"Dependencia: A Case Study of Pakistan (1981-2001)"

Kiran Khurshid

Roll No. M.Phil. 157 (2001-2003)

M. Phil in Political Science

Department of Political Science,

Government College University, Lahore.

STARTING BY THE NAME OF ALLAH,

THE MERCIFUL

AND

THE KIND.

A thesis titled

"Dependencia: A case study of Pakistan (1981-2001)"

submitted to the Government College University in partial fulfillment of the requirement for the award of degree of

M. Phil in Political Science

by:

Kiran Khurshid

Roll No. M.Phil. 157 (2001-2003)

Department of Political Science,

Government College University, Lahore.

RESEARCH COMPLETION CERTIFICATE

It is certified that the research work contained in this thesis, **"Dependencia: A Case-study of Pakistan (1981-2001)"**, has been carried out and completed by **Kiran Khurshid**, Roll No. 157 under my supervision during her M. Phil Political Science studies.

Prof. Javeed Ahmed Sheikh
Supervisor

Submitted Through:
Prof. Muhammad Azhar Chaudhary
Chairman Department of Political Science,
GCU, Lahore.

Controller Examinations :
Government College University,
Lahore.

DECLARATION

I, **Kiran Khurshid,** do hereby solemnly declare that the work submitted in this thesis is my own and has not been presented previously to any other institution or university for a degree. This work is carried out and compiled at the Department of Political Science, Government College University Lahore, Pakistan.

Kiran Khurshid

KIRAN KHURSHID

Researcher

Lahore

July, 2003.

ACKNOWLEDGEMENT

Research is a seminal work. It cannot be compiled and completed without the help and support of various institutions and individuals. It was by no means an easy task to carry out the research on dependencia. It was made possible with the help of all those people who helped and supported me to accomplish my thesis.

I owe special gratitude to Prof. Javeed Ahmed sheikh, former chairman of political science department and supervisor of the thesis whose constant support, encouragement and guidance helped me to complete this tough job. He made my research not only easier but also interesting. He is my mentor. I am grateful to him for everything which he did during the research work.

It is very difficult to return the way he guided me. No one can do it. His wife, respected lady, Mrs. Nasreen Javeed Prof. at Lahore college university, extended me her complete moral support.

I am indebted to Professor Mohammad Azher Chaudary, chairman of the department whose words of appreciation and encouragement were great support.

I am grateful to all my respectable teachers in the department of political science for their support and assistance.

I would like to thank Mr. Qais Aslam, the head of the department of Economics, GCU who gave me his precious time and advice whenever I needed.

I am also grateful to the staff of American centre and Quaid-e-Azam library who helped me a lot in the collection of data and provision of resource material.

I owe special thanks to the chief librarian Mr.Abdul Waheed, Mr. Naeem and the other staff members who extended enormous support in using library facilities.

I need to express my indebtedness to my family particularly my parents whose support helped me fulfil my task. This long list of acknowledgements would remain incomplete if my brother Shakeel's help is not acknowledged. He made himself available to pick and drop me at college whenever I needed.

GOD bless them all….

DEDICATION

To my beloved parents **Khurshid Ahmed** and **Asiya Khurshid** whos constant support and encouragement enabled me to accomplish this scholarl enterprise.

And

To My mentor **Professor Javeed Ahmed Sheikh** Whom I owe a lot.

ABSTRACT

Dependency is a condition which reduces freedom and sovereignty of a state to the level of a parasite. The state is either trapped or gradually falls in the vicious scenario. Pakistan, within a span of 50 years, has plunged into this quagmire. Pakistan is sinking down, consequently it is being exploited and used for the interest of donors.

There have been various causes that push states into that whirlpool. In this thesis only four have been considered the most significant ones, i.e.

1. Foreign Aid
2. Investments
3. Role of the Decision-Makers
4. Role of MNCs.

No doubt: alliances politics, economic linkage; wrong policies of the decision-makers, absence of economic nationalism and the politico-economic strategies of other countries etc; have been contributing towards dependence. Since Pakistan has become a victim of it, she has not been able to sustain easily. There have been system shocks and breakdowns, which resulted in military takeover. The decision–makers have not learnt from the repercussions. They are still caught and perhaps they would not be able to come out of this web. Their adhocism is focused on not to be labeled as a default state or a failed state.

No concerted efforts are being made to come out of it. The political elites rhetorically declare that they have launched a campaign to reduce the burden and save the country, but they feel proud to receive more loans from various countries.

It has also been established that dependency, not only, over burdens, but it also keeps the country underdeveloped. Now the economic-resources are neither productive, nor sustainable, poverty is rampant, corruption is common and misuse of resources is an acceptable feature. Pakistan has been fraught with all these and related problems. This has led IMF and WB to pressurize Pakistan to formulate policies by which it should be able to come out of the fear of being declared as a default state. Their policies, adopted and followed by Pakistan government are choking the economy of the country and adding to the sufferings of the people. It is obvious that the successive governments have to take revolutionary steps to wriggle out of the condition of dependency.

CONTENTS

ACRONYMS & INITIALS

ABD	-	Asian Development Bank
BOP	-	Balance of Payments
CENTO	-	Central Treaty Organization
EDC	-	Economically Developed Countries
ESAP	-	Enhanced Structural Adjustment Program
FEE	-	Foreign Exchange Earnings
FER	-	Floating Exchange Rate
GATT	-	General Agreement on Tariffs and Trade
GDP	-	Gross Domestic Product
GST	-	General Sales Tax
IBRD	-	International Bank for Reconstruction and Development
IFIs	-	International Financial Institutions
ILIs	-	International Lending Institutions
IMF	-	International Monetary Fund
IPP	-	International Power Producers
LDC	-	Less Developed Countries
MNC	-	Multinational corporations
NOC	-	No Objection Certificate
PL 480	-	Public Law 480

RSD	-	Research and Development
SAP	-	Social Action Program
SCARP	-	Salinity Control and Reclamation Project
SEATO	-	South East Asian Organization
TNC	-	Transnational Corporations
TOT	-	Terms of Trade
UNDP	-	United Nations Development Program
UNICEF	-	United Nations
WTO	-	World Trade Organization

Chapter 1

Chapter 1

DEPENDENCIA: A CASE STUDY OF PAKISTAN (1981-2001)

Dependency over the years has become a very significant concept. It is one of the spin-offs of imperialism. Imperialism is a philosophy that deals with the monopoly of economic resources by an individual, group or a state. This economic dominance has severe politico-economic ramifications as well. The dependency theorists hold that despite grant of formal independence to erstwhile colonies their exploitation continues *ad infinitum.*

In international political arena states interact with each other on the basis of some well-defined mutual interests, mostly of economic nature. Generally states are materialistic. The pattern of interaction that emerges out of this behaviour is both interesting and intricate. The more I tried to know about it, the more I got interested in unfolding the reality and untangling the knots. Though it is by no means an easy task, yet I have decided to analyze it.

After evaluating the pros and cons of this relationship, it has become evident that a particular group of scholars analyze this interaction of the world community on politico-economic criterion. They envisage to describe the intersection of politics and economics on one hand and the relationship among the states on the other. One group among these scholars is of the view that states are interrelated on the basis of interdependence. The concept of the interdependence denotes the cooperating states on an equal politico- economic footing. They have equal stakes in this interaction. The other groups explain it against the backdrop of dominated- dominant (relations) that the politico-economic structures are dependent on the other, and it is intrinsically exploitative by nature. This situation, they term as dependencia.

The Brazilian Scholar, Theotonio Dos Santos has defined 'dependencia' in following words.

"By dependency we mean a situation in which the economy of a certain country is conditioned by the development and expansion of another economy to which former is subjected. The relation of interdependence between two or more economies, and between these and world trade, assumes the form of dependence when some countries (the dominant ones) can do this only as a reflection of that expansion which can have either a positive or a negative effect on their immediate development".[1]

The proponents of dependency school observe that despite grant of formal political independence to LDC_s (less developed countries) which were formerly colonies to these developed countries, the pattern of exploitative relationship continues albeit now with the consent of ruling elite of the dependent state. The concept of dependency encapsulates the relationship between economically and politically developed and less developed countries (LDCs). This interaction is not in equilibrium and essentially tilted in favour of the former state. Dependency as a phenomenon takes place when the economy of a certain country becomes subservient to the economy of another state. By means of economic mechanizations, the economically developed state / states are able to manipulate the strings of internal decision making process of the dependent states (LDCs) and there-by they are in a position to exercise a considerable degree of influence on the course of politico-economic events.

Various tools are employed by EDCs to ensure sustained economic dependence of LDCs. These tools may range from unequal trade relations to foreign aid and from investment in selected industrial or manufacturing sectors to monopolize the domestic markets of developing states. Even the debt that is provided for economic deliverance of cash-starved economics becomes a vicious trap that reinforces the pattern of dependencia. A corollary of this economic jeopardy of LDCs is its social-political manipulation at the hands of EDCs.

The Internal dynamics of dependent state are also worth pondering upon by a neutral researcher. For instance, an industrialized country giving aid to an LDC rarely does so unconditionally but rather on the premise that the recipient country will take a political position, both on internal and international levels, favorable to donor country. The decision makers of the dependant state cannot be absolved of their responsibility. In fact, the clandestine nexus between the decision makers of developing and developed states is significant variable that works to the advantage of former and serves the vested interests of the later. Large amounts of cash are provided with a developmental view to LDCs, and some times directly deposited in foreign bank accounts of the ruling elite. This betrayal to the nation earns them riches enough to sustain their future generations, whereas the motherland is left with few options to survive as an independent and sovereign entity.

Resultantly, the struggling LDC is further pushed into the quagmire of politico- economic dependence due to inefficient planning and mismanagement of its state apparatus plus self-interests of developed / dominant country. It appears from the literature that I have studied that the state of Pakistan over the years has become a classical example of dependency. Its economic sustainability has become dependent on foreign capital in the form of (debt + aid) in order to meet its financial liabilities, deficit budgeting and import export gap.

Pakistan has been trapped in the vicious circle of foreign aid or so-called debt-trap. The aid that Pakistan has received has been spent in a way that its economy could not take-off in the right direction. Due to inability to attend the debt servicing Pakistan in recent past was on a verge to be declared a default state. Pakistan has been asking for more loans or rescheduling of older ones because it is unable even to pay the interest on already taken loans.

Efforts have been made by various governments to minimize the inflow of foreign aid but they failed. Presently, voices have been raised from many quarters in the country that something substantial should be done to wriggle out of this mess, and gradually achieve a level of self-sufficiency. Solution to present state of affairs lies in the domain of economic nationalism. In order to attain this goal, economy needs to be revitalized and planners are required to take decisions in accordance with the policies of economic nationalism.

The role of planners and decision makers can not be ignored in that context, it is vital to the progress of country. Dependency involves various strategies or variables. While examining the case of Pakistan, the scope of studies will be restricted to following dimensions. These variables have been selected after thoroughly scrutinizing various classical models of dependency theory.

Structure of the thesis

For analysis of facts, material, observations and suggestions have been categorized into various sections. The chapterization of the thesis encompasses following topics.

Chapter 1: Introduction

Chapter 2: Literature Review and Theoretical Framework

Chapter 3: Dependencia: A Historical Overview Of Pakistan

Chapter 4: Trade, Aid and Dependency

Chapter 5: Private Foreign Investment and the Decision Making in Pakistan

Chapter 6: Conclusion and Prescriptions

The first chapter gives a detailed but introductory account of the topic of the research. It focuses on the structure of the thesis. Methodology plus research techniques are also determined in this chapter.

The second chapter is dedicated to the review of literature on dependency theory. Various models presented by leading scholars have been revisited in detail. After a great deal of study, a list of variables has been selected. These variables have been applied as a criterion to evaluate the dependency issue in the filed of international political economy.

The third chapter analyzes the developments in Pakistan against a backdrop of intersection between politics and economics. Since its inception Pakistan has been relying heavily on external sources for assistance to honor its financial commitments abroad. This economic dependence not only undermined the sovereign status of state but has also robbed the political will of its decision makers.

