

The Fallacy That Aid Promotes Economic Growth—Pakistan

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This course has ten key themes: economic growth, debt, trade, rural development, poverty, governance, gender, population, environment, and aid/humanitarianism. Choose TWO of these themes and discuss their relationship to each other in ONE developing country of your choice. Please refer to examples within the country, and relate your discussion to current policy debates.

Introduction

On January 25th, 2008, Imran Khan, a member-elect of the National Assembly and current chairman of the Pakistan Tehreek-e-Insaf, stated “One of the reasons Pakistan has never reached its potential is because [they] got hooked on aid...aid is the worst thing [they] ever took.” Khan used a metaphor to describe U.S. aid stalling Pakistan’s economic growth, stating “The longer a human has crutches, the more dependent he becomes on crutches.” Pakistan currently receives two major forms of aid from the United States, military aid and economic aid. While times of crises and extreme poverty may constitute Pakistan’s need for aid and U.S. desire to send aid, this essay contends that military and economic aid have both been ineffective for the economic growth of Pakistan since its foundation. Additionally, some statistics show that aid has caused negative impacts in Pakistan.

Aid

“Aid” is defined by professor Tim Forsyth as the limited and conditional flow of resources from developed to developing economies. The most common forms of aid from the United States to Pakistan are military aid and economic aid.

Military aid has constituted roughly 70 percent of all U.S. aid to Pakistan between 1951 and 2011, according to the Center for Global Development (CGD). This aid was given to help Pakistan strengthen its security. Particular attention, however, has been paid to the Pakistani-Afghan border to the northwest.



Islamic extremist groups, such as ISIL, TTP, and Haqqani (the Afghan Taliban branch in Pakistan), have long used violence/crime to assert their dominance in Pakistan. These groups have strong presence in both Afghanistan and Pakistan, hence the heightened attention to the Afghan-Pakistani border. Political unrest in Afghanistan has bled into Pakistan each year, with anti-Afghanistan Islamic extremists seeking refuge in Pakistan, and anti-Pakistan Islamic extremists seeking refuge in Afghanistan. The Pakistani government and the United States have

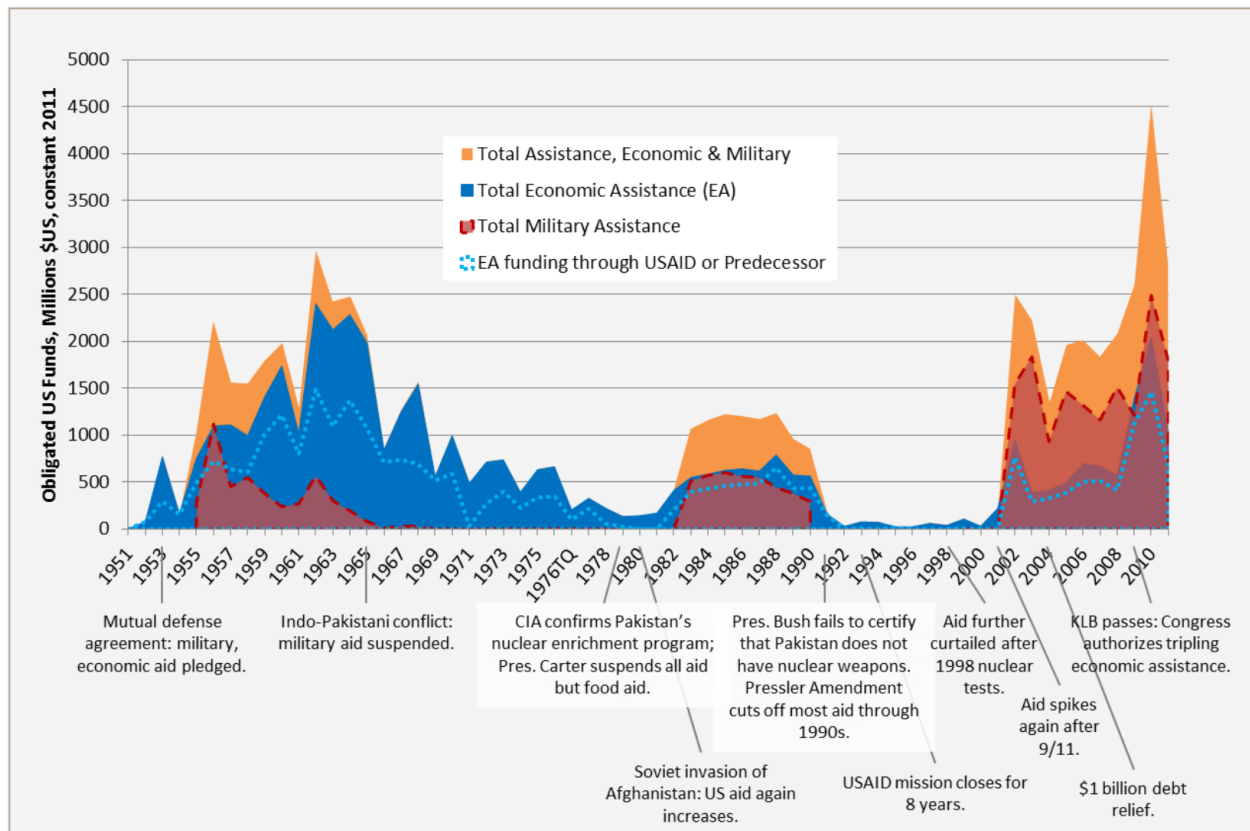
had an agreement that involves U.S. military aid to Pakistan to help control terrorism in the region in exchange for intelligence since the Cold War era.

