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PAKISTAN: the burden of US aid

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Pakistan: the burden of U.S. aid

by Hamza Alavi and Amir Khusro

Editors' comment: Hamza Alavi and Amir Khusro are Pakistani students now in London. Hamza Alavi is editor of Pakistan Today where "The burden of U.S. aid" first appeared.

I: The changing political background

"There is one inescapable conclusion . . . the major motive of international aid is philanthropy." Thus a contributor to a recent issue of *Pakistan horizon*, official organ of the Pakistan Institute of International Affairs, expressed once again the view that aid to underdeveloped countries is nothing but an unsullied manifestation of the humanitarian spirit of affluent societies. There is no doubt that enthusiastic popular support in donor countries for giving foreign aid is rooted in the finest traditions of human brotherhood. It is an extension of the egalitarian ideal on an international scale. But what of the practical men who run an affluent nation's affairs and administer foreign aid? What kind of machinery have they fashioned in the process of aid-giving? What aims have they pursued in international politics? At what point does international business seize hold of the controls? These are not questions which the men who have mortgaged our future to gain temporary support for themselves would care to ask. Too few democrats in any country have taken the trouble to investigate the processes involved in the giving and receiving of foreign aid. Far

too much is taken for granted. Our aim in this article is to examine these processes.

This is how an official U.S. document lays down the "concepts and objectives" of foreign aid:

*"Technical assistance is not something to be done, as a government enterprise, for its own sake or for the sake of others. The U.S. government is not a charitable institution, nor is it an appropriate outlet for the charitable spirit of the American people. That spirit finds its proper instrumentality in the numerous private philanthropic and religious institutions which have done so much good work abroad. Technical assistance is only one of a number of instruments available to the U.S. to carry out its foreign policy and to promote its national interests abroad. Besides technical assistance, these tools of foreign policy include economic aid, military assistance, security treaties, overseas information programs, participation in the U.N. and other international organizations, the exchange of persons programs, tariff and trade policies, surplus agricultural commodities disposal policies and the traditional processes of diplomatic representation."*¹

If these are disillusioning words, they have at least the merit of candor. They point to one inescapable fact: the question of aid to underdeveloped countries cannot be removed from the context of the general aims of a country's foreign policy. The methods and goals of foreign aid are inevitably shaped by the dominant political forces in the donor country, and by the aims it pursues in international relations. Egalitarian or altruistic intentions in foreign aid cannot be realized without cutting at the roots of the vested interests which profit by the way in which foreign aid is used today. What can or will be done about this is a matter for the people of the United States to decide. If they profess an egalitarian social philosophy, they must determine how it will be extended on an international scale — what will be the relation between their affluent nation and nations whose economic and social evolution has been obstructed by many years of colonial subjugation.

Pakistanis, and citizens of other underdeveloped countries, see the problem differently. Our problem is to become aware of the way in which foreign aid operates upon our economy and our politics, the way in which it has frustrated our democratic evolution and distorted the pattern of our economic development. The illusion of altruistic aid, without which our society will go to pieces, must give way to a more realistic understanding. We must realize the fact that in aid giving the real transfer of resources is reduced to nothing — or perhaps even a deficit — once secondary effects have been accounted for. We must become aware of the vast loss of our resources, which could be mobilized but for the policies which are imposed on us by the foreign alliance, and of the far greater loss of potential resulting from the lowering of our rate of growth. We must realize also the manner in which our freedom itself is undermined.

Old fashioned imperialism has been identified perhaps a little too much with foreign investments and direct colonial rule. Some are

inclined to regard the level of foreign investment almost as a barometer of imperialism. But in the postwar world the volume of foreign investment in underdeveloped countries, in terms of the relative magnitude of real resources transferred, has not been very large, especially in Pakistan. Where the classical model pictures surplus capital rushing out from the high wage economies of the developed countries to seek super profits through the exploitation of cheap labor in the underdeveloped countries, it has clearly preferred to seek highly productive employment in industrially advanced countries. Its concern has been more the securing of markets and the sources of supply of raw material than avenues of direct investment.

In Pakistan, between December 31, 1956 (when the first survey of foreign investments was carried out) and December 31, 1959, the net increase of foreign investment in the field of manufacturing was zero. There was, however, a rise of more than 40 per cent in the overall total of foreign investment — the main increase being in commerce followed by investment in mining. Thus, while there has been no increase of foreign investment in manufacturing, there has been a shift in the overall *pattern* of investment. The value of foreign-held assets is, in any case, no measure of the scale of activities of foreign companies, for they are able to borrow large amounts from local banks without the need for full collateral which lesser local borrowers would have to provide. Much investment in manufacturing, whether of domestic or foreign capital, does not really develop local industry but rather is directed toward packaging and assembling of imported manufactured materials and parts. This is done to take advantage of tariff concessions on such imports and represents merely an extension of the marketing activity of foreign manufacturers. Only in a very few industries, such as cigarettes and soap, are foreign firms engaged in activities which can be recognized as manufacturing proper, and here their activities have strangled local enterprise.

Foreign capital has been able to secure a major place for itself in Pakistan's Second Five Year Plan (1961-65) courtesy of the Ayub Khan government. In large scale industry and in fuels and minerals foreign investment will amount to a total of Rs. 1,030 million as against Rs. 1,040 million provided by domestic firms, and Rs. 300 million to be raised (by both?) from the stock exchange, a further Rs. 250 million to be raised from the commercial banks, and Rs. 60 million from specialized industrial credit institutions. Thus, in the Second Five Year Plan, the share of foreign capital is more than half the share of domestic firms. It may be added that these estimates are not just the fanciful expectations of our finance minister, who has often betrayed an excessive "optimism" in such matters. Before the beginning of the Second Plan he announced that he had already received applications for investment of foreign capital for more than the estimated amount. But a substantial part of this total consists of "foreign aid" loans to private enterprise, both Pakistani and non-Pakistani. While we recognize that foreign investment will have an increasingly important

role in our economy, we must also be aware of the pressure exerted by the U.S. aid which has tended to force our Government into the hands of U.S. suppliers and to gain preference for foreign firms in construction and industry. The emphasis, on the whole, is very much in the direction of securing Pakistan as a market for U.S. products and "services" and of influencing our pattern of development to serve the needs of industrially advanced countries rather than setting us on the path of industrial development ourselves.

Mr. Kennedy's dilemma

The radical tone of the Democratic Party's election campaign, and the exhilarating rhetoric of Kennedy's electioneering aroused some hopes of a liberal revival in the U.S., and of a sharp break with past policies. The new mood of the American public was perhaps reflected in Kennedy's disavowal of the negative aspects of U.S. foreign aid policies, which had been pursued in league with extreme right wing feudal interests in underdeveloped countries. The promise of a radical break with past aims has proved short-lived. The thin strain of liberalism which survived the counting of the votes and found its way into Kennedy's cabinet of "experts" appears now to be very much on the defensive. The unfolding pattern of the President's policies is not less pernicious because it is ready to recognize the social ferment at work in underdeveloped countries; for this has meant only a search for new techniques which may prove effective in the new situation.

Lyndon Johnson's trip to India and Pakistan brought out the contradictions in the Kennedy Administration's policies quite clearly. But, behind his apparent "coming to terms with neutralism," we can also see a steady erosion of India's neutralism under the pressure of increasing dependence on U.S. aid. The determined commitment of Pandit Nehru has seen to it that the neutralist position has not yet been altogether lost. But even Nehru must submit to the inexorable pressures of international dependence. Few illusions about the Kennedy Administration can now remain, especially after the Cuban affair.

A document which perhaps indicates the way in which the Administration is thinking is an article by John Kenneth Galbraith which appeared in the April, 1961, *Foreign affairs*. It is a most disturbing document. Had it been written by another professor it might have been dismissed as an academic exercise by a man completely out of touch with contemporary reality. But one cannot thus ignore Galbraith. He is one of the most influential American intellectuals, President Kennedy's choice for ambassador to India. Galbraith starts from a justified criticism: in the past, foreign aid has only served to prop up vested interests; a mere increase in the amount of foreign aid will not set in motion the processes of economic growth. He realizes the urgent need for social reform. But who is to decide what kind of reform is needed? What kind of society we should develop? Reforms that appear to be appropriate and sufficient to the officials of the U.S. Aid Mission in Pakistan may not be the reforms which our people seek. U.S.-prescribed policies which discriminate in our own country against Pakistani enterprise, private or public, and which afford extra priv-

ileges to foreign capital, imposing heavy tax burdens on our own people and granting "tax holidays" to foreigners — these are not ideas which we as Pakistanis can accept.

The Galbraithian blueprint

But Galbraith has no time for social movements and mobilizing free people to build their own society. He proceeds instead, on paternalistic assumptions, to regard it as the responsibility of the U.S., the aid giver, to decide the pattern of development which we must follow. He suggests the setting up of a "development institute" in the U.S., staffed by American experts, who are to prescribe a seven-year "positive development plan" for aid receiving countries. Moreover, this plan is not to be left to the devices of the aid receiving countries to implement — they may not do so whole-heartedly. Galbraith therefore suggests the setting up of a "planning and development authority" in the aid receiving countries. The "authority" is conceived of as a super-government, and would be staffed by U.S.-appointed officials. Considering that the authority's power would cover practically everything of any importance, including finance, industrial policy, agriculture, education — the whole range of social and economic policy — Galbraith's recommendations require a virtual abdication of our independence.

Although the U.S. Administration's increased interference in the affairs of client states clashes fundamentally with democratic opinion in these countries, there are also aspects of Kennedy policy which are the source of considerable friction between the U.S. and the military dictatorship in Pakistan. There is an ambivalence in Mr. Kennedy's policy toward the military dictatorship which must cause Ayub Khan grave anxiety. In the "good old days" of Mr. Dulles the extreme consistency of American policy left undemocratic governments of client states in no doubt as to the strength and continuity of U.S. support. But such support has not always enabled them to survive and the U.S. has learned many costly lessons about the ultimate fate of strongmen. These lessons could not be lost on the "enlightened" new Administration. The regime in Pakistan, which faces the prospect of a resurgence of the democratic movement in the country (especially as the shift in American support is likely to take place when a democratic movement in Pakistan begins to prove itself effective), must be painfully aware of the fact that the American Administration is only a fair-weather friend.