The chapter on trade, aid and Dependency evaluates the dependency of Pakistan. It has focused on volume of trade, resulting balance of payments crisis and deteriorating terms of trade of Pakistan vis-à-vis its trading partners are discussed in the first half of the chapter. The later half chapter takes into stock the foreign economic assistance and magnitude of debt. The role of donor agencies in Pakistan has also been appraised.

The chapter on private foreign investment and decision making in Pakistan contains the role of two last variables from among the selected list in second chapter. Foreign investments particularly multinational corporations have been proven more hazardous for economy of the state. Their beneficence is restricted to the developed states mostly. Their ideology is the maximization of profits at any cost of host state. Donors only facilitate the activities of these foreign investors.

The role of decision making channels and the personnel responsible for it has been strongly criticized on various accounts.

The last chapter offers a comprehensive perusal of the research work and also comes up with some prescriptions for politic-economic sustenance of state.

Methodology:

In the course of research, fundamentally, there are two techniques which are either separately or collectively adopted.

1. Qualitative or Descriptive Technique.
2. Quantitative or Statistical Technique.

In this research project, the methodology adopted is descriptive that is supported with the statistical evidence from various sources.

Sources:

The data is accumulated through both primary and secondary sources.

1. Primary sources are original and government documents.
2. Secondary sources are books, journals, periodicals and newspapers.

The Impediments that I encountered in carrying out my research on dependent status of Pakistan were numerous. The interdisciplinary (politics and economics) and multidimensional character (role of aid, trade, and investments) of this topic emphasized the complexities of addressing this issue.

Data in support of theoretical model was not easily available. For the volume of trade, extent of aid and proportion of private foreign investments in Pakistan, I had to rely on government published circulated Economic Surveys, that are regarded by many as carrying exaggerated figures. Thus it does not indicate the real situation that is far more gloomy. Still, a great deal of data that I took from economic surveys of past twenty years, portrays a fairly clear picture of dependency in Pakistan. But there is always room for improvement.

In undertaking this scholarly enterprise, I may have committed some mistakes inadvertently. The mistakes are my own and I shall always welcome the valuable advices of my colleagues and from those in academic circles.

Chapter 2

Chapter 2

Literature Review and Theoretical Frame Work

State relations are either interdependent or dependent. On both these aspects many scholars and men of letter have written a lot in support of their respective views. Lucian Pye a writer asserted that in the international system sate actors are so deeply connected that each complements and supplements the other.[1] Likewise, Robert C. North and Nazli Choucri are of the opinion that 'Lateral Pressures' shape and reshape the relations on the basis of their interaction, generally those relations are interdependent.

Cortes disagrees with North[2] and Choucri and states that in the process of modernization the system undergoes severe transformations. It is only possible if the relations are interdependent or mutually shared by interacting actors. There is a long list of scholars who do not share views with these writes and they assert interdependence as the behavioral pattern among the states. They contend that the systems perspective, no doubt, is attractive and catchy, but in reality, the relations are independent if they are among equals, among unequal, cogs, parts, actors and compartments interdependence becomes a far end cry, a weak concept and a false notion. Some of these critics applying a systems theory believe that world is a capitalist system – a system in which capital undermines the relations because capitalism inherently leads to inequality and discriminatory behaviour.

Immanuel Wallerstein, the chief proponent of this line of thinking, explains that world system is divided into three types of states characterized on the basis of their economies: core, periphery and semi- periphery. Core is highly developed. Periphery comprises of underdeveloped areas where socio-economic conditions are exactly opposite to that of core states. Semi-periphery is developing area that interacts between other two types of states. Wallerstein's world system has been explained in the figure below

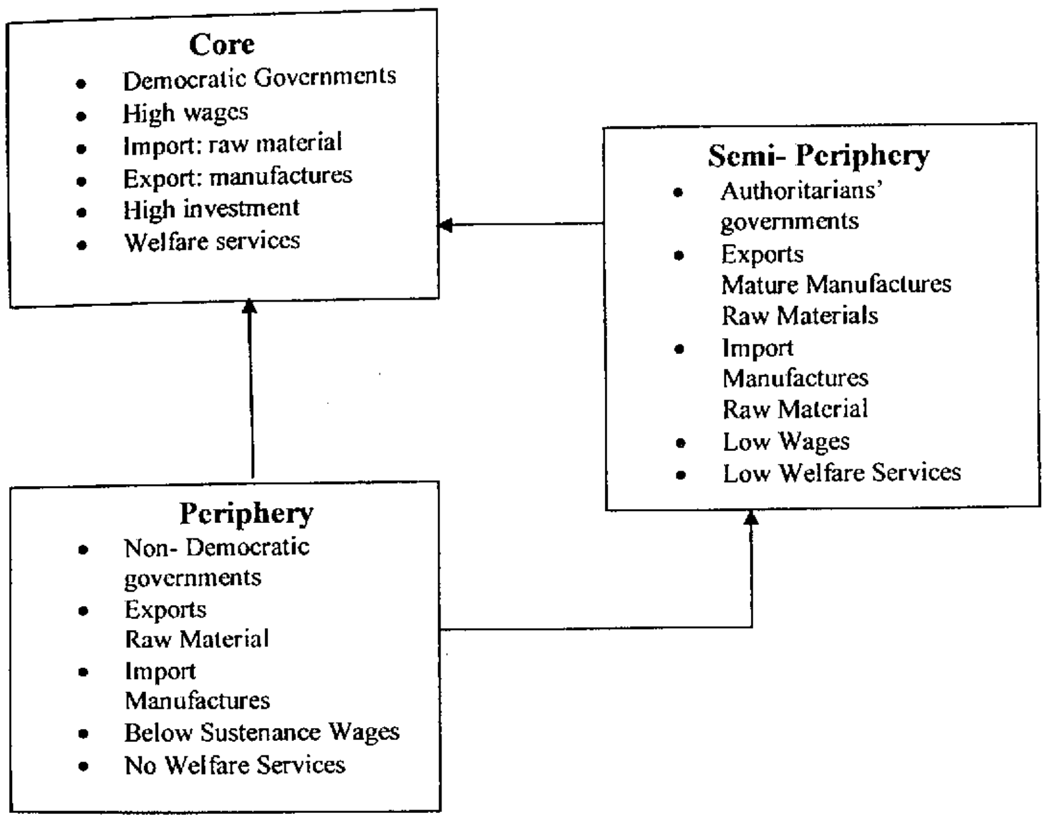

Fig. 1 - Interrelationship in the world economy[3]

He argues that 'it is not possible theoretically for all the states to develop simultaneously. The so-called widening gap is not an anomaly but a continuing basic mechanism of world economic system'.[4]

Toeing this line of thought, there is an entirely different constellation of Socio- economic thinkers that emphatically asserts that the existing capitalist order is exploitative and leads to underdevelopment. The economically developed countries (EDCs) deliberately keep developing countries dependent, for EDCs purchase raw material from LDCs and sell them finished goods at relatively very high prices. The affluence and opulence of these advanced countries is generally attributed to the utilization of natural resources both men power and material. This relationship places the developed states (EDCs) in an advantageous position as against the developing states which become totally dependent on former for their politico-economic sustenance. Though, this class of writers agree over the nature of interaction among developed and developing states classified as that of dominant and dominated relationship. Yet they differ over the assumptions and variables through which the pattern of dependence comes into active life.

Paul Baran and Paul Sweezy, Pierre Jalée, Andre Gunder Frank, Harry Magdoff, Johan Galtung, O' Connor, and Samir Amin are prominent exponents of this school of thought.Paul Baran and Paul Sweezy do not totally negate Wallerstein's point of view, but in a way, they support him from a different angle. Both of them believe that in the capitalist economies, the relation between raw producing countries and industrially advanced countries result in unequal terms. The relationship continues in such a way that some monopolize economic resources while all others are gradually deprived.

According to them, when it becomes difficult to absorb surplus capital and commodity in a given society then there is an urgent need to export this abundant cash surplus. It is essential for their smooth economic activity. In a collective endeavor "Monopoly Capital", both writers stipulate that capitalism goes on growing in bulk in such a way to establish economic monopoly of those who invest the capital. And the individuals, groups or states on the receiving end, become subservient which obviously is a condition of dependence.[5]

Paul Baran, in his laudable work, **'The Political Economy of Growth'** further explores the dimensions of this dependent relation. He states that with the formal grant of independence the nature of interaction has not changed. The phenomenon of neo-colonization began that has become more effective to enslave the socio-economic structures of LDCs and EDCs. The 'Comprador Governments' in these ex- colonies are corrupt and wasteful and collaborate with their patrons abroad, to the detriment of their nation. Socio-economic and political structures of the colonial era are not adapted to suit emerging needs rather they are resurrected on previous lines by these local collaborators.

Thus Baran observes that "under such conditions the political independence barely won, turns into a sham. The new ruling group merges with the old ruling group, and the amalgam of property owning classes supported by imperialist interests uses its entire power to suppress the popular movement for genuine national and social liberalism."[6]

So, the comprador regimes and the reproduction of old authoritarian structures at periphery are instrumental in enhancing their dependence but only with the patronage of metropolitan power.

Pierre Jalée who has observed the interaction of developed and developing (undeveloped) countries concluded that the developed economies have paved ground for imperialism in which the underdeveloped economies are tied up.

Jalée propounds that the complete subordination of third world economy to that of an imperialist system is achieved by three principal means.

1. First, through private capital investments which make it possible for the foreign investors to siphon off a large amount of profit from the third world.
2. Secondly, Public Development aid which ensures the continuance of this one – sided system by closing the gap of this chronic balance of payment deficit of the underdeveloped countries.
3. Thirdly, by the influence of social groups at the periphery whose interests link them with that of the capitalist world system.[7]

Jalée has not criticized monopoly capitalism of Baran and Sweezy but brings forth new dimension which has already been discussed by Harry Magdoff and Galtung. They are popularly known as structuralists because they are of the opinion that the state relations create invisible structures by which a new direction or interaction emerges. Some explain this interaction in the context of developed, developing and underdeveloped countries as has been discussed by Gunder Frank.

Andre Gunder Frank is another scholar who chose to narrate Latin America as his case study for the issue under discussion, In his world famous treaty 'On Capitalist Underdevelopment' he vociferously claims that imperialism and later on capitalism has become a bane not boon to the economics of Latin American States. These were not under developed rather undeveloped areas, that is thought provoking.[8]

According to him, it is because of the capitalist country particularly US, that the Latin America has remained underdeveloped and before the advent of capitalism, this was undeveloped and not underdeveloped.

Big monopolies of metropolis states are established at periphery to exploit the abundant raw material. Whereas the net profit from these instruments are siphoned back to the home country resulting in the flight of capital from periphery, giving rise to inflation and poverty. Local bourgeoisie play the role of the junior partner in this marriage of convenience with their foreign partners. Frank while describing Latin America narrates,

> "neo-imperialism and monopoly and capitalist developments are drawing and driving the entire bourgeoisie class into ever closer economic and political alliance with, and dependence on, the imperialist metropolis".[9]

This, he terms as 'structural underdevelopment' in LDCs.

Harry Magdoff another ardent advocate of dependency school sharing Jalée's point of view developed it further and stated that the modern world is in the age of imperialism." He expiates that imperialism has been in practice since Mercantilist era. The exploitation is taking place incessantly until now with the process of delonization only the means have changed to prolong the dependence of newly-liberated states upon their ex- colonial masters. Economic expansion in industrially developed areas leads to foreign capital inflow and investments in less developed regions Multi-national Corporations (MNCs) are attracted to these less developed or rather under-developed areas because of high profit, low taxes, low wages, and a vast new market. Soon, they develop big monopolies in these markets. Their local rivals are elbowed out in this race. Informal socio- economic structures in the LDCs facilitate the performance of MNCs. This economic expansion is supported by military muscle of industrially advanced home state. This foreign investment only benefits a selected elite class in LDCs. For masses poverty increases tremendously. Profits reaped by MNCs are deposited in the country of origin. This flight of capital results in decrease in national savings and Foreign Exchange Reserves. A vicious circle of dependency ensues that is difficult to be broken. He explains this process in his work, "The Age of Imperialism" in the following words.

