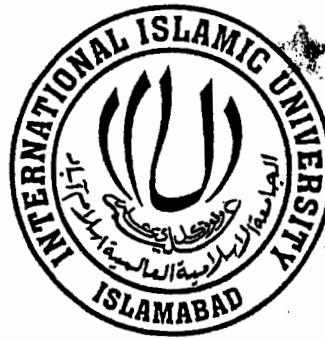


**US AID AND DOMESTIC POLITICS IN PAKISTAN
1991 TO 2006: AN ANALYSIS**

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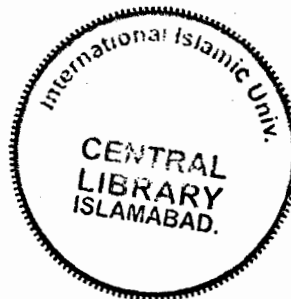


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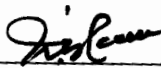
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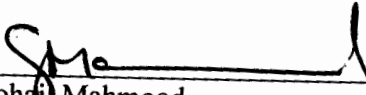
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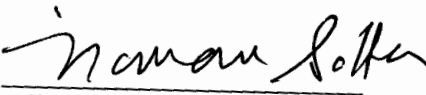
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CERTIFICATION

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ACRONYMS

AECA	Arms Export Control Act
CENTO	Central Treaty Organization
FAA	Foreign Assistance Act
GNP	Gross National Product
GDP	Gross Domestic Product
IMF	International Monetary Fund
ICC	International Criminal Court
IFI	International Financial Institutions
IPC	Iraq Petroleum Company
LDC	Least Developed Country
MDG	Millennium Development Goals
NATO	North Atlantic Treaty Organization
NPPA	Nuclear Proliferation Prevention Act
OAS	Organization of African States
PL	Public Law
SEATO	South East Asian Treaty Organization
SCARP	Salinity Control and Reclamation Program
SAP	Structural Adjustment Program
UK	United Kingdom
UN	United Nations
UNDP	United Nations Development Programs
USAID	United States Agency for International Development
USSR	United Soviet Socialist Russia

CHAPTER 1

INTRODUCTION

1.1 - STATEMENT OF THE PROBLEM

The unavailability or less available resources for economic development lead to a lot of problems. The domestic savings are proved to be good for this purpose, which may render their services for a quite available time to escalate the economic growth of the country. The inadequate domestic savings of the state lead to an underdeveloped country to try to augment domestic savings by seeking foreign aid from the out-side world. The state can either borrow from foreign countries or receive grants-in-aid from friendly countries. This can be proved to be good for the country in the short term, but when state fails to manage the then available resources in proper time, it may lead to the continued begging of foreign economic aid which makes it wholly dependent on that country or the aid providing institution. The economic aid providing countries include most of the developed nations such as US, UK (to some extent), France, Japan, Germany etc. While the aid providing institutions include IMF, WB, USAID etc.

The term "Foreign Aid", here might be used to cover both grants-in-aid and net foreign borrowing from private and public sources. "US International Aid" here is used in terms of the aid provided by US for various programs of international development. Additionally, this aid has been project and reforms specific in various regimes without distinction of time and space. The term "net" borrowing is used to refer to the fact that interest payments and capital repatriations in nay period are subtracted from the total borrowings in the same period.¹

¹ John C.H.Fei, 1962. *An Analysis of the Long run Prospect of Economic Development in Pakistan*, Karachi: The Institute of Development Economics, p. 48

Foreign aid flows to developing countries began to assume substantial proportions in the early 1950s. Later, there is clear evidence of widespread unease about the results of these massive flows and their potential for accelerating economic development in the decades ahead.²

There is a big diversity among the various aid programs in their objectives, in the types, and sources of assets furnished, and in the performance required of the recipient. There have been seldom examples of charitable aid by the developed countries. In fact aid and loans are merely fancy words and the states extending this facility to other states, do so with the specific objective in these policies. In other words it is a long term investment that is planned to accumulate some political and economic benefits.

Pakistan being no exception was pushed into the trap of foreign aid. At the time of its birth it had no infrastructure and the machinery. Its economy was in shambles. A lot of capital was needed to run the state machinery. Indian government led Pakistan to get only lump sum money of 750 million Indian Rupees, and the other share was not given to it. The years of 1947 to 1954 were crucial for the survival of Pakistan. So it had to get some of the external assistance. Liaquat Ali Khan tried to get some monetary support from US due to its better economic position and available sources to help Pakistan. But Pakistan was provided wheat as commodity assistance under the PL 480 legislation.³ So the PL 480 served purpose well by providing grain to the developing countries, the amount was repayable in the local currency. It kept the developing country on US grains stock and provided an outlet for its commodities whose storage cost was more than \$ 1 billion. These aid packages are granted on the

² Irving Brecher, 1972. *Perspectives on Development, Foreign Aid and Industrial Development in Pakistan*, London: Cambridge University Press, p. 1

³ Shahid Kardar, 1987. *Political Economy of Pakistan* Lahore: Progressive Publishers, p. 258

terms of the donors. It gives them incentives to charge prices appreciably higher than world prices.

For Pakistan it was stipulated that it must buy the related equipment from the donor country and hire the expertise of the advisors belonging to the same country and on top of that Pakistan must purchase goods and services from the donor. It provided employment opportunities for donor state technicians. A large sum of these funds is thus routed back in the form of charges of expert advice. And under this tactic US took back 50 to 60 % of the total aid allocation.⁴ These people also had the chances to influence the projects and the planning from the start.

The reliance of Pakistan over bilateral aid affected the nature of the assistance in such a manner that its capacity to affectively promote the development policies was reduced to a considerable extent. Pakistan also joined the IMF on 11, July 1950. US also approved a sum of \$ 600 million for technical assistance of Pakistan under President Truman's four-point program.

In order to manage trade, aid and the military relationship the US government and private foundation step up the training of Pakistani administrative, social and military officers. The Ford Foundation also played its role in this way.⁵

US provided project aid to Pakistan only after Pakistan had entered in multilateral defense agreements, SEATO and SENTO. The first project aid that was given to Pakistan was SCARP 1. It was a bilateral arrangement with US. Pakistan also requested US in the same year to provide experts to manage the next five years plan for the economy. And resultantly it was planned that Pakistan will be asking for foreign aid on the basis of bilateral or multilateral agreements. Most of the aid was earmarked for industrial development and was to be employed in consumer goods

⁴ Shahid Kardar, 1987. *Political Economy of Pakistan* Lahore: Progressive Publishers, p. 258

⁵ Mahboob ul Haq 1967. *Tied Credits, A Quantitative Analysis in Capital Movement and Economic Development*. London: Macmillan Press, p. 39

industry rather in capital goods. It increased the capacity of the country for simple reproduction but not expanded reproduction, thus failing to extricate the nation from economic dependence.

The efforts aimed towards the democratization, have often showed disappointing results and are attributed to domestic conditions that hamper the progress of democracy. One of the major components of international effort to foster democratic growth in developing and underdeveloped countries is international aid.⁶

Many foreign aid donors include the promotion of democratic government as a major goal of their aid programs. The US Agency for International Development (USAID) alone spends more than \$700 million annually on democracy-related programs, including elections support, the strengthening of parliaments, judiciaries and political parties, and fostering the growth and power of "civil society organizations" such as labor unions and women's and human rights groups.

In terms of Stephen Knack US international aid and donations are meant for promotion of democracy and creation of sustainable institutions around the world. The intentions of almost all the foreign aid donors are to promote and develop the state as a democratic one. Here the researcher has taken the case of Pakistan to answer the question that does US international aid has ideals of promoting democracy or a political tool used to enhance the economic, commercial and strategic interests of US?

1.2 - OBJECTIVES OF THE STUDY

The objective of my research is to see the flow of US international aid to Pakistan and its impact on the domestic policies. Additionally following objectives are:-

1. To know the US economic and strategic interests in the region vis a vis

⁶ Stephen Knack, 2004. *Does Foreign Aid Promote Democracy?*, *International Studies Quarterly* 48, Oxford: Blackwell, p. 251

Pakistan.

2. To analyze political disputes among military establishments and political elites of Pakistan.
3. To discuss advantages and the disadvantages of US international aid.
4. To analyze the differences which prove to be a hurdle in promoting democracy in Pakistan.

This research aims to answer certain questions which may help to meet the objectives of the study. Some of them are:-

- i. Why military regimes survive more than the democratic ones?
- ii. Why US international aid flows more to military regimes than democratic ones in Pakistan?
- iii. What is the present status and future of democracy in Pakistan?
- iv. Motives behind US international aid are realistic or the hidden one?
- v. What are the reasons of failure and ineffectiveness of US international aid in the process of promotion of democracy?

Foreign aid does not offer an ideal panacea to cure economic ills. It is not essential for development because a number of newly developed began started their journey without foreign aid. While considering the case of Pakistan it is evident that the composition of aid to Pakistan has changed drastically over the years. The terms and conditions of loans and credits have become harder. The grants element in aid has become obsolete. Instead of bilateral aid, it has switched to multilateral aid. The IMF and the other institutions have become the biggest creditors. The debt proportion has soared to alarming proportions.

The official sources state that Pakistan has debt obligation of around \$ 32 billion but non-governmental estimates are that Pakistan is under debt of \$ 60 billion.

This aid comes from foreign sources. Instead of relying on external sources the country should adopt the policy of self-reliance with a view to achieve sustainable economic development.

Pakistan holds an unusual position in such an international environment where aid flows from the US is conceptually at least, aimed in parts to foster conditions that promote democracy. During 1990-98 when there was a democratic government in Pakistan, US aid was almost negligible, and however a substantial amount of aid was disbursed to Pakistan in 1999 and continues to grow. Ironically, the year 1999 was significant in the sense that it saw Pakistan returning to dictatorship⁷. Similarly Pakistan had seen such a rise in aid during the dictatorship regimes of General Ayub and General Zia-ul-Haq, during the years of cold-war. Such instances bring us to question the intentions of US international aid to Pakistan.

The paper would follow a three-pronged approach to the thesis. It would engage into the literature about democracy, aid and would take the historical approach of the flow of US international aid to Pakistan in chronological order. The core hypothesis we test in this paper is that *“US international aid has helped strengthening dictatorships rather than promote democracy in Pakistan.”* We explore each side of this phenomenon in the three sections. In the first section we review the literature that links aid with the promotion of democracy. In section two we present political and economic data of aid flowing from, specifically, the US, into Pakistan, during different regimes and the economic conditions that existed during these regimes. We would explore the trends of foreign aid flow from these donors into Pakistan from 1945 through 1980, to examine the relationship between aid flows and perceptions of democracy. In the third section we would then seek an answer to the

⁷ Mumtaz Anwar and Katharina Michaelowa, 2006. *The Political Economy of US Aid to Pakistan*, *Review of Development Economics* 10 (2) Oxford: Blackwell, p. 198

question whether foreign aid from the US has helped promote democracy or helped reinforce dictatorship.

The thesis would argue that the flow of aid from the US has been consistently showing upward trends during dictatorship regimes vis-à-vis the democratic ones and this helped reinforce the military dictatorship regimes by providing them the economic base for political stability in the country.

1.3 - RESEARCH METHODOLOGY

The topic for research is of political and economic dimensions. Though there is some qualitative material available in various libraries of the capital, yet there might be some use of some secondary and tertiary sources. For completion of the requisites of research I shall conduct library research, as well as survey and analysis of various studies done in this regard where needed to purify research. The services provided by the Higher Education Commission of Pakistan are likely to be useful to get help from its digital library and online sources.