A second factor, which further undermines Ayub Khan's confidence in the continuation of U.S. support, is the ever-increasing divergence between U.S. and Pakistani views on India. The Kennedy Administration is wooing India with increased fervor. Growing Indian dependence on U.S. aid, coupled with the consolidation of the right wing in Indian politics (with its increasing pressure on Nehru) have made the conditions for U.S. operations there quite congenial. In the early months of the Pakistani dictatorship, when the confusions and complexities of Pakistani politics were the source of considerable popular support for the regime, it could fall in line with the U.S. desire for a rapprochement with

India. Indeed, Ayub went so far as to offer India a common defense arrangement under the aegis of the U.S. (India, predictably, refused to have anything to do with such a U.S.-led alliance.) But things have changed much in the last two years, and the regime has become increasingly aware of its unpopularity in the country. Being too deeply committed to vested interests to tackle social and economic problems effectively it has begun exploiting Islamic revivalist slogans, resorting to the traditional anti-Indian demagoguery in order to divert popular pressures. This anti-Indian posture is extremely embarrassing at a time when American diplomacy is doing its best to woo India. The coldness of the Kennedy Administration towards the regime in Pakistan is not difficult to understand.

In Pakistan, Finance Minister Shoaib is among the most loyal and unquestioning supporters of the U.S. (He has not hesitated to introduce in his budgets measures which discriminate blatantly against small businessmen in favor of foreign investors.) After each of his frequent trips to the United States (unique among finance ministers, he still holds his job as Executive Director of the World Bank), he repeatedly told Pakistanis on behalf of the U.S. that the aid required for the Second Five Year Plan will be fully provided. But it now appears either that he misled the country recklessly when he made his gratuitous statements, or that the Kennedy Administration let down very badly its most faithful supporter. The actual amount of aid sanctioned by the U.S.-led consortium, at its meeting in June, 1961, was a fraction of the planned amount — which was calculated after months of painstaking work in collaboration with U.S. experts and agencies. This caused bitter disappointment and undermined further the standing of the regime in the eyes of those who counted on its ability to squeeze out funds from the Americans. This sharp reduction in U.S. support ironically came only three days after the U.S. had announced massive aid to (as yet) uncommitted India. Only Shoaib remained undaunted. He was "not sure whether they (the Americans) employed their best tactics," but, he assured the nation "they have the best will in the world for us."

To add insult to injury, Vice President Lyndon Johnson, on the eve of his visit to Pakistan, conferred the mantle of leadership of South Asia on the embarrassed shoulders of Pandit Nehru. This was hardly calculated to soothe ruffled tempers in Pakistan. Averell Harriman, another U.S. visitor, also expressed criticism of some of the policies of the military regime. All this was too much for Ayub. He decided to go to Washington and talk to the Big Chief himself.

Ayub's visit could not have been more opportune for the American right wing, whose hand he strengthened against the liberal element in the Kennedy Administration (e.g.: the beginning of the eclipse of Chester Bowles can be dated from Ayub's visit). The Administration welcomed the visit as an opportunity to put the Ayub regime in its proper place without much loss of face.

Ayub's empty threat of going neutralist, both in terms of its demagogic value in Pakistan as well as a means of pressure on U.S. opinion, must be considered against the background of neutralist opinion in Pakistan. Pressure for an end to the military alliance was very strong in

1958, on the eve of the military *coup d'etat*. With the elections (which were prevented by the *coup*) near, even the right wing Muslim League, a party to the alliance, began to talk of the need for "an independent foreign policy." Moreover, many of those who supported the U.S. alliance did so in the belief that it was a "necessary evil" rather than because of the merits of the alliance.

Perhaps the biggest blow to those who had confidently and unquestioningly accepted the U.S. alliance, was the U-2 affair. The fact that the flight, which began in Peshawar, West Pakistan, could have brought Soviet retaliation, had a dramatic impact. The utter disregard of Pakistan shown by American authorities, and the revelation that responsible Pakistani officials were ignorant of the activities of the U.S. on our own soil, disenchanted many who still enjoyed agreeable illusions about the alliance.

Soviet aid was tempting

The pressure for neutralism was further strengthened by the possibility of purchasing cheap Russian oil and by the Russian offer of help in oil exploration in Pakistan. The Western oil companies, on which the Government had hitherto relied exclusively, were making profits sufficient to dampen their interest in the task of oil exploration, which the Government of Pakistan had been pressing on them. So long as the Pakistan Government paid a substantial part of the cost of exploration, these companies could hope to recoup much of their own contribution through "overhead charges" levied by their parent companies for "advisory services," etc. They did not have much to lose. Very little progress was made. Under the circumstances the pressure on the Pakistan Government itself to go into oil exploration, especially with the Russian offer of loans and technical help, was irresistible.

Faced with the prospect of a shift in U.S. policies, Ayub tried as early as 1959 to capitalize on the domestic pressures for neutralism to exert some influence on the Eisenhower Administration. The victory of the Democratic Party in the mid-term U.S. elections had brought renewed Congressional pressure on the Administration to cut down military aid and to improve relationships between the U.S. and India. In August, 1959 President Ayub voiced loud criticism of Democratic Congressmen and the changes in aid policies for which they were pressing. Asked whether Pakistan might seek aid elsewhere he said: "In the end the people will oblige us to do so. We hope that we will not have to do so, but it is a question of the instinct of self-preservation. One cannot indefinitely resist the people's will." (And one cannot resist remarking that this statement very clearly defines how Ayub Khan stands in relation to "the people's will.")

When Lyndon Johnson gratuitously bestowed on Pandit Nehru "the leadership Asia" the misused partisans of the U.S. in Pakistan voiced their anguish:

"Now indeed is the time for some deep soul-searching. . . . America's

policy towards its smaller allies has hitherto been based on the assumption that while her allies should accept all her enemies as their own and pledge all their resources to a possible war against them, she on the other hand is at liberty to be on the friendliest terms with their enemies and is not to be expected to involve herself in 'local squabbles' affecting her allies. No international alliance can endure indefinitely unless either side is assured of full support from the other in the face of any serious threat to its security — no matter from where it emanates."

Thus wrote the *Pakistan Times*, the Government's mouthpiece. Ayub himself in a special television interview for American viewers on the eve of his visit to Kennedy, expressed deep concern over U.S. policy in South Asia, and threatened that if the soft policy towards the neutral countries continued, Pakistan might be left with no alternative except to go neutral herself. He was, nevertheless, careful to underline his own ardent hope that the necessity for choosing neutralism would not arise.

Real bitterness was mixed with the mere posture of blackmail when the Pakistani press commented on the contemptuous dismissal of Pakistan with a fraction of the promised aid, only three days after India had been given aid on a new massive scale. The *Pakistan Times* wrote on this occasion: "This disappointment should not be allowed to depress the nation's spirits. . . . When everything is said and done, the fact remains that foreign aid is always dependent on the sweet will of the donor country. Self reliance is the best guarantee of progress. . . ." But the newspaper did not point to the drastic changes that would have to be made in our economic policies if our dependence is to be ended and independent national development begun.

Against this background Ayub made his trip to the U.S. to rebuke the Administration and the Congress, to remind them where their real interests lay and who were their real friends. He renewed his promise of military involvement by Pakistan, if America required it: "In case of conflict the only people who will stand by the U.S. in South Asia are the people of Pakistan." He warned the Americans that Pakistan would fall under Communism if they did not at once rush to his aid. He said that Pakistan was pressing against America as a friend; if it fell to Communism it would again press against America, but not as a friend. In his speech to Congress he said that he welcomed U.S. supervision over the aid program. But for all his pains Ayub got no change out of the Kennedy Administration, apart from an "unforgettable" banquet on the lawn of Mount Vernon, Washington's home, with the Haffner symphony played in the background to soothe his nerves. On less public occasions Ayub and his aides evidently had to listen to quite a few "plain facts" from U.S. officials. The final communique on the Ayub-Kennedy talks, referring to the need for "the solution of divisive issues," added sardonically that this called "for farsighted statesmanship on all sides." The U.S. was quite angry at the lengths to which Ayub had gone in allowing criticism of its policies. He was told very firmly what his place was. No concessions at all were made to him (save the promise that military aid would not be reduced). Although it was certainly not expected that America would give in on its policy of rapprochement

with India, Ayub might still have been sent happily home with a few face-saving millions in additional aid to make up for his disappointment. But even this expected gift was not made. All that was promised was reconsideration at a later date. The General had been put on probation.

Ayub took the rebuff with all the good grace of a statesman. With complete nonchalance he told reporters at New York's Idlewild Airport: "My mission has been accomplished. But," he added, "all good things come to an end." A hero's welcome was planned for him back at Karachi — a hero's welcome for the man who had talked back to the Big Chief himself. Sobered by this experience, however, the regime settled down once again, though uncomfortably so, to continue to carry out the dictates of the Alliance.

II: U.S. aid enters Pakistan

New University Thought — Tables 1 and 2

Table I: Foreign aid to Pakistan, 1951-1960.

(Totals of loans and grants in millions of U.S. dollars.)

Donor	Project aid	Technical assistance	Commodity aid	Total allocated	Total utilized
U.S.A.	288.7		949.7	1,238.4	903.9
Canada	72.8	1.5	38.7	113.0	104.3
Australia	20.6	1.4	6.1	28.1	28.1
New Zealand	5.6	0.3	—	5.9	5.1
United Kingdom	—	3.2	—	3.2	3.2
Sweden	—	0.6	—	0.6	0.6
World Bank	151.0	—	—	151.0	100.0
Ford Foundation	—	16.4	—	16.4	14.2
United Nations	—	9.4	—	9.4	9.4
Total	—	—	—	1,566.0	1,168.8

Note: Technical assistance from Japan and West Germany and short term credits from the United Kingdom, Japan and West Germany are not included here.

The government of Pakistan, under the leadership of Liaquat Ali Khan, pursued a foreign policy which has not always been correctly appreciated. Liaquat's bitter hostility towards the Congress government in India and his fear of Indian intentions only underline the overriding importance he attached to a neutralist foreign policy. For, in spite of his hostility and fear, he stood *with* Nehru on all international issues which arose in the context of Cold War world politics. The Truman Administration and the Labor Government in Britain had yet to take an interest in Pakistan, and consequently Pakistan had received no aid prior to 1951.

Liaquat was assassinated in October 1951; about the same time the Labor Government in Britain fell. In the two years that followed, British influence in Pakistan was greatly extended but the period was generally

not remarkable. The Colombo Plan, begun under the auspices of the Labor Government in 1950, was well under way. The overall magnitude of aid provided under the Plan has however, remained relatively small.