Military aid is not the only aid flowing into Pakistan. The other 30 percent of U.S. aid to Pakistan resides in the category “economic aid,” including food and monetary aid used for development. “Development” is defined by professor Tim Forsyth as the production of social change that creates conditions where more and more people can achieve their human potential. This aid is often used on food, streets, hospitals, schools, care centers, and business investments.

Economic Growth

Economic growth has several definitions. Robert Solow described and measured economic growth in 1956 by increases in either gross domestic product (GDP), real income, consumption, or capital stock (usually per capita). GDP is the total value of final goods and services at market prices produced in an economy during a specific period. GDP periods are typically one year, and GDP is used most commonly for determining a nation’s income in comparison to other measures. Professor Tim Forsyth defines economic growth as a shift of resources from consumption into capital, thus generating wealth and bolstering a nation’s economy. Modern economists today argue that industrialization, or an increase in the share of the GDP contributed by manufacturing, is the driving force behind economic growth.

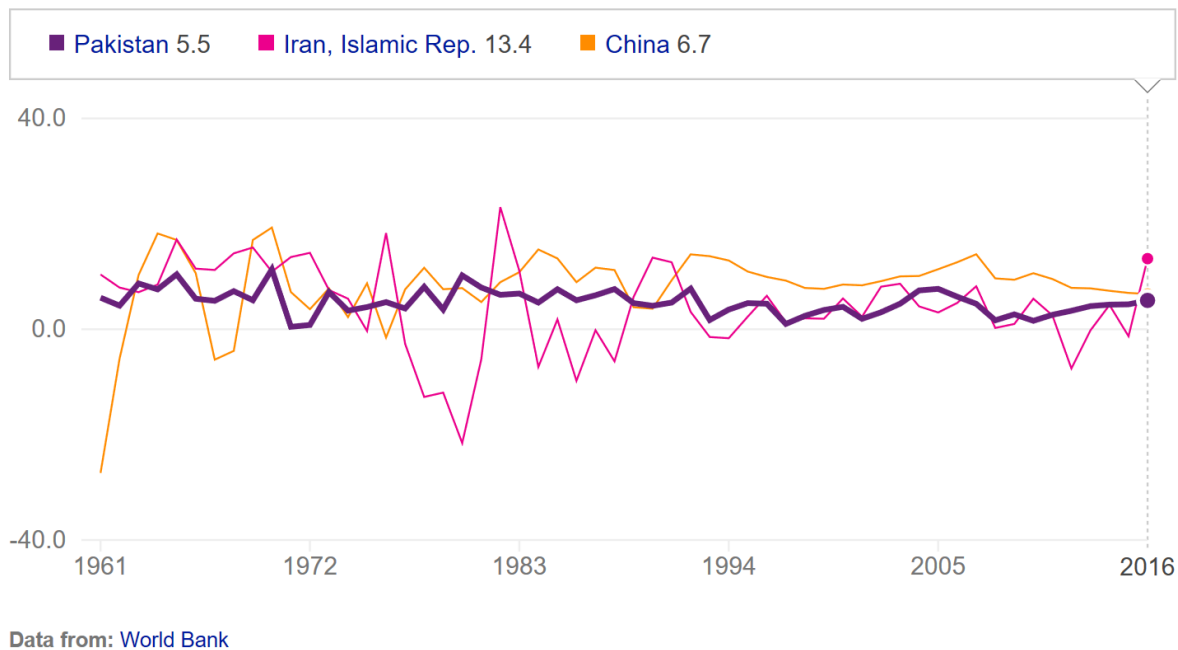
The Ineffectiveness of Aid on Economic Growth in Pakistan