1.4 - REVIEW OF LITERATURE

The US is dictating its ideology and imposing its economic system in this era of globalization. This notion becomes more plausible in the US ongoing war against terrorism and pre-emptive defense options. In the modern times political reach of imperial power are economic compulsions rather than physical presence. And a main difference between the old and new imperialism. The global economy is administered, not by a global state, but by the multiple local states aiming to promote their military and war doctrines. Thus in this way they aim to have a hegemonic structure forcing their dependent nations to obey and work as their strategic allies when and where needed. It was the situation and need of time which brought US and Pakistan on the same stance for meeting their demands. But one thing is clear that elite is different

form masses to have their own choices and sense of responsibility.⁸ People tend to be indifferent with any aid or debt package leading to dependency over dictation. Pakistan has been trapped in the mental enslavement and leaves no stone unturned to get more and more conditional aid putting aside the real national interest of the country. Resultantly, the country has been turned into political and intellectual puppet dancing to the tune of US ideals.

On the other hand it is hard to imagine the days when Pakistan opted for foreign aid as a lender of last resort. Post- independence period is evidence of the situation which compelled to opt for foreign aid. Soon after the independence it was difficult for Pakistan to run its affairs through its own exchequer. Pakistan was amongst poorest nations in the world having no industries, no infrastructure, raw materials etc for production and growth. It was difficult to perceive that country could grow without external help; avoiding economic collapse and disintegration. Gustav Papanek is of the view that in late 1950's and early sixties it was hard time for Pakistan due to major dependency over foreign aid contribution.⁹ Keith Criffin adds that foreign aid supported to sustain the economic development and building up the entire social and economic system.¹⁰

It is generally believed that almost all the development budget is financed through foreign aid i.e. once allocation is made for debt servicing, defense & government operating expenditure nothing is left from domestic budgetary sources. Quite some of public money is consumed in parties, galas, foreign trips, bribery, purchasing political support etc. apart from genuine defense needs; large military establishments have come to stay about in Pakistan.

⁸ Babar Sattar, *US Aid to Pakistan*, Karachi: Pakistan Institute of International Affairs, , 1974, p. ii

⁹ Gustav Papanek, *Pakistan's Development: Social Goals & Private Incentives*, Cambridge: Harvard University Press, 1967, p. 1

¹⁰ Viqar Ahmed and Amjad Rashid, *The Management of Pakistan's Economy, 1947-82*, Karachi: Oxford University Press, 1984, p. 65 and p. 11

A paradoxical situation all over the world has been prevailing. William Easterly is of the view that Western powers spent \$ 2.3 trillion as foreign aid over the last five decades but could not achieved its targets; 12 percent medicines to children for prevention of deaths caused by malaria, got four-dollar bed nets for poor families and still unable to get three dollars to each new mother to prevent five million child deaths. Additionally, the rich children got new and highly efficient ways for medicating the dying poor children.¹¹ While foreign aid has worked as the foreign policy tool for the donor but recipients have been devoid of this facility. Aid appears to have established as a priority the importance of influencing domestic policy in the recipient countries.¹²

Resultantly keeping in view the situation of Pakistan like states one of the root causes of poverty lies in the powerful nations that have formulated most of the trade and aid policies today, which are more to do with maintaining dependency on industrialized nations, providing sources of cheap labor and cheaper goods for populations back home and increasing personal wealth, and maintaining power over others in various ways.

Thus when and where the challenges come to rich nations like US use this aid as a tool for exploiting the poor nations like Pakistan to work as a puppet of Rafi Peer Theatre. It is need of richer nations to maintain the status quo in world relations. Richer nations like US continue to have a financial lever to dictate what good governance means and to interfere open markets of developing countries for

¹¹ Easterly William, *The White Man's Burden; Why the West's Efforts to Aid the Rest have Done So Much Ill and so Little Good*, London: Penguin Press, 2006, p. 4

¹² Nelson F. Benjamin, *International Affairs Budget: Framework for Assessing Relevance, Priority and Efficiency*, Washington, DC: General Accounting Office, October 30, 1997

multinational corporations. And developing nations have no other choice rather than plying to the tools of US and other rich countries.¹³

This use of strength in political and economic arenas is nothing new. Powerful nations have always managed to exert their influence in various arenas. During the Gulf War in 1991 for example, many that ended up in the allied coalition were promised various concessions behind the scenes (what the media described as “diplomacy”). For example, Russia was offered massive IMF money. Even now, with the issue of the International Criminal Court, which the US is also opposed to, it has been pressuring other nations on an individual basis to not sign, or provide concessions. Aid is often tied to political objectives and it can be difficult to sometimes see when it is not so.

But some types of conditions attached to aid can also be ideologically driven. For example, quoted further above by the *New York Times*, James Wolfensohn, the World Bank ex-president noted how European and US farm subsidies “are crippling Africa’s chance to export its way out of poverty.” While this criticism comes from many perspectives, Wolfensohn’s note on export also suggests that some forms of development assistance may be on the condition that nations reform their economies to certain ideological positions. Structural Adjustment Programmes has been one of these main policies as part of this neoliberal ideology, to promote export-oriented development in a rapidly opened economy. Yet, this has been one of the most disastrous policies in the past two decades, which has increased poverty. Even the IMF and World Bank have hinted from time to time that such policies are not working. People can understand how tying aid on condition of improving human rights, or democracy might be appealing, but when tied to economic ideology, which

¹³ *Puppets on Purse strings, Down To Earth*, Centre for Science and Environment, Vol 10, No 23, April 30, 2002

is not always proven, or not always following the “one size fits all” model, the ability (and accountability) of decisions that governments would have to pursue policies they believe will help their own people are reduced. According to the Wolfensohn’s view good governance and confrontation to the issues of corruption need to have a complete legal system which protects human rights, without which country’s development shall be fundamentally flawed and will not last forever. ¹⁴

Further to that is a notion that money does not move from rich to poor rather it moves from poor to rich states. And development does not occur due to the fact that there is no transfer of technology or skills transfer is prohibited by the advanced countries. UN ex-Secretary General Kofi Anan noted that funds should be moving from developed countries to developing countries, but these numbers tell that the opposite happens. Funds that should be promoting investment and growth in developing countries, or building schools and hospitals, or supporting other steps towards the Millennium Development Goals, are, instead, being transferred abroad. ¹⁵

¹⁴ Wolfensohn D. James, *Coalitions for Change*, Address to the Board of Governors of the World Bank, September 28, 1999

¹⁵ Kofi Annan, *Development Funds Moving From Poor Countries To Rich Ones*, Annan Says, United Nations News Centre, October 30, 2003

CHAPTER 2

THEORETICAL FRAME WORK

There are several contradictions that harbor theoretical conflict amongst political theorists regarding democratic theory. Each variation in interpretation, has given rise to many models of democracy. The classical theory of democracy, dating back to the ancient Greek civilization, viewed democracy as the “will of the people and the common good”¹ In political theory such a political regime is called direct or participatory democracy. This classical theory of democracy, however imperfect and flawed, served as the reference point to debates on democracy in the preceding eras.

The emergence of the US as the sole super power, after the fall of Soviet Union, was in fact seen as the triumph of liberal democracy over other political theories. Before we delve into deeper narrations let us first understand what liberal democracy implies.

A liberal or representative democracy is “a system of rules embracing elected officers who undertake to represent the interests or views of citizens within the framework of the rule of law”.² Larry Diamonds in his essay *Is the Third Wave over*, in the answer to Huntington’s seminal work ‘*The Third Wave*’, identifies the key features of liberal democracy by suggesting that power lies with elected officers, constrained executive power, freedom of expression for the minorities, channels for citizen representation, independent media, individual freedom, political equality of the citizens and the rule of law are what a democracy should ideally comprise of.³ Defining the key features of liberal democracy, Diamond puts forward the term

¹ Samuel P. Huntington, (1991) *The Third Wave : Democratization in the Late Twentieth Century*, London : University of Oklahoma Press

² David Held (ed.) (1993) *Prospects for Democracy : North, South, East, West*, Cambridge : Polity Press, p. 15

³ Larry Diamond (1999) *Developing Democracy: Toward Consolidation*, Johns Hopkins University Press.

"liberal" to imply not an "economic regime featuring a limited state and an open economy but to a political regime in which individual and group liberties are particularly strong and well protected".⁴

On the other hand, Schmitter suggests that the main components of 'real, existing liberal' democracy are:⁵

- its exclusive emphasis on individualism;
- its commitment to voluntarism in the form and content of political participation, as well as in the recruitment of politicians;
- its reliance on territorial representation and partisan competition to provide the sole legitimate links between citizen and state;
- its confinement to the bounds of national state institutions as well as its (tacit) complicity with nationalism;
- its indifference to persistent and systemic inequalities in both the distribution of benefits and the representation of interests.

According to Fareed Zakaria, "liberal democracy is a political system marked not only by free and fair elections, but also by the rule of law, a separation of powers, and the protection of basic liberties of speech, assembly, religion and property."⁶ He further points out that a liberal democracy comprises of liberalism and democracy suggesting the viability of two options, namely the liberal autocracy and illiberal democracy, amongst which he places a priority of the liberal autocracy over the illiberal democracy as a better system of governance. However Plattner argues that

⁴ Larry Diamond (1996) 'Is the Third Wave Over?', *Journal of Democracy* 7 (3): 20-37, John Hopkins University Press, p. 35

⁵ Philippe C. Schmitter, (1995) 'More Liberal, Preliberal, or Postliberal?', *Journal of Democracy* 6 (1): 15-22, John Hopkins University Press, p. 17

⁶ Fareed Zakaria (Nov/Dec., 1997) 'The Rise of Illiberal Democracy', *Foreign Affairs* 76 (6), p. 22

“For better or worse, the future of liberalism is indissolubly tied to the future of liberal democracy.”⁷

According to Wendy Brown:⁸

In economic thought, liberalism contrasts with mercantilism on one side and Keynesianism or socialism on the other; its classical version refers to a maximization of free trade and competition achieved by minimum interference from political institutions. In the history of political thought, while individual liberty remains a touchstone, liberalism signifies an order in which the state exists to secure the freedom of individuals on a formally egalitarian basis. A liberal political order may harbor either liberal or Keynesian economic policies -- it may lean more in the direction of maximizing liberty (its politically "conservative" tilt) or maximizing equality (its politically "liberal" tilt) but in contemporary political parlance, it is no more or less a liberal democracy because of one leaning or the other.

Such interplay of political and economic advantages, as we now know to be liberal democracy, is essentially the form of government that the US looks forward to achieve in the developing or under developed countries of the world by facilitating these countries through various political, technical and economic means. Understanding the economic, strategic and national gains that can be achieved through the installation or the encouragement of such a form of government, it is not a surprise that foreign aid provided to developing or LDC's contains the encouragement of democracy as a clause. The question then arises that is the US interested in liberalism as a key feature of liberal democracy and hence finds other regime types as

⁷ M. F Plattner, (1999) 'From Liberalism to Liberal democracy' *Journal of Democracy* 10 (3): 133, John Hopkins University Press

⁸ William Brown, (2003) 'Neo-liberalism and the End of Liberal Democracy', *Theory and Event* 7 (3), John Hopkins University Press taken from the website http://muse.jhu.edu/journals/theory_and_event/v007/7.1brown.html

a hindrance to its economic liberal ideology, thus left with the only option of promoting liberal democracies?

One of the various tools that the US employs to achieve its goals in terms of global democratization is the disbursement of aid to countries that are either failed, fragile or developing states. Considering the popular support of global democratization, due to US national interests, there follows less ambiguity than that the promotion of democratic regimes and encouragement of democratic growth remains one of the prime considerations of the US aid program. Through such economic collaborations the US aims at bringing about a change aimed at democratization. As Graham and Hanlon notes that “ the economic growth is not the sole objective of the US foreign aid and it may be the least important goal for the policy makers concerned with security, short term solvency, human rights , or democracy.”⁹ The reason for such an analogy derives from the fact that the US sees democratic regimes as the solution to most of the problems economic or political. The US sees democratic governments as agents of establishing peace, promoting economic development and expanding open markets, combating international terrorism and avoiding humanitarian crisis amongst many other factors that further US interests and strengthen the global community. With these goals in mind, the United States seeks to promote democracy as a means to achieve security, stability, and prosperity for the entire world, assist newly formed democracies in implementing democratic principles, assist democracy advocates around the world to establish vibrant democracies in their own countries and identify and denounce regimes that deny their citizens the right to choose their leaders in elections that are free, fair, and transparent.