In 1953 the U.S. made a dramatic entry into Pakistani politics. It was in that year that the U.S. first provided substantial aid to Pakistan. The change in the situation was marked, on the one hand, by the installation of the Eisenhower Administration and the unleashing of Mr. Dulles on an unsuspecting world. On the other hand, a wheat shortage in Pakistan was built up into a crisis of the first order. A "package deal" for wheat provided the new U.S. Administration with an opportunity to install as Prime Minister Mr. Mohammed Ali Bogra, erstwhile Pakistani ambassador to Washington. Since then the U.S. has been dominant in the affairs of Pakistan.

Table II: Progress of U.S. aid to Pakistan.

(Totals of loans and grants in millions of U.S. dollars.)

Year (to June 30)	Technical cooperation ^a	Project assistance ^b	Commodity aid	Total
1951 - 53	21.6	—	88.7	110.3
1954	7.6	14.4	—	22.0
1955	5.0	20.1	84.6	109.7
1956	7.7	28.1	125.5	161.3
1957	7.4	29.6	138.4	174.4
1958	14.2	5.5	123.4	143.1
1959	5.9	96.3	180.9	283.1 ^c
1960	7.1	107.1	204.6	318.8

^a Includes grants designated "regional assistance."

^b Includes loans from the U.S. Development Loan Fund.

^c Note the sharp increase in aid; the military junta seized power in October 1958.

It is not accidental that U.S. aid was stepped up significantly only after 1955. The year 1954 is a memorable one in Pakistan's history for it marked the rise of the democratic movement and the complete rout of the ruling Muslim League Party in the East Pakistan elections. There was growing public criticism of American influence over the central government. And it was also the year in which the Constitution was overthrown and an authoritarian regime installed in which Generals Ayub Khan and Mirza both figured prominently. Earlier in the year this Junta had entered into a formal military alliance with the United States without the consent of the Constituent Assembly. Also in that year, a treaty between Turkey and Pakistan laid the foundations of the Baghdad Pact, now CENTO. Pakistan also participated in the formation of SEATO.

The crisis of 1953

The international events which provided the background to the crisis of 1953 are probably more significant than the domestic situation in Pakistan. Perhaps the most ominous event of that year was the accession to power of John Foster Dulles. There was a shift in American interest from a preoccupation with the Far East (the Middle East and parts of

Southeast Asia had formerly been regarded as British and French spheres of influence). The most significant event, as far as Pakistan is concerned, was the Mossadegh episode in Iran and the new pattern of control of Persian oil which emerged as its sequel. U.S. interests in this area had thus immensely expanded and America had a direct stake in the political and strategic control of this part of the world.

Geographically, Pakistan was so situated as to be considered important in the formation of a military alliance which could guarantee "political stability" in these areas and to provide military resources, especially manpower, to crush any nationalist movement (such as that led by Mossadegh) which might threaten the oil interests. It could be argued, for instance, that an intervention by Pakistani troops, going to the aid of "established governments" might be less suspect than direct intervention by U.S. troops which would only serve to strengthen nationalist sentiment. Alliances between Pakistan and similar dependent governments in the Middle East as well as in Southeast Asia would also provide a link between NATO and ANZUS and complete the encircling chain of military alliances in which the U.S. had a dominant position. For Pakistan such an involvement was, of course, a total reversal of the neutralist policy pursued under Liaquat Ali Khan.

Deterioration in economic conditions followed continued mismanagement and failure of the government to carry out a policy of social reform and economic development. The Korean boom resulted in temporary high prices for Pakistan's raw commodities, creating an illusion of prosperity. The foreign exchange earned during the boom was quickly dissipated and, as commodity prices came plunging down, Pakistan felt the full impact of the crisis.

Against this background the famine scare of 1953 suddenly appeared. At the time wheat from the U.S. appeared to be an urgent necessity, to be bought at any political price; the alternative, it seemed, would be widespread starvation. The U.S. proved to be a hard bargainer. In retrospect, one wonders whether the fact of scarcity was not magnified out of all proportion by foreign experts and the domestic press, always ready to believe the worst. Once the scare had started however, it provided its own justification by inviting hoarding on a considerable scale, which quickly sent food prices rocketing upwards. Ultimately it appears that the actual shortage was much less than what was claimed at the time. But, in the meanwhile, the crisis had done its work; the government was panicked into complete political surrender and "friends of the U.S." were installed in office as the price of the wheat promised, to stave off the supposedly impending famine.

The Finance Minister of Pakistan, in his budget speech for 1952-53, reported a fairly satisfactory food situation in both wings for the year 1951-52 except that, due to the drought in West Pakistan, August to November, the kharif crop had failed. In March 1953, he again reported a satisfactory food situation in East Pakistan, but stated that in West Pakistan there was

"a general shortage of food-grains and acute conditions prevailed in many areas. The deterioration in the food situation started with the

failure of the monsoon in 1951. Continued drought conditions, lower water levels in rivers and diversion of water in the Indian-controlled canals affected the rabi crop. The result has been that the wheat crop harvested in 1952 is estimated to be about 2.99 million tons as against 3.93 million tons in the previous year resulting in a shortage of nearly one million tons."

The overall shortage was estimated at no less than 1.5 million tons as the stocks were considered by experts to be low and in need of replenishment. As the crop for the following year, i.e. 1952-53, was estimated to be lower still, a deficit of 2.5 million tons was predicted. This is rather surprising, for 1950-51 had been the third straight year of bumper crops, and this should have ensured ample stocks.

By February 1953, appeals for foreign assistance were being made. The Finance Minister in his budget speech for 1954-55 mentioned having received 43,000 tons of wheat from Australia and 116,000 tons from Canada. The U.S. avoided for many months any commitment on the wheat aid for which Pakistan had been appealing. Meanwhile frantic intrigues went on behind the scene. The Nazimuddin government fell in May, 1953 and Mohammed Ali Bogra, the protege of the U.S., took office.² Almost immediately following the change in Government, the U.S. announced its offer of 700,000 tons of wheat plus another 300,000 tons should it prove necessary. But it took months more before this promise was implemented, the necessary legislation passed and the shipments organized, so that it was nearly the end of the year before the first shipments began to arrive.

This timing is of vital importance in judging both the real magnitude of the wheat shortage and the role of U.S. aid in averting it. The Finance Minister in his budget speech for 1953-54 had said that "the real impact of the shortage was felt in September 1952." As we have seen the total shortage was estimated to be on the order of 2.5 million tons. All that was received in time, however, was about 150,000 tons of Commonwealth wheat. (Australia and Canada had, without much fuss, waived the Colombo Plan requirement that aid provided should be capital aid and not consumption goods.) U.S. wheat did not begin to arrive until twelve months after the crisis started, by which time a bumper crop was already standing in the fields. Meanwhile, food prices had risen and the profiteers had made a killing. But there had been no mass starvation. By the time of the budget speech in March, 1954, a year and a half after the start of the crisis, the Finance Minister reported that 600,000 tons of U.S. wheat had arrived. But this, too, had been received too late. Senator Theodore F. Green, reporting on the administration of foreign aid in January, 1956, after a tour of some Asian countries, said that "more than half of the wheat supplied was still in storage in Pakistan by midsummer of 1954 by which time a new and bumper crop was available." This was after one-third of the total quantity had been disposed of by free distribution "to those who could not pay for it," as the Finance Minister announced in his budget speech. More commonly it is said that much of this wheat was thrown away as it had become unfit for consumption.

III: Military aid

The value of the wheat loan in helping create a climate of opinion favorable to an alliance with the U.S. is incalculable. In the face of aid which was supposed to have saved the country from mass starvation, any criticism of an alliance would have appeared churlish. By late 1953 reports began to appear that Pakistan had requested military aid in return for the provision of bases for the U.S. This was denied at the time even after Nixon's "successful" tour of Pakistan, after which he advocated military aid for Pakistan. But in February, 1954, the National Security Council of the U.S. decided that Pakistan should receive military aid and that an alliance between Pakistan and Turkey would be a useful instrument "to make such aid effective." Dutifully, the Government of Pakistan began negotiations with the Turks on February 19, and on February 22 applied formally to the U.S. for military aid. President Eisenhower hardly needed the three days which he took to announce the grant of military aid to Pakistan on February 25.

The Pakistani-Turkish agreement was formally signed on April 2, linking up the two pincers that were to contain the explosive Middle East under the U.S. "security system." A military pact with the U.S. followed. The "mutual defense agreement" was signed on May 19.

The most striking feature of the Mutual Defense Assistance Agreement between Pakistan and the U.S. is the fact that there is simply nothing in it which can honestly be described as "mutual." Its provisions are wholly one-sided. As far as the U.S. is concerned it does no more than state that it will make such military aid available to Pakistan as "the Government of the U.S. may authorize" — i.e., there is no specific obligation at all on the U.S. On the other hand, the agreement imposes on Pakistan a series of specified obligations, mostly undertakings by Pakistan to follow in the wake of U.S. policies, especially in the event of hostilities. The agreement also imposes on the Government of Pakistan the obligation to receive U.S. government personnel and to give them facilities to observe what is done with the aid that is furnished. This means that, in the case of military aid, U.S. observers have the right of direct access to the Pakistan army. Again, the agreement imposes on Pakistan the obligation to join with the U.S. in a variety of situations which may require armed action, though Pakistani interest need not be involved at all. All told, it is a humiliating document for any government to put its signature to.

The objectives of military aid

What really is the purpose of the vast encirclement of the globe by U.S. and U.S.-controlled forces? What are the strategic interests of the U.S. in West Asia and Southeast Asia? What kind of influence does military aid establish for the U.S. inside the aid receiving country? To understand the full significance of military aid we must examine both its international and its domestic aspects.

Ostensibly the object of the militarization of countries like Pakistan and their alignment within the U.S. orbit is the crusade against "world Communism." Even if the Soviets are prepared to pay the price of

war in order to seek material gains abroad (and there is little evidence that they are so minded) it is clear that an invasion of Pakistan would be for them a bitterly expensive campaign with little point. Apart from the military and the material costs of such a campaign, it would mean that they would have to pay a heavy political price which would outweigh any strategic gains that they could conceivably achieve by invading Pakistan, i.e., driving India immediately and firmly into the Western camp. This would destroy the whole basis of the alignment of neutral powers and shift the international balance disastrously against the Communist bloc. There can be no question, therefore, of any Soviet designs against Pakistan for which Pakistan has to seek alignment with powers who are arrayed against the Soviet Union in the international arena.