Above is a graph that summarizes U.S. aid to Pakistan from 1951-2011, courtesy of the Center for Global Development. Economic assistance, i.e. development assistance, heavily outweighed military aid from 1951-1982. From 1982-2011, however, military aid dominated economic aid. Below is a graph from the World Bank showing Pakistan's GDP growth rate (purple) from 1961-2016.

Pakistan · GDP growth (annual %)

5.47 (2016)



Sharp increases in aid assistance of both types from the United States between 1961-1965, 1982-1991, and 2001-2011 are depicted clearly on the first graph. On the GDP growth graph above, however, GDP had virtually no statistically significant changes for better or worse during any time period in foreign aid spikes. Additionally, periods 1977-1981 and 1992-2000, where foreign aid was at its lowest point, also showed no difference to GDP. Thus, both graphs have illuminated that in terms of GDP as an indicator for economic growth, both vast increases in aid and a complete lacking of aid from the United States had no discernable effect on Pakistan's overall economic growth since its foundation in 1947. Another important conclusion that can be drawn from these graphs: not only did the amount of aid have no effect on GDP growth, but the

type of aid—economic or military—did not impact GDP growth either. Even economic aid destined for infrastructure development had no effect.

Economic Aid's Ineffectiveness Explained

Economic aid is extremely difficult to track. According to CGD, CRS, and the U.S. Foreign Assistance Dashboard, disbursing the aid for its intended purposes is challenging due to corruption and the limited capacity of local Pakistani partners to physically receive the aid systemically. Not only is the disbursement difficult, but measuring how much aid is being spent and for what purposes is as well. Oftentimes, U.S. agencies have identified Pakistan misreporting the amounts and uses of U.S. economic aid, which is further evidence of the misuse of aid for purposes other than those intended, such as for corruptive practices as opposed to economic development projects that could expand growth and incomes. In addition, Khan's crutches metaphor holds truth. Humanitarian aid such as food and clothing has stalled economic incentives and competition by causing people to rely on aid. In the people's defense, however, the alleged corruption of the Pakistani government hardly allows some sort of infrastructure to be in place for potential entrepreneurial success. Although the poverty rate has decreased sharply since 2005, roughly 24 percent of Pakistani people still live below the poverty line. USAID estimates that 60 percent of the Pakistani population is facing food insecurity. Additionally, the lack of a secure environment, including the prevalence of crime and extremist groups, makes it likely for people to lose their business and/or income on any given day, especially in less developed rural areas in Pakistan. Another, smaller factor that may cause economic aid to be ineffective is denial of it. Anti-American sentiment in Pakistan is prevalent, and many Pakistanis see American aid as simply a form of imperialism and are not interested in taking advantage of it.

Military Aid's Ineffectiveness Explained

In 2013, U.S. representative Dana Rohrabacher of California lashed out at the misuse of U.S. military aid to Pakistan in a congressional statement. He noted that the United States had given Pakistan roughly \$22 billion in aid from 9/11 in 2001 to 2013 and claimed that the money “served only to embolden Pakistan’s government to maintain the brutal repression over its own people and to continue its blatant support for terrorist attacks on neighboring countries, as well as attacks on American troops in nearby Afghanistan.” He continued on to say, “The Pakistani people will never see that money, and the corruption of Pakistan itself is reason not to give aid,” arguing that the Pakistani government is more interested on spending money on defense and political aid than on its people.