⁹ Carol Graham and Michael O’Hanlon, (Jul/Aug., 1997) ‘Making Foreign Aid Work’, *Foreign Affairs* 76 (4): 96

However, Thomas Carothers points out an anomaly in the pursuance of such political gains by suggesting that aid agencies involved in the promotion of democracy “sometimes believe that American political ways are the best and should be universally emulated, little considering how they might work in other contexts”¹⁰. This disregard to the local environment and the cultural integrity of the recipient countries have often spurred much debates on the ambitions of foreign aid by the US and has brought to question the effectiveness of such an international financial transfer and its vitality in increasing growth by facilitating democratic transition. Though the USAID boasts the efficacy of its aid program by announcing that “there were 58 democratic nations in 1980. By 1995, this number had jumped to 115 nations. USAID provided democracy and governance assistance to 36 of the 57 nations that successfully made the transition to democratic government during this period.”¹¹ At first such claim strikes awe in the eyes of the audience and prompts to marvel the cause of aid and its success and achievements, however there is a variance in the case. As Zakaria observes that “of the countries that lie between confirmed dictatorship and consolidated democracy, 50 percent do better on political liberties than on civil ones. In other words, half of the “democratizing” countries in the world are illiberal democracies.”¹² This is because aid, its conditions and conditionalities provide no certainty of control over events. Likewise Knack observes that “the favorable impacts of aid on democratization are minor, or they are roughly balanced by other democracy-undermining effects of aid dependence”¹³ suggesting that, though, the worth of the aid program cannot be complete denied, as there are recorded

¹⁰ Thomas Carothers, (Jan/Feb., 1997) ‘Democracy Without Illusions’, *Foreign Affairs* 76 (1): 89

¹¹ Stephen Knack, (2004) ‘Does Foreign Aid Promote Democracy?’, *International Studies Quarterly* 48: 256, Oxford: Blackwell

¹² Fareed Zakaria, (Nov/Dec., 1997) ‘The Rise of Illiberal Democracy’, *Foreign Affairs* 76 (6): 23

¹³ Stephen Knack, (2004) ‘Does Foreign Aid Promote Democracy?’, *International Studies Quarterly* 48: 262, Oxford: Blackwell

achievements that foreign aid can claim in specific countries, but these programs cannot be taken as indicators to the overall promotion of democracy. However Burnside and Dollar advocate the effectiveness of aid in a conducive macro policy environment. It is this macro policy conducive environment that the aid programs aim at fostering to create an environment of good governance, progressive development, economic liberalism that would, according to the US and other aid agencies would lead to the development and transition of a better democracy.¹⁴

Various scholars support such an argument by emphasizing that the promotion of democracy by foreign aid can also be achieved by modernizing societies. They argue that the increased levels of literacy and income are strong motivators for the increase in popular public support of democratic government. Outlining the reasons for the failure and ineffectiveness of foreign aid in the process of the promotion of democracy, Knack cites arguments by certain authors:

According to Friedman, foreign aid is hazardous and damaging for democracy in the recipient countries as most of the aid flows into the hands of the government which increases the role of the government in the economic financial activity with reference to the private sector, whereas the growth of democracy would actually take place once such activity is in the public sector.

According to certain critics aid undermines the rule of law and the formation of a healthy civil society. And aid may also be the catalyst in political disorder and transition of a government into dictatorship itself, by constituting a high prize for such inimical gains.¹⁵

¹⁴ Burnside and Dollar (1997) '*Aid, Policies and Growth*', Policy Research Working Paper 1777, World Bank

¹⁵ Stephen Knack, (2004) '*Does Foreign Aid Promote Democracy?*', *International Studies Quarterly* 48: 259, Oxford: Blackwell

Contrary to these arguments Svensson suggests that aid does work in strengthening democracy but in countries that already show an opening towards democracy. He establishes that "aid has a positive impact on growth in countries with an institutionalized check on governmental power; i.e. in more democratic countries."¹⁶ Such an argument reiterates the stance of many who argue, that democracy can be achieved through indirect means, implying that foreign aid should be disbursed to countries to strengthen their democratic institutions. Such arguments do not hold much force when studied in the light of the aid policies that affect the allocation of foreign aid to recipient countries. Hence the inconsistencies regarding the foreign aid are two fold; firstly, is foreign aid dependent on the donor's national and geo political interest, which raises the issue of morality here, and if it is provided to recipient countries, does it effect positively on the democratic growth of the recipient country? From what we have seen above, there are certain inferences that can be drawn:

- Firstly aid has shown marginal or little effect on the macro level of democracy.
- Secondly, however it remains valid that at project level aid has made some remarkable achievements. There are many examples where aid played a significant part in supporting what turned out to be successful developmental strategies. In that aid has worked and worked very well and the cross country

evidence shows that on average successes have outweighed failure.

- Thirdly, aid shows a substantial degree of ineffectiveness even as a catalyst of democratic change through indirect means as such means may end up strengthening a regime as an "illiberal democracy" or a "liberal autocracy".

¹⁶ Jakob Svensson, (Nov., 1999) 'Aid, Growth and Democracy', *Economics and Politics* 11 (3): 276, Oxford: Blackwell

Of primary concern to this thesis, are the latter two inferences. Modeling around them the paper endeavors to show that the foreign aid flow from the US to Pakistan has caused a repression of democracy by encouraging other regime types and strengthening them through aid. Our purpose here is to involve in the reasons of the US foreign aid flow to Pakistan and suggest that by increasing aid during other regime type tenure, and by achieving successes at the economic level through these aid programs, and at the same time reducing aid flows during democratic regimes, the US itself has created a huge hurdle in Pakistan on its road to democracy and that hurdle is the popular opinion of people.

USAID and the State Department define democracy and governance programs as:¹⁷

Technical assistance and other support to strengthen capacity of reform-minded governments, nongovernmental actors, and/or citizens in order to develop and support democratic states and institutions those are responsive and accountable to citizens. These efforts also include promoting democratic transitions in countries that are not reform minded. Democracy programs promote the rule of law and human rights, transparent and fair elections coupled with a competitive political process, a free and independent media, stronger civil society and greater citizen participation in government, and governance structures that are efficient, responsive, and accountable.

The foreign aid disbursed by the US can be enumerated into the following categories:

- Bilateral Assistance
- Economic Aid Supporting US Political and Security Objectives
- Humanitarian Assistance

¹⁷ USAID (Dec., 2005), *At Freedom's Frontiers, A Democracy and Governance Strategic Framework*, USAID, p. 4

- Multilateral Assistance
- Military Assistance

The criteria for the allocation of aid to the recipient countries is seen through the prism of these goals identified by a USAID white paper on US foreign aid:

- Promoting transformational development, especially in the areas of governance, institutional capacity, and economic restructuring;
- Strengthening fragile states;
- Providing humanitarian assistance;
- Supporting U.S. geostrategic interests, particularly in countries such as Iraq, Afghanistan, Pakistan, Jordan, Egypt, and Israel; and
- Mitigating global and international ills, including HIV/AIDS.¹⁸

Our methodology for the assessment of the impact of US International aid on domestic politics with special reference/case study of Pakistan would be to identify the flow of aid in various regimes in Pakistan and analyze the economic and political strength that those regimes gained during their tenures. Of course, the effect on the political conditions in Pakistan can not be discussed without presenting the overall aid picture, but what we intend to do here is to study the US political objective of strengthening democracy by providing foreign aid, and analyze the failure of such an objective in its pursuit towards attaining such a goal.

In providing empirical evidence I would direct my discussion towards the inhuman attitude of the West and the way they use aid to pursue their interest in developing countries. Money is power and the US in their relationships and dealings with the developing countries have proved this. President Kennedy said in 1961 that

¹⁸ USAID (2004) 'U.S. Foreign Aid: Meeting the Challenges of the Twenty First Century', Bureau for Policy and Program Coordination, also available on <http://www.usaid.gov/policy/pdabz3221.pdf>

“Foreign aid is a method by which US maintains a position of influence and control around the world.”¹⁹

The US in pursuing their capitalistic and self-centered motives have become so inhuman that phrases and words like equity, self-reliance, public exploitation, land reforms and national sovereignty have virtually disappeared from the official language of western countries. I wanted to quote an example of the Peruvian crisis of 1960s during the government of Belaunde, there was a dire need of IMF and World Bank intervention. It did not happen until 1967 when World Bank decided to assist a small program loan to Peru. This was rejected by the Peruvian government not because of increasing tax revenue conditions but because there were conditions that were purely and simply intended to promote US interests. Peru was asked to buy US planes, subsonic and more expensive, instead of French supersonic Mirages; to allow US ships to fish within a 200-mile in which Peru was trying to control fishing in the off-season in order to preserve stocks; and not to allow Peruvian state oil company to take over an oil field whose ownership had long been disputed with the IPC, the US oil company in Peru.²⁰ Financial support for an authoritarian regime often leads to a further strengthening of the repressive apparatus of its regime, worsening the country's human rights situation. Under such conditions, the US stated goals of achieving broad-based economic development and democratic promotion have to call into question.

¹⁹ Hayter and Watson, (1985), *Aid Rhetoric and reality*, Pluto Press Ltd, London UK, p. 5

²⁰ Hayter and Watson, (1985), *Aid Rhetoric and Reality*, Pluto Press Ltd, London, UK. P. 143-149

CHAPTER 3

BACKGROUND ANALYSIS OF PAKISTAN'S POLITICAL ECONOMY

3.1- EARLY YEARS

Pakistan received little aid in the period following its independence till 1951. In 1951, US started a humble foreign assistance program to Pakistan which grew in proportion all through the years. The necessity of foreign assistance became a stark reality as the intensity of development activities increased and intensified. Such was the drive towards development that, at the commencement of the First Five Year Plan (1955-60), 19 percent of Pakistan's import and 35 percent of its development expenditure were being financed by foreign aid.¹ Pakistan at its independence had inherited manifold economic and political problems. As Ziring puts it, "The country was thrust into history by a congeries of forces and accelerating events that left little if any time for citizenry to acclimate itself to new circumstances and situations."² Under such adverse circumstances, the international community, through foreign assistance, moved forward to aid Pakistan and habitat it, of which the US was a major contributor. The early effort by the US to rehabilitate the country was primarily focused on technical assistance. 19 percent of the total US bilateral aid commitments was allocated to project aid, while another 37 percent to program aid and the rest of \$2 billion, consisted of PL 480 concessional sales whose macro impact was similar to that of program aid.³ In 1952 after the cessation of trade with India, the Pakistan launched a massive drive aimed at industrialization through import substitution. In

¹Shahid Javed Burki (3rd ed)(1999) *Pakistan: Fifty Years of Nationhood*, Boulder: Westview Press, p. 165

² Lawrence Ziring, (ed)(1977) *Pakistan: The Long View* by W.J.Brands and others, Duke University Press, p. 7