"It is not a simple matter to eradicate dependency relations that have ripened and became embedded over a long stretch of history, beginning with the days of mercantilism. In the several developmental stages of the trade and financial ties of the colonial and semi-colonial economies, the economic structure of the latter became increasingly adapted (SIC) to its role as an appendage of the metropolitan centre. The composition of prices, the income distribution and the allocation of resources evolved with the aid of military power as well as the blind forces of the market, in such a way as continuously to reproduce dependency."[10]

Johann Galtung, toeing the intellectual and theoretical line of Harry Magdoff delineated that state relations revolve around, centre, periphery and semi-periphery. He emphatically claimed that the centre is always industrially developed, projects intellectual and cultural environment and features a productive economy. Under this guise centre capitalizes on peripheral and semi-peripheral. He defines it as a special type of domination by one organized community over another." This **'structural dependence'** is[11] ensured by identifying the same values among indigenous elite class and their collaborators at centre sates. Only aristocracy at the centre benefits out of this collusion but at the expense of poor. If this structural dependence is complete, it no longer requires political and military support. Only imperfect imperialism has need of armed force, professional imperialism relies on structural violence rather than direct coercion.[12] Imperfect Imperialism has need of armed force. Centre promotes authoritarians pattern of domination at the periphery as a contradiction to relatively democratic structures in Central nation itself because, these authoritarians or pseudo-democratic regimes at periphery further 'asymmetrical relations' with the centre peripheral states are controlled through five means of imperialism, economic, central and communications imperialism.[13]

Still the views of many other scholars are needed to be considered, Samir Amin and Dieter Samghaar enunciate that periphery is underdeveloped because it was not capitalist world system. The partial involvement resulted in only creating an affluent section of society that was small but friendly to central state. The mercenary motives of these native bourgeoisies do not let them be disengaged from their god fathers abroad. [14]

Emmanuel and O' Connor also give more emphasis to unfair economic policies between these two developed and developing states. The shifting terms of trade and the manipulation by international organizations in favour of the metropolitan countries exacerbate the economic crisis in periphery states.

O' Connor defines this 'economic imperialism' as "economic control of one country or territory over another, specially, formal or informal control over indigenous economic resources in a way advantageous to the metetropolis and at the expense of the satellite's own economy.[14]

A kaleidoscopic view of leading 'dependistas' established it beyond doubt that the relationship between EDCs, and LDCs is essentially of asymmetrical nature. Dependency theory of various assumptions and propositions has been an effective tool of explaining the reality of the world. All the proponents adhere to different variables, causes and patterns of dependency, nevertheless they unanimously hold that the economically developed states and LDCs and the socio-economic structures of the two foster the pattern of dependencia for later state.

Some writer like Samuelson, Bhal and others consider that dependencia theorists project themselves as pro-Marxist and pro-socialist group. Thus uni-linear cognitive output is biased and cannot decipher the reality of state relations in a just and impartial way. No doubt relations to emerge are exploitative and negatively dependent but that do not portray the true state of affairs. The negative relations are cultivated by some countries in such a way that weak and bad points pop out. The relations are generally of interdependence but due to wrong policies, misuse of resources, corruption and ill management bring forth effects which are being exploited by the writers and intellectuals.

Interdependence and dependence are the two extremes of intellectual domain which mess up the real picture of state relations. These two theories have been applied by Pakistani scholars. Concomitant effect is the portrayal of Pakistan's true economic position in world economy and its consequences there of. In the first section of this chapter, dependency theory has been discussed at the macro level. While analyzing the case of Pakistan, the scope of studies would be restricted from generalities to a particular case study.

Many authors mostly, Pakistani national have written a lot over Pakistan's politico-economic status and after thorough evaluation and empirical study characterized Pakistan as a victim of dependencia. Since its inception, Pakistan has had to rely upon uninterrupted foreign capital inflow in order to meet imbalance of payments, deficit budgeting and non- existing savings.[15]Despite constant capital inflows and a remarkable growth of 1960-1965 country could bring out of this vulnerability. In fact, some writers have attributed this negative trend to inefficient planning, mismanagement, corruption and political instability. Mahboob-ul-Haq , Awan, Baqai, are adhering to this view.

Anwar Qureshi blames this grim politico- economic profile of the country to that of foreign aid, debt, and foreign investments. Qureshi stated that economic difficulties have multiplied with the multiplication of the debt and its interest. Selected projects rather low-priority projects have been funded by donors. Stringent conditions have been imposed to restructure Pakistan's economy.[16]

Hamza Alvi analyzed the pros and cons of aid to Pakistan in his article, 'The US Aid A Burdon on Pakistan Economy' the aid or grant has never been provided to Pakistan with philanthropic purpose rather it cost more to Pakistan's development under tied aid capital of 50 to 60% goes back to the country of origin, surplus commodities have been provided to Pakistan by US under Pl-480 in order to support the price support policy in US. Under project aid the foreign consultants were hired on high salaries, their thirteen Pakistani counterparts with equal qualification could have been hired for this amount. There are many other instances that proved the exploitative character of aid and donors that's why Pakistan has become even more dependent than before over the foreign capital inflow.[17]

Hassan Gardezi and Jamil Rashid, in an article, '*Pakistan independence: Theory and Practice of Political Economy*' evaluate the deteriorating writ of the state in politico-economic affairs. They explain that since its inception Pakistan has been dependent on foreign capital inflow. The more the capital inflow, the more dependent it becomes. From time to time, this economic assistance has been used as a leverage to maneuver country's stance in vital issues, at domestic regional and international levels. The article observes, that Pakistan has experienced almost every conceivable form of foreign domination and internal contradiction that neo-colonial state can suffer. The national bourgeoisie have served the interests of these donors because they want to retain the status quo that is supporting them.

The Dependencia School portrays the world as divided between wealthy and poor operating in such a way that LDCs, are kept impoverished and thus, kept economically and politically dependent on EDCs. This exploitation is exercised through indirect control and is driven by EDCs need for cheap primary resources opportunities and low-wages Labour.[18] The operational definition derived from the above discussed literature is that dependency encapsulates the politico-economic relations between two states leading to the perpetual dependence and parasitism of LDCs.The analytical views of chief proponents of dependencia theory highlighted several variables which according to them play an instrumental role for the occurrence of this phenomenon. These are enumerated below,

1. Bilateral and Multilateral foreign Aid
2. Trade Relations
3. Private Direct Investment or
   Multinational Corporation's Investment.
4. Technological Advancement
5. Manipulations of International Organizations
   (WTO, IMF, WB)
6. Comprador regimes.
   i. Elitist Culture: dualist economic structures
   ii. Economic mismanagement and corruption.

While speculating the Pakistan as victim of dependency it would be expedient to operationalize some selected variables only.

The Variables selected for this purpose are

1. Foreign Aid and Debt
2. Trade and Commerce
3. Private Direct Investment
4. Comprador regimes

Trade and Commerce

Trade is one of the oldest means of communication among various groups and territorial units. Trade started with the advent of the civilizations. Mercantilism–a trade policy whereby a state seeks to promote exports and reduce imports, it led to imperialism and imperialist conquests culminated in colonization. Even up till now trade policies favor some at the expense of the others.

Trade actually determines the nature of economic relations between two or more than two states. Before beginning our discussion of trade issues, it is worthwhile to take a moment to note the elements that compose trade. These are goods and services. *Merchandise Trade* is what people frequently associate with imports and exports. These goods are tangible items and are subdivided into two main categories. Primary (raw) goods and manufactured goods. *Services Trade* is less well known but also important. It includes shipment, transportation and consultancy for a specific project.

Trade is an important indicator of a country's economic health. Around $ 3.5 billion worth of trade crosses international borders each year. In the world economy as a whole the third world accounts for only a small part of all trade, because the third world's economic activity is less than 20 % of the world total. This creates an asymmetrical dependence in North-South trade.[19]

The economy of a developing third world nation is typically concentrated on export of a few raw materials or basic-labour intensive commodities one or two industrialized countries are poor nation's only customers. Thus monopoly power is exercised not by the supplier but by the buyer, as the poor country remains highly dependent upon their markets. The former is also likely to find itself in intense competition with other poor nations for metropolitan markets. Rich nations are able to set trading terms that are highly favorable to themselves. They are far more flexible and diverse and can easily fallback on domestic sources, find substitutes, or play one country off against another, should a poor nation try to hold out for better terms.[20]

Not only these third world countries are underpaid for their export, they are also regularly overcharged for the goods they import from the industrial world-for the same monopolistic reasons stated above. Thus, the coffee, tin, cotton, agriculture produce, dairy products, minerals, oil whatever is sold cheap in order to obtain–at painfully high prices - various manufactured goods, machinery and spare parts. This phenomenon is sarcastically called as 'selling coffee to Nigeria' meaning that Nigeria is the prime export of coca beams from which coffee is processed but this processed coffee is sold by developed state at a very high price to the state from where it bought the prime good at cheap price. The same is true about other imports of developing states. According to a former President of Venezuela, Carlos Andres Perez, this has resulted in a constant and growing outflow of capital and impoverishment of our countries.

The resultant imbalance generates balance of payment problems. The foreign exchange earned from exports is insufficient to foot the bill for exceeding imports. Then, the national savings (if any) are to be transferred to Foreign Exchange Reserves to meet imbalance of payments. If savings are also non-existent, then national economy is totally bogged down. Aid and loans are in urgent demand. The need is felt to galvanize economy into action and organize it on export-oriented lines.

Another factor that affects the terms of trade is the quality of goods. The nature of exports is also to be considered whether there was a real need to do so or not. Cosmetics and luxury items are very expensive and they cater to the needs of a selected class.

Previously GATT (General Agreement on Tariff and Trade) and now WTO (World Trade Organization) WTO, operates as hand-maiden of US or rather G-7 works on the terms set by the developed country. They argue that opening up of borders, setting a pace for globalization and liberalization of trade, reducing tariff and non-tariff barrier can lead to healthy economic development. Their purpose is to promote a market oriented environment that would provide the opportunities for all and sundry to participate in economic activity. It is the classical theory of Laissez-faire, but the result of this freedom and controlling of the markets and price index of goods is that life becomes miserable for destitute who are left far behind in this e-commerce because of one factor or another.

Reducing trade barriers and giving MNCs more access to domestic markets means the middle level manufacturer would have no place to market his goods because of sub-standard quality and lack of opportunities. The irony of the tariff-reduction is that to give unrestricted access to foreign manufacturers in local markets. But there are other some non-tariff barriers that are less well known but more common and important way of restricting trade. Those are based on health, safety, environment or other considerations. In these terms, the developing countries face severe competition and challenge in developed countries' markets.

Investment means exchanging money for ownership of capital (for the purpose of producing a stream of income that will, over time, more than compensate for the money invested). There are two types of investments, i.e. Portfolio and Direct Foreign Investments.

Portfolio investment refers top paper securities like stocks, bonds, t. Bills.

- *Direct Foreign Investment* involves tangible goods like factories, buildings and offices.
- These investments are carried out by two means.

1. By groups and individuals
2. Through Multinational Corporations

In the first aspect, overseas personnel and/or a group of businessmen who are sympathetic to the socio- economic conditions in the home country, invest in various fields. The purpose is to generate economic activity there with a view to maximize profits as well. Lord Nazir, now a member of British Parliament, has invested time and again in Pakistan. Prince Karim Agha Khan's contributions to the nation in the form of hotels, education institutions, universities and hospitals are all too well known to demand further explanation. Same is the case of group investment. But interestingly enough this type of investments do not have any dependency conditions. There are two reasons for this:

1. These investors are predominantly overseas national of state. This economic attitude reflects their loyalty to the country.

2. These groups are not that much powerful to influence a state, however minor or weak.

In fact, these are Multinational Cooperation's (MNCs) who are prominent investors in a state.

MNCs are companies based in one state with affiliated branches or subsidiaries operating in other countries. MNC is a large corporation that operates on worldwide basis in many countries simultaneously, with fixed facilities and employees in each[21].