There is one circumstance, however, which can bring about conflict between Pakistan and the Soviet Union — our involvement in the U.S. alliance. This alliance has little defensive significance for us, but it would have some offensive significance in an international conflict. Northwest Pakistan, like some regions in the Middle East, provides ideal bases for an attack against the Soviet Union. Air bases in the north are very close to the main Soviet industrial centers in the heart of their territory. This strategic value has perhaps been reduced considerably since the development of I.C.B.M.'s and the Polaris. In the event of an all-out East-West conflict, to quote D.A. Rustow, "the Near East would not be among the primary Soviet targets. Assuming the purpose was a surprise knock out blow against the West, Russia's only immediate interest in the Near East would be to destroy Allied bases as a means of reducing the scale of massive retaliation." By our involvement in military pacts we are not safeguarding ourselves against any danger but are bringing a danger into being. We are endangering the safety and the well-being of our people and squandering badly needed resources in pursuit of a policy which offers no benefits to our people, which concerns a quarrel not of our making and in which we have no need to be involved. Indeed, Pakistani authorities have never seriously believed that the country was confronted with the possibility of a Soviet attack. They have argued throughout that they have joined the pacts because they have wished to strengthen Pakistan *vis-a-vis* India. In the U.S., however, the supposed anti-Communist aims of the military alliance provide a good rallying cry. Liberal Americans would repudiate these pacts and all that goes with them if they understood the *real* aims that lie behind the anti-Communist demagoguery. There is little in these alliances that the Soviet Union need be afraid of. But there is much that we, as Pakistanis, and the people of neighboring countries, especially those who share with us the bonds of a U.S. alliance, have to fear.

Opinion will differ among Pakistanis about the possibility of a conflict with India. The opinion of the authors is that such a possibility is very remote and that the disputes which remain between Pakistan and India can be settled through friendly and peaceful negotiations. But if we reject this view the question arises whether the present alliance provides us with any guarantee of help in the event of a con-

flict with India — it is this (we trust) academic question which is at issue in this context. There is little reason to believe that the U.S. would rush to the aid of Pakistan should armed conflict break out. It is clear that by not taking up formal membership in CENTO (although it is represented on all CENTO committees) the U.S. has avoided undertaking any formal obligations, while tying down its allies. In the case of SEATO, of which the U.S. is a full member, the operative section IV has been qualified by an "understanding of the U.S.A." (which has been incorporated as a part of the text of the Agreement) in which it is stated that American obligations under the Treaty will "apply only to Communist aggression." Thus the U.S. has, again, placed unqualified obligations upon its allies, while retaining maximum freedom of action for itself.

Guarding the imperial frontiers

The principal aims of the Pacts concern neither India nor the Soviet Union. Rather, the main emphasis is on the role of Pakistani forces in the maintenance of Western influence in the Middle East and in protecting Western interests in that region. But, one may ask, why should Pakistanis cast themselves into the role of Western mercenaries — indeed at the cost of our own national resources and even our political freedom, if that means freedom from outside dictation in our political affairs?

Lord Birdwood has, on many occasions, expressed himself quite clearly on this question. The sturdy Punjabi peasant, he believes, was the backbone of the armed forces of British India before independence. It was the task of the army of British India to maintain "stability" in the Middle East — i.e., to defend British imperial interests there. Now, he believes, this responsibility falls on Pakistan's shoulders. He writes, for example, that "a trail of events which ended in the abandonment of the Persian oil-fields and a refinery worth 300 million pounds in no small measure derives from circumstances by which troops from India were no longer available to protect our interests in Khuzistan." However, Lord Birdwood goes on to argue, "The position might be modified if and when Pakistan can provide armed forces for defensive purposes outside her territory The availability of a Pakistan division either in the Middle East system deriving from Western patronage or in the existing Arab Security Pact might well connote a new sense of vitality in the hitherto cautious development of Pakistan's Arab associations" (p. 180). The noble Lord commends the words of ex-Foreign Minister Zafrullah Khan whom he quotes: "It is devoutly to be hoped that, in the first instance, law and order in all Middle East territories, in which Pakistan is also included, will be impartially, firmly and if necessary even ruthlessly maintained."

The fact that Pakistan *has* been dragged into such involvement in the "pacification" of the Middle East only in the interests of the Western Powers is made clear in a statement by Mohammed Ali Bogra, Pakistan's Ambassador to the U.S., at a press conference in Washington on January 16, 1959. He was reported to have said: "Allow me to point out that

Pakistan is receiving military aid because she has taken upon herself additional responsibilities in the Middle East and Southeast Asia for the maintenance of Peace"

It is not difficult to understand the enthusiasm of men like Lord Birdwood for an arrangement under which locally recruited forces under effective Western control are available to defend Western interests in the Middle East. An alternative to the present policy would be to station U.S. troops all over the world. That, however, would not be easy to sell to the British and American electorates. It would also make imperialist aims rather conspicuous. Acquisition of military bases around the world on the scale that would be required and the stationing of U.S. troops there would be most odious in a world which has come to respect the freedom of nations.

There is also an important political advantage that is gained through this arrangement. If a nationalist uprising in, say, "Ariana" threatens to nationalize U.S. soybean holdings in that country, direct intervention by U.S. troops may only give greater strength to the nationalist movement because of the tradition of anti-imperialism in Ariana. But, on the other hand, if troops from neighboring "Khakistan," who have closer cultural affinities with the Arianis than have G.I.'s, intervene and go to the aid of the established regime, it would have a less "negative" effect. Moreover, in the absence of large permanent U.S. garrisons everywhere, the local alliance also has the merit of permitting a massive intervention by ground forces at short notice without the difficulty of moving a large force by air from the U.S.

All this is of course only the theory on which the military alliances have been justified. In practice there is much reason to suggest that they have failed even in the purposes which they were set up to achieve. The first real test was the revolution in Iraq. Then the Baghdad Pact proved to be an ineffective instrument for intervention. In Iran, as a democratic movement grows, there may be some who count on the Pacts to provide a basis for intervention should the need arise. But Pakistani forces will certainly be in no position to take part in an intervention when the domestic situation in Pakistan itself is about to explode. Indeed many serious analysts of the Pacts have argued that they are hopelessly ineffective. Among these one would refer to the outstanding work of J.C. Campbell on *The defence of the Middle East*. Campbell writes:

"Much of the Western effort to defend the Middle East has gone into the building up of alliances and treaty systems. To obtain the necessary co-operation from Middle East governments it seemed logical to seek commitments from them for help in time of crisis. . . . So far as many states in the Middle East are concerned the very proposal of an alliance with a Western Power generates antagonism. . . . The advantages of securing the commitment of one's 'friends' have to be weighed against what is lost by the increase of tensions within the area and by the alienation of those nations which choose not to commit themselves. . . . Conditions in the Middle East, conditions likely to endure for some time, indicate that the tensions and divisions heightened by outside attempts to organize security through alliances could jeopardize our long-range objectives."

There is an increasing realization in influential circles in the U.S. that instead of confronting popular movements head on, America should rely on subtler techniques. The fact that pacts are vitally concerned with rising indigenous movements which threaten the continuation of Western privileges, is shown by the overwhelming concern which SEATO and CENTO have for "counter-subversion." Thus a study group of the Royal Institute of International Affairs reported: "The (SEATO) Council Representatives were directed as one of their first tasks to arrange meetings of experts to consider means of strengthening co-operation in combatting subversion and infiltration. The Council was obviously much preoccupied with this particular question. . . ." (p. 119). By U.S. definition, however, anything opposed to American interests is "Communist." Some liberal American politicians are concerned about the way in which forces are so promptly mobilized to oppose rising national democratic movements by smearing them with the label "Communist." Professor Ralph Braibanti, in a paper on SEATO presented at the Lahore Pacific Relations Conference, referred to the concern expressed by Senators Green and Watkins on this score. Braibanti goes on to remark that: ". . . any kind of subversion could be interpreted as endangering the peace of the area. The danger lies in the possible use of this power to depose the government of a nation when that government is not acceptable to the treaty powers."

The result is that the machinery of the alliance serves to prop up right-ring regimes which could hardly survive on their own in the face of the rising popular movements. Such survival, however, can be no more than temporary. As experience in Iraq and in Latin American countries has shown, a profusion of arms and an abundance of economic aid alone cannot keep down popular movements indefinitely. The only result of aid to unpopular regimes is that popular movements become bitterly anti-American. Americans often wonder why, despite all the aid that is given to underdeveloped countries, there is still so much anti-American feeling. The reason is simply that so often the Americans have become hopelessly tied to right-wing cliques which they dare not abandon, for the only alternative appears to be governments composed of people who have been turned into bitter opponents of U.S. policy. This would not be the case if the U.S. were to disentangle itself altogether from our domestic affairs.

Militarization and society

In the long run, the worst aspect of military aid is the complete change it produces in the balance of social and political forces in favor of conservatism and established vested interests. The dragon seed sown by military aid has produced a crop of military officers whose social roots are in the most conservative strata of our society. There is no countervailing force to hold them in check. Once in power they do not allow for easy and peaceful democratic political evolution. In Western societies the trade union movement is an effective countervailing

force; the longer tradition of democracy, perhaps, also plays its part. In a country like India, where these two factors are to some extent operative, a military *coup d'état* would not be all fair sailing. But in countries like Pakistan, where the trade union movement is relatively weak, the peasant movement non-existent and political evolution rudimentary, the picture is rather more grim. Perhaps there is no factor so inimical to the growth of democracy in underdeveloped countries as the militarization of our societies.

In propping up dependent regimes in countries like Pakistan the U.S. aims to safeguard American interests — the interests of the big corporations which have investments and business interests in our part of the world. In a Princeton University study of *American military assistance*, E. S. Furniss writes:

"American concern with the internal stability of other countries covers economic, political, and military conditions. Under the heading of economic stability would come orderly development of the national economy, the creation of a climate favorable to American private investment . . . As part of its objective of preserving internal order for political purposes, the U.S. finds itself in the military aid business in order to attract and preserve the cooperation of local ruling elites. In some countries, these leaders are found in the army itself; in others they are civilian politicians who control or are controlled by the local military establishment . . . This distinctly non-military objective [of military aid programs] . . . is more clearly discerned in countries whose political institutions are not wholly Western in type."