³ Jeffalyn Johnson and Associates, Inc. (1982) *A Review of United States Development Assistance to Pakistan 1952-80*, Prepared for USAID, p. 8

this regard, the US provided assistance in terms of increased capital assistance, increased technical aid and PL 480 concessional sales, which generated local currency for public investment and made it easier for Pakistan to finance industrialization by keeping agricultural prices low and thereby extracting an investable surplus from agriculture.⁴ Though the effort of US in this regard is laudable but cannot be counted as significant attributing to various factors involving political instability with Pakistan, uncertainty within the US in its provision of aid to Pakistan and the role of aid in abating underdevelopment. By 1955 the US had provided Pakistan with \$172 million in net grant and credit, out of which \$152 million constituted the grants made by US. The figure rose to \$445 million by 1958, in which \$389 million counted for grants and the remainder \$55 million for the credit. Under the mutual security program, Pakistan received a total of \$390.910 million, which were counted under the US non-military aid obligations. An estimate suggests that of the total development expenditure of Rs 7.5 million, for the period 1951-58, almost 13 percent was financed through external resources.⁵ Between 1951-55, Pakistan received a total aid of \$372.4 million, out of which the contribution made by the US was \$208.9 million, which constituted 83 percent of grants and 56 percent of the total aid.⁶ Besides providing support for infrastructure development, an amount of \$221 million was also made available for generalized budgetary support and \$229.6 million under PL 480. During this period the US funded approximately 50 technical assistance projects in the fields of education, agriculture and industry.⁷

⁴ Jeffalyn Johnson and Associates, Inc. (1982) *A Review of United States Development Assistance to Pakistan 1952-80*, Prepared for USAID p. 9

⁵ A.M Huq (1959) Pakistan's Economic Development, *Pacific Affairs* 32(2):p. 127

⁶ Feroz, A (Mar 1974) Pakistan Forum: Partners in Underdevelopment: Pakistan and the US, *MERIP* reports 26 p. 25

⁷ Jeffalyn Johnson and Associates, Inc. (1982) *A Review of United States Development Assistance to Pakistan 1952-80*, Prepared for USAID p. 47

The purpose of such generous reimbursement was never the consolidation of the democratic regime in Pakistan but was rather to have another strategic military ally of US in confrontation against Soviet Union. However, though the assistance received did prepare the Pakistan's economy for the take off in the subsequent years, but these years were never looked back in political history as part of the democratic structure of Pakistan, as till 1956, Pakistan was still a dominion in the Commonwealth of Nations and the period post independence till Pakistan was declared a republic in 1958, was spoiled by political instability and frequent regime changes. However the republic was declared in 1958 was caught up by a military coup led by general Ayub Khan, who latter went on to be the Field Marshal and president of Pakistan.

3.2 THE TAKE OFF

The take off in the Pakistan's economy happened to coincide with the coup of General Ayub Khan. Covering the second five year plan from 1955-60, the US provided Pakistan with under \$3 billion, which amounted to 60 percent of its total commitments to Pakistan and within the second five year plan 1960-65, the US had become the largest donor to Pakistan. Starting from a humble sum in developmental terms, of less than 20 million, the economic assistance provided by the US reached its pinnacle in 1965 whereby it had provided \$550 million in foreign assistance to Pakistan. By the end of 1968 which was almost the end of Ayub's regime, Pakistan had received a total of \$3.5 billion in economic assistance from the US since the beginning of the assistance in 1951.⁸ The Ayub's era is remembered for the regime's professional competence in its approach to economic management. There was clarity of objectives and considerable efficiency in implementation.⁹ Meanwhile, this

⁸ Irving Brecher and A. S. Abbas (1972) *Foreign Aid and Industrial Development in Pakistan*, Cambridge University Press p. 37

⁹ Omar Noman, (1988) *The Political Economy of Pakistan, 1947-85*, London: KPI p-35

government with its huge military power was busy suppressing East Pakistanis. They were rejected recruitment in army because of their short heights and all attempts were made to keep those areas largely remote and deprived of development to keep most of the control in West Pakistan. There are stories of Pakistan military men raping women and abductions were a routine. Even after the elections when Sheikh Mujib ur Rehman of East Pakistan won the clear mandate, he was not invited to form his government because the apparatus in West Pakistan could not stand seeing anyone from the East taking the premiership. This repression and killing by Pakistani army took so many tools that finally East Pakistanis revolted and proclaimed independence from Pakistan and formed a new Muslim state, Bangladesh. Knowing whatever was happening, US and other multilateral institutions kept assisting Ayub's regime. The terms of loan and credits have significantly become harder over the years but they remained soft during 1960s as compared to the same in the early years i.e. 1950s.¹⁰ During the whole decade of Ayub's regime, no report was ever made public to instigate opposition although there was no lack of corruption, inefficiency and repression in Pakistan.

3.3 BHUTTO: 1971-77

Bhutto wanted to increase the base of social and economic development but he was seriously handicapped by the acute short of resources. An indicator of the fact, was the reduction of aid commitment by the Pakistan consortium from \$400 million in 1968-69 to \$52 million in 1972-71. Though such was not to remain the case as in the subsequent years aid was resumed but increasing inflation proved detrimental in

¹⁰ B. A. Bukhari (2002) *Impact of Aid Flow in the Last Decade (1989-99) On Pakistan Economy: A Case Study*, I NIPA the Journal, 7/2 p. 83

real resource transfer.¹¹ The US during the years 1969-72, reduced its assistance to Pakistan to few assistance projects and three commodity loans. During this period, the GDP grew by a mere .1 percent compared to the period of General Ayub Khan, to a humble 5.4 percent, whereas agriculture growth dropped to 2.1 percent, manufacturing growth to 5.2 percent, yet the other sector showed improvement in growth to 7.8 percent.¹² Since at this time the increase in population expanded at an average of 3 percent per year, hence the relative slow growth in GDP brought down the per capita income marking a decline in average incomes for the first time in the economic history of Pakistan.¹³ Though the economy suffered due to various domestic reasons, the reasons for the failure of foreign aid, provided by the US, were understood to be unawareness of the cultural and domestic issues of inequity, the political instability and the substantial decrease of aid to Pakistan during the 1969-73 period. This deficiency of aid immediately after the crisis of the 1971 war of Pakistan with India, further exacerbated the already deteriorating economic situation of the country, to an extent that though foreign aid did eventually resume but as during the early years, it only provided for a base of stability and development in the later years, and hence did not yield an immediate results. Hence the period of Bhutto's rule is seen as one political and economic uncertainties and problems.

Though it was actually the first time since Pakistan was declared a Republic that democracy had been introduced to the country, nevertheless the experience does not ring a pleasant bell in the annals of history. Furthermore, following the disclosure of Pakistan's nuclear ambition, the US, which had laid much emphasis on pursuing the policy of nuclear non proliferation suspended all aid to Pakistan under the Glenn

¹¹ Jeffalyn Johnson and Associates, Inc. (1982) *A Review of United States Development Assistance to Pakistan 1952-80*, Prepared for USAID.

¹² Shahid Javed Burki, (3rd ed.) (1999) *Pakistan: Fifty Years of Nationhood*, Boulder: Westview Press p. 78

¹³ Shahid Javed Burki, (2nd ed.) (1988) *Pakistan Under Bhutto, 1971-77*, Basingstoke: Macmillan p. 80

and Symington amendment to the Foreign Assistance Act in August 1978. During this time the US policy on foreign assistance to Pakistan also ran into murky waters due to burdensome defense spending, erratic economic policies of the Bhutto regime and a spotty record of utilization.¹⁴ On the political side, there was a new development. Democracy had been overthrown and Pakistan witnessed martial law and the initiation of an 11 year dictatorship era under general Zia-ul- Haq in 1977.

3.4 SECOND DICTATORSHIP

Bhutto's failure on the economic front played an important role in his downfall and that lesson had not been lost on the current government.¹⁵ To start with, the dictatorship regime was immediately, with the ascension of power, at loggerheads with the US. The pressing issues of this inconvenient relationship were firstly, the ouster of a democratically elected government, by a dictatorship regime which did not stop at this and went on to hang the Prime Minister of the democratically elected government. Secondly, the US persistent reluctance to supply military hardware to Pakistan. Thirdly, an equally strong resistance put up by the US in providing the dictatorship regime with economic assistance to assist in its emergence from the economic turmoil of the time, and lastly the dire record of human rights violation that were recorded under the Bhutto regime, took to limelight with the emergence of the dictatorship in the region. However, notably, even in such a period of rocky relationship between the two administrations, there was not a complete ban on economic assistance. Food shipments under PL 480 continued, and significant elements of the administration were poised to resume a substantial aid program if the

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¹⁴ T. P. Thornton (1982) *Between the stools: U.S Policy towards Pakistan during the Carter Regime*, *Asian Survey* 22 (10): p. 959-977, Berkeley: University of California Press

¹⁵ Jeffalyn Johnson and Associates, Inc. (1982) *A review of United States Development Assistance to Pakistan 1952-80*, Prepared for the USAID p. 84

nuclear obstacle could be overcome.¹⁶ However much was to change as Soviet Union invaded Afghanistan in 1979. Foreseeing the threat and realizing the geo strategic importance of Pakistan, the US decided to move forward with its assistance program and offered Pakistan \$400 million, to be divided equally in economic and military assistance, which was rejected by Pakistan as unsubstantial.

With the change in the US administration, in 1981, comes the change in its attitude towards economic assistance to Pakistan. A \$3.2 billion US military and economic program to Pakistan in 1982 was followed by another \$4 billion for 1988-93, half of which was earmarked for military purchases to Pakistan.¹⁷ During the period of Zia-ul-Haq the US started from a humble total of \$18 million in 1979, under foreign grants and credit, with no assistance under Foreign Assistance Act to a gross total of \$334 million in 1982, and financial assistance worth \$100 million. The total at the end of Zia's regime equated \$2617 million in foreign grants and credit, and \$1,314 million under the Foreign Assistance Act.¹⁸

During the initial years of Zia regime, though economic assistance did not play an important role, due to its insubstantiality, the economy benefited from a large inflow of remittance sent but Pakistani workers who had migrated to the Middle East in the late 1970s.¹⁹ The agriculture sector showed remarkable growth at an annual growth rate of 6.2 percent in real GDP between 1977-86.²⁰ The average annual growth rate in industry rose to 8.2 percent between 1980-90 from 2.3 percent between 1970-80.

Furthermore, the GNP increased by 76 percent and per capita income by 34

¹⁶ T.P. Thornton, (1982) *Between the stools: U.S policy towards Pakistan during the Carter Regime*, *Asian Survey* 22 (10) p. 966

¹⁷ Rashid, A (Nov/Dec., 1988) *Pakistan after Reagan*, *Middle East Report* 155: p. 32

¹⁸ Statistical Abstract: The National Data Book U.S Census Bureau
http://www.census.gov/compendia/statab/past_years.html

¹⁹ Shahid Javed Burki, (Oct., 1988) *Pakistan under Zia, 1977-1988*, *Asian Survey* 28(10): University of California Press p-1093

²⁰ Omer Noman, (1988) *The Political Economy of Pakistan, 1947-85*, London: KPI p. 163

percent during the years 1977-78 and 1985-86.²¹ The impressive domestic productivity, growth record and the substantial volume of foreign aid flowing into Pakistan, contributed immensely in the making Pakistan a middle income country.²² The tremendous economic progress achieved in the 10 years of Zia rule had far reaching consequences, most importantly he reached out the middle class in such a way that there was hardly any public response to the calls by Zia's opposition to rise up against the military dictatorship.²³ Zia attempts to foster economic growth at the expense of civil society woefully delayed Pakistan's movement towards democratization due to which four democratic governments came in Pakistan during ten years again to be followed by a military regime which rules to date.²⁴

In spite of all these activities Pakistan kept receiving bilateral and multilateral aid because it was acting as a frontline state to pursue the US motives in Afghanistan against USSR. It's a known fact that Pakistan did receive large amounts of recorded aid but the unrecorded part of was uncountable. Personal pockets were lubricated and country was pushed towards forced Islamization, resulting in extremist elements mushrooming in the society. The only good thing that happened in the era was the success of US against USSR in Afghanistan.