There are estimated to around 10,000 such cooperation in the world. They are operating in nearly every profitable field. The Prime objective of these corporations is to maximize profits. That is their motto. Karl Marx, centuries ago stated, "*the bourgeoisie that chases across the whole surface of the globe, it must settle every where, nestle every where and establish connections every where*". They establish their HQs in the home state which are mostly developed states and their subsidiaries which are in developing states mostly. MNCs invest in a country because of some advantages of doing business there. Their priority to do business in third world states is because of low wages, no fringe benefits to labour and no environment protection laws. It may be the presence of minerals or other natural resources, e.g. (Shell, Royal Dutch, Caltax, etc). Some times geographical location is a factor. Some times it is cheap labour. Some states have better absorptive capacity than others. They have ability to put investment to productive use- because of more highly developed infra-structure and a higher level of skills among workers or mangers".[22]

The automobiles, oil and computer industries have largest MNCs. Financial corporations, the most important being banks also operate multinationally. Some MNCs sell services. The McDonald, KFC, Pizza Hut are famous fast food chains. American Telephone and Telegraph (AT & T) Mobiles, Internet connections, international airlines like Lufthansa, cosmetics and design clothes and foot wear. The US dominates in services and industrial MNCs.[23]These

MNCs control economic activities in international arena. Their growing power has led many thinkers to call them as 'corporate citizens'. By virtue of their growing economic power, they are able to influence the political course of events as well.

Dozens of industrial MNCs have annual sales of tens of billions of dollars each (100 billion for General Motors and Ford Motors) much more than many small states in the world. According to some, MNCs are agents. They are not beholden to home government nor to host. Another view holds, that MNCs work strictly as the agents of their home governments where their Hqs are located. They work exactly on the lines as that of the old East India Company, now they are giving rise to neo-colonization. The next is between these two extremist views, that MNCs are motivated to maximize profits and any hindrance in realizing that objective is to be removed and the process to be facilitated through all possible means.

Arguments for the MNCs investment

a. They are the prime constituents of prevalent quest for development.

b. As there is a shortage of investment, it is imperative to tap this source of capital.

c. They provide modern technical and business skills.

d. Generating a globalized culture and value system.

Arguments against the MNCs investment

The critics of the role of MNCs offer following reasons to restrict their activities.

a. Their presence results in outflow of capital, and in Bop difficulties.

b. Pervert, the form and structure of local consumption.

c. Their products cater for the standard / taste of a small elite.

d. They aggravate and aggrandize existing economic and social industries in creating one cotery of local elite.

e. The terms under which MNCs work in a country are often set in a way that allow, 51 percent of the profits earned by these corporation's to be deposited back to the state in internationally convertible currency (dollar). This currency is already in short supply in the host state.

In order to facilitate and operations of MNCs the lowering of trade barriers for free flow of capital and goods, MNCs, employ a variety of means to influence the host government. MNCs hire lobbies use advertisements to influence public opinion, and offer incentives to host- country's politicians, such as locating facilities in their districts.

MNCs also resort to corruption to influence host governments. No body knows the full extent to which MNCs use pay offs, kickbacks, gifts, and similar methods to win the approval of individual government officials.Policies favorable to the MNCs containing this happens quite a bit with host government .In the third world where government officials may be more desperate for money and where there is lack of transparency and accountability.

Aid and Debt

Aid is sanctioned on three patterns. When in society commodity is more than the local consumption then this surplus amount is to be exported in any other country. This commodity is offered to a developing goods- deficient country seemingly on low prices. But in fact, the contracted amount paid goes well beyond the real value of these goods. US PL 480 legislation is enacted for this purpose.

On Exactly the same way when there is abundant capital more than the use of society, economic activity slows down. Then the decision makers of a developed country in order to avoid this recession offer their surplus capital, on seemingly concessionary terms as aid to cash-starved economies. It appears to the recipient state an easy way to develop its own resources and pave their economies on productive lines.

In third case, when a certain developing state is unable to generate its economic resources and it is also currency-deficient, then the policy-makers at the helm of the affairs try to meet the demands and some donor state or agency is contacted to provide aid.

These aid packages are taken for granted by the recipient, but these are seldom provided without some selfish motives of donors. The aid is provided on two bases.

1. Bilateral aid (country to country)
2. Multilateral aid (IFIs, IMF, WB, ADB, UNDP)

Aid is classified into various categories depending on its terms and conditions.

1. Project Assistance

Project Assistance is confined to specific development projects. The recipient country opens a special account for the 'aided' project where promised funds are deposited. The donor countries supervise the operation of this account and withdrawal can be affected with the consent of the-concerned officials. This provides a great leverage to donor countries to dictate terms and influence the pattern of development and thereby to promote their own global economic interests.

2. Commodity Assistance

This assistance covers a wide range of commodities ranging from industrial goods and spare parts to consumer goods. PL 480 legislation provided an opening to US to market surplus agricultural commodities at prices significantly higher than the world market prices.

3. Technical Assistance

The foreign experts hired by the recipient states as part of technical assistance are paid fabulous salaries. They are also handicapped in the operations due to their ignorance of socio-economics, frame works, political organizations and the moral ethos of the people for whom they work. The obsolete technology is exported to recipient countries. Aid caters to more specifically some commercial interests which are always kept in view. Exports in donor countries including exports of services (e.g. Economics and Engineering consultants and other professional groups) often benefits greatly. Tied aid often helps both governments and commercial interests to get rid of embarrassing commodity surplus, mostly benefiting exporters. Motives behind providing this aid can be split into two categories: Economic and Political. It has two dimensions:

1. Development of technology and its transfer to developing countries.
2. While giving project aid, the technical assistance is provided.

These are the motives behind providing the aid which result into following aspects, both economic and political.

The donor state is motivated by following variables to sanction aid.

1. It helps to get rid of burdensome surplus especially of agricultural products.
2. It may help to improve the climate for successful foreign Direct Investment (FDI) in recipient state.
3. It may contribute to an increase in the production of raw material that the donor country wants to import at a reasonable price.

Political Motives

Aid is also a powerful weapon of political control. It is with-held when the poorer nation has the temerity to effect genuine reforms that might tamper with the distribution of class wealth and power. Thus, in 1970, when the democratically elected Allende government in Chile imitated reforms that benefited the working class and encroached upon the privileges of wealthy investors, all US aid was cutoff except for assistance to the children military, which was increased.[24] The political motive involves the following aspects;

1. Developing states may also yield various types of political pay off. e.g; an increase on the political and cultural decisions relevant to the donor country.

2. Strengthening of opposition of government or regime in power.

3. An improvement of military security by fostering an ally.

4. And a rise in international prestige by projecting the image of humanitarian country.

5. To pursue the recipient state to take a political and diplomatic position favorable to the donor.

The difficulty arises when the decision makers of the recipient state resort to corruption and mismanagement. Large amounts of aid money are often spent lavishly by the ruling cadre on ill- advised activities. Huge sums of aid are directly deposited in the personal banks accounts of these decision makers of recipient states. Protracted budget deficit and balance of payments crises eventually result in continued reliance on aid. Economic malaise fails to produce enough resources to use original aid money as well as interest. Now the recipient state is in real dire straits. It has to contact international money lending institutions which are there to help them out but not without some pre-ordained conditions. It involves dictation of an economic package aimed at introducing basic reforms and stringent changes in the economy of the recipient country. These conditions are imposed in the name of good governance. These conditions involve politico- economic restructuring of state institutions. That even impinges upon the sovereign status of the country.

- ✓ Imposition of GST on common goods and services.
- ✓ Levying more taxes
- ✓ Down sizing/rightsizing
- ✓ Deregulation
- ✓ Liberalization of imports (Privatization)

These have resulted in raising the cost of life to the poor, unemployment, poverty and more room for foreign investments minimizing the role of government and indigenous class investors/manufacturers. In Ghana, under IMF prescription even water has been privatized that has been a precious commodity there.

These prescriptions and packages instead of bringing the country out of aid and loan dependence, fosters these patterns. Debt piles up as well as the interest over it. The greater a nation's debt, the greater is the pressure to borrow still more to meet the deficit often at higher interest rates and on shorter payment terms. An increasingly large portion of the earnings of indebted nation goes to servicing the debt, leaving still less for domestic consumptions.[25]

Rescheduling of loans, writing off short term loans and giving soft term loans, a long grace period are only illusions. The long term loan is one of the conditions of the dependence. If a country is declared as default on its loan liabilities, the result would be to freeze accounts, impose economics sanctions, stopping trade with it and even it could be coerced to any imaginable extend possible.

The personnel employed in International Financial Institutions, over the years have become bureaucrats. Their attitude is generally too strict to be reconciled with.

These IFIs are now criticizing their politics and governance. Stiglitz the former president of IMF stated that "*IMF is a political institution*".[26] The overall aid experience of bilateral and multilateral sources established the truth of the golden dictum that prevention is better than cure. In the present case, not to borrow capital of any kind for any objective however, lucrative terms are offered.

Comprador Regimes

Mommsen states in his book, '*Imperialism and After*" That' the classical pattern of colonial rule and policies concerning administratative and commercial affairs were largely run, however informally, by expatriates in conjunctions with indigenous elites and it did not come to a sudden halt with the formal ending of imperialist domination. This comprador classes which because of their vested interests in maintaining 'unequal' commercial connections between periphery and metropolises were instrumental in developing a system of 'peripheral capitalism'.[2]

The shenanigans of the local elite and their illicit link with the foreign patrons played a pivotal role in sustaining the status- quo in their favor. These Comprador regimes are local collaborators of foreign exploiters. The dependencia never fully takes place without their implicit or explicit consent. These regimes whether autocratic or pseudo-democratic are only interested in retaining and sustaining their own power. The persons who are represented in such are seldom interested in themselves belong to a small privileged section of society. They resort to corrupt practices, nepotism, lack of transparency and accountability to enhance their political longevity. The fate of millions of poverty-stricken masses is in hands of these few people, who instead of ending the politico-economic malaise, resort to easy money.

Self- reliance means to them, 'hardships and loss of their royalty'. So, the collusion between the two weaves a design of deceit and treachery. MNCs and foreign manufacturers get the desired contracts and their favored pieces of legislations passed after presenting 'valuable gifts' and kickbacks to the persons concerned. US, the so called the 'arsenal of democracy' also declares itself as the champion of human rights, uses these slogans to pressurize an unfriendly regime in power. In many instances, democratic governments were toppled and military regimes were sustained because the later were in agreement with America over some socio-economic polices. Political instability is a chronic condition in developing states. Public mandate is just like quick sand that starts shifting even before the regime has consolidated its power. Concomitantly these scared regimes fearing their ouster from power extend a hand to some donor country or agency to contract huge loans on whatever terms. This frenzied effort is in part affected by their desire to avert the looming economic crisis (that is seldom out of horizon in such developing states) and on the other hand they want to using as much possible before they leave their 'office of trust'.

Their sincerity in repaying these loans is in question, except the pending installment that they must pay in order to avoid default and face stringent consequences. Their lack of interest in the sustainability of state, under construction projects and management of economy on right direction is apparent in the policies they adopt. The availability of comprador regimes at periphery has been explained as crucial factor. Where the local elites had an interest in collaborating, formal rule was unnecessary, where local system did not fit in (facilitate) they were conquered and remade. The 'puppet regimes' were installed with their strings in hands of external elements. These variables are to be applied to the case of Pakistan.

Chapter 3

Chapter 3

DEPENDENCIA: A HISTORICAL OVERVIEW OF PAKISTAN

More than half century has elapsed since the establishment of Pakistan. A time long enough for a new state to orchestrate its independent line of action and to stand on its own two feet, but Pakistan's economy is still unable to walk with out the crutches of external assistance. There is strong skepticism about Pakistan's independent decision making on rather more than few occasions, the questions have arisen in the minds of public, and Why Pakistan had to support American line that was against its own national interests? Why there is sometimes friendship and at other times nothing between America and Pakistan? Why American interest has waxed and waned in Pakistan? And why Pakistan has to entice America to elicit investment and aid from nearly all-foreign quarters. Despite various doses of aid injection where all the capital has flown to? A detailed history of Pakistan's political economy would be instructive.

Pakistan came into being as a result of the process of decolonization in the aftermath of Second World War. Soon after the declaration of independence plan, the American Councilor General in New Delhi met Quaid-e-Azam, the founder of the new state and ensured him of American help in any field Pakistan needed. Quaid said that Pakistan would definitely ask, if Pakistan needed it. Later, the Qaid-e-Azam asked the America to train and equip a contingent of Pakistan's army. It was accepted but nothing was done. This assistance never materialized. At the inception of Pakistan, the country was allocated Rs. 750 million from Indian Union's national exchequer. Unfortunately, India ignored its commitments and only Rs. 150 million were sanctioned, the rest of the amount was usurped.

Pakistan was treated in the same way in the distribution of defense-related equipment.

Pakistan's vulnerability was the natural consequence of this state of affairs. India's aggressive posture and its antagonism towards this new-born state demanded urgent attention of Pakistan's policy-makers to equip it with required stuff. Pakistan's inability to generate resource from within led its decision-makers to seek assistance from abroad.

Leadership vacuum after Quaid, thrust the sensitive responsibility of state management in the hands of fandalistic aristocracy who were assisted by British trained civil service, a great part of this leadership embarked upon safeguarding its narrow personal and class interests, only lip service was paid to Islamic traditions of the people and from the beginning, the rulers started learning toward west.

Primarily, the choice fell on Great Britain. But the UK that had exploited the resouces of sub-continent (both man-power and material) to the greatest possible extent had now washed its hands off the regional politics. And any hope for British support ended in smoke. At that time international scenario was changing. New actors were emerging on the global horizon. US had become the new superpower and it again offered Pakistan economic and defense assistance of only Pakistan concluded a treaty of mutual defense and thereby established itself as an intrinsic American ally in the region to contain communism.

The first credit agreement was signed with US on 25th May 1948. When the Ministry of Finance accepted $10 Million loan. This credit was provided under US war assets administration for purchasing stores and equipment from its surpluses. Since then military had not only strengthened the balance of forces in favor of status quo, but also created a powerful pressure group which would expropriate more and more resources for "Defense Purposes'[1].

In 1950, Prime Minister Liaqat Ali Khan visited US and offered to join the US in an alliance to 'Defy Aggression'. Pakistan was rewarded with commodity assistance (Wheat) under Public Law (PL 480) 480 legislation that required US to provide surplus agricultural commodities to help avert a possible famine or crisis. "The price support system led to the accumulation of grain stocks in the US and after the war there were hardly any foreign buyers and selling the wheat in open market would have forced the prices down[2]. So PL 480 served the purpose well by providing grain to developing countries, the amount was repayable in local currency. It kept the developing countries dependent on US grain stock and provided an outlet for its commodities whose storage cost was more than $1 Billion US till 1960 was classified under this specific piece of legislation.There is no use of denying the fact that aid is seldom given for altruistic motives. The money of these so-called aid packages that these are 'granted' on the terms of the donor. "It gives them incentives to charge prices appreciably higher than world prices."[3] For Pakistan, it was stipulated that it must buy the related equipment from donor state and hire the expertise of advisors belonging to the same country that Pakistan must purchase goods and services from the donor. Not only the technology that had been provided was obsolete but also heavy sums for technical services were charged by donor state. It provided employment opportunities for donor state's technicians. "A large sum of these funds (are) thus routed back in the form of charges of 'expert advice'. The Pakistan times of June 11, 1961 charged that under this guise US took back 50-60% of the total aid allocation". These foreign consultants were in a position by dint of their linkage wit donor to influence the vital decisions regarding a specific project or overall planning. They decide in favour of the parent firms to supply the material and equipment required for the completion of project.

The reliance of Pakistan over bilateral aid has affected the nature and structure of assistance in such a manner that its capacity to effectively promote the development policies was reduced to a considerable extent.

To make the matters worse, on 11th July 1950, Pakistan joined the International Monetary Fund (IMF), marking the beginning of a long client relationship with the western powers. "On 12th August, 1950 the US approved a sum of $ 600,000 for technical assistance of Pakistan under President Truman's four point program. Many other US sponsored financial agencies offered grants and credits, including a $ 1.6 Million Ford Foundation grant and a $ 60 Million loan from the World Bank (IBRD) in 1951. In order to manage trade, aid and military relationships, the U.S government and private foundations stepped up the training of Pakistan's administrators, social scientists and military officers. The Ford Foundation pictured its role in 1951 as 'creating and strengthening institutions needed to train manpower and develop the knowledge and approaches required for economic and social progress[6]. In early 1950s the Harvard University experts came to Pakistan to formulate the country's Five Years Plans. Later on the Pakistani personnel trained carried on their legacy. These experts executed a design for development based on economic doctrines that guided the rise of capitalism in the west. Since 1947-1958 these polices were based on the doctrine of mercantilism. Mercantilism encouraged exports and customs. Power was centralized and industry encouraged. Traders and manufacturers were benefited from international trade particularly during the Korean War. During the early period, Pakistan produced budget surpluses, but indirect taxation bore more heavily on common man's shoulders. When Malik Ghulam Muhammad a civil servant stepped into the office of Governor General in Pakistan, it marked the 'rise to power of military bureaucratic elite and its class collaborators among the landed aristocracy as well as the emergent national bourgeoisie[7].

In May 1954, Pakistan signed a mutual defense agreement with US, the result of an offer made by Ayub Khan in exchange for American military basis on Pakistan's territory. In the same year Pakistan joined South East Asian Treaty Organization (SEATO) to combat communist threat in the region. In 1955, Pakistan entered into another American sponsored defense alliance, Central Treaty Organization (CENTO). Iran and Turkey were also the signatories. The coup dé-tate of 1958 brought Ayub Khan in power, Always an ardent advocate of

Pak-American joint defence, now signed the most important military alliance with US, the mutual security Act, declaring Pakistan the "most allied of allies of the USA"[8].

Ayub Khan hired foreign consultants to pave the country on right and productive directions. These foreign experts proved to be white elephants and were paid fabulous salaries by Pakistani standards. It is estimated that four Pakistanis could be appointed at an equivalent salary paid to foreign consultant[9]. The local talent was discriminated against. This was explained in a report published in Pakistan times. It is stated in the report.

"it has become difficult for a public servant to convince Pakistani engineers, contractors of firms and consultants that they were not being discriminated against and discouraged by such agencies (i.e and agencies). Agencies like World Bank are working contrary to this end (of utilizing available local talents and experiences). The conditions imposed for the participation in bidding (for tenders, for constructions projects) are such as would automatically eliminate Pakistani firm. It is pointed out that Jinnay Barrage, Taunsa Barrage, Ghulam Muhammad Barrage have all been designed and executed by Pakistani engineers and contractors. However 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 assigned to any local firm of consultants nor is the execution likely to be entrusted to competent local contractors"[10].

On the previous advice of these consultants, more of the aid was earmarked for industrial development and was to be employed in 'consumer goods' industries rather in 'capital goods'. "it increased our capacity for 'simple reproduction' but not expanded reproduction, thus failing to help us in extricating us from our economic dependence." The economy was tuned to the doctrine of laissez faire now that meant minimum state regulations and free trade. The decreased state control in regulating market led to the emergence of monopolies in market.

At a result, 20 families amassed the wealth and reaped most of the profits. Budget surplus was achieved. Gross National Product (GNP) increase and Pakistan was hailed by World Bank's the then. President Menamara, as a rapidly developing economic growth had no positive effect on common man's plight. Not a trickle down effect of this economic growth was felt by the man in the street.

Despite this encouraging economic scenario at macro level, Pakistan's reliance and foreign aid did no decrease. Ironically, Brecher and Abbas noted that in 1967 the real worth of (bilateral) aid to Pakistan was below 60 percent of aid. Dr. Mahboob-ul-Haq's study in the mid-seventies revealed that purchases under tied aid cost almost 55% higher than what would have been required on the basis of lowest tender bid." (12)

This economic and technical tutelage of Pakistan had its political cost as well. In 1960, when a US spy plane flew from Pakistan's Peshawar military base to spy on Soviet Union. It was shot down and an annoyed soviet union gave a threatening ultimatum to country's plenipotentiaries. After the Sino-Indian war of 1962, Ayub Khan the Pakistan's president made new strategic calculations in his regional policies. His new policy of bilateralism that to maintain good relations with other states but without antagonizing other or rather at the expense of other. It implied that Pakistan should have friendly relations with communist China as well as its arch rival America. America did not appreciate this overture and war of 1965 war imposed. Military and economic aid wars suspended to both-states, but it affected Pakistan more adversely than India, later was being assisted by Soviet Union. After the war the Tashkent agreement resulted in Pakistani public's disenchantment with Ayub Khan and his ultimate ouster from power.

Zulfikar Ali Bhutto came into power with a socialist manifesto in his hands. His policy of nationalization was a totally radical step to Ayub Khan's laissez-faire. Socialism had little impact on layman's life. The land reforms only reestablished the power of landed aristocracy. Nationalization the total state control of key private sector industries shook the investors confidence. Investments declined, increasing the dependence of the state even more on unmerited foreign capital inflow in order to keep the economy afloat and foreign exchange reserves of required level. This state of affairs was the result of inefficient planning and wrong priority fixation. Mismanagement of public sector resulted in budget deficit. Export import gap generated balance of payment difficulties. Inability to repay the dept, its accumulated interest and impending balance of payment crises led Pakistan to learn heavily on IMF and WB, is over the gradual passage of time, the ratio of multilateral aid increased by proportion as compared to bilateral aid. The capital provided to cash-starved economy of Pakistan has never been without strings attached.

IMF's operating policy was best summed up by the managing director of the fund, Mr. J De-larosiere, in his address to French-American chamber of commerce on March 4, 1982. He stated "The expansion in the fund's financial operation has been matched by a much greater emphasis on 'conditional finance' over the past. Two years more than 80% of resources have been provided by the fund to its members in support of programs involving vigorous adjustment policies" [(13)]

The fund has been emphasizing on structural adjustments, arguing that BOP difficulties are not ephemeral but the consequence of structural maladjustments, even if these difficulties were exogenous or external, beyond their control. The performance of the country is closely monitored by fund and bank officials and periodic reports are regularly issued. The credit is extended provided certain conditions are fulfilled. According to Grail Ouredt: "An IMF loan without conditions is like a soldier without a gun the question is only of degree of armament".[(14)]

- Under the SAP, it was prescribed for Pakistan that in order to meet the budget deficit, subsidies on wheat, fertilizers and edible oil were withdrawn. Higher user charges were placed on social services.
- Privatization's and deregulation of economy implying the minimum state control in order to accelerate the foreign investment.
- Restructuring of taxation systems to shift taxation from imports customs duties to domestic production and consumption excise duties and sales taxes.
- Imposition of GST on edibles, agricultural products and medicines, the vital consumer goods.
- Devaluation of rupee.
- Privatization of key but sick economic units PTCL, WAPDA, Banks.
- Downsizing of institutions. The term had negatives connotations and later on it was substituted with the word rightsizing, (It implies lessening of manpower/employees) in an already sick economic unit, with a view to development. Several thousands of regular employees were given golden hand-shake. Result was increasing unemployment.
- Many (goods) items were struck-off from negative import list. The banned items were allowed to be imported in the country. Over 250 items were transferred from the banned list to the free list, in 1985. (15)
- A policy of further liberalization of imports exposed the domestic manufacturing sector to a more competitive environment.

The aforementioned SAP prescriptions resulted in further economic deterioration. The imposition of GST meant a rise in price index and erosion of already miserable standard of living of the poor. Poverty and unemployment ware the natural consequences of rightsizing. Trade liberalization had adverse effects on domestic market and local manufacturers. These were the barriers placed by those selling it to us are not likely to be lowered on the foreseeable future.(16)

These suggestions were not an ideal panacea for Pakistan's economy. The fund and WB personnel had little knowledge of existing circumstances and mostly they furthered the policies of the countries they belonged to and on other occasions they pursued the agenda of their patrons of these institutions. They recommended the similar suggestions to every client state without taking into cognizance the individual factors. These IFIs work with the sole objective of meeting BOP crisis even at the expense of domestic needs. In Ghana, even water has been privatized on the suggestion of IMF.