Furniss refers to:

"the objective of attracting friendly power groups [as motivation for U.S. military aid to some Latin American countries] where the leaders of the national military establishment have been known to play a not inconsiderable role in juggling civilian heads of government until sympathetic civilian agents capable and willing to promulgate the military's policies were found. Latin American military officers have at times been known to despair of civilian leadership altogether and seize the reins of government in their own hands."

This, in a nutshell, is also the story of Pakistan. The military power group was already being strengthened and built up when the following remark appeared in a "Summary presentation of the Mutual Security Program" published in June, 1957 by the U.S. Government. The document states: "From a political viewpoint, U.S. military aid has strengthened Pakistan's armed services, the greatest stabilizing force in the country, and has encouraged Pakistan to participate in collective defense agreements." This is the force that now rules the country; not the "armed forces" as such, but those who are in control of the armed forces.

If we distinguish between the different strata of the officer corps of the Pakistani armed forces, we find at the top men who were

commissioned in the first phase of Indianization of the army of British India. Their recruitment took place not only because of the demands for Indianization that were being made by the growing nationalist movement but also because the British felt the need for Indian officers when a large number of Indian troops were recruited to take part in World War I and in the repression of the civil disobedience movement in the twenties. In the early twenties a policy was adopted of selecting ten Indians for training at the Royal Military College at Sandhurst. These men were picked from dependable aristocratic backgrounds. Within the army too they constituted a new kind of aristocracy because with the further progress of Indianization and the establishment, in 1932, of the Indian Military College at Dehra Dun, Indians ceased to be eligible for admission at Sandhurst and Woolwich. Until World War II the policy was to select candidates who came from the "landed gentry." During the war, recruitment was expanded with a desperate sense of urgency (only temporary commissions were given) and many of the new recruits came from a substantially different background. Among these were many sons of professional people and former university students who had been exposed to ideas about social and political problems. These are the Colonels and the Brigadiers among whom a leaven of radical ideas may exist. After the partition the recruitment was again tightened up. But the demands of under-represented nationalities, like the Bengalis, have compelled the authorities to extend recruitment to these groups. Here again one may find a certain measure of radicalism. On the whole, however, the social background of the officer corps of the Pakistani army is extremely conservative. Many of them are sons of landowners and their ties are with the present system of land-ownership in the country. It is difficult to see the army in Pakistan performing a truly revolutionary role.

It is incorrect, however, to assume that all officers are politically committed or that they welcome the involvement of the army in politics. Least of all are they content to toe the Pentagon line. Military professionalism is a strong counter-force to political involvement. The idea of professionalism was to some extent inculcated into the Pakistani officers during the period of British rule in order to minimize the impact on them of the prevailing nationalist sentiment. There are many senior officers who resent the fact that the army has been dragged into political life. It is difficult to say what conditions will bring about the transition from the present military regime to a system of constitutional government. It would appear, however, that in this transition the truly professional soldier who understands the correct role of the military in society will play his part.

Getting the army out of politics will be extremely difficult so long as U.S. military aid continues to influence our political life and so long as our armed forces are used as a part of the U.S. strategy in Asia. An end to military aid and an end to the present military alliance would be a useful first step in the direction of restoring democratic institutions in Pakistan.

To return to our subject of military aid and U.S. interests, we must note that military aid also brings considerable economic advantage for

the U.S. In the words of former U.S. Secretary of the Treasury Humphrey,

"The military aid, and to what extent it may be continued as I see it, is just a matter of how much cheaper can we do it that way than we can do it another way. That is just a matter of figuring it out every time. As long as we can save some money by doing it, I am for it. As long as we can save some boys I am for it."

As for the money saved, Congressman Voorhis stated at the House of Representatives Hearings on the Mutual Security Act (1956) that "last year it cost \$5,900 to have an American soldier overseas, without a gun in his hand. This program costs the U.S. \$744 per each man in service with weapons in his hand, placed where our Joint Chiefs think he ought to be for our mutual security."

Thus, during the ten years before 1959, the U.S. provided \$22 billion in military assistance to its allies who, in turn, spent \$141 billion to provide 5 million men under arms and 30,000 aircraft. Thanks to the military pacts and alliances and also to the acceptance of joint training exercises and U.S. military missions by some of the allies, these forces constitute an integral part of American military strategy. The U.S. sees to it that the "allies" maintain the level of armed forces it considers necessary. Thus, the Mutual Security Act asks the President to terminate aid when, in his judgment, the recipient ceases to "make, consistent with its political and economic stability, the full contribution permitted by its manpower, resources, facilities, and general economic condition to the development and maintenance of its own defensive strength and the defensive strength of the free world." Military aid thus succeeds in accomplishing the exact reverse of what some Pakistanis believe it does; it brings about for us an increase rather than a reduction in our military commitments and our military expenditures.

The type of "hardware" that countries like Pakistan get under military aid is indicated by the statement of Mr. Otto E. Passman, Chairman of the U.S. House Appropriations Subcommittee. Mr. Passman, who was on a tour of inspection in Europe said after visiting Norway, Denmark, and the Netherlands, that the U.S. Defense Department was using the foreign aid program to dump its discarded weapons. He is reported to have made the accusation that the U.S. armed forces had been hiding in the foreign aid program much of the billions of dollars worth of surplus material which they had needlessly and wastefully procured.

Underpinning corporate profits

One aspect of U.S. military aid, which may well be the strongest driving force behind it, is the interest of the big corporations which supply the hardware. Not only the aid funds but also the increasing amounts which we in turn are forced to spend on defense equipment, are spent in the

U.S. In Latin America, Dr. Edwin Lieuwen writes, "The U.S. encourages the exclusive use of U.S. equipment, largely in order to simplify maintenance . . . For this reason the U.S. opposes the sale of British as well as Soviet armaments to Latin America." (*Arms and politics in Latin America*, p. 205) Dr. Lieuwen might have added that this pressure on the aid recipients to "buy American" is not exerted solely for this reason; much of this pressure comes from U.S. arms manufacturers. If Pakistan is not yet wholly restricted to U.S. suppliers, the pressure is nevertheless in that direction.

How big is the stake? It is not just the amount that is received in aid from the U.S. In fact we have steadily increased our defense expenditure ever since we started receiving military aid. Mr. Sprague, Assistant Secretary of Defense in the Eisenhower Administration, in his testimony to the Senate Foreign Relations Committee on March 28, 1958, said:

"The proportionate share spent by our allies has been increasing, and for 1957, countries receiving military assistance spent for defense the equivalent of \$7 for every dollar of military assistance. This proportionate increase in their own defense efforts is also confirmed in the rising amount of sales of equipment under military assistance programs. For 1956 such sales totalled \$79 million. For 1957 such sales increased to \$312 million. There is reason to hope that an increasing proportion of military assistance can be shifted to military equipment sales."

It is significant to note that again this year 85 per cent of the amounts spent on the program will be spent in the U.S. In fact we estimate that 92 per cent of the amounts spent on material purchases will be expended on orders from domestic U.S. industry. Thus a very substantial part of the cost is ploughed back into the U.S. economy."

Economically, still more is achieved. The fact is that some *military aid* is received in the form of *surplus agricultural commodities*! Against these commodities the Government of Pakistan credits equivalent amounts in rupees in special accounts with the State Bank of Pakistan. Out of these funds rupees are paid to the Pakistan government as aid to finance military expenditure. To the extent that any part of this money is used to purchase "hardware" from the U.S. (and much of it goes for that purpose), the foreign exchange has to come out of Pakistan's current dollar earnings. This kind of military aid, therefore, not only imposes a heavy burden on badly needed semi-skilled manpower and in other ways indicated above, but it also imposes a burden on our foreign exchange resources and thus diminishes the amount available to us for economic development.

U.S. officials and others frequently reiterate that economic aid to Pakistan, rightly termed "defense support," is, in the words of the Mutual Security Act of 1954, "designed to sustain and increase [the] military effort." In view of this, it is not surprising to see that Pakistan's military expenditure, instead of diminishing with military aid, has increased steadily and has become an intolerable burden on our economy. The economic chaos in our country, for which "politicians" are blamed

so glibly, stems largely from this heavy burden. Thus Dr. David Bell, Deputy Director of the Pakistan-Iran Advisory Group at Harvard, who has served on the staff of the Pakistan Planning Board, said in his testimony before the Senate Foreign Relations Committee: "The inescapable conclusion would be that Pakistan, which was already spending too much of her resources on military purposes, was encouraged by the U.S. military aid programs to spend even more for military purposes - obviously, this makes the problem of economic development much harder." This, if anything, is an understatement; what we have witnessed in the last few years is a steady disintegration of our economy and impoverishment of our people. But well-meant criticism such as Dr. Bell's is not enough to change the underlying forces behind U.S. policy.

IV: U.S. aid and economic development

The role of foreign aid in economic development cannot be judged purely quantitatively. Given a model subsistence economy it may be argued that economic development is impossible without outside aid. But even here the inverse statement would not necessarily be true, *viz.*, that foreign aid, regardless of its nature and manner of administration, would automatically generate a process of growth. In Pakistan, the economy is, of course, an agricultural one from which a substantial surplus is extracted. The economy supports a largely feudal society as well as the over expanded armed forces, whose upkeep swallows up a large part of our resources. These are channels which drain off resources which could, if properly utilized, provide a domestic basis for capital accumulation. One must also consider the possibility that with a suitable reorganization of our agrarian society incentives can be created for a considerable expansion of current output. Today sharecropping destroys those incentives because the cultivator is deprived of a large part of the increase in output resulting from any additional investments or extra effort. It would be too much of a digression to attempt to discuss these issues at all fully. But fundamentally the pace of economic development depends upon the kind of social reorganization we can bring about and not merely on the arithmetic measure of material resources that are made currently available. We must therefore take account of the influence of foreign aid on the pattern of our social development.

Nearly four-fifths of all foreign assistance received by Pakistan in the period from 1951 to 1960 came from the United States; America contributed \$1,238.4 million out of a total of \$1,590 million. Over 75 per cent of all the aid from the U.S., however, came in the form of surplus agricultural commodities.

Definitions can be quite arbitrary, but they should not be so completely misleading as they sometimes are in the jargon of foreign aid. The term which is grossly misleading in the literature on foreign aid is the word "grant." Ordinarily, "grant" is understood to mean a transfer

which involves no *quid pro quo*. Not so for foreign aid, however: according to the U.N., classification of aid "transfers described as loans for which no specific schedule of repayment has been arranged should be included as grants." But loans are loans, whether a specific schedule of repayment has been laid down or not. We find that foreign aid such as commodity assistance is classified as "loans," e.g., the "wheat loan," whereas these transactions actually amount to a purchase of the commodities for Pakistani rupees. Of course, the rupees remain in Pakistan, but the character of the transaction is determined by what can be done with them. Some of this money may indeed be disbursed as "grants," but much of it constitutes loans or other kinds of transactions. These are discussed more fully below. Here we wish only to caution our readers against taking literally the term "grants" when reading literature on foreign aid.

Classification of foreign aid

The amount of military assistance to Pakistan is not shown separately in official statistics although this figure is available for most countries which receive U.S. military aid. It is, however, possible to infer from the available statistics the approximate proportion constituted by military aid. Official statistics show the amount of military aid to all countries except Saudi Arabia and Pakistan. The figures for these two countries are included in the category of "regional" military aid. The total "regional" military aid for the Near East and South Asia from 1946 to 1960 was \$574 million. This compares with military aid to Iran amounting to \$457.5 million in the same period and \$1,924 million to Turkey. But countries like Lebanon received much less — \$8.7 million to Lebanon; \$17.6 million to Jordan. It is safe to assume that the lion's share of "regional" aid went to Pakistan; Saudi Arabia's portion is likely to be commensurate with aid given to other Arab countries, although, as the custodian of Aramco Oil it would be expected to receive a little more than the other Arab countries. Part of the total has probably gone for projects having a regional character so that each country participating in the regional "defense" establishment may be considered to have received a share. It is probably safe to conclude that the amount of military aid received by Pakistan during this period amounted to about a quarter of all aid received from the U.S.

Technical assistance: This covers both the services of foreign experts in Pakistan and the training of Pakistani nationals abroad. Technical assistance covers many fields, but as the Colombo Plan for 1960 states: "More than half of the U.S. Technical Cooperation Project funds were devoted to the improvement and expansion of local educational institutions, mainly through contracts with United States universities."

An extraordinary number of experts in a variety of fields has come to Pakistan in the last few years under foreign aid programs. We must differentiate between experts concerned with overall planning and

policy-making, and those whose activities are at the operational level of designing and implementing particular projects. Problems arising out of planning and policy-making will be discussed separately later; here we deal only with some general issues.

The I.C.A. has a decisive say in the choice of experts, particularly in connection with projects in which there is some aid component. Many of these experts are on loan from U.S. commercial concerns with interests in the projects being undertaken in Pakistan. Most of these experts come on fairly short contracts generally not exceeding two years. It is easy to understand how they experience a conflict of loyalties. It is frequently complained that specifications laid down by such experts are so specific that only the parent firms can supply the material and equipment required. In many cases vital decisions rest with these experts. The government of Pakistan was apprehensive of this and issued a circular in 1958 in an effort to clearly indicate that these experts have an advisory capacity only, and need not perform an executive role. But a mere circular cannot alter such widespread practices, especially when the reports given by the U.S. expert influence so much the careers of their Pakistani colleagues. The result very often is that in the implementation of a project the interests of the expert's parent firm override the interests of Pakistan.

A fairly common difficulty is experienced with foreign experts who come to Pakistan on short contracts. Many of them have very little experience in local problems and special requirements. By the time that they have acquired enough experience to be of help to Pakistan it is time for them to return. In cases where these experts are employees of manufacturing concerns in the U.S. a great deal of benefit no doubt

The ugly American — a red herring

The experts chosen by the International Cooperation Administration for service in Pakistan are by no means in all cases men who single-mindedly pursue the purposes of the State Department and the Pentagon or their parent corporations. There are indeed many among them who are motivated by a genuine spirit of service to the people of Pakistan and who are prepared to make heavy personal sacrifices in their devotion to their work. We would fail in our duty if we did not take this opportunity to record our deep sense of appreciation for their sincere and devoted efforts.

But the basic problem with which we are concerned is not one which we can judge simply in terms of the motivations and the capabilities of particular individuals. It is an oversimplification indeed to lay all the blame for the failure of the U.S. Technical Assistance Programs on the inefficiency, ineptitude, or simply the churlishness of the men who are sent over. Some writers, such as W.J. Lederer and Eugene Burdick (in their book *The ugly American*) have judged the whole problem too much in terms of the capabilities and achievements or the shortcomings and failures of individuals. The authors complain, for instance, that many of the personnel of the Technical Assistance Program are mediocre because of the methods of recruitment. It is said that emphasis on attractive salaries and the "perks" attached to the semi-diplomatic status (cheap food, liquor and servants), etc., attracts the wrong kind of

accrues to the parent firm. Because of the valuable local experience gained by their men they are placed in a better position for competing in the local market. Very often they are better off in this respect than even Pakistani concerns who get less government cooperation. There is also another kind of difficulty, viz: that these inexperienced foreign experts are often placed as advisors to qualified Pakistanis who feel that their services are not always given the recognition that they deserve. Moreover, many of the foreign experts are given fabulous salaries by Pakistani standards. In 1958 it was estimated that a foreign expert cost us about Rs. 12,000 a month to keep. This is almost as much as Pakistanis of similar qualifications would expect to get in a year. Very often foreign experts are simply not required but we are forced to have them. Dr. Sen, the economic and statistical advisor to the Indian Ministry of Food said in 1952: "There have been cases where we had trained experts of our own and all the technical assistance that we needed was some equipment for them to work with. But we were told that we could set up the equipment only if we were prepared to take the experts with it." When these experts come they do not always keep to their job of giving advice. The *Pakistan Times* reported that "the Government's attention has been drawn to the fact that American technicians have often shown too much interest in internal administrative matters and neglected their own duties." (August 25, 1958) The paper reported that Mr. Ataur Rahman, Chief Minister of East Pakistan, had deplored the increase in American interference in internal matters and that he had been able to observe this, during his tenure as chief minister, in relation to certain development projects.

people who seek greater material rewards for lesser abilities and easier work. The authors rightly emphasize the vital importance of presenting these careers to Americans as a challenge, in order to attract men of the right caliber.

The basic problem cannot, however, be resolved simply into that of a proper selection of the right kind of men all along the line; although this is a necessary condition, it is by no means sufficient. To pose the problem in such terms diverts attention from the key issues. First of all we must recognize that despite the methods of recruitment many men of the highest caliber have found their way to Pakistan as technical assistance experts — Lederer and Burdick give a few examples of such men. From these examples, however, we can see that a few of them have achieved some success only in cases where their impact is localized and isolated and does not conflict too sharply with vested interests both in the U. S. and in the recipient country. Such efforts are not altogether useless and there is no reason to sneer at them. But their significance is quite marginal in relation to the basic problems of social change and economic development which confront us. These can be tackled only with far-reaching social reform and drastic revisions of fiscal and economic policies. This requires a political solution rather than an individual one. Moreover, examples are not lacking in which the plans of these devoted men come into conflict with private interests. Where this has happened it has always been the U. S. pressure groups that have won; orders from Washington have put the "difficult" local men in their places.

Project assistance: This is aid allocated for particular development projects such as irrigation schemes, power stations, reconstruction of ports, etc. It is a special feature of U.S. project aid that, instead of the U.S. financing the whole of a few selected projects, the aid is distributed over a large number of projects which are being undertaken by the Government of Pakistan. Thus, most of our projects come to have an "aid component" which automatically under the terms of the aid agreements brings them under the control of the U.S. Aid Mission. The proportion of the U.S. contribution to the cost of the projects is indicated by the fact that 18.6 per cent of the total development expenditure was financed by aid funds, according to the latest annual report of the Colombo Plan. By providing less than a fifth of the expenditure the U.S. Aid Mission acquires control over Pakistan Government funds being expended on the projects.

Aid is given for specific projects after they have been approved by the I.C.A. mission at Karachi. The project aid may be grants or loans repayable in rupees. In the case of grants, the Government of Pakistan must deposit in a special account an amount of rupees sufficient to cover the total rupee expenditure on the project, which, in any case must be at least equal to the dollar aid provided for the project. Withdrawals from this account are made at each stage, as the project progresses, only with the approval of the Director of the I.C.A. Mission at Karachi. The I.C.A. thus secures not only the right of "supervision" over the projects, as provided in the agreements, but has complete control over the expenditure. In this way virtually the entire operation of the Government of Pakistan in the field of development comes to be securely within the detailed control of the U.S. Aid Mission.

A large proportion of these funds is in fact recouped by the U.S. in the form of charges for "planning and survey" etc. — a statement in the Government controlled *Pakistan Times*, from a "special correspondent" (June 11, 1961) stated that by this means the U.S. "take(s) back 50 per cent to 60 per cent of the total allocation in the name of consultants' and contractors' fees." It is stated that "both in the Warsak and Karnaphuli the estimate of such charges has been as high as over 50 percent." Furthermore U.S. control over the entire project ensures that the Pakistan Government is put into a helpless position *vis-a-vis* U.S. suppliers who quote exorbitant prices for the materials and "services" they provide. Much can be learned about such deals from the business community of Karachi; but in the nature of the case specific evidence can be available only through a detailed departmental inquiry. There is only one case within our knowledge (and that is in India) where the magnitude of such extortion has been made public. This was in connection with the purchase of locomotives by India with U.S. aid. Although a Japanese quotation for a locomotive was \$81,500 as against an American quotation of \$178,000 the U.S. Foreign Operations Administration compelled the Indians to place half the contracts with the U.S. supplier. This increased the cost to the Indians by over \$4.8 million. India has received a loan of \$20 million for this purpose — in effect she received only \$15.2 million; but she must pay interest on, and ultimately repay the whole of, the \$20 million. This manner of inflating the principal

of a loan is not unknown in the feudal society of the Indian countryside where ignorant peasants are overcharged by greedy moneylenders. On an international scale this is "Aid." (For reports of this transaction see the *New York Times* [September 4 and October 9, 1954].)

The way in which the Government of Pakistan is forced into the hands of U.S. suppliers and U.S. contractors is reflected also in a recent report which appeared in the *Pakistan Times*. The report, obviously officially inspired when the Government had been let down after promises of generous aid, says:

"It has become difficult for a public servant to convince Pakistani engineers, contractors or firms of consultants, that they were not being discriminated against and discouraged by such agencies [i.e. Aid Agencies] . . . Agencies like the World Bank are working contrary to this end [of utilising available local talent and experience] . . . The conditions imposed for participation in the bidding [for tenders for construction projects] are such as would automatically eliminate Pakistani firms . . . It is pointed out that the Jinnah Barrage, Ghulam Mohammed Barrage, Taunsa Barrage, and the Gudu Barrage have all been designed, planned and executed by Pakistani engineers and contractors. However . . . the World Bank seems to be taking no notice of these facts as neither is the designing likely to be assigned to any local firm of consultants nor is the execution likely to be entrusted to competent local contractors."

Commodity aid: As we have seen from the table above, the bulk of U.S. aid to Pakistan is in the form of surplus agricultural commodities. It is not only the principal form in which aid is provided, but is also a form of aid which gives rise to a set of financial relationships with an influence far beyond what is suggested by the phrase "commodity aid." This aid is provided under two separate legislations, the Mutual Security Act and the Agricultural Trade Development and Assistance Act (P.L. 480).

Under this form of aid, various surplus commodities are shipped to Pakistan *against which payment is made in rupees by the Government of Pakistan*. Indeed the first stage of the transaction can be regarded as nothing more than a purchase of the commodities by Pakistan. The character of the "aid" and its economic significance is then determined by the status of the rupee funds that arise from the transaction, the control of these funds, and the use to which the funds are put. These funds are designated "Counter-part funds," for they represent the counterpart of the commodity "aid" which has been supplied.

The funds arising from the transactions in commodities fall into two categories according to the terms of the legislation under which the commodities are provided.

Government of Pakistan Funds: Rupee funds so described arise out of commodity aid supplied under the Mutual Security Act. These amounts represent the value of the commodities supplied plus the customs duty, and are intended to finance development projects. But they cannot be spent by the Government of Pakistan except with the

prior approval of the U.S. Aid Mission. Similarly, funds arising out of commodities supplied under P.L. 480, Title II, for relief purposes, also fall into this category.

Government of the U.S. Funds: The rupee equivalent of the commodities supplied under P.L. 480, Title I is credited to a special account which is classified under this category. As for the use of these funds we give below the "planned uses of rupee funds under Title I, P.L. 480, cumulative total up to the end of 1958." (millions of U.S. dollars)

Development grants	Loans to Pak. Govt.	Payment of		Military procurement	Loans to Business	Other Uses	Total
		U.S. obliga- tions	tions				
12.3	89.1	50.0		79.4	28.7	8.8	263.3

The amount budgeted as "grants" appeared only in the half-year June-December, 1958, i.e. after the military regime in Pakistan had taken over. The amounts classified as "payment of U.S. obligations" represent funds disbursed to meet American obligations for which she would otherwise have had to remit dollars to Pakistan. The U.S. is clearly at a great advantage in being able to discharge these obligations by paying in surplus commodities sold to Pakistan at an above world average price (see below), instead of paying in dollars which Pakistan may have made better use of. Loans to business firms are restricted under the U.S. legislation either to American concerns or concerns engaged in the marketing of American goods. The figure of \$8.8 million shown under "other uses" represents the cost of various "cultural" activities which the U.S. pursues so assiduously in Pakistan. These amounts are classified under: "Information and Education" (by the USIS), "Translation and Publication" and "International Education Exchange." The amount of \$89.1 million budgeted as loans to the Government of Pakistan represents a financial transaction rather than aid as such. A high rate of interest is paid on these loans about which Pakistan has protested to the U.S. often but without success. And, ultimately, we must repay.

Up to December 1958, Pakistan was given \$263.3 million worth of commodities under P.L. 480, Title I (as shown in the statement above) which were paid for in rupees. However, this figure gives an exaggerated picture of the aid provided. This is so because the amount is calculated on the prices charged by the Commodity Credit Corporation of America, *which charges higher prices than those prevailing on the world market*, and because these commodities must be shipped in American bottoms. The *New York Times* reported on June 13, 1953, that shipping wheat aid to Pakistan in American ships would cost \$26 per ton as against \$12 to \$14 per ton in a foreign ship.

P.L. 480 was designed to reduce the accumulation of surplus commodities in the U.S. which the U.S. Government has to buy under price support legislation, and which costs more than a billion dollars a year for storage alone. The pressure to get rid of these commodities has led the Americans to keep countries dependent upon its aid as outlets

for these surpluses. There are many instances in which the dependent countries have actually been prevented from undertaking development programs which might interfere with the disposal of these surpluses, regardless of the importance of these programs to the countries concerned. In Formosa, Senator Green tells us in his report quoted earlier, "the point has already been reached where the U.S. Mission has *de-emphasized* rice production despite the fact that an increase in rice export is one of the ways in which Formosa can become self-supporting... Our policy in this regard is vitiated by efforts to dispose of our rice surpluses." This has also resulted in a distortion of the agricultural development pattern. C.A. Munkman, an ex-UNRA official who was attached to the American Aid Mission in Greece, tells of the plans for sugar beet production which were put forth several times, but which "have however been checked by the American Mission. This has been a major irritant to the Greeks who rightly consider the introduction of sugar beet imperative to their agricultural pattern. The Mission policy is considered to be dominated by the desire to maintain the Greek sugar market for U.S. surpluses."

Pakistan has been made to take commodities under this program which we ourselves have surpluses to dispose of! This is best illustrated by the case of cotton. Pakistan itself is a surplus producer of the long-staple "American type" cotton, some of which it must export. Yet Pakistan received 174,400 bales of American cotton, most of it (126,000 bales) *during July 1954 and December 1955, when there was already too much cotton the market.* The effect of this dumping was only to lower further the price of domestic cotton, much to the delight of the local cotton mill owners. This caused distress to cotton growers and also reduced Pakistan's foreign exchange earnings by forcing down the price of cotton. D. C. Swerling pointed out in his article in the *American economic review* for May 1959, that Pakistan, "welcoming P.L. 480 wheat, suffering from our cotton policy," shared the position of many countries. Similar results have been brought about by P.L. 480 aid of tobacco and dairy products. Tobacco imports have served only to force down prices of domestic tobacco and have greatly profited the manufacturers — one foreign manufacturer has a virtual monopoly in this field.

Payment of prices for wheat higher than the prevailing world prices was admitted by Mr. Amjad Ali, the Finance Minister, in September 1958 in the last session of the Pakistan Parliament. He justified paying higher prices on the grounds that after all it was all out of aid. But a glance at the uses of the rupee funds generated by P.L. 480 will show that of the equivalent of \$268.3 million, no more than \$12.3 million was a grant. The rest was U.S. Government funds and was disbursed in lieu of dollar remittances. Thus by paying higher prices the Government of Pakistan has subsidized the funds of the U.S. Government rather than the other way round. Moreover, if we also consider that these rupee funds are made available to the U.S. in return for commodities which we not only do not want but which in some cases actually do us economic harm, we can see for whose benefit this part of the "foreign aid" program is operated.

We can thus see that except perhaps for food grains received during a period of food shortage, commodity aid does not provide us with the kind of resources which might assist us in economic development. It must be remembered that these loans and grants from the U.S.-controlled "counterpart funds," which are held in Pakistan rupees, do not give us control over any resources other than the commodities received. Their only use lies in providing one possible alternative to cover the deficit in government expenditure which arises in the absence of a wide enough tax base. The other alternative would be to resort to domestic borrowing and/or "deficit financing," both of which measures were advocated by the panel of economists set up by the Government of Pakistan to study the draft of the Second Five Year Plan. The present regime has, however, turned away from the use of domestic financial resources and has come to depend more and more on the "counterpart funds" on the plea that the use of domestic resources necessitates deficit financing which is inflationary. But only a small part of domestic financing need involve borrowing from the State Bank. Moreover, withdrawals from accumulated "counterpart funds" are no less inflationary than borrowing from the State Bank. For military expenditure particularly, the Government has relied upon withdrawals from the counterpart funds. In 1957-58 rupees equivalent to \$74.3 million were spent from this source for military purposes. Since this expenditure does not appear in the Budget, defense expenditure is made to appear less than it really is.

An excessive reliance on the counterpart funds as a source of government spending can be dangerous. The Greek example is instructive. "The U.S. Mission," Munkman says,

"through the counterpart account was by far the largest depositor with the Bank of Greece and consequently was able to influence the credit situation by manipulating this account . . . In late 1951 the Mission imposed a cutback on all major investment projects in progress by imposing a restriction on the release of counterpart funds . . . In 1952 the U.S. withdrew from supporting the budget and investment program and pressed on the Greek government a policy of budgetary stability, cutback in development plans and progressive withdrawal of aid . . . The net result (in the next fiscal year) was a wholesale cancellation of programs or at best a slowing down. Greece was literally spattered with works at all stages of completion liberally plastered with such signs as 'Marshall Aid,' 'Gift of the American People,' etc. until the Mission decided that diplomacy required that they should be removed."

In Pakistan, the governments before the military regime were chary of budget support from the counterpart funds. In 1956-57, during Suharawardy's premiership Pakistan paid back Rs. 7.2 million. The Noon government which followed drew Rs. 177.2 million from this source to finance part of its deficit of Rs. 1,281 million in 1957-58 — the rest being covered by internal borrowing. The present regime has exactly reversed this by depending on foreign support of Rs. 1,010.9 million to finance its budget deficit of Rs. 1,202.1 million for the year 1959-60. This adds an important element to U.S. influence over Pakistan's development.

A sufficiently large deposit account in a country allows the U.S. to influence more than the credit situation and the amount of money that is to be spent on various government projects. Any large dependence upon this source of finance by the government enables the U.S. also to have a great deal of say in the overall pattern of development policy. In Pakistan the U.S. government is already able to influence the course of both economic and political development.

In the economic sphere the U.S. government has the right to receive information about all projects on which even a small proportion of aid money is being spent. The agreement providing for commodity assistance grants that the American government has an interest in the monetary stability of Pakistan, thus enabling it formally to have its say in our financial policy. This control is possible through a series of measures — formal and informal — which have developed since the beginning of the aid programs. The aid agreements between the United States and Pakistan enjoin the Pakistan government to foster and maintain the stability of its currency and to promote development on a "sound basis." To ensure that these conditions of aid are complied with, the United States has the right to send observers as described in Section II. Thus U.S. experts are associated at all levels of policy making. This means in effect that the U.S. interpretation of what is "sound policy" prevails.

Economic aid, though it is all channeled through the I.C.A., comes under numerous agreements, and is given on a yearly basis. This arrangement has long been criticized for leading to waste and delays since no long term planning, so essential for any large projects, can be done. But it has the advantage of preventing the U.S. from being forced into a position where it has either to completely withhold aid or tolerate the receiving country's taking a course contrary to American wishes. By the threat of cutting down future aid for particular projects the I.C.A. can force the receiving country to submit to its plans. Two cases are given here as examples of this mode of pressure. In 1959, the U.S. withdrew an offer of aid from the construction of power lines from Multan to Lyallpur. The project was to have cost \$3.5 million and was agreed on between the I.C.A. and the Pakistan Industrial Development Corporation and the first instalment was to have arrived in February of that year. Washington vetoed the plan, it is believed, as a reprisal for the agreement with Czechoslovakia for the extension of the Maple Leaf Cement Factory. In this case P.I.D.C. was able to complete the project on its own. But in view of the expense involved in larger projects at different stages of completion, one can imagine the desire to avoid a cut in aid when so much has already been committed to a project. When such a cut can affect a very large number of projects, the cut itself need not actually be used — the mere threat of such a step would make any government so dependent upon this one source of finance see the light. Large enough cuts in project assistance together with a manipulation of the counterpart funds, could easily bring the whole development program to a halt, with far reaching economic and political consequences.

The invisible hand in economic policy

The experts attached to the Pakistan Planning Commission are in a particularly strong position to influence our economic policy. It appears that they have played a determining role for some time. Professor Bell was for some time on the staff of the Pakistan Planning Board. His testimony before the Senate Foreign Relations Committee provides an interesting comment on the kind of relationship that exists between important organs of the Pakistan Government and the U.S. Mission. He was asked: "How closely did your organization [i.e. the Pakistan Planning Board] work with the F.A.O., F.A.S. and the I.C.A.?" i.e. the U.S. Mission. Professor Bell replied:

"The I.C.A. Mission members we knew very well personally of course. Officially they consulted the Planning Board of the Pakistan Government regularly in two main kinds of things: First of all we were an excellent source of information for them on economic conditions in general in Pakistan, and on specific problems they might be encountering.

"Secondly, after a while — although not in the beginning, but after a while, when the the Planning Board began to have reasonable views as to what sort of things made sense to be done in Pakistan and what sort of things did not make sense, the I.C.A. Mission began to use this information to guide them in making their own decisions as to what they wanted to put their money into and what they did not. I do not mean to imply that they followed without review the opinions of the Planning Board; but they gave them heavy weight."

This testimony is revealing in many ways. First of all it shows the extent to which the U.S. has special access to most vital information and matters before important government departments such as the Planning Board. But what is even more revealing is the casual way in which the statement reveals the fact that the key decisions are taken not by the Planning Board on the advice of the Aid Mission but rather the other way round.

The quotation also reflects how, after the firm hand of Zahid Hussain was removed from the Planning Board, it abandoned the independent national approach to planning, which obviously did not "make sense" to the Aid Mission. It is no longer Pakistanis who determine the pattern of development projects and then seek I.C.A. or other aid to finance them. It is the I.C.A. which lays down the priorities in the plan, and the Planning Board is reduced to little more than an adjunct of the I.C.A. Mission.

In addition to all this vast amounts are spent upon propaganda; a huge organization for this purpose is kept in Pakistan. There has been a flood of cheap literature. An extensive program of translation into the local languages has been undertaken, and subsidized books and pamphlets are made available at a very low cost. An example is Rostow's *The prospects for Communist China* which was sold for 10 cents. Much of the money spent upon propaganda is supplied from the counterpart

funds established by the sale of commodities provided under the Mutual Security Act and P.L. 480. The equivalent of \$8.8 million was provided from the sale of commodities under P.L. 480 alone for this purpose. The aid agreements also bind the Pakistan Government to inform the people of the aid given by the U.S. and the purpose of such aid. Naturally it is to be expected that this does not mean giving all the facts about its operation, as that would hardly bring much credit to either government. So the result can only be that the Pakistani money is spent on extolling the aid and the donor.

Education Exchange and allied programs of providing training in America also help in this. The rationale for these programs is summed up very well in a study prepared by Brigadier General Shingler and the staff of the President's Committee to Study Military Aid. "Hardware wears out or becomes obsolete" the study says; "man, and the impact of training on his capability and the way he thinks, does not." Great emphasis is therefore put on giving scholarships and facilitating the exchange of teachers. Between 1950 and 1959 more than 100,000 foreigners have received training in the U.S. under the Military Aid Program, 46,000 under the I.C.A. and its predecessors and another 42,000 under the International Educational Exchange. For the military and civilian trainees these programs have provided more than just skills of military and civilian value. A majority of them has acquired, the report says, "an orientation in consonance with the objectives of the U.S. national policy." The impact of these activities in influencing opinion in the receiving countries can be imagined, especially in countries like Pakistan where a responsible and free press is not allowed to exist.

All of this together forms a fairly tight network of controls and pressures by which Pakistan is made to follow policies along lines favored by the State Department. He who pays the piper calls the tune.

Aid and development policy

There is a fundamental difference between the approach to economic development adopted, for instance, in India's Second Five Year Plan, which laid down a basis for effective industrial development, and the policy favored by the typical U.S. expert in Pakistan which discourages industrialization and exerts pressure for a plan which would develop our economy along lines complementary to and subordinate to the economy of the United States.

The U.S. has about 10 per cent of the world's population. It uses up about 50 per cent of the world's raw material output. This is a conclusion reached by the Paley Commission on Resources for Freedom appointed by President Truman in 1951. The Paley Report provides the basis on which U.S. foreign economic policy was based. The Paley Commission estimated that by 1975 the U.S. will have to depend upon imports for 35 per cent of its requirements in iron ore, and 25 to 40 per cent of its requirements in copper. The U.S. import requirements for most commodities will go up. Therefore the Commission recommended that the U.S. should take

steps to ensure an increase in raw material production to meet U.S. demands. This remains a major objective of the foreign aid policy. In the case of U.S. private investments abroad it was found in a Report of the Committee for Economic Development entitled "Economic development abroad and the role of American foreign investment" that the U.S. corporations which had invested abroad in underdeveloped countries had pursued two specific objectives: to open up new sources of raw materials (e.g. petroleum, copper, iron ore, etc.) mainly for export and, secondly, to establish assembly and packaging factories abroad in order to gain an advantage in foreign markets. Neither of these assists very greatly the process of industrialization.

In Pakistan there has been a steady move away from a policy of industrialization. The First Five Year Plan stepped down industrial investment under the excuse of "consolidating" the development which had already taken place. The Second Five Year Plan has carried the anti-industrialization policy still further. The proportion of resources devoted to industry has been reduced even further. In this change of policy local feudal interests as well as the monopoly interests of a few big businessmen are involved. But the most important influence in this direction has been the "advice" of the "experts" and the directions that the I.C.A. Mission has been able to give the Planning Board. Mr. G. Faruque, who was the head of the Pakistan Industrial Development Corporation until he was removed by the present regime, once said that at one time our foreign experts were trying to advise us against developing the jute industry. But this was when American aid had not provided Americans with a hold on the country; the industry was developed, and has done well.

It is not difficult to see that the central point — the development of a balanced economy — becomes distorted by the pressures which are brought to bear upon the planners. The allocation of resources to agriculture and industry is no longer decided freely by the Pakistanis but according to the wishes of the aid donors.

Besides these objectives there is the important one of ensuring the privileges of American capital in the aid receiving countries. This must be of considerable interest to the U.S. Government in view of the increasing need of American corporations to set up plants and facilities in the countries where their manufactures are sold and the relative decline in direct exports from the U.S. Much of such investment is in assembly or packaging plants which seek to evade restrictions on imports and establish outlets for U.S. manufactures imported as "raw materials." Very often investments by giant foreign corporations are in the most profitable fields from which Pakistani enterprise is driven away, thus inhibiting our own development. But if their greater competitive power does not suffice, they are able to bring much pressure, through their aid giving government, to obtain preferential treatment in Pakistan *vis-a-vis* Pakistani concerns. Contradicting textbook theories, foreign investment, instead of producing a catalysis of Pakistani development, brings about instead a paralysis of our business enterprise in the most profitable areas of investment.

But foreign investment can be justified only if it stimulates and

supports our own development. As applied it serves only to drain our potential for growth, in the form of its current profits which are remitted abroad. In the course of economic development profits are the source of capital accumulation. If all investment in our country was undertaken by foreign enterprises and all profits remitted out, our growth potential would be reduced to nil. And, in fact, very little of these profits is left behind. Moreover, in most cases the bulk of the working capital of foreign concerns is raised from local borrowing. Thus it is profits earned by utilizing Pakistani resources which are remitted out and which constitute a drain on our foreign exchange resources. In addition to this, a substantial part of the "foreign aid" is earmarked for providing loans to American concerns operating in Pakistan and to Pakistani firms engaged in marketing American goods. From one source, P.L. 480 counterpart funds alone, the U.S. gave (up to June 1959) rupees equivalent to \$28.7 million for this purpose.

Our analysis of U.S. aid to Pakistan is not intended to be an argument against foreign aid as such. Countries like Pakistan which suffer from the consequences of two centuries of stagnation and economic disintegration, and which face a terrible battle against the most abject poverty, will certainly welcome and be most grateful for such assistance as they can get. But this is precisely the kind of aid which we are not getting from the U.S. at the present time. We hope that by exposing the hypocrisy and cynicism with which the aid is administered we shall have helped Pakistanis and our friends in the U.S. to strive for a more just and more enduring relationship. Our first step in that direction must be an end to the ties which bind and the restoration of our national independence. Only through a free and democratic government in Pakistan can the egalitarian ideals of foreign aid and our objective of national development be realized.

1 "Technical assistance." Final report of the Committee on Foreign Relations, March 12, 1957.

2 This is not the place to examine fully all the complex political developments (in which foreign intrigue played its part) leading to the downfall of the Nazimuddin government. To achieve such ends political pressures are built up at many levels. Among these were the anti-Ahmadiya riots organized to secure the removal of pro-British Foreign Minister Zafarullah Khan. But the food crisis and the possibility of securing American help were the overwhelming and immediate issues over which the government fell. Writers on Pakistan's political developments have tended to underestimate the significance of this.

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