3.5 SECOND DEMOCRACY

As Zia-ul-Haq's rule was ending, Pakistan's economic future is seemed somewhat bright,²⁵ but much was yet to change as with the end of Zia-ul-Haq's rule, followed the disintegration of USSR. In the wake of this event, the US found Pakistan

²¹ Shahid Javed Burki, (Oct, 1988) Pakistan under Zia, 1977-1988, *Asian Survey* 28(10): University of California Press p. 1093

²² Rasul B Rais, , (Feb, 1988) Pakistan in 1987: Transition to Democracy: Part 2, *Asian Survey* 28 (2): University of California Press p. 126-136

²³ Ibid p. 606

²⁴ M. Monshipouri, (1995), *Democratization, Liberalization and Human Rights in the Third World*, Lynne Rienner Publishers Inc., Colorado USA p. 108

²⁵ Shahid Javed Burki, (3rd ed.) (1999) *Pakistan: Fifty Years of Nationhood*, Boulder: Westview Press p. 120

a geo politically unimportant country, to the extent that, bringing the Pressler amendment into force, which demanded a cessation of military and economic assistance due to Pakistan's profile as a nuclear states, the economic assistance of \$4.02 billion, which was to cover the period of 1987-93, was denied. The Pressler amendment required presidential certification that the nuclear development in Pakistan would not be a risky affair. This presidential certification which had been provided by the US president from 1985-89, was withheld after 1989. This trend of the denial of economic assistance to Pakistan continued and for the period of 1990-98 US aid was almost negligible.²⁶ The comparative negligibility of the economic assistance to Pakistan is highlighted by the fact that US aid disbursement to Pakistan, which was as high as \$452 million in 1989, fell during the early 1990s and touched the bottom at only \$5.4 million in 1998.²⁷ Though, under the Brown amendment, the aid sanctions were lifted in 1995, however, as precedented, the first sizeable disbursement was made in 1998, after one year of which the democracy had been toppled by another military dictatorship.

3.6 COMPARATIVE ANALYSIS

The increase and decrease in the volume of US aid coincides with the change in regimes. Statistics proved that the volume of economic assistance rendered by the US have had considerable tilt towards the dictatorship regimes, whereas the democratic regimes suffered comparatively, due to reduction in the flow of economic assistance (as indicated in the table) . The US economic assistance has, as a principle, a focus towards institution building, democratic transition and aiding improvement in macro and micro level of country's economy.

²⁶ Muntaz Anwar, and Katherina Michaelowa, (2006) *The Political Economy of US Aid to Pakistan, Review of Development Economics* 10 (2) : Oxford: Blackwell p. 196

²⁷ *Ibid* p. 197

The US is the primary beneficiary of aid programmes in terms of economic returns as well as in those of political and strategic gains. North Atlantic powers use their capital resources to keep other countries in oppression and to maintain their position of eminence. Foreign aid also brings certain liabilities and adverse effects to the recipient. Most important of all the problem of external debt serves to place an enormous economic burden on underdeveloped countries. Carlo Plaza of the OAS explained that because of tied aid conditions foreign aid worked as a subsidy to the US economy.²⁸

However due to geo-strategic and geo-political reasons, the flow of economic assistance have waivered to an extent that the increased flow of assistance rendered to Pakistan during dictatorship regimes have reinforced the perception that the US sees a military authoritarian regime as its only absolute ally. Though it is factual that all dictatorship regimes have been caught in a geo-political environment, in which the US had to provide economic assistance to further its geo-strategic as well as political interests,²⁹ yet it is also true that these authoritarian military regimes inherited weak infrastructure, political disorder and a weak economy from their predecessor democratic governments, building upon which they sought to establish the legitimacy of their regimes. The dictatorship regimes of General Ayub and General Zia benefited from the cold war raged between US and USSR.

On the contrary the democratic regimes of Bhutto, could not capitalize on the US geopolitical interests and its policy to promote Islamic socialism in Pakistan, so it remained a beneficiary of the US economic assistance, the regime took a plunge due to the dire economic crisis that engulfed it during its tenure.

²⁸ Gunnar Myrdal, (1970) *The Challenge of World Poverty*, Pantheon Books: New York, p. 355

²⁹ T Barry. (2005) *U.S. Isn't Stingy. Its Strategic IRC Policy*

The USAID paper describes the military regimes as failed take offs in Pakistan's economic history attributing the failure to unsustainability.³⁰ But just the mere fact of the account of these regimes in terms of take off, suggests the kind of economic growth in Pakistan during these eras. On the other hand the periods covering democracy in Pakistan have been suggested to contribute towards worsening the economic crisis and increasing political instability. This situation is further aggravated by the incompetence, corruption and poor record of political and economic progress during the democratic regimes. Thus the political transition towards the democracy in Pakistan ha remained a dream.

³⁰ USAID (2004) *U.S. Foreign Aid: Meeting the Challenges of Twenty First Century*, Bureau For Policy and Program Coordination also available on <http://www.usaid.gov/policy/pdabz3221.pdf>

Fiscal Year 2006 Overseas Loans & Grants – Obligations and Loan Authorizations, in \$ US Million

	1946-48	1949-52	1953-61	1962-02	2003	2004	2005	2006	1962-06	1946-06	Of Which Loans	Outstanding Amount as of
	Post war relief Period	Marshall Plan	Mutual Scty Act Period	Foreign Assistance Act (FAA) Period				Total FAA Period	Total Loans & Grants	1946-06	1946-06	09/30/2006
I. Total Economic Assistance	0.1	11.1	1418.7	8289.6	332.8	355.8	453.8	643.0	10075.0	11504.9	4628.7	876.9
A USAID and Predecessor	-	10.6	935.4	5018.8	243.3	277.3	338.1	451.7	6329.3	7275.3	2710.6	740.4
Economic Support fund/Security Support Assistance	-	-	586.6	2731.5	190.4	201.4	285.8	318.3	3727.5	4314.1	-	-
Development Assistance	-	-	-	13.1	34.6	49.1	29.4	37.7	163.9	163.9	-	-
Child Services & Health	-	-	-	4.9	16.8	25.6	21.0	28.9	97.2	97.2	-	-
Other USAID Assistance	-	10.6	348.8	2269.3	1.5	1.2	1.9	66.8	2340.7	2700.0	2710.6	760.4
B Department of Agriculture	-	0.1	415.9	2958.1	40.4	21.8	16.5	47.8	3084.6	3500.6	1918.0	116.5
Food Aid Total	-	0.1	415.9	2958.1	40.4	21.6	16.5	47.8	3084.4	3500.4	1918.0	116.5
Title 1	-	0.1	334.1	2333.5	27.4	-	-	12.0	2372.9	2707.0	1918.0	116.5
Title 2 (USAID Implemented)	-	0.1	81.8	446.8	6.7	13.3	-	18.2	485.0	566.9	-	-
Title 3 (USAID Implemented)	-	-	-	-	-	-	-	-	-	-	-	-
Section 416 (b/Commodity Credit Corporation for Progress)	-	-	-	172.6	-	8.3	10.9	5.2	197.0	197.0	-	-
Food for Education	-	-	-	5.2	6.3	-	5.5	12.5	29.5	29.5	-	-
Other US Assistance	-	-	-	-	-	0.2	-	-	0.2	0.2	-	-
C State Department	-	-	-	265.5	39.0	42.9	76.5	21.4	445.4	445.4	-	-
Global HIV/AIDS Initiative	-	-	-	-	-	-	-	-	-	-	-	-
Narcotics control	-	-	-	237.1	31.0	31.8	62.4	-	362.3	362.3	-	-
Migration and Refugee Assistance	-	-	-	17.2	6.9	5.8	5.9	10.2	46.0	46.0	-	-
Nonproliferation, Anti-Terrorism, Demining & Related	-	-	-	10.1	0.7	4.9	6.6	9.3	31.7	31.7	-	-
Other State Assistance	-	-	-	1.0	0.4	0.4	1.6	1.9	5.4	5.4	-	-
D Other Economic Assistance	0.1	0.4	67.4	47.1	10.1	13.7	22.7	122.1	215.7	283.6	0.1	-
Millennium Challenge Corporation	-	-	-	-	-	-	-	-	-	-	-	-
Peace Corps	-	-	-	9.5	-	-	-	-	9.5	9.5	-	-
Department of Defense Security Assistance	-	-	-	3.5	0.0	1.4	9.2	108.4	122.5	122.5	-	-
Other Active Grant Programs	-	-	-	34.1	10.1	12.3	13.5	13.6	83.6	83.6	-	-
Inactive Programs	0.1	0.4	67.4	-	-	-	-	-	-	67.9	0.1	-
II Total Military Assistance	-	-	508.1	2699.5	264.2	84.6	312.8	229.0	3659.9	4168.1	1748.5	133.9
III Total Economic and Military Assistance	0.1	11.1	1926.8	10989.0	597.0	44.3	766.5	94.1	13734.9	15673.0	6377.2	1010.8
Non-Concessional US Loans	-	-	12.9	653.6	-	-	16.3	-	669.8	682.7	682.7	227.4
Export-Import Bank Loan	-	-	12.9	446.5	-	-	-	-	446.5	459.4	459.4	213.9
OPIC & Other Non-Concessional US Loans	-	-	-	207.1	-	-	16.3	-	223.3	223.3	223.3	8.5

Source: - USAID (From the American People) Overseas Loans & Grants – Obligations and Loan Authorizations, USAID, America, p-134

CHAPTER 4

FLOW OF AID DURING 1991 TO 2006

In realistic terms US aid to the third world countries needs guarantee and assurance for promotion of democratic ideals and corporate economy. From previous experiences US also learnt that there are many other impediments to achieve goals and targets of stable, moderate, prosper and US friendly Pakistan for long term strategic goals in the area. At the dawn of post-cold war era US also made shift to its aid and grant for changing systemic values which affect the growth factor i.e. corruption, inefficient bureaucracy and outdated institutional setup. Thus it needed good governance and sustainable development. Additionally, at the start of new millennium uprooting the terrorist mindset was included in the challenges to cope up.

Renewed and sustained efforts were necessary in the 1990's to strengthen the capability of government institutions and other potential bodies for improvement of the conception, management and evaluation of national policies and programmes. Zia's attempts to foster economic growth at the expense of civil society woefully delayed Pakistan's movement towards democratization due to which four democratic governments came in Pakistan during ten years again to be followed by a military regime which rules to date.¹

The second era of democracy that lasted from 1990 to 1999, witnessed an embarrassment of political instability and economic insecurity. US economic assistance during this time took a nose dive due to Pakistan's nuclear ambition. Sanctions imposed under the 1994 Glenn Amendment also known as the NPPA restricted bilateral and multilateral assistance. Commitments of foreign economic

¹ M Monshipouri, (1995) *Democratization, Liberalization, and Human Rights in the Third World*, Lynne Rienner Publishers Inc., Colorado USA.p. 108

assistance including relief assistance for Afghan refugees, which had risen by 4.4 percent to \$ 2,689.4 million in 1991-92, declined by 29.4 percent to \$ 1,897.4 million during 1992-93. The total aid coming from consortium, non-consortium and Islamic countries was \$ 76,055 million from 1988 to 1996.²

Throughout the 1990's, the US essentially ended military cooperation and arms sales to Pakistan. Though the sanctions that ensued following the passage of the Glenn and the Pressler amendment were lifted in 1995, the assistance did not gain volume till 1998. A year later Pakistan witnessed its third and most recent coup. On the eve of 9/11 terrorist attacks, Pakistan was under four types of US sanctions.

First, President Bush (senior) suspended economic assistance and military sales to Pakistan in October 1990. Second, after the nuclear explosions by Pakistan, another set of military and economic sanctions were imposed on Pakistan under Arms Export Control Act (AECA). Third, under the democracy law, sanctions were applied on Pakistan after General Musharraf assumption of power on October 12, 1999. Fourth, in November 2000, the US imposed 2-year sanctions on Pakistan's Ministry of Defense and Pakistan's Space and Upper Atmosphere Research Organization on receiving missile technology and equipment from China. In September 2001 sanctions were again imposed for two years on some Pakistani's companies on the same charge.