Despite (decades) of foreign assistance, the dependence of Pakistan's economy has increased instead of decreasing. Pakistan has always welcomed private foreign investments and there is no restriction on the remittances of current profits to the country from where investment originated. Presently, there are more than 125 MNCs that are operationlizing in Pakistan. Though they are contributing to the development of the country but they have some serious implications.

MNCs have encouraged the raw material growers to produce cash crops or those raw material that is needed (required) by MNCs. The local growers are encouraged to grow that raw material at a higher price that is locally available. It is against the interests of local businessmen. For instance, MNCs give incentive to grow tobacco crop instead of rice, result is difficulty for local consumption of rice.

The MNCs employ Pakistanis on higher salaries as compared to employee with the same qualifications and even more experienced employed in local public or private organizations. Thereby, creating more sharp class-disparity or cleavages. The third and the most serious problem has been created by these MNCs is that they want their share of profits to be paid in convertible foreign currency. Pakistan has been failing to do so. Therefore, it has to request for more loans. These loans are usually extended on commercial interest basis. The multinational franchise KFC, Pizza Hut, McDonald's are actively working here in

Pakistan. The role of MNCs has been constantly discouraging local business. They have captured the market at the expense of local medium range industrial establishments. They have established monopoly in the market.

It has been suspected that through the employees of MNCs (both local & foreigners) the intelligence data is collected, sensitive information is gathered, and regulated. Strings are held to woo and influence business tycoons, bureaucratic feudal lords and politicians of the country. Pakistan Government has failed to regular the price index of the MNCs who supply, assemble or manufacture spare parts, medicines and other consumable goods, because the decisions are done in the HQs which are out of Pakistan.

A concomitant effect of these (food franchise) on society has been of changing the consumption patterns and overall value systems in society (women waitresses, celebrating valentines day etc). The MNCs are to be paid 50% (depends on contract) of their share of profits in dollar convertible foreign currency. But already low foreign exchange reserves compel the leaders to ask for more loans.

Already the loans have been taken on pretext of,

1. development projects

   or

2. to overcome budget deficit
3. to meet imbalance of payments (foreign financial liabilities)
4. another critical situation arises when the state is unable to retrieve the debt and interest soars to alarming proportions.

Debt-servicing has posed serious difficulties to Pakistan's economy and increased its dependence on external sources (FCI). These investment and capital inflow are requested and permitted with a view to development and economic viability of state. Pakistan has been receiving this capital inflow through consortium, non-consortium and Islamic countries. But economy could not achieve expected targets because of ill-planning, mismanagement, corruption and mismatch (ill-suited) priority fixation. Political instability has also cast a dismantling effect.

Aid is seldom given for philanthropic purposes. Economy has proved to be the Achille's need for Pakistan. To the chagrin of Pakistan's plenipotentiaries this monetary assistance has further enfeebled the state. Instead of window-dressing, complete overhaul of economy is called for. These glaring shortcomings of Pakistan's economic management have also been reflected in political scene.

Excessive economic clout provided the role for US official to interfere in domestic politics and planning. There is ample evidence that these foreigners have been involved in behind the scenes bickering in Pakistan. The dependence of Pakistan on aid for economic sustenance has robbed it off decision maker's political will whenever they have refused to dance to American tunes.

President Ayub Khan was penalized for his bilateralism, and Zulfiqar Ali Bhutto had to face the American fury for his ambitions agenda for Muslim brotherhood and initiation of the nuclear programme. It was immediately labeled by Indo-Zionist lobby as Islamic-Bomb. Since then onwards, Pakistan had to bear the brunt of America's anger because of its nuclear program except for occasional periods, i.e., when Pakistan was selected as the front line state in war against Soviet Union in Afghanistan because of its regional proximity and particularly in the aftermath of September 11 when US decided to sabotage Al-Qaeda Network in Afghanistan. Need for Pakistani support was felt. Pakistan did not have any alternative except to give in to American demands.

Besides these two periods of close cooperation by two states, on other times, Pakistan had to face severe criticism of America, because of alleged harboring of terrorists and patronizing terrorist activities in Afghanistan and Kashmir.

It was pressurized to roll back and cap its nuclear program without really pressurizing India to do so. It was against Pakistan's defense parameters. Once the war in Afghanistan was over and soviet troops withdrew from its soil, US left

Pakistan in the lurch. The aid money that had already been paid to America for the purchase of F-16 Fighter Jets, the supply was stopped on account of Pakistan's developing of nuclear arsenal. Pakistan's refusal to sign NPT and CTBT was not treated kindly as the decision of a sovereign national state. To add fuel to the raging fire, when Pakistan tested its (Nuclear devices), A-bomb as a response to India action the sanctions were imposed on both states. Pakistan's economy was more vulnerable and it was on the verge of collapse. Pakistan's support to American-led coalition against terrorism and its action in Afghanistan temporarily averted these crises. Yet the voices have been raised from various quarters about Pakistan's supposed default on foreign (financial obligations) loans and labeling of Pakistan as a failed state that is unable to manage its budget deficit and development planning.

Being an aid recipient country Pakistan has been left with limited choices of decision making in domestic and external environment from Haward Advisory group headed by Papnek, to Pressler amendment, Pakistan has been pushed to the wall in the realm of economy whose political consequences have outdistanced the economic ones. A little countervailing against American interests has always put Pakistan in hot waters.

In Pakistan's case, aid addiction has not resulted in the economic well being. If anything they have (aggravated) the already grim scenario, when America, is pleased with Pakistanis stance, dollars are poured in Pakistani economy from various quarters but not without strings attached that compel Pakistan to capitulate even more than before to American whims. Long term loans mean the long term dependence in order to respond to American wishes. Pakistan has never been given much choice. If Pakistan wants to take decisions out of its own free will, then instead of depending on easy money, a strict and determined action is required.

The role of decision markers is pivotal in leading the state to this precipice of default and failed state. Despite piling up of loans, there's no availability of data where large amounts of loans were spent. During second Nawaz regime $ 3 billion loan by Japan has no written proof as to where it went. During 1990s, many regimes were alternatively ousted on the pretext of corruption. Benazir Bhutto and Nawaz Sharif have amassed huge fortunes as some generally say and allege. Foreign bank accounts, tax evasions, large estates in and outside the state, and the gratifications of Kith and kin's and increasing number of industries indicate to the shenanigans of these rulers. Every regime that leaves the office leaves a record of even more indebtedness as well. Non-productive activities are a drain on these aid-packages. Nawaz Sharif's Lahore Airport Project, his motorway project drew heavily on national exchequer. Maintenance of official residences, construction of new buildings, purchasing new cars has told upon meager economic resources. Which if utilized in right direction could have produced sizeable profits.

In Pakistan the decision maker's experiments with mercantilism, then from Laissez faire and socialism, to mixed economy brought ills. Investor confidence has shaken because of political instability and poor law and order situation due to this economic experimentation.

Chapter 4

Chapter 4

Trade, Aid and Dependencia

The history of trade foreign assistance and institutional support has been chequered. The ebb and flow of capital in the county has been full of problems, difficulties and intricacies. Rhodes is of the opinion that the economic interaction among states has been making the third world countries as underdeveloped entities.

He further substantiates that trade and foreign assistance generally fail to provide support to the developing economies to stand on their own toes. It is not a simple explanation of the socialist order. Even Magdoff, Wallerstein and Hobbson tell the same anecdotes, but with more socialist coloring and Marxist texture. The scholars of UNESCO brought forth that the developed countries treatment of the third world has not been justifiable on any ground. Kindleberger while writing on international trade stated that trade has been carried on according to whims and practices of the economically leading countries.

It has also been reported in an article "GATT to WTO; an import on third world countries" that trade of the third world countries has always been the victim of the interest-oriented practices of the developed countries. International trade is an economic activity of the actors of the world capitalist system. It is conditioned by "Laissez Fairer" or free market economy if the countries involved are economically sustainable or they can ensure the flow of capital and goods to meet the challenges of vicious circles and the natural or created barriers.

The problems with the third world countries have been that their economy is neither productive nor sustainable. Therefore, they suffer considerably. Pakistan being no exception has been one of those countries who have become the victim of the market economy of the world. The decisions of political elite and bureaucratic labyrinths further remained engaged in aggravating the situation. The picture of trading of Pakistan on decade wise basis has been gloomy and uncertain. Imports have exceeded exports in almost every year. Import export gap is one of the dominant aspects of trading and the third world countries like Pakistan do not come out of the danger zones of import export gap. The import export picture during 1947 to 1950, the early years of independence has been presented in the table below:

Balance of Trade during 1947-1950

Year	(Rs million)						(US $ million)					
	Current Prices			Constant Prices*			Current Prices			Constant Prices**		
	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance
1947-48	444	319	125	364	432	-68	138	96	42	177	123	54
1948-49	542	1,177	-635	445	1,595	-1,150	160	356	-196	205	457	-252
1949-50	535	912	-377	500	1,554	-1,054	171	276	-105	220	354	-134

Table 1: Economic Survey of Pakistan. 1960-61

In the first year exports were more than imports. Soon after that, in the next year Pakistan plunged in the imbalance of payments because of more imports than exports. In these years, Pakistan's export earnings were made up of just five primary commodities, raw jute, raw cotton, raw wood, hides and tea. The table reveals that during the 1947-1948 our exports were more and imports were less. The underlying reasons were that Pakistan was in a position to export vegetables, tea and jute to the outside world. Whereas in import our priorities had to be set in 1948-1949 and 1949-1950, the gap was visible the priorities had been tentatively set which had prompted the government to go for more imports. But exports were less due to climatic conditions in East Pakistan. The cyclones hampered the production of tea and jute, our principal exports.

In the first decade from 1950 to 1960 there was a nominal surplus in the year 1950-1951 which was 68 million dollars but during the year 1951 onwards the import was more than the export. The deficit was more in 1951-52, which was

213 million dollars. Similarly, from 1956 to 1960, the import was more and the gap increased. It is interesting to note that from 1953 to 1956 the imbalance was approximately on the same frequency. The table reflects the picture as such:

Balance of Trade during 1950-1960

Year	(Rs million)						(US $ million)					
	Current Prices			Constant Prices*			Current Prices			Constant Prices**		
	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance
1950-51	1,343	1,167	176	1,038	1,869	-831	406	353	53	521	453	68
1951-52	922	1,484	-552	679	2,112	-1433	279	445	-166	358	571	-213
1952-53	867	1,017	-150	1,083	1,773	-690	262	307	-45	336	394	-58
1953-54	641	824	-183	823	1,306	-483	194	249	-55	249	320	-71
1954-55	491	783	-292	601	1,307	-706	149	237	-88	168	267	-99
1955-56	742	965	-223	808	1,153	-345	156	203	-47	176	229	-53
1956-57	698	1,516	-818	704	4,444	-740	147	319	-172	155	337	-182
1957-58	434	1,314	-880	379	1,176	-797	91	276	-185	95	287	-192
1958-59	444	1,025	-581	459	1,017	-558	93	215	-122	95	218	-123
1959-60	763	1,806	-1,043	763	1,806	-1,043	160	379	-219	160	379	-219

Table 2 Economic Survey of Pakistan. 1971-1972

The continuous imbalance in imports and exports was the result of;

a. Increase in population growth rate.

b. Changes in consumption pattern.

c. Natural calamities in both East and West Pakistan.

d. Decisions of the ruling elite.

e. The soft-loans and economic support provided by the United States after Pakistan had signed multilateral agreements to contain communism encouraged the government to go for more imports.

In the decade of 60s though industrialization had taken off and GDP growth rate was considerably up, which compelled MacNamra to state in the annual meeting of the world bank, "if Pakistan had continued with the same growth rate within twenty years Pakistan would be among the developed countries of the world". But the picture of import export does not present a healthy sign.

The decade reflects the constant increase in imports. The reason was that Pakistan wanted more machinery for various industrial projects in East and West Pakistan. No doubt, the exports constantly increased but imports were considerably higher.

Balance of Trade during 1960-1970

Year	(Rs million)						(US $ million)					
	Current Prices			Constant Prices*			Current Prices			Constant Prices**		
	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance
1960-61	540	2,173	-1,633	520	2,100	-1,582	114	457	-343	113	452	-339
1961-62	543	2,236	-1,693	510	1,956	-1,446	114	470	-356	111	457	-346
1962-63	998	2,800	-1,802	956	2,372	-1,416	210	588	-378	201	563	-362
1963-64	1,075	2,982	-1,907	1,030	2,432	-1,402	226	626	-400	213	591	-378
1964-65	1,140	3,672	-2,532	1,050	3,055	-2,005	239	772	-533	221	713	-492
1965-66	1,204	2,880	-1,676	1,069	2,465	-1,396	253	605	-352	226	542	-316
1966-67	1,297	3,626	-2,329	1,188	2,997	-1,809	273	762	-489	238	664	-426
1967-68	1,645	3,327	-1,682	1,459	2,793	-1,334	346	699	-353	288	581	-293
1968-69	1,700	3,047	-1,347	1,522	2,572	-1,050	357	640	-283	283	507	-224
1969-70	1,609	3,285	-1,676	1,460	2,600	-1,140	338	690	-352	254	518	-264

Table 3 Economic Survey 1970-1971

In the negatively curved import-export balance, the compensating factor was the foreign aid that Pakistan got. This spot was under-mining the exports trend and was instrumental for import liberalization.

The decade of 1970-80 witnessed one year surplus of exports than imports and that was in year 1972. It was too meager a surplus to be proud of. But there was constantly widening gap between exports. The reason was nationalization policy of government. Consequently, the exports were less than imports.

Balance of Trade during 1970-1980

Year	(Rs million)						(US $ million)					
	Current Prices			Constant Prices*			Current Prices			Constant Prices**		
	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance
1970-71	1,998	3,602	-1,604	1,698	2,380	-682	420	757	-337	301	542	-241
1971-72	3,371	3,495	-124	2,370	1,774	596	591	638	-47	403	435	-32
1972-73	8,551	8,398	153	2,848	2,329	519	817	797	20	531	518	13
1973-74	1,0161	13,479	-3,318	2,102	2,584	-482	1,026	1,362	-33	611	812	-201
1974-75	10,286	20,925	-1,0639	2,279	2,693	-414	1,039	2,114	-1,075	563	1,146	-583
1975-76	11,253	20,465	-9,212	2,487	2,778	-291	1,137	2,067	-930	580	1,054	-474
1976-77	11,294	23,012	-1,1718	2,128	2,901	-773	1,141	2,325	-1,184	545	1,110	-565
1977-78	12,980	27,815	-1,4835	2,321	3,217	-896	1,311	2,810	-1,499	583	1,249	-666
1978-79	16,925	36,388	-1,9463	2,431	4,049	-1,618	1,710	3,676	-1,966	699	1,502	-803
1979-80	23,410	46,929	-2,3519	3,111	4,267	-1,156	2,365	4,740	-2,375	886	1,775	-889

Economic Survey 1980-1981

Table 4

It was a period of post disintegration of Pakistan about which Ronaque Jahan was right to say that Pakistan was created as a state but failed to become a nation. It was also a decade of crisis and breakdown of a system. Therefore, the exports were discouragingly low. Whereas imports were higher that resulted into more imbalances.

Balance of Trade during 1980-1990

Year	(Rs million)						(US $ million)					
	Current Prices			Constant Prices*			Current Prices			Constant Prices**		
	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance
1980-81	29,280	53,544	24,264	3,675	4,005	-330	2,958	5,409	-2,451	1,011	1,848	-837
1981-82	26,270	59,482	33,212	3,351	4,016	-665	2,464	5,622	-3,158	791	1,805	-1,014
1982-83	34,442	68,151	33,709	4,072	4,270	-198	2,694	5,357	-2,663	859	1,709	-850
1983-84	37,339	76,707	39,368	3,945	4,584	-639	2,768	5,685	-2,917	849	1,744	-895
1984-85	37,979	89,778	51,799	3,834	5,049	-1,215	2,491	5,906	-3,415	743	1,762	-1,019
1985-86	49,592	90,946	41,354	5,243	5,145	98	3,070	5,634	-2,564	892	1,637	-745
1986-87	63,355	92,431	29,076	6,021	5,051	970	3,686	5,380	-1,694	1,037	1,513	-476
1987-88	78,445	112,551	34,106	6,007	4,948	1,059	4,455	6,391	-1,936	1,211	1,738	-527
1988-89	90,183	135,841	45,658	6,737	5,418	1,319	4,661	7,034	-2,373	1,226	1,850	-624
Jul-Mar 1988-89	61,714	95,854	34,140	4,671	3,964	707	3,287	5,104	-1,817	836	1,298	-462
										858	1,255	-397
1989-90	74,355	108,723	34,368	4,855	3,823	1,032	3,486	5,101	-1,615			

Economic Survey of Pakistan 1990-1991

Table 5

John Adams sums up the situation in following words: During this decade import-export both increased as compared to previous years and it. During this decade the gap between imports exports also increased due to multifarious reasons.

a. Afghanistan War

b. Kashmir Issue.

c. Role of international-institutions.

d. Role of Pakistani decision makers

e. The economic support from international agencies

f. The discouraging attitude of developed countries

a. With the outbreak of Afghanistan war the American involvement in Pakistan's affairs increased. Pakistan during these years did follow a pattern of increased exports and imports. The leap forward was not visible due to uncontrolled increase of foreign currency in the country. The Afghanistan issue did neither encouraged nor discouraged trade activities of Pakistan

b. Kashmir became one of the volcanic issues of South Asia. The analysts were expecting considerably more imports than exports but the emerging trend established that no such linkage has been available to support these contentions. Some of the writers are of the opinion that Pakistan might have multiplied its efforts to increase her exports because the government was trying to encourage the indigenous industrial output and agricultural produce but due to issue of Kashmir and Afghanistan it could not take off.

c. Donor agencies asked for more liberalized trade policy to Pakistan previously banned and restricted items were also liberalized. Whereas previously all items not specifically permitted were banned, now all items not specifically banned were importable. Under the present system there are two lists.

1. A banned list
2. Restricted list. It has three parts consumer goods. Subject to quantitative restrictions, items importable exclusively from a tied source and items imports able by the public sector only.

Gradually these items were released from these two lists. Despite reduction in tariffs that existed then still seems to be biased in favour of import substitution production. Domestic markets were insulated from foreign competition through non-tariff barriers and high tariffs.

The most important policy reform that affected exports was the de-linking of the Pakistani rupee from dollar and introduction of a free exchange rate. Earlier, the rupee/dollar rate was fixed at Rs. 9.00 per dollar, and the strong dollar in 1980-81 also appreciated the Pakistani rupee vis-à-vis other currencies, reducing the competitiveness of Pakistan's export on world markets. Later on the rupee was de-linked from dollar and attached with a basket of currencies, a managed exchanged rate. American along with other European partners fixed quota for Pakistani exports and also imposed terms of trade on Pakistan.

According to terms of trade, Pakistan had not to pay in dollars, hard and local currencies. It was kind of barter agreement. Terms of trade were to follow barter system in import and export.

The index of terms of trade (TOT) is used as a standard in measuring the relative gains. It has been used to assess the varying impact of foreign trade on the terms of trade as it could be conveniently constructed with the ratio of exports and imports unit value indices. The terms of trade for Pakistan have remained unfavorable for the last many years compared with the base year 1980-81 (equal to 100). The TOT index was 94.88 in the year 1983-84 which slightly fell to 93.47 in the very next year but dipped to 89.79 during 1985-86, showing a decline of 3.94 percent over previous year. Nevertheless it rose to a peak of 96.46 in 1986-87, exhibiting an improvement of 7.43 percent. Then except for few stable years the terms of trade index continuously declined and bowed to 77.95 in the year 1990-91, losing by 13.13 percent over 1989-90. However since 1991-92 a partial recovery had started and it reached 82.03 in 1993-94 registering a growth rate of 1.80 percent over 1992-93.The most important on foreign prescriptions policy reform that affected exports were the de-linking of the Pakistani rupee from dollar and the introduction of a Free exchange rate Earlier, the rupee/dollar rate was fixed at Rs. 9.00 per dollar, and the strong dollar in 1980-81 also appreciated the Pak Rupee vis-à-vis other currencies, reducing the competitiveness of Pak's exports on world markets. Later on the Rupee was de-linked from dollar and attached with a basket of currencies, a managed exchange rate.

As a matter of fact, GATT and other trade regimes were supposed to help countries like Pakistan, but their policies encouraged imports more than exports, there-by fostering the conditions of underdevelopment.

The military-bureaucratic decision makers in Pakistan were following adhoc arrangements to encourage Pakistan's stagnant trade policy. They were mostly engaged in restoring the confidence of the traders, businessmen and industrialists to go for exports. They also liberalized import policy. But Pakistan needed a long term policy to come out of terms of trade agreement because this arrangement was a discouraging factor for domestic businessmen.

Moreover, in the five year plan the priorities network did not include trade and commerce. The decision makers should have provided more facilities to the businessmen and the introduction of quota system did not provide opportunity to go for more exports. Consequently, the activity remained at the lowest level and the imbalance of payments became an imminent factor. During the decade of eighties the inflow of capital was coming in from two sources.

(i.) America and her allies gave a lot of economic support to Pakistan and through underworld intelligence agencies to counter Afghan crisis. This support was not an encouraging agent to enhance exports. The currency inflow through these agencies could not be used for bridging the gap because of terms of trade agreement was an obstacle in the trade sector.

(ii.) Under the influence of United States, most of the countries followed a quota system for Pakistan's commodities and raw material. It would have been multiplying the exports and had earned good money. But the developed countries did not permit Pakistan to send more than the fixed quota, particularly textile, leather products and surgical instruments could have captured the market in various developed countries. The quota system not only discouraged trade but manufacturers of the country.

Decade of 1991-2001

The decade of 1990s was the most crisis-ridden and depressing in the history of state of Pakistan. As some writers tried to put it was an era of musical chair game between PPP (Pakistan Peoples Party) and PML-N (Pakistan Muslim League-Nawaz).

The related data is given in the following table.

Balance of Trade during 1990-2001

Fiscal Year	(Rs million) Current Prices			Growth Rate (%)			(US $ million) Current Prices			Growth Rate (%)		
	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance
1990-91	13,8282	17,1114	-3,2832	29.88	14.96	-22.54	6,131	7,619	-1,488	23.76	9.86	-24.89
1991-92	17,1728	22,9889	-5,8161	24.19	34.35	77.15	6,904	9,252	-2,348	12.61	21.43	57.80
1992-93	17,7028	25,8643	-8,1615	3.09	12.51	40.33	6,813	9,941	-3,128	-1.32	7.45	33.22
1993-94	20,5499	25,8250	-5,2751	16.08	-0.15	-35.37	6,803	8,564	-1,761	-0.15	-13.85	-43.70
1994-95	25,1173	32,0892	-6,9719	22.23	24.26	32.17	8,137	10,394	-2,257	1961	21.37	28.17
1995-96	29,4741	39,7575	-10,2834	17.35	23.90	47.50	8,707	11,805	-3,098	7.01	13.58	37.26
1996-97	32,5313	46,5001	-13,9688	10.37	16.96	35.84	8,320	11,894	-3,574	-4.44	0.75	15.36
1997-98	37,3160	43,6338	-6,3178	14.71	-6.16	-54.77	8,628	10,118	-1,490	3.70	-14.93	-58.31
1998-99	39,0342	46,5964	-7,5622	4.60	6.79	19.70	7,779	9,432	-1,653	-9.84	-6.78	10.94
1999-00	44,3678	53,3792	-9,0114	13.66	14.56	19.16	8,569	10,309	-1,740	10.15	9.30	5.26
Jul-Apr 1999-00	35,8718	43,1711	-7,2993	13.99	17.32	36.94	6,932	8,343	-1,411	9.90	11.01	16.80
2000-01	42,9650	50,9652	-8,0002	19.77	18.05	9.60	7,456	8,854	-1,398	7.56	6.12	-0.92

Table 6 Economic Survey of Pakistan 2000-2001

During the year 1996 to 2000 imbalance went down to almost one third of as compared to the opening years of decade. The reasons have been very clear regarding the fluctuations in the unbalanced trade.