Rohrabacher’s comments are backed by statistics. According to *U.S. News and World Report*, Pakistan’s annual defense budget more than doubles the amount of total economic and military aid that it receives from the United States on a per year basis since 2002. Additionally, terrorism-related deaths in Pakistan went from 189 in 2003 to 11,704 in 2009. Although that 2009 number would drop, average terrorism-related deaths in Pakistan have remained in the thousands in the past decade in contrast to the 189 in 2003.

The defense aid was supposed to help Pakistan fight Islamic extremists that were undermining the will of the Pakistani people, but some is being used for the opposite purpose, which in turn harms the investment environment. Not only are these groups undermining the Pakistani government, but also they are literally murdering, stealing from, and raping families to impose their will. These groups are being funded indirectly in many cases by the U.S. aid that seeks to combat them. Pakistani politicians often play for different teams; while many hope to eradicate terrorist groups, others are afraid to oppose them for fear of their lives and the lives of

their families. Thus, the misuse of military aid by terrorist groups helps oppress the Pakistani people and their livelihoods. This insecure environment and oppression discourages investment and trade and therefore economic growth.

Possible Solutions

Perhaps solutions for the misuse of foreign aid do exist, and may allow for aid to lead to economic growth in Pakistan. First, increased oversight of U.S. military and economic aid through the creation of an oversight committee could help a steady flow of funds reach developing areas in Pakistan, alleviating citizens of economic burdens that would hurt their chances of obtaining a job or starting a business. Second, there could be greater accountability by the Pakistani government of how money is spent, possibly by increased engagement and monitoring by U.S. officials posted in Pakistan. Direct engagement by U.S. officials in the military and development activities that the U.S. aid is supposed to fund could encourage U.S. companies, perhaps with the use of U.S. government financial incentives, to partner with the Pakistani government or private companies to use the economic aid. This could potentially create longer-term benefits of the aid to the Pakistani people. For example, a U.S. firm does a joint venture with a Pakistani firm to develop a manufacturing plant in Pakistan using U.S. economic aid. Then the plant creates jobs and contributes to economic growth in that Pakistani locality and potentially beyond if this plant sparks opportunities for other businesses to grow there.

These solutions, however, are not foolproof. There are still barriers and problems with leaning on economic aid, and U.S. involvement could alternatively stall economic growth and lead to increased military conflict in the region. In other words, even if the flow of foreign aid is managed effectively, it may cause people to become reliant on aid as Imran Khan has suggested and the GDP growth rate has shown, halting economic growth.

Conclusion

In conclusion, military aid and economic aid to Pakistan have been virtually ineffective in sparking economic growth in Pakistan. This ineffectiveness is highlighted through the stagnant GDP growth in Pakistan and increased terrorism-related deaths and attacks in the region. Clearly, lack of U.S. oversight, political corruption, Pakistani ties to Islamic extremists, and the misallocation of aid has stalled economic growth in Pakistan. Alternatively, the misallocation of aid to overfunding the Pakistani military, funding terrorist groups, and subsequently underfunding aid for infrastructure and food have created negative effects in Pakistan. The large sums of aid have also fueled reliance on aid which has disrupted economic initiative in the country. Anti-American views have also caused Pakistani citizens to often refuse aid and ridicule U.S. aid, causing aid to be a controversial topic in Pakistan, fueling political disruption and disagreement. It is important to note, however, that this essay argues that the steady flow of economic/military aid is ineffective for economic growth, not aid during crises, such as that of the Pakistani earthquake. Crises aid is not part of this study.

The notion that aid causes reliance and effects economic growth for the worse is not specific to Imran Khan or the country of Pakistan. Today, the concept of aid is widely debated on whether it is effective in sparking economic growth. Many developing countries are beginning to address this issue, and it will be crucial for the development era to study how aid continues to affect economic growth in developing countries for the better or worse. In this case, however, no types of aid have been helpful for economic growth in Pakistan; both Pakistani and American officials have agreed upon said observation, and Pakistan GDP growth and security statistics have only supported this hypothesis. Perhaps, however, reform of how developed countries

disburse and monitor the flow of aid could change the effectiveness of aid on economic growth one day in Pakistan and other developing countries.

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