Soon after 9/11 attacks, the US realized that the task of slaying Taliban can only be done by the people who nurtured them. Approaching Afghanistan politically or militarily without Islamabad's help was not possible due to its geographic and strategic position. Pakistan deems that if she did not cooperate with the US, she would be marginalized and isolated by the US and the international community.

² Saeed Amjad khawaja, (1996) *Economy of Pakistan* ,Institute of Business Management, Lahore. P. 166

With the increased assistance by US largely and the international community, in terms of aid, the military regimes did make significant progress in terms of political-economic stability. US purposely supported General Musharraf to keep him in power and under enough pressure to get the maximum out of him. Consequently, the US has been silent on the domestic political situation in Pakistan despite several complaints of human rights violations, missing people and restrictions on political meetings. It has also been her policy in case of Iraq during Saddam regime. Such situation prevailed in Ayub Khan era which proved to be death sentence for print media.

Furthermore as witnessed economically, the dictatorship regimes seem to fare well with respect to democratic regimes, suggesting a certain degree of stability, politically and economically, during the dictatorship tenures. Since politically, dictatorship regimes have sought to legitimize their era domestically, by improving upon the economic conditions of the country, they have met the local perceptions so well, that not one dictatorship regime witnessed an upheaval or vocal public resentment. Scholars in mid-eighties identified the crisis, the military faces, in acquiring legitimacy, as one that spurns from the divergent political views of political and military elite.³

It is noteworthy here that 15 years later, the military regimes built their legitimacy on the grounds of economic improvement to an extent that in the most recent coup the military was hailed as a savior of Pakistan. Musharraf's bloodless coup met with overwhelming public support due to inefficient and corrupt leadership of Mian Nawaz Sharif. Leaders across the political spectrum hailed the army for

³ Hassan Askari Rizvi, *The Paradox of Military Rule*, *Asian Survey* 24 (5): 534-555, University of California Press, 1984

“saving” Pakistan.⁴ Musharraf regime gained its importance through its vital role in the war against terrorism. Hence in the public eye, dictatorship has gained leverage over democracy, through its virtues. The paradox lies in the fact that though, the US motivates the transition of developing and under developed countries to liberal democracies, in the case of Pakistan, and the geo-political reason has played into the hands of military dictators who thrive on the increased economic assistance.

Economic growth in various regimes is largely due to the fact that both the democratic regimes in 1971-78 and 1990-99 were displaced by the public due to their poor economic record, corruption and mismanagement, and it is here that the dictatorship regimes tend to capitalize on the masses expectations. Contributing to this fact is the argument that though the military regime of General Ayub did receive a considerable amount of criticism due to economic policies that increased class inequality. The end of his era was largely a result of propaganda and public agitation by the political parties.

Similarly, the regime of General Zia was mostly looked upon negatively due to the weak political infrastructure and an authoritarian political order that it supported rather than economic reasons. Hence following the argument it is reiterated that considering a huge majority of illiterates in Pakistan, its growing poverty and its poor record in educational development, the masses remain more interested in economic development of the country that would enhance their living conditions, rather than political transition.⁵ Since it is at this point that the dictatorship regimes have proved better than the democracies, hence it explains why democracy is looked down upon and dictatorship regimes are not subjected to vociferous upheaval by the

⁴ A Rashid, (Dec, 1999) ‘Pakistan’s Coup: Planting the Seeds of Democracy?’, *Current History*
P. 409-414

⁵ William Easterly, (Jun, 2001) ‘The Political Economy of Growth Without Development: A Case Study of Pakistan’, *Paper for the Analytical Narratives of Growth project*, Kennedy School of Government, Harvard University

masses, rather they are given a much celebrated welcome than dictatorship regimes around the world. As economically Pakistan remains dependent, to quite an extent, on foreign aid, of which the US contributes a major portion, hence the flow of aid during dictatorship regimes, have economically improved the condition of Pakistan during these regimes vis-à-vis the democratic regimes.⁶ Occasionally or interestingly it was the incidents of Asian region co-incident to the dictatorships. First is case of Ayub Khan when the US was busy in war against Communism, which also continued with Gen Yahya Khan culminating to end with General Zia. The third phase as mentioned above started with the advent of General Musharraf's coup in the country which is too ongoing in the context of war against extremism, terrorism and Al-Qaeda.

The short term strategic US goals have played into the hands of the Generals to suggest that US holds its strategic interests at a higher pedestal than the restoration of democracy. This suggestion stems from the fact that though the ouster of the democratically elected government of Bhutto by the military regime of Zia was condemned by the US and challenged politically and economically, however the US economic assistance was not completely halted and was resumed to its full vigor a further two years down in 1981 for reasons of combating Soviet influence in Afghanistan. Similarly, the coup of General Pervez Musharraf, to replace democracy did receive resistance by the US but could not be upheld for long in the face of the threat that the US felt from global terrorism, in which Pakistan could wield vital influence. For all those who have had illusions about the US commitments to democracy, things are clearer now- the most important agenda of the US, they know, is to fight against the resurgent Taliban in Afghanistan and Pakistan's tribal areas in collaboration with Pakistan's military, the most allied US ally. A political crisis in

⁶ A Faruqi and J Schofield, (2002) 'Pakistan: The Political Economy of Militarism', *Conflict, Security and Development* 2 (2):p. 6-23

Pakistan is a threat to Washington's plans to fight the so-called Islamic militants. The US wants a politically stable Pakistan in which the military remains in a commanding position to carry out its agenda.

Identifying key problems associated with the US policy on economic assistance, following suggestions are:

1. US foreign assistance is too closely tied to the administration's National Security Strategy, which is based on extending the US dominance.
2. The top recipients of the US economic aid—Iraq, Israel, Egypt, Afghanistan, Colombia, Jordan, and Pakistan—point to the determination of Bush administration to “align development assistance” with its security priorities.
3. Foreign aid is not always an unqualified good, especially when it comes from a country whose assistance strategy is so closely tied to its global war strategy and its neoliberal economic policies.⁷

The regime led by General Musharraf has been getting unprecedented support from the World Bank and other IFI's. The IMF standby agreement in Pakistan was signed during the early days of military regime. In the post 9/11 period IFI's have warmed up to Pakistan again, as have many bilateral donors, based on the country's sterling response to the US calls to cooperation against terrorists.

The extraordinary cooperation of the military regime in implementing neo-liberal reforms coupled with geo-political compulsions emerging after 9/11 led the World Bank, IMF and other donors to extend their full support to the NRSP for Pakistan. When the Paris group raised the point of continuity in this regard, they were clearly told by the Finance Minister that, to be elected, democratic government will not have any powers whatsoever to obstruct these reforms. This assurance of Pakistan

⁷ T Barry (2005) 'U.S. Isn't "Stingy," It's Strategic' *IRC Policy Report*, January 7, 2005 p. 2

not going to the hands of democratic government was emphasized by the minister, which in turn not only won more aid but also helped form a very intimate relationships of military regimes with multilateral donors.⁸

The undemocratic removal of Prime Minister Mir Zafar-ullah Khan Jamali is a striking evidence of suppression of political and civil rights and bringing in a technocrat as the PM clearly speaks of the demands of World Bank and the US being met by the present regime. General's unprecedented support to the US in war against terror in Afghanistan and Al-Qaeda has resulted in escalation of sectarian violence further aggravated by suicide bombing. Due to these repressive policies, for the first time in Pakistan's political history, the major opposition party in the Parliament is an Islamic fundamentalist party. All these things push me and many others like me to question, the support of World Bank and the US to repressive regimes and their sensitivity towards developing countries and the poor.

Considering the timeline of the US economic assistance to Pakistan and reviewing the data on the political and democratic growth in the country, these key areas seem to provide the justification of why the US continues unabated in its support to dictatorship regimes. However in the long term perspective it is the US that stands to lose from the recessions in democratic growth and the denial of democracy to take hold in Pakistan.

In June 2004, President George W. Bush designated Pakistan a Major Non-NATO ally. From 2004 onwards Pakistan has received \$4 billion per year. The country's foreign debt which had gone down in 2004 has risen again to \$40.172 billion which includes some foreign liabilities. In the year 2006 Pakistan borrowed \$3.014 billion. This has happened in spite of the record home remittances of overseas

⁸ M Gadi, (2000) *Critique of Pakistan PRSP: Taking the Poor for a Ride*, Actionaid, Islamabad, Pakistan, p. 41-51

Pakistanis of \$65 billion and the record overseas direct investment of \$6.4 billion. It shows that apart from the foreign aid the country's debt servicing and infrastructure management has not been overwhelming.

In 2006, the US signed arms transfer agreement with Pakistan in excess of \$3.5 billion, ranking Pakistan first among all arms clients of the US during that calendar year. Pakistan defense purchases have also be done from the US market. The total value of Pakistan's 200 arms purchases from the US nearly matches the total value of all Foreign Military Sales (FMS) program purchases by Pakistan from the US for the entire period from FY 1950-FY 2006 (more than \$3.6 billion in current dollars).⁹ The rationale of this change in policy regarding arms sales to Pakistan was to secure its government's support for the US counter-terrorism program. A major contract was signed in 2006 for the purchase of 36 new F-16 aircraft and associated equipment.

⁹ CRS Report RL 34187, *Conventional Arms Transfers to Developing Nations, 1999-2006*, by Richard F Grimmett.

CHAPTER 5

IMPLICATIONS FOR UNITED STATES

Pakistan-US relations were greatly affected with the events of 9/11. Pakistan emerged as a front line state against the US led war against terrorism. The number of visits by foreign leaders to Pakistan following the September 11 event testified to the geopolitical importance attached to the region and the country. An important effect on Pakistan was the end of the US sanctions on Pakistan. This removal of sanctions allowed the US to extend \$ 600 million in economic support fund to Islamabad.

Hussain Haqqani is of the view that the Pakistani military has been unhappy each time the aid pipeline was shut down and turned its people against the US. While aid flows, however, it is the Pakistani military and not the US that gains leverage. Additionally, the pattern of large doses of aid, given as strategic rent or quid pro quo for Pakistan's cooperation in a specific sphere, has historically provided the US with limited leverage. Secondly democratically elected governments are representative of the people, whereas military dictators are not.¹ This raises the level of uncertainty, about the policies of the dictatorship, in context to whether they would be more or less compliant to the US interests. Examples of such acts committed by dictatorship regimes in Pakistan, would be the war of 1965 between Pakistan and India during the dictatorship tenure of General Ayub, against the consent of the US, the Islamic fundamentality that General Zia introduced in Pakistan, the consequence of which are deep today and the denial to bring to accountability. A Q Khan, the father of nuclear technology in Pakistan, during the Musharraf regime, after it was identified that he was involved in the proliferation of nuclear technology to other countries. Democratic

¹ H Haqqani, (June 30, 2005) '*The United States and Pakistan: Navigating a Complex Relationship*', Written remarks by Visiting Scholar, Carnegie Endowment for International Peace and Associate Professor of International Relations, Boston University before the U.S. Commission on International Religious Freedom hearing

governments on the other hand, have shown considerable tilt towards compliance with the US policies in the region without much flexibility.

From this we derive the argument that any future dictatorship might not comply with the US interests and hence would hurdle the US in achieving its goals in the region, politically and economically. Aiding the military regimes, may serve short term objectives but it is the establishment of democracy in Pakistan that would provide a long term solution to the US in the attainment of its goals. The reasons to arrive on such a conclusion are:

1. Since democratically elected governments thrive on the popular demand of the masses, hence providing them with economic leverage and support, gains them the legitimacy to pursue pro-western policies.
2. Historically democratic governments in Pakistan have shown to be more liberal in their political outlook despite the growing extremist influence.
3. And lastly, the assistance that the US would render in bringing to power a democratic regime would cleanse it of the negative image it breeds by aligning close to the military regimes, in pursuit of its interests.