1. Unstable governments
2. Wavering support to Traders
3. Dollar delineate and floating exchange rate
4. Process of privatization
5. Liberal trade policy

1. During this decade no elected party could complete its tenure. They remained more concerned to preserve their power base and remain in authority. Political tussles and oppositions' leg pulling did not either let government to take a stock of ground realities in economic realm or government ignored trade policy because it had more important thing at its

hand. Besides that when a new government came in office it stopped all the previous on-going policies & projects and started new ones. Result was a high cost and waste of time.

2. Wavering support to traders, Benazir Bhutto, acting on the instructions of IMF and WB, liberalized trade policy, imports were encouraged and exports were not properly handled. Nawaz Sharif gave more support to local businessmen and manufacturers and to some extent to traders. Proper attention was not paid to either quality or quantity of exports in foreign markets government support vacillated from traders to manufacturers, agriculture to industry depending on political circumstances. Resultantly, trade could not flourish as was desired.

3. Dollar de-linkage and floating exchange rate Rupee that was earlier de-linked from dollar and connected to a number of currencies. Its value depreciated as compared to dollar. In early 1980s the value of rupee was fixed Rs.9.90 against 1 dollar gradually rupee depreciated coming down to 60 Pakistani rupees in recent years, one debt in rupee terms increased manifolds and so was the cost of living and debt-servicing.

4. Process of Privatization: Nationalization of robust economic and industrial units by government during Bhutto era, led to rampant corruption in public sector management. Government officials did not put much effort because the surveillance of government was not that much efficient. The inspection teams clinched the deals and these healthy industries started facing downturn. In post-Bhutto era, the reversal of nationalization policy took place and reached at its other extreme in early 1990s. When under the ministrations of IFIs, these government-owned sick industrial units were privatized. PTCL (Pakistan Telecommunication Ltd.) and others such types of institutions were listed to be privatized either in national on international market. Rampant corruption and usurping of billions of public money plus mismanagement had led government to think that once

privatized these institutions would again become active contributors to national exchequer. But after these institutions were privatized a thorough overhearing at the hands of private entrepreneurs took place. Thousands of employees were slashed or given golden hand-shake in the name of rightsizing.

5. Liberal trade policy meant a great room for foreign goods even at the cost of local industries. These high quality goods were expensive and captured the domestic markets easily. Besides, it took a heavy toll in our foreign exchange earnings. In stark contrast to imports, exports remained stagnant because of halfhearted measures adopted by government result was that imbalance of payments was never bridged.

Throughout the decade of 1990s the balance of payment was in deficit sometimes less sometimes more. But it was never reviewing the trade position of Pakistan. It was now evident that only during two years 1951-52 and 1972-73 the exports were slightly more than imports resulting in $68 million and $13 million surplus. This was a meager amount as compared to chronic deficits that persists even uptil now. During 1981-2001 the era under close examination, the deficit never ended, even if this balance of payments gap lessened to some extent. It was thought be heralding a new era, a harbinger, a new turning point, that it never proved to be. The lessening of balance of payment gap was only due to the vagaries of nature good, climate conditions which in the next year may result in bad crops because of draught or floods. Besides, natural calamities, the political uncertainty resulted in the adhocism. No long term policy was pursued and carried out to the end. These policies kept on changing.

Another factor that proved to be catastrophic for Pakistani's trade was International Financial Institutions prescriptions for more liberal trade policy. In every state in order to protect domestic manufacturers and exporters some items are banned and are not permitted to be imported because they are available more cheaply and in abundance in local market.

But IMF persisted that Pakistan should cut down its negative import list and some previously unlisted items be included in importable goods list. That also told upon our meager foreign exchange earnings and widened the deficit. Our terms if trade that were fixed at 100 in 1982, constantly deteriorated under this system discussed above. Unit value of goods also fell as against capital imported goods

Unfortunately, our successive governments have tried to curtail this imbalance in trade without taking some substantial long-term steps. The export base remains stagnant, even Pakistan has not attained the self sufficiency in production and consumption of wheat thanks to PL 480 aid programme of US that provides some needed edibles without toiling enough for it. Climatic conditions play a significant role in export bill other key exports are leather goods, surgical instruments, carpets, sports goods but in exchange of these, Pakistan goods, edible oil, beverage, chemicals, machinery and transport, that cost a lot more than exports of the country. Due to petroleum price hike in international market, the import bill also climbs up.

Political instability has been a crucial factor to prevent the ruling elite from adopting any preventive policy measures to close this imbalance. These regimes are more consumed in political bickering and minting money for as long as they were in office and some extra wealth to contest next elections.

Imbalance of payments if not attended properly may result in default on country's financial liabilities. In order to avoid this ignominy, the state resorts to IFIs to lend money to come out of this predicament. Rather, imprudently the government steps into a new trap: foreign economic assistance.

Foreign Economic Assistance

Pakistan like most of the developing countries has been facing shortages of domestic savings in comparison to its development needs and to bridge its balance of payment gap right from its inception. In order to fill this gap, it started borrowing from foreign sources since early 1950s.

Since then it has been receiving aid under various categories and terms and conditions.

1. Project Aid
2. Non-Project Aid
3. Non Food (technical assistance)
4. Food Assistance
5. BOP Adjustments
6. Relief Assistance

Foreign Economic Assistance

The major sources of Foreign Economic Assistance to Pakistan have been the:

1. Consortium
2. Non- consortium – Bilateral and Multilateral Arrangements.
3. Islamic Countries.

The aid to Pakistan consortium formulated in 1960,now renamed as Pakistan Development Forum (including assistance from consortium sources under outside consortium arrangements) is still the largest source of economic assistance to Pakistan by providing a sizable portion of the total commitments both bilateral and multilateral basis. In the earlier phase of pre-planned time the committed aid was \$334milliom. That has increased gradually over the years .Aid commitments include the disbursed and un-disbursed debt combined. In the earlier years the ratio of grants (soft-term loans) was high and it was also payable in local currency (rupees).

Grants Element In Aid

The following table shows the period up till 1991, since inception of Pakistan and takes a close view of percentage of grants element in aid and percentage of loans repayable in the foreign currency as well.

Grants Element in Aid.

Period	Committed	Grant and Grant like Assistance (%)	Loans Re-payable in foreign exchange (%)	Disbursed@	Disbursements as % of commitments
Pre-Plan	337	70	30	842	60
Fist Plan	1075	80	20		
Second Plan	2911	46	54	2394	82
Third Plan	2937	31	69	3043	104
Non-Plan	6967	12	88	5730	82
Fifth Plan	7233	22	78	5793	80
Sixth Plan	11907	23	77	7183	60
1983-84	1989	25	75	1176	59
1984-85	2311	22	78	1257	54
1985-86	2294	22	78	1528	67
1986-87	2626	23	77	1398	53
1987-88	2687	25	75	1824	68
7th Plan					
1988-89	3313*	18	82	2619*	79
1989-90	3424*	19	81	2342*	68
1990-91(E)	3221*	12	88	2105*	65
Total	43324	24	76	32051	74

Economic Survey of Pakistan. 1990-91

Source: E.A.D.

E: Estimated
@: Exclusive of $ 733 million payable in local rupees.
*: Inclusive of IMF (SAF) loan.

Table 7

A marked shift in aid composition has taken place from grant and grant-like assistance to loans repayable in foreign currency with increasingly strict terms and conditions like tied aid and conditionality, etc. The early periods of aid were dominated by grant and grant-like assistance. Its share in total commitments was 80% during the first plan, reduced to 46 % during second plan, 31% during third plan and come to as low as 12% during non-plan period. However, its share increased slightly above 20% during 5th and 6th plan mainly due to the assistance for Afghan Refugees. It is estimated that the share of grant and grant- like assistance in total commitments declined again from 4% in 1989-90 to 12% in 1990-91. Through-out the 1990s the concessionary and grant element of aid has been on a decline because of crucial changes in Pakistan's periphery. Relief assistance for Afghan Refugees decreased as well:

Table 8

Year	Payable in for currency	Grant & Grant-like Assistance
1992	88%	12%
1993	91%	9%
1994	91%	9%
1995	92%	8%
1996	90%	10%

In 1980, when due to Afghan war circumstances changed and Pakistan decided to fight a proxy war in Afghanistan, dollars poured in from various quarters. Along with, that there was a mammoth growth of debt and accumulated interests. IFIs stepped in and Pakistan also started receiving aid from IMF, Under IMF agenda the first and foremost priorities were, macroeconomic discipline, beginning with the reduction of tariffs. These prescriptions first aimed at achieving price stability and realistic exchange rates.

But social unrest has followed the implementation of stabilization and adjustment policies which has severely curtailed the purchasing power of the poor as well as their access to basic services. The effects are just opposite to those for which these lending agencies were approached i.e. structural adjustment programme in early 1980s.

Commitments of Aid

During the 1981-2001, there was a constant upswing in the committed amount of aid. During these two decades the amount of aid increased.

The table below shows:

(1981-1991)

Ratio of Foreign Economic Assistance during (1981-1991)

Foreign Economic Assistance			Commitments in US $		
Years	Consortium	Non-Consortium	Islamic Countries	Relief Assistance for Afghan Refuges	Total
1981-1982	1087	182	93	316	1677
1982-1983	1026	394	108	241	1689
1983-1984	1483	392	4	155	1989
1984-1985	1081	316	44	150	2311
1985-1986	1745	245	25	135	2150
1986-1987	1961	456	79	130	2626
1987-1988	2228	270	25	164	2687
1988-1989	2710	463	8	132	3133
1989-1990	2418	847	19	140	3424
1990-1991	2499	510	91	136	3221

Economic Survey of the decade

Table 9

That in 1981-1982 consortium aid was $1087 million and at the end of the decade it stood at $2499 million 1988-1989 was the peak year when it got commitment of $2710 million from consortium countries. Contribution of IFIs also steadily grew from the amount of $182 million to $150 million dollars. Islamic countries aid fluctuated throughout the decade 1981-1982 $93 million to $180 million in 1982-198, then a declining trend set in and at the closing year of the decade it was $ 91 million relief assistance sanctioned for Afghan Refugees in Pakistan from various quarters, constituted a significant portion of total commitments of aid. It started from $ 316 million and followed downward trend in the decade still remaining on $136 million in the fiscal year 1990-1991 total commitments of aid in the year 1981-1982 were $1677 million and rose to $ 3221 million in 1990-1991.

Ratio of Foreign Economic Assistance During (1991-2001)

Foreign Economic Assistance (Sources)			Commitments of Aid in US Million $		
Years	Consortium	Non-Consortium	Islamic Countries	Relief Assistance for Afghan Refuges	Total
1991-1992	1840	731	13	105	2689
1992-1993	1275	550	15	57	1897
1993-1994	1844	601	117	19	2581
1994-1995	2161	747	88	29	3025
1995-1996	1842	795	34	10	2681
1996-1997	1030	727	-	2	1759
1997-1998	1420	669	16	1	2106
1998-1999	1127	919	71	2	2119
1999-2000	247	411	5	2	665
2000-2001	1053	10	44	2	1109
2001-2002	2190	1346	379	20	3935

Economic Survey of the decade

Table 10

In the last decade of the previous century, the commitments of aid (including both disbursed and undisturbed aid) lowered slightly. The average of committed aid during the 1980s was $2168.6 million as compared to 1990s' average aid commitments $2152.3 million. There is a right but noticeable decrease depending on international circumstances. It was due to marked decline in relief assistance for Afghan Refugees. In 1991-1992, it was $105 million that deteriorated to $1 million only in fiscal year 1997-1998 and in the closing year 2002-2001 it remained at $2 million. That was peanuts as compared to $316 in 1981-1982 when the Afghan war had just started in 1980s $156.5 million average under this category that dipped to $22.9 million in 1990s.

It is worth-mentioning that with the solution of Afghan crisis in 1991-1992, the level of aid decreased. When in 1990-1991, it was $ 2499 million share of consortium countries in the next year it dipped to $ 1840 million nearly half the amount of previous year in 1996-1997, it was $1030 million and in 2000-2001, it was only $1053 million as compared to $1087 million in the 1981-1982, and $2710 million when Afghan war was taking a noticeable turn.

As compared to consortