.1	57.9	69.6

1995	97.2	77.5	17.2	61.5	60.4	69.4
2000	87.9	66.4	14	62.7	62.6	71.1
2005	80.1	55.8	12.1	63.9	64.5	73.9
2010	73.4	46.3	9.4	65.1	66.5	74.3
2011	72.1	44.4	9.1	65.4	66.9	74.4
2012	70.6	42.6	8.9	65.7	67.3	74.5
2013	69.1	40.9	8.7	66	67.6	74.7
2014	67.4	39.3	8.6	66.2	68	74.8
2015	65.8	37.9	8.4	66.4	68.3	74.9

Source: Author, Based on the World Bank Data (2015)

During the last two decades (1995-2014) the government spending on health as per cent of GDP increased but marginally as shown in figure 10 below. Again, it is difficult (as mentioned above in the case of education) to assume that the US aid was the major determinant behind the increase in Pakistan's spending on health sector. However, unlike the education's case, Pakistan's spending on health increased after the resumption of the US aid but only marginally and it failed to produce significant results either for child mortality rates or life expectancy.

FIGURE 10 PAKISTAN’S SPENDING ON HEALTH AS PERCENT OF GDP



Source: Author, based on Data Obtained the World Bank (2015).

5.5 THE MDGs AND PAKISTAN

As mentioned earlier, it is difficult to investigate the effects of US aid on socio-economic development in Pakistan in a precise way. It is due to the reason that a plethora of factors—such as policies that prioritize health, education and job creation, economic progress and stability, proper income distribution and so on—encourage human development. Nonetheless, the evaluation of Pakistan’s socio-economic performance can at least provide a sense that huge volumes of US aid provided for ‘economic development’ remained ineffective. Under the same assumption, an overview of Pakistan’s performance on the basis of another yardstick is given in the following paragraphs.

The world leaders gathered in the year 2000 and made a commitment to “spare no effort to free our fellow men, women and children from the abject and dehumanizing conditions of extreme poverty” (UN, 2015, 3). They devised eight goals called, the Millennium Development Goals or MDGs—which included, among others, eradication of world poverty, achievement of universal primary education and reduction of infant mortality—set to be achieved by 2015. At the end of the deadline, the United Nations (UN) issued a report in which it praised the MDGs for producing “the most successful anti-poverty movement in history” and enabling “people across the world to improve their lives and their future prospects” (ibid). It was stated that “as we reach the end of the MDG period, the world community has reason to celebrate” because “the MDGs have saved the lives of millions and improved conditions for many more” (4). As per the report’s statistics, almost half of the population in developing countries lived “on less than \$1.25 a day” in 1990, which dropped to “14 per cent in 2015” (ibid). The number of undernourished people in these countries also dropped from “23.3 per cent in 1990–1992” to “12.9 per cent in 2014–2016” (ibid). Moreover, the primary school net enrolment and the global literacy rates (among people aged between 15 and 24) were identified to have reached to 91 per cent in 2015. The global infant mortality rate, for children under five year of age, was noted as 43 deaths per 1,000 live births (5).

All the above statistics are quite encouraging because the goals achieved over the period of 15 years are too big. However, if these statistics are compared with the results provided, even, in the official reports of Pakistan, they then appear to be quite misleading. For example, in two official reports issued in 2013 and 2014 by Pakistan’s Ministry of Planning, Development and Reform and Pakistan Institute for Parliamentary

Services respectively, it was clearly stated that Pakistan performed poorly on all eight MDGs and was far from achieving even a single goal. Both reports turned out to be correct. Without disputing the measurements and indicators set in the MDGS, a simple comparison of the UN statistics with those given in Pakistan's official reports makes everything clear.

As per the UN report, the global poverty rate (income threshold set as \$1.25 a day per person) dropped to 14 per cent and malnourishment rate to 12.9 per cent. In Pakistan, in the year 2013, the people living below the poverty line (with income less than \$1.25 a day) remained around 13 percent (in line with the UN statistics) but malnutrition among the children under-5 years of age stood at 31.5. The country's unemployment to population ratio even increased to 30.9 percent in 2013 from 22.5 per cent in 2001(PIPS, 2014). In the UN report, the global literacy rate was noted to be 91 per cent in 2015, however, in Pakistan it remained 58 per cent in 2013. Also, Pakistani women remained at a more disadvantageous position with 47 per cent literacy rate as compared to men with 70 per cent literacy rate. The global infant mortality rate for children under five year of age as mentioned in the UN report was 43 deaths per 1,000 live births but in Pakistan it remained 89 deaths per 1,000 live births (ibid). The situation did not change much in 2015. For example, infant mortality stood at 81.1 per 1000 births, adult literacy rate at 58.7 per cent, people in severe and near to multidimensional poverty remained 26.5 per cent and 14.9 per cent respectively (UNDP, 2015). In December 2015, the government of Pakistan formally accepted its failure in achieving the MDGs (The Dawn Newspaper, 2015). Nonetheless, the government is 'determined' to achieve asserted Sustainable Development Goals or SDGs—an extension of MDGs introduced by the

UNDP in 2015 (ibid). The SDGs are 17 goals set to be achieved by 2030 which include poverty and hunger eradication and enhancement of education and health among others.

5.6 THE US AID AND INCOME INEQUALITIES IN PAKISTAN

As mentioned in the introductory part of this chapter Pakistan's GDP growth remained relatively high during the US aid inflows. Although aid was not the only factor that contributed to Pakistan's GDP growth, nonetheless, it probably did play a role. As per the World Bank statistics (2015), Pakistan's average GDP growth rate stood at 6 per cent in the 1960s (US aid inflows to the country) but 4.6 per cent in the 1970s (US suspended aid due to Pakistan's nuclear activities). Yet, in the latter period, Pakistan also went through a civil war which, of course, had negative effects on the GDP growth. Likewise, the country's GDP growth remained 6.9 per cent in the 1980s (during the US aid inflows due to Pakistan alliance against the Soviet bloc), but it was only 3.8 per cent in the 1990s (the US suspended aid due to Pakistan's nuclear program). Again, it was not only the suspension of US economic aid that ensued in poor GDP growth during the 1990s, but other two major factors were also involved. First, the imposition of economic sanctions and second, internal political instability in Pakistan—four successive governments were dismissed. The GDP growth of Pakistan remained 4.3 per cent over the period 2002-2015 (US resumed aid and lifted sanctions due to Pakistan's alliance in the war on terror). In short, Pakistan's average GDP growth during the five decades stayed around 5 per cent—high during US aid inflows, low in the absence of aid.

However, the growth rate of 5 per cent probably benefited the ruling elite disproportionately and as a result gave rise to income inequalities in Pakistan. In other words, the decent increase in the GDP growth did not reduce poverty at the same ratio. Hussain & Hussain (1993) have argued that Pakistan's GDP growth, both during the civilian and military rulers, failed to benefit the poor; in fact, it resulted in "an acute concentration of economic power" (3). In the MHDC (1999) report, it has been stated that Pakistan's economic system is controlled by the elite and thus it encourages concentration of wealth in the hands few powerful members of the society. Bhatti (2001) has also contended that Pakistan's GDP growth has failed in "translating into corresponding mitigation of poverty or equitable collective prosperity" due to lack of the political will (831). Easterly (2001) has stated that Pakistan is a country which has experienced a 'respectable growth' but has 'systematically' underperformed for its level of income and in various socio-economic indicators including health, education, gender equality and corruption. The author has declared economic growth in Pakistan 'without development'. In the author's view, both Pakistani government and foreign aid programs have failed to address inequalities in the country. In the author's words, "Pakistan is an interesting illustration that growth alone is not enough for broader development" (34). However, as mentioned above that the US economic aid was not the sole factor behind Pakistan's GDP growth; likewise, it cannot be declared a sole or even a major reason behind income inequalities in Pakistan. In a capitalist country like Pakistan, income inequality becomes inevitable and thus a small wealthy section of society remains at an advantageous position.

TABLE 13 US ECONOMIC AID & PAKISTAN'S GDP GROWTH: 1965-2015

Year	US Economic Aid (In \$ Million)	GDP Growth
1965	2131.02	10.42
1966	901.81	5.79
1967	1340.5	5.4
1968	1659.3	7.23
1969	598.53	5.51
1970	1069.78	11.35
1971	524.24	0.47
1972	765.47	0.81
1973	790.31	7.06
1974	421.99	3.54
1975	678.71	4.21
1976	711.59	5.16
1977	352.6	3.95
1978	237.44	8.05
1979	142.21	3.76
1980	151.94	10.22
1981	181.36	7.92

1982	442.58	6.54
1983	590.15	6.78
1984	627.57	5.07
1985	670.89	7.59
1986	688.9	7.6
1987	661.84	5.5
1988	849.73	6.5
1989	618.37	7.6
1990	605.5	5
1991	165.26	5.06
1992	29.98	7.71
1993	81.96	1.76
1994	75.6	3.74
1995	25.55	4.96
1996	25.18	4.85
1997	63.16	1.01
1998	40.13	2.55
1999	112.84	3.66
2000	50.51	4.26
2001	251.91	1.98

2002	1035.18	3.22
2003	417.53	4.85
2004	448.67	7.37
2005	541.81	7.67
2006	761.67	6.18
2007	760.78	4.83
2008	678.87	1.7
2009	1495.49	2.83
2010	2062.77	1.61
2011	1141.31	2.75
2012	1199.05	3.51
2013	944.04	4.4
2014	779.04	4.67
2015	840.2	4.71

Source: Author, Based on the World Bank (2016) & the US Overseas Loans and Grants (Greenbook) (2015) Data

In the 1960s, Pakistan’s GDP growth rate remained the highest (see table 13) but the poor remained deprived. Many authors, including some notable Pakistani economists, have mentioned that economic growth of 1960s only benefited the elite. Bhatti (1973) has argued that “in the mid 1960s, twenty-two families owned 65 per cent of the

industrial capital and 80 per cent of the financial assets of the country” (836). White (1974) has mentioned different problems that hindered development in Pakistan during the 1960s, including reliance of the country on indirect taxes, high government spending on defence but low spending on health and education. The author has identified another major problem in Pakistan’s development process at that time, which was the capture of the industrial sector by 43 leading families. The author has further pointed out that those families were not ‘passive recipient’ of the government policies, number people from those 43 families were themselves involved in formulating and executing the policies (63). Hashmi (1976) has stated that by the end of 1960 in Pakistan wealth was concentrated in few hands and “45 per cent of the national income was owned by the highest quintile, against 8 percent by the lowest quintile” (2). In fact, it generated both regional and class inequalities increased and “large segments of the population experienced falling standards of living” (ibid). Looney (2004) has also asserted that “the rapid growth of the 1960s was not broad-based” (774). The income inequalities in Pakistan is not restricted to a particular period. For example, as Rehman (1998) has argued, in the 1990s, nearly 80 per cent of industrial assets were owned by only few families. Lieven (2011) has stated that Pakistan’s GDP stood at \$167 billion in 2009 which manifested in making the country the 48th largest economy in the world (27th if adjusted for purchasing power). Nonetheless, the state remained ‘very weak’ in providing basic services to its people (32). Lodhi (2011) has elucidated contemporary income inequality in Pakistan as, “At the moment a few of us are living like kings. But most of us are living on weekly wages worth not much more than a kilo of pine nuts” (40).

In the World Bank report (2014), it was identified that over the period 1989-2013 the income ratio between the highest 40 per cent of Pakistan's population to the lowest 60 per cent remained 5:3 (at average). To put it another way, the 40 per cent held almost 62 per cent of the income in comparison to the lowest 60 per cent population which held 38 per cent of the income. More recently, the UNDP has introduced another measure for estimation of the loss occurred in human development due to inequality. It states that under absolute equality inequality-adjusted human development index (IHDI) equates the HDI; however, the IHDI falls below the HDI when inequality rises. The overall loss in HDI due to inequality measured for Pakistan in the year 2010 was 31.5 per cent, and five years later in 2015 it stood at 30.9 per cent, which means that Pakistan's achievements in the three indicators, health, education and per capita income could have 30.9 per cent more if the country had perfect equality in the same year (UNDP, 2016).

In the World Bank Gini index—which measures inequality on the basis of the Lorenz curve as is expressed both in points and as a percentage¹, Pakistan's percentage was 33.3 in the year 1987 and 30.6 in 2013, (see table 14), ostensibly an improvement. But if the percentage for each year is observed then there had been fluctuation over time. In the UNDP report (2016) inequality in Pakistan has been declared 'a daunting challenge'.

TABLE 14 GINI INDEX PAKISTAN

Year	Gini Coefficient (GC)	Gini Coefficient as Percentage
1987	0.333	33.32
1990	0.333	33.25
1996	0.287	28.67
1998	0.331	33.12
2001	0.305	30.5
2004	0.323	32.33
2005	0.327	32.69
2007	0.314	31.42
2010	0.299	29.9
2011	0.309	30.93
2013	0.307	30.69

Source: The World Bank 2014

Undoubtedly, income inequality is a major challenge for Pakistan but again the US aid cannot be held responsible for it. On the Gini Index Pakistan's performance remained

poor in the 1980s and 2000s¹ i.e. when Pakistan received economic aid from the US in large amounts. Nonetheless, in the absence of US aid flows to Pakistan i.e. during the 1990s or precisely between 1991 and 2000, Pakistan's performance on the Gini Index did not improve either.

5.7 CONCLUSION

From the above discussion, it has become clear that human development in Pakistan remained poor and the people access to food, health and education remained restricted. Looking into the socio-economic conditions of Pakistan, it is hard to find any evidence of positive contribution of the US economic aid. The poor socio-economic conditions in Pakistan are obvious from high infant mortality rates, tens of millions of stunted and out-of-school children and more than one-third of the population which is living on less than \$2 a day. Many factors can be cited for Pakistan's poor socio-economic conditions but here, of course, the effectiveness of 'US economic aid' is examined only. As the name suggests, this aid was supposedly provided to enhance economic development in Pakistan. Thus, the effects of the US aid on health, education and per capita income are investigated but no direct links can be found. Furthermore, the Millennium Development Goals or MDGs can be another yardstick to unravel Pakistan's poor socio-economic progress over the period 2000-2015. During the same period, Pakistan received the highest amount of economic aid (in its history) from the US. Therefore, Pakistan's performance on the basis of the MDGs is also discussed. Lastly, it is claimed

¹ Zero stands for perfect equality and 1 (or 100 per cent) for absolute inequality.

that Pakistan's GDP growth remained high when it received aid from the US and vice versa. The data validate this claim, however, on the flipside; the US aid has probably exacerbated income inequalities in Pakistan as some few people have probably made the most benefit out of it.

The indicators clearly show that Pakistan's economic growth has not remained inclusive. At present, tens of millions of individuals are unable to make ends and almost 30 per cent people of the population of 200 million are living on less than \$2 a day. The high infant mortality rates, widespread preventable diseases and 22.6 million out-of-school children make the worst living condition quite obvious. Pakistan is the third country beside Nigeria and Afghanistan where polio disease (results in irreversible paralysis) still exists and is also a country having the second highest number of out-of-school children. The government's spending on education and health has jointly remained less than 4 per cent of the GDP. All these clearly show the state's poor commitment to uplift the masses. Pakistan's comparison on the HDI scale cannot be made even with India and Sri Lanka—the two countries in the Sub-Continent, let alone the East-Asian developing countries. Despite receiving billions of dollars in economic aid from the US, Pakistan lies at the bottom on the HDI scale—holds 147th position among 188 countries. Between 2002 and 2015 Pakistan received the highest volumes of US economic aid in the history but failed to achieve even a single MDG (out of eight) at the end of deadline in 2015. Historically, Pakistan's GDP growth rate has remained high in the presence of US aid and low in its absence. Also, in the last five decades, the country has had a decent (average) growth rate of 5 per cent but it has only benefited 'the few' and the masses have remained deprived. For example in the decade of 1980,

Pakistan's GDP growth stood at 6.9 per cent but the country's Gini coefficient remained 0.33 (as percentage 33.3) in the year 1987. The aggregate GDP growth of Pakistan over the period 1980-2015 stood at 5 per cent and the country's position on Gini Index fluctuated between 30 and 33, which again if interpreted, means that one third of the population remained deprived. Moreover, the highest 40 per cent of Pakistan's population, at present, hold 62 per cent of the country's income and 60 per cent of the population hold 38 per cent of the total income. Thus, the relationship between the GDP growth and poverty reduction in Pakistan has remained disproportionate, and thus, has resulted in income inequalities—in Easterly's words "economic growth without development" (2001, 1). Surely, it would be wrong to state that the US aid was responsible for the worst socio-economic conditions in Pakistan, because human development is a complex process, depends on various factors. However, Pakistan's poor socio-economic progress does make the lofty claims made by the aid-proponents (both in the US and Pakistan) in relation to aid contribution and effectiveness implausible. Moreover, the statistics show that the US aid has facilitated Pakistan's GDP growth, but the growth has not alleviated poverty in the country.

6.0 CONCLUSION

This study has made an attempt to identify the key determinants and objectives behind the allocation of US bilateral aid to Pakistan during and after the Cold War period. It has explained reasons behind changing patterns of the US aid to Pakistan over time. The study has also sought to evaluate the developmental role of American aid in Pakistan within the context of three major socio-economic indicators; health, education and poverty reduction. A detailed analysis for both aspects of US-Pakistan bilateral aid-relationship, in the light of the relevant literature, has been made. With regard to the US-Pakistan aid relationship, this study vindicates the realist explanation of foreign aid which is that geo-strategic and security factors dictate the donors' policy of aid-provision. In relation to the role of US aid in Pakistan, this study supports the assertion of advocates of the public choice theory that foreign aid remains ineffective and possibly detrimental for the recipient.

The first chapter of this thesis provides a brief introduction of the history of US bilateral aid and aid-relationship between the US and Pakistan. It also explains the objective of the study and theoretical and methodological approaches employed in this study. In chapter 2, a sizeable literature on the concept, purposes and effectiveness of bilateral aid is reviewed. It is identified in this chapter that there are divergent and polarized views on bilateral aid which splits aid-scholarship broadly into two sections. First, aid-scholarship in which purposes of foreign aid are equated with the recipients' needs—thus aid is presented essential for economic development of poor countries. In the

second category of aid-scholarship, donors' interests are highlighted and aid is opposed for its negative effects on aid-recipients. Chapter 3 explains objectives of the US behind the allocation of aid to Pakistan and the variations in aid flows over the period with the changing global situation—the Cold War rivalry, the collapse of the Soviet Union and beginning of the war on terror. It is argued in this chapter that the American policymakers thoroughly remained concerned about their own political and security objectives which confirm the realist view of foreign aid. Chapter 4 and 5 evaluates the effects of US bilateral aid on Pakistan and the central argument made in these two chapters is that US aid did not prove beneficial for Pakistan. This chapter draws the conclusion on the basis of findings of the previous chapters.

This thesis has investigated bilateral aid both from the US (donor) and Pakistan (recipient) perspectives. First, an examination of reasons behind selectivity of Pakistan for US bilateral aid was made. A common justification given for aid-provision by the US policymakers is that the poor countries including Pakistan have developmental needs and thus the US out of humanitarian concerns provides them aid. However, a question arises whether the major recipients of US aid are poorer and needier than the small recipients or non-recipients of aid; for example, do the countries located in Africa continent have less developmental needs than Egypt, Israel and Pakistan? Therefore, some authors have criticized the policy of US aid allocation and they have declared US-aid as politically motivated. They have argued that money provided by the US to some countries for furthering her self-interest is euphemized as aid or assistance. In this study the actual determinants behind the provision of the US aid to Pakistan were identified. The second contribution of this study is that it tried to examine the role and contribution

of the American aid in Pakistan in a holistic manner. Pakistan's progress in three sectors, health, education and poverty alleviation as well as the country's performance on the basis of the MDGs were tried to be linked to aid money provided by the US. It was contended that the US aid did not prove beneficial for socio-economic development in Pakistan.

The US from the very inception of the official aid regime has remained one of the largest bilateral aid donors and Pakistan one of her biggest aid recipients. In other words, aid has always remained a predominant factor in the US-Pakistan relationship. The Pakistani politicians just after the partition in 1947 endeavoured to establish 'friendly relationship' with the US because they wanted to gain financial assistance from the US. on the other hand, the US found Pakistan a country of 'proper geo-strategic location' bordering China, India and Afghanistan and thus reciprocated to take advantage of the Pakistan's geographical location; first during the Cold War and then in its campaign against the war on terrorism.

The findings of this study show that the pattern of aid flows from the US to Pakistan never remained uniform but uneven and biased—depended on the geo-strategic significance of the latter. There remained inconsistency in volumes of US aid to Pakistan, for example, the aid flows remained high when the Cold War rivalry was at peak between the US and the Soviet Union during the 1950s, 1960s and early 1970s. The US aid flows to Pakistan decreased after the US-Soviet détente in the second half of 1970s, but increased when the Soviet Union invaded Afghanistan and remained high

until 1990; ceased during the 1990s, resumed after the 9/11 incident. Both the short-term (in the 1970s) and the long-term (in the 1990s) suspension of the US aid was not due to Pakistan's poor governance and corruption records. Rather it happened, first, due to the geo-strategic reasons (for instance, Pakistan's support was no longer required against the communist bloc) and second Pakistan's nuclear program (which the US considered risky and unwarranted). Thus, the US aid policy vis-à-vis Pakistan remained swayed by her self-interests. The US policymakers used aid as a foreign policy tool to influence and to get leverage over Pakistan. Although, the aid money provided to Pakistan was officially named 'economic aid', and was projected as some sort of 'assistance' or 'help' by the US. However, as a matter of fact, aid was not provided for developmental purposes but was given as a 'reward' for Pakistan's allegiance to the US policies during the Cold War period and in the twenty-first century.

In the previous studies, a common argument made in relation to US aid is that since it is given for politico-strategic and security reasons therefore it fails to contribute to socio-economic progress of the recipient countries. In this study, ineffectiveness of US aid was not only approached from the donor self-interest perspective rather a detailed analysis of Pakistan's socio-economic performance was made. This study tried to develop a link between the US aid flows and Pakistan's economic progress, and the effectiveness of American aid provided to Pakistan over the period 1948-2015 was questioned. Moreover, the possible negative role US aid concerning exacerbation of income inequalities, dependency and clientelism in Pakistan was described.

Human development is indeed a complex process and it cannot be achieved without the involvement and commitment of the state. In Pakistan's case, there is no question about the poor living conditions and the country's bad progress on socio-economic indicators. On the Human Development Index (HDI) Pakistan, at present, ranks at 147 in the list of 188 countries—lies in the bottom of the list. The deteriorated state of Pakistan socio-economic indicators is evident from the country's life expectancy of 67 years, percentage of population living below the poverty line (on less than \$2/day) 29.5 per cent and 22.6 million out-of-school children. In the year 2016, Pakistan's spending in education and health sectors remained less than 4 per cent of the total GDP.

Furthermore, the poor commitment of the state, elite capture and patronage activities in Pakistan resulted in income inequalities and thus a mismatch between poverty reduction and the GDP growth—only a small group ripened benefits of the economic growth. In the 1980s, Pakistan's GDP growth was 6.9 per cent at average and during 2000s the country's GDP growth stood at 5 per cent. In these two decades, Pakistan received almost 19 billion dollars from the US in economic aid. However, Pakistan's position on the Gini Index during both the decades remained above 30 per cent—one third of its population remained deprived of the GDP growth. Over the period 2002-2015, Pakistan received 13 billion dollars in US economic aid; however, the country failed to achieve any of the eight MDGs by the 2015 deadline. Easterly (2001) has defined economic growth of Pakistan as the one without development.

Notwithstanding the fact that Pakistan received huge aid from the US—around \$50 billion in economic aid over the period 1948-2015—the country’s socio-economic conditions remained poor. However, it cannot be claimed that US aid is the reason behind Pakistan’s poor socio-economic progress, but it is quite safe to conclude that aid remained ineffective. The American aid to Pakistan has largely failed to manifest into a developmental tool and utilization of aid money was not made to improve socio-economic situation of the country. The findings of this study dismantle the official narrative of America that aid is provided to facilitate socio-economic progress in Pakistan.

In some studies, it is argued that foreign aid remains more effective if given to a country which has a democratic setup in place. Also, it is contended that if the recipient country has more control over designing aid policies then aid proves more beneficial. The latter argument was also very much emphasized in the Paris Agreement 2005. In Pakistan’s case, both these arguments seem invalid because the country received aid from the US during the 1950s, 1970s and 2000s in the presence of democratic governments. Also, although the US policymakers suspected Pakistan of using aid money for purposes other than economic such as for military or defence purposes, they did not bother to intervene or to make the Pakistani politicians accountable for it. It was due to the reason that the US remained more concerned about her own geo-strategic and security goals. However, the studies in which it is argued that developmental motivations of the donor and economic policies and institutions of the recipient play a primary role in aid effectiveness seem relevant in the case of Pakistan. First, because if the US had developmental motive behind allocation of aid to Pakistan then her policymakers would

have put checks and balances on the utilization of aid-money. Secondly, if Pakistan had pro-poor economic policies and effective institutions in place then aid money given by the US would not have been wasted in corruption and unproductive activities. Both these factors were missing in the US-Pakistan aid relationship therefore bilateral aid not only proved ineffective but also counterproductive for Pakistan.

The US aid cannot be said to have plunged Pakistan into a set of circumstances unfamiliar and unprecedented in the country including income inequalities, clientelism, poor tax regime and corruption. However, the US aid seems to have facilitated them all. The goals and priorities of the US as a donor country remained other than encouraging socio-economic development in Pakistan. Therefore, the US did not bother about either wastage of aid money in corruption or its utilization in unproductive purposes by the policymakers in Pakistan. As a result, US aid remained ineffective because the US did not hold the Pakistani governments accountable for failure of development and thus aid failed to produce positive results for economic development of Pakistan.

The US aid was probably used for supplementing taxes because comparison of two decades 1990s and 2000s, show that Pakistan's tax to GDP ratio remained high in the former decade and low in latter despite the fact that the average GDP growth during 2000s remained high. Furthermore, it is argued that aid decreases corruption in a recipient country and the reason given is that the public officials get good salaries in the presence of aid inflows. In Pakistan's case, some authors have stated that corruption became rampant in the 1990s when US aid flows to the country were suspended. However, this study finds that US aid failed to reduce corruption in Pakistan during 2000s. For instance, corruption was declared the biggest problem for doing business in

Pakistan in more than one study even in the year 2016. In Pakistan, a small group of elite has always owned the big share of country's income. The US aid facilitated Pakistan's GDP growth but benefits of the growth were disproportionately shared evident from the income distribution in the country. It seems that a share of aid money which Pakistan received in economic aid from the US was spent on military and defence by the Pakistani ruling elite particularly on the nuclear program of the country during the 1980s. Because, for instance, Pakistan's military expenditures in relation to its GDP declined with the passage of time despite the increase in military size and the country's fight against terrorism within its borders.

This thesis focused on the US-Pakistan aid relationship and challenged the arguments made regarding developmental role of the US bilateral aid. It exposed the validity of claims made in favour of contribution and effectiveness of the US foreign aid to Pakistan. It also attempted to explore that the US aid did not remain only ineffective in promoting human development in Pakistan but also put negative effects on the country in terms of aggravating income inequalities and facilitating corruption and the elite control. Also, the US aid proved fungible and reduced Pakistan's capability to mobilize the domestic resources. The US did not put any checks and balances on the use of aid money due the reason that aid-provision was based on her own interests in the first place, instead of developmental needs of Pakistan.

In a nutshell, the whole study is based on three major arguments; first that the US foreign aid to Pakistan was inspired by the former's self-interests which revolved

around geo-strategic, political and security concerns and thus aid-relationship between the two countries validates the realist view of foreign aid. Second, US aid remained ineffective in terms of making a positive contribution in human development in Pakistan, evident from the latter's poor socio-economic progress in the presence of high aid inflows from the US. Third, the US aid did not decrease corruption and income inequalities in Pakistan as generally claimed by the aid-proponents rather it facilitated the Pakistani ruling elite and proved fungible—money provided by the US in economic aid to Pakistan was diverted to unproductive activities including defence and tax substitution by the Pakistani politicians.

6.1 LIMITATIONS OF THE STUDY

Like all other studies in the social sciences, this study also has some limitations. The limitations are related to the size of sample, data collection and data analysis. To start with the first limitation, in spite of the fact that in this study the explanation given about the motivations and objectives of foreign aid is specifically related to the US aid-policy towards Pakistan. Therefore, a general claim about the US bilateral aid allocation has not been made. However, a large sample size would have paved a way for comparative analysis, which as a result, would have made the interpretation about the determinants of the US foreign aid more cogent. For instance, if the bilateral aid flows from the US to Pakistan were compared to other major recipient(s) of the US bilateral aid (i.e. Egypt, Israel or any other recipient), then it would have widened the scope of this study.

Secondly, the data collected and analyzed in this study are acquired from the secondary sources and some primary sources which do not involve field work. Thus, this study lacks the inputs of the people directly involved in aid-business. More importantly, the quantitative data were not available for the whole period i.e. 1948-2015, regarding Pakistan's tax-GDP ratio, spending on health and education, military expenditures, corruption and income inequalities. The World Bank, UNDP, UNESCO, SIPRI, Transparency International and other sources provide data from the year 1960 and afterwards. So, there were some constraints and shortcomings regarding collection of data.

Lastly, it was argued in the study that the US economic aid not only proved ineffective in the case of Pakistan but may be harmful and fungible as well. The US aid probably went into corruption in Pakistan and was diverted to pacify the domestic taxes or to finance the military expenditures; however, this conclusion lacks precision. For example, it is beyond the scope of this study to establish how exactly the US aid money was siphoned off by the Pakistani politicians or was diverted to the purposes other than human development in Pakistan. Also, it could not properly establish whether a major chunk of the US aid was embezzled i.e. directly went into the pockets of politicians or was spent but on unproductive purposes. These may be subjects of further studies on this topic.

APPENDIX

TABLE A: US AID TO PAKISTAN 1948-2015

Year	Economic Aid	Military Assistance
1948	0.85	0
1949	0	0
1950	0	0
1951	3.19	0
1952	82.03	0
1953	826.7	0
1954	173.4	0
1955	809.97	293.87
1956	1177.33	1199.85
1957	1192.78	483.44
1958	1069.67	588.99
1959	1511.27	405.25
1960	1866.91	254.53
1961	1093.22	287.76

1962	2579.28	606.55
1963	2283.33	322.94
1964	2455.56	207.2
1965	2131.02	85.39
1966	901.81	9.28
1967	1340.5	29.09
1968	1659.3	28.7
1969	598.53	0.55
1970	1069.78	0.96
1971	524.24	0.81
1972	765.47	0.46
1973	790.31	1.37
1974	421.99	1.05
1975	678.71	1.02
1976	711.59	1.41
1977	352.6	1.02
1978	237.44	1.68
1979	142.21	1.33
1980	151.94	0
1981	181.36	0

1982	442.58	1.33
1983	590.15	552.14
1984	627.57	614.15
1985	670.89	644.67
1986	688.9	603.01
1987	661.84	590.5
1988	849.73	475.82
1989	618.37	405.5
1990	605.5	313.14
1991	165.26	0
1992	29.98	7.95
1993	81.96	0
1994	75.6	0
1995	25.55	0
1996	25.18	0
1997	63.16	0
1998	40.13	0
1999	112.84	0.24
2000	50.51	0
2001	251.91	0

2002	1035.18	1921.99
2003	417.53	1944.67
2004	448.67	984.79
2005	541.81	1543.45
2006	761.67	1376.67
2007	760.78	1192.86
2008	678.87	1522.75
2009	1495.49	1231.02
2010	2062.77	2789.15
2011	1141.31	396.19
2012	1199.05	81.35
2013	944.04	27.27
2014	779.04	282.53
2015	840.2	295
Total in million	49568.31	24612.64
Total in billion	49.56831	24.61264
All figures are adjusted for inflation and presented in 2015 constant dollars		

Source: Author, based on the US Overseas Loans and Grants (Greenbook), 2015 the CGD Report (2010), The Guardian (2011) Data

TABLE B: PAKISTAN'S MILITARY EXPENDITURES AS PER CENT OF GDP

Year	Constant (2014) USD Million	% of GDP
1988	4526	6.8
1989	4539	6.5
1990	4791	6.5
1991	5128	6.6
1992	5453	6.7
1993	5425	6.4
1994	5269	5.9
1995	5360	5.8
1996	5359	5.6
1997	5131	5.3
1998	5182	5.2
1999	5193	4.5
2000	5555	4.0
2001	5974	4.1
2002	6382	4.2

2003	6664	4.1
2004	6917	4.0
2005	7032	3.9
2006	7081	3.7
2007	6676	3.4
2008	6879	3.1
2009	7134	3.1
2010	7520	3.1
2011	7975	3.1
2012	8238	3.3
2013	8655	3.2
2014	9246	3.3
2015	9510	3.4
Total in Million	174268	
Total in Billion	174.268	

Source: SIPRI (2015)

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