However, with the passage of time, these goals seem to be more and more unattainable. As for the third time, in the political history of Pakistan, dictatorship thrives on the economic support of the US. Democracy as a form of government would become a fragile objective if the military regime in Pakistan falls close to the economic and political expectations of the masses. The support that these regimes received, when they came to power, is a staunch indicator of the fact that already there is a growing acceptance of this form of governance amongst the masses of Pakistan. Though politically and administratively, the military regimes have not shown appreciable progress and it is this weakness that till as yet denies them and

hurdles their political consolidation, it is reiterated that such an argument against military dictatorship regimes become weak in the face of poor performance of the democratically elected governments in these areas. However, such an argument should not be taken as a depressive indicator in the promotion of democracy in Pakistan as the country has only witnessed less than 25 years of democracy since its inception in 1947.

Once the ideals of democracy are realized, through painful experiences in time, it is in this ideal in which civic liberty and human rights thrive that the public perceptions would be changed in their rejection of democracy as a poor form of government. Such an ideal can not be reached until the myth of economic betterment and developmental progress, under military regimes is shattered. Further more if the US continues its political and economic commitment to the military regimes in Pakistan, due to any reason, political or economical, it would only worsen its negative influence in the region. The US defends its economic agenda in Pakistan by suggesting that it needs a politically and economically conducive environment for developmental activities and to bring a politically sustainable transition from a military regime to a democratic one, however its increased activities would only consolidate the myth of prosperity under military regimes. In retrospect, the US has been damaging its own interests by closely pursuing short term security objectives and if it continues to do so, it might face a harsh reality of an undesirable military dictator, and even worse, one who consolidates power by the will of the people.

To avoid such a situation, that would pose a dire threat to the US interests, it needs to:

1. Emphasize on the election of a democracy in Pakistan, upon the military regime.

2. Use political and economic tools to weaken the military regime, only to provide increased economic and political support to the democratically elected government, so that publicly, democracy shows an improvement in its political and economic records.
3. Disengage from its association with the military regime in Pakistan, and resume it only in the presence of a democracy.

The US must change the disbursement procedure of aid and increase accountability for both economic and military assistance. Funds must not be used to suppress opposition forces. In the wake of recent geopolitical developments, such an argument may seem untenable and pervious to contentious issues, however, it is only in the consolidation of democracy in Pakistan, that the US may be able to sustain peace, development and security in the region.

CHAPTER 6

EVALUATION & ANALYSIS

Naturally, US aid politics is formulated with the intensions of serving the interest of the donor. It is hard to express views of the US officials and scholars the magnitude of the change that had taken place in Pakistan within no time. For them, the only thing that mattered was the survival of the military regime. Most of the US officials were convinced that Musharraf was not only a sincere friend of theirs, but that he was the only leader who had valour and potential to keep Pakistan stable and orderly, and more significantly, remain dedicated and committed to the war on terror. The Bush administration has been very rewarding by aiding Pakistan for its successful campaign against Taliban and Al-Qaeda elements throughout the border regions of Pakistan and Afghanistan and within Pakistan.

A study of the US foreign aid programmes and foreign policies shows that far from having a humanitarian base, economic and military assistance agenda have been a primary instrument of the US foreign policy. A combination of several factors, the geostrategic compulsions, political uncertainty and immature economy make Pakistan model to study the reasons which motivate the US aid, and the areas in which a recipient state may be dictated. The US choice to grant military aid to Pakistan in 1954 was intended to contain Communism in Asia because the US deems a communist revolution in a fragile state like Pakistan, which also became a part of western strategy by helping to sphere the USSR with military and air bases.

The US policy of foreign aid also manipulates the domestic political conditions of the recipient state. It is experiential that the US military alliances served to stabilize governance under the rule of a bureaucratic military rule. At the emergence Pakistan inherited a powerful and authoritarian system of permanent

bureaucracy from British Raj. And still imprints of such kind are found at the face of the country. But the bureaucratic elite were not so much knowledgeable to cope up with the unforeseen nature of the international and especially aid politics. At this time the most influential and organized portion of the society started intervening in country's politics.

It was Ayub Khan era which directly exposed the military junta to the US diplomatic environment. And then aid and assistance were gradually co-designed with the defence policies of the state. Progressing time by time Indian designs also pushed Pakistan towards the US for aid, assistance and project package for military gains. It was too strategic need of Pakistan which compelled in doing so. But with the passage of time this aid could not change overall situation in sustained economic growth and poverty alleviation.

Ayesha Siddiqa, a renowned defence and political analyst is of the view that it is an authoritarianism flowing in the veins of the country's elite especially, military junta. It has ever been exploited by military dictators which used nuclear programme, foreign policy towards India or most of all Islamic fundamentalism to gain legitimacy in disguise of gaining more and more power. Such situation created more problems and less development.¹

In the absence of commitment to socio-economic development, such policies and popular agendas are critical in getting public support. In realistic terms the elite makes people believe that they are getting their money's worth. Hence, there are the very issues on which a blatant compromise cannot be done. On the other hand the external patrons understand the compulsions of their clients and do not push them beyond a certain point. And this patron-client system is only designed to ensure

¹ Ayesha Siddiqa, *Rentier Elite*, The News on Sunday, May 27, 2007, Islamabad

greater accountability to the external patrons instead of the domestic audience. Resultant to this situation, the ruling elite is under no pressure to introduce political accountability or ensure socio-economic development. Consequent to this situation, domestic politics in Pakistan has become nothing but an immoral game of *realpolitik* which lacks the capacity of bringing substantive changes within.

From an overall perspective regarding political-economic development, and in regard to international relations, we reach the conclusion that its alliances with the US have clearly illustrated that such aid programmes are designed by the donor nation for her own benefits. The benefits Pakistan received were either short-term from food programmes or the aid helped to stabilize a reactionary ruling class and created a correspondingly oriented industrial elite. Military aid, useless to hold off Pakistan's enemy effectively, was nevertheless sufficient to maintain the military in a position of power comparable to that of that of the bureaucracy.

In the light of Pakistan's experience of the US foreign aid the conclusion must be drawn that such aid benefits to the donor and that the aid, in form and content, is an instrument of furthering the US foreign policy to the extent of governing Pakistan's national interests. Deep insight to the historical perspective tells that Pakistan cannot escape the geo-political realities of South Asia. There will be always Afghanistan to its right and an India to its left, and an unsettled Kashmir in between. Therefore, Pakistan should continue to mend fences with India. As regards its relationship with the US, Pakistan needs to proceed with caution and keep in mind what Decimus Laberius said in the first century BC to treat friend as if one day he shall be enemy and enemy as if shall one day be friend. Historically, the US military aid has been one third of total aid since Pakistan's independence. And the crucial areas are also ever tried to be overlooked.

It is pertinent here after this discussion to answer the formulated questions. *First* and foremost question related to long survival of military regimes than the democratic ones can be answered in the light of the happenings of corresponding arenas and timings. Military regimes have been more oppressive and cruel to the masses than the democratic ones. On the other hand democratic regimes were corrupt, opportunist, and demagogues of their time for their own findings. Secondly, military regimes had friendly relations with establishment, rightist parties and the masses for their own purpose. Either they intimidate the politicians through bribe or blackmail them.

Second question has been answered many times in variety of the discussions held in this research effort. During military regimes coincidentally, the US regional interest were high in the area than those of the democratic ones. So, military dictators exploited the time factor and got more aid than ever. Either these were project or package deals held with the US.

The *third* question and answer are directly related to the above question. Due to the longevity of the democratic regimes and fulfillment of western dreams, the military dictators find space more than the democratic ones. In near future it is evident from the current scenario that military dictatorship shall find permanent role in disguise in political realm, either indirect or direct on footprints of Turkish Republic.

Fourth question pertained to the reality of motives of the US aid and future terms of relations between Pakistan and the US. It is clear notion that whenever the US needed Pakistan's strategic support in enhancing security of its ideals the motives became open. Same situation was evident in the start of war against terror when the US asked Pakistan to help her or the terrorist, so it was compulsion over Pakistan to help the US to pursue its war against terror which ultimately started on Pakistan's

borders and came in as uninvited guest in the party. The line of action of future terms of actions may be derived from the fact that in past sixty years there have been many occasions when Pakistan needed the US but in vain and aid or packages were offered to Pakistan at times when it was hard for Pakistan to run the state without external help. Aid policies are so formulated intentionally to fulfill the interest of the donor state.

Fifth question invites our attention to the failure of the US aid to enhance and promote democracy. In fact the aid provided by the US in case of Pakistan came to the dictators as it has been explained in the whole research effort. Civil institutions are corrupt naturally and the dictatorship wants to enhance its power by the money to be spent for restructuring of the institutions. The vicious cycle of armed forces coming into power was illuminated by more and more aid provided by donors for the state but was spent on making military as a corporate business. So the Military junta started to build an empire for their own benefits rather than spending on country. *Last* but not the least question is directly related to the previous one which emphasizes and creates new horizons to think that whether the US is really interested to promote democracy by providing foreign aid. But it is only a myth. And fact is that wherever the US wanted democracy and gave foreign aid it promoted dictators and strengthened them. The aid provided by the US not only strengthened the military regimes in Pakistan but made institutions corrupt and unprofessional.

CHAPTER 7

CONCLUSION

Country's resources sometimes are not so much viable which could help to fulfill the needs of blossoming state. The state can either borrow from foreign countries or receive grants-in-aid from friendly and financially strong countries. After Second World War, Foreign aid flows to developing countries began to assume substantial proportions in the early 1950s. Pakistan being no exception was also one of the recipients of such aid from western economies.

One of the major components of international effort to foster democratic growth in developing and under developed countries is international aid. The claimed objectives of almost all the foreign aid donors are to promote and develop the state as a democratic one. The focus of present research is, taking Pakistan as case study, to answer the question that weather the US international aid has any degree of commitment with ideals of promoting democracy or such aid is used as a political tool to enhance the economic, commercial and strategic interests of the US?

Initially the US government and private foundations step up in training of Pakistani administrative, social and military officers for better management, aid, and the military relationship. The US provided project aid to Pakistan only after Pakistan had entered in multilateral defense agreements, SEATO and SENTO. The first project aid that was given to Pakistan was SCARP 1.

Foreign aid does not offer an ideal panacea to cure economic ills. While considering the case of Pakistan it is evident that the composition of aid to Pakistan has changed drastically over the years. The grants element in aid has become obsolete. Instead of bilateral aid, it has switched to multilateral aid. And official sources state that Pakistan has debt obligation of around \$ 32 billion but non-

governmental estimates are that Pakistan is under debt of \$ 60 billion. This aid comes from foreign sources. Pakistan holds an unusual position in such an international environment where aid flows from the US is conceptually at least, aimed in parts to foster conditions that promote democracy. During 1990-98 when there was a democratic government in Pakistan, the US aid was almost negligible, and however a substantial amount of aid was disbursed to Pakistan in 1999 and continues to grow. Similarly Pakistan had seen such a rise in aid during the dictatorship regimes of General Ayub and General Zia-ul-Haq, during the years of cold-war. Such instances bring us to question the intentions of the US international aid to Pakistan.

Another major aim of the study was to support or negate a claim that the US international aid has helped strengthening dictatorships rather than promote democracy in Pakistan. For this purpose political and economic data of aid flowing from specifically the US, into Pakistan, during different regimes and the economic conditions that existed during these regimes has been discussed.

After analysis of the available data sources it becomes clear that flow of aid from the US has been consistently showing upward trends during dictatorship regimes vis-à-vis the democratic ones and this helped reinforce the military dictatorship regimes by providing them the economic base for political stability in the country. One of the various tools that the US employs to achieve its goals in terms of global democratization is the disbursement of aid to countries that are either failed, fragile or developing states.

The foreign aid flow from the US to Pakistan has caused a repression of democracy by encouraging other regime types and strengthening them through aid. Sources used in the present study suggest that by increasing the US aid during non-democratic regime type tenure, and by achieving successes at the economic level

through these aid programs, and at the same time reducing aid flows during democratic regimes, the US itself has created a huge hurdle in Pakistan on its road to democracy and that hurdle is the popular opinion of people.

Pakistan received little aid in the period following its independence till 1951. In 1951, the US started a humble foreign assistance program to Pakistan which grew in proportion all through the years. Pakistan at its independence had inherited manifold economic and political problems. Though the effort of the US in this regard is laudable but cannot be counted as significant attributing to various factors involving political instability with Pakistan, uncertainty within the US in its provision of aid to Pakistan and the role of aid in abating underdevelopment. By 1955 the US had provided Pakistan with \$172 million in net grant and credit, out of which \$152 million constituted the grants made by the US. Under the mutual security program, Pakistan received a total of \$390.910 million, which were counted under the US non-military aid obligations. Between 1951-55, Pakistan received a total aid of \$372.4 million, out of which the contribution made by the US was \$208.9 million, which constituted 83 percent of grants and 56 percent of the total aid.

The purpose of such generous reimbursement was never the consolidation of the democratic regime in Pakistan but was rather to have another strategic military ally of the US in confrontation against Soviet Union. Covering the second five year plan from 1955-60, the US provided Pakistan with under \$3 billion, which amounted to 60 percent of its total commitments to Pakistan and within the second five year plan 1960-65, the US had become the largest donor to Pakistan. Starting from a humble sum in developmental terms, of less than 20 million, the economic assistance provided by the US reached its pinnacle in 1965 whereby it had provided \$550 million in foreign assistance to Pakistan. By the end of 1968 which was almost the

end of Ayub's regime, Pakistan had received a total of \$3.5 billion in economic assistance from the US since the beginning of the assistance in 1951. The US during the years 1969-72, reduced its assistance to Pakistan to few assistance projects and three commodity loans.

Furthermore, following the disclosure of Pakistan's nuclear ambition, the US which had laid much emphasis on pursuing the policy of nuclear non proliferation suspended all aid to Pakistan under the Glenn and Symington amendment to the Foreign Assistance Act in August 1978. During this time the US policy on foreign assistance to Pakistan also ran into murky waters due to burdensome defense spending, erratic economic policies of the Bhutto regime and a spotty record of utilization. Foreseeing the threat and realizing the geo strategic importance of Pakistan, the US decided to move forward with its assistance program and offered Pakistan \$400 million, to be divided equally in economic and military assistance, which was rejected by Pakistan as unsubstantial.

A \$3.2 billion the US military and economic program to Pakistan in 1982 was followed by another \$4 billion for 1988-93, half of which was earmarked for military purchases to Pakistan. The impressive domestic productivity, growth record and the substantial volume of foreign aid flowing into Pakistan, contributed immensely in the making Pakistan a middle income country. Zia attempts to foster economic growth at the expense of civil society woefully delayed Pakistan's movement towards democratization due to which four democratic governments came in Pakistan during ten years again to be followed by a military regime which rules to date.

In the wake of this event, the US found Pakistan a geo politically unimportant country, to the extent that bringing the Pressler amendment into force, which demanded a cessation of military and economic assistance due to Pakistan's profile as

a nuclear state, the economic assistance of \$4.02 billion, which was to cover the period of 1987-93, was denied. This trend of the denial of economic assistance to Pakistan continued and for the period of 1990-98 the US aid was almost negligible. The increase and decrease in the volume of the US aid coincides with the change in regimes. Statistics proved that the volume of economic assistance rendered by the US have had considerable tilt towards the dictatorship regimes, whereas the democratic regimes suffered comparatively, due to reduction in the flow of economic assistance. The US economic assistance has, as a principle, a focus towards institution building, democratic transition and aiding improvement in macro and micro level of country's economy.

The US is the primary beneficiary of aid programmes in terms of economic returns as well as in those of political and strategic gains. Foreign aid also brings certain liabilities and adverse effects to the recipient.

On the contrary the democratic regimes of Bhutto, could not capitalize on the US geopolitical interests and its policy to promote Islamic socialism in Pakistan, so it remained a beneficiary of the US economic assistance, the regime took a plunge due to the dire economic crisis that engulfed it during its tenure.

In realistic terms the US aid to the third world countries needs guarantee and assurance for promotion of democratic ideals and corporate economy. The US economic assistance took a nose dive due to Pakistan's nuclear ambition. Throughout the 1990's, the US essentially ended military cooperation and arms sales to Pakistan. President Bush (senior) suspended economic assistance and military sales to Pakistan in October 1990. After the nuclear explosions by Pakistan, another set of military and economic sanctions were imposed on Pakistan under Arms Export Control Act (AECA). Under the democracy law, sanctions were applied on Pakistan after General

Musharraf assumption of power on October 12, 1999. With the increased assistance by the US largely and the international community, in terms of aid, the military regimes did make significant progress in terms of political-economic stability. Consequently, the US has been silent on the domestic political situation in Pakistan despite several complaints of human rights violations, missing people and restrictions on political meetings. Leaders across the political spectrum hailed the army for "saving" Pakistan. The paradox lies in the fact that though, the US motivates the transition of developing and under developed countries to liberal democracies, in the case of Pakistan, and the geo-political reason has played into the hands of military dictators who thrive on the increased economic assistance.

Aiding the military regimes, may serve short term objectives but it is the establishment of democracy in Pakistan that would provide a long term solution to the US, in the attainment of its goals. Historically democratic governments in Pakistan have shown to be more liberal in their political outlook despite the growing extremist influence.

In the political history of Pakistan, dictatorship thrives on the economic support of the US. Furthermore if the US continues its political and economic commitment to the military regimes in Pakistan, due to any reason, political or economical, it would only worsen its negative influence in the region. The US defends its economic agenda in Pakistan by suggesting that it needs a politically and economically conducive environment for developmental activities and to bring a politically sustainable transition from a military regime to a democratic one, however its increased activities would only consolidate the myth of prosperity under military regimes. Emphasize on the election of a democracy in Pakistan, upon the military regime.

The Bush administration has been very rewarding by aiding Pakistan for its successful campaign against Taliban and Al-Qaeda elements throughout the border regions of Pakistan and Afghanistan and within Pakistan.

A study of the US foreign aid programmes and foreign policies shows that far from having a humanitarian base, economic and military assistance agenda have been a primary instrument of the US foreign policy. The US policy of foreign aid also manipulates the domestic political conditions of the recipient state. Progressing time by time Indian designs also pushed Pakistan towards the US for aid, assistance and project package for military gains. Military aid, useless to hold off Pakistan's enemy effectively, was nevertheless sufficient to maintain the military in a position of power comparable to that of that of the bureaucracy.

Lack of cohesiveness among the executive, legislature and judiciary in Pakistan also paved way for the opportunists like military bureaucracy and ruling elite of Pakistan to bungle the national integrity by bowing to every dictation of the US. There are endless political disputes among military establishment and political elites of Pakistan, which contributed in political and economic uncertainty in the country. Pakistan is vulnerable to externalities due to its complex administrative set-up and the paralysis of the political parties.

Foreign aid has enslaved the state economically making the people to believe it psychologically. Instead of progress foreign aid, in fact cause a kind of addiction in recipient state.

The US ideals of democracy and actions in the light of market economy have always been related to the foreign aid. Additionally, foreign aid has been used as a tool for motivating, forcing and manipulating the US hegemonic policies in South Asia, especially for Pakistan in the light of current events and historical facts. It was

the same, the US responsible for sanctions and stoppage of aid, but due to situational demands, the US gone far away from its stance because of time factor and the challenge posed by Talibanisation. The war on terrorism has again brought the US economic assistance to aid the regime in Pakistan and as always it is a military regime that stands to gain from such a voluminous flow of aid. On June 15, 2006, the US government and Pakistan signed an agreement that agrees to provide \$200 million (approximately 12 billion Rupees) in economic assistance to Pakistan. With this agreement, which is the 2nd annual agreement of 5 instalments of \$200 million to Pakistan over the next few years, the total economic assistance rendered to Pakistan during 2006-07, is figured out to be \$ 403 million not including the military and the earthquake relief assistance. On the eve of this agreement, Ambassador Crocker put forward the reason of increased the US assistance to Pakistan by stating that “the goal of the US assistance to Pakistan is to support peace and stability in South Asia over the long term. Continued economic growth as USAID observed foster stability in Pakistan, creates the conditions for our continued joint success in the fight against terrorism”. Though Crocker’s statement qualifies, the purpose of the US economic assistance, it shows a failure in the comprehension of the domestic political environment.

In strengthening the current military regime, economically and assisting in stabilizing the political environment, the US is once again indeliberately, reinforcing the virtues of a military rule and in doing so it is presenting Pakistan and itself with the most staunch resistance in later securing a transition towards a democratic government. If during this military regime, Pakistan does exhibit an economic takeoff as early military regimes have been labelled, it is probable that democracy may lose its support amongst the masses. The only resistance then confronting the military

regime in Pakistan would be a political one. This resistance would be due to the military regime's close alignment with the US foreign policy and the poor record of civil institution building that it has exhibited. Herein lies the inherent weakness of the military regimes. Once this resistance has been met with, and dealt accordingly, the reputation of the military regime would soar vis-à-vis the democratic regimes and would subsequently find no domestic resistance in maintaining power. In such a scenario, any external pressure, that arises internationally, for the restoration of democracy, would be resisted by the people, as was the case during the coup of 1999. Faruqi and Schofield demonstrate poor economic track records were the primary reason of the displacement of the democratic governments by the military regimes, a development which harboured the public support. The temporary economic stability that the military regimes establish have, and are, largely due to geopolitical implications which attract massive amount of economic assistance of which, the US provides a major portion.

In the wake of this development, it is reiterated that if the military regime capitalizes on the structural and institution building goals that it has set for itself, the country would be provided with a complete economically progressive and politically stable infrastructure, which should have been developed under a democratic government if a democracy were to be sustained in Pakistan. Since on the contrary, developments of political and economic stability have been the hallmark of military regimes, due to increased geopolitical sensitivity during these eras, hence each time a democratic government fails in delivering; it is the military that is looked upon as the saviour. As the military regimes have had poor micro economic and institution building records, these impediments have hindered the regimes in consolidating legitimacy. In due course if the current military regime, through its endeavours in the

right direction succeeds, it would consolidate the image of the military regime's comparative competence and would provide to be a considerable hurdle in Pakistan's road towards achieving sustainable democracy.

Reviewing the argument, the thesis suggests that, considerable pressure should be mounted on the military regime to restore democracy. If the current political and economic developments, under the heavy influence of the US military assistance are continued, then they would improve the public perception of democracy and this may increasingly contribute towards its political sustainability. However on the contrary if the current trends prevail, the country would though prosper economically but the ills of a dictatorship, which far outweigh those of democracy, socially and politically, would be tolerated by the masses, as have been the case earlier during the military regime of General Zia. This would in future lead to a civic and social repression of the masses through a compromise of providing economic prosperity. In order to avoid such a politically unhealthy environment, both domestically and internationally, in the future, it is imperative that the myth surrounding the success of the military regimes be dismissed publicly and efforts be renewed to restore democracy in the country and then increased economic assistance be provided by the US, so that the attributes of the military regimes be transferred to democratically elected governments. If continued short term geopolitical interests dominate the policy surrounding the disbursement of economic assistance by the US to the military regimes, it would play into the hands of the military regimes and democratic transition in the process would receive a severe blow. This development may have much negative repercussions, domestically and internationally, than the US perceives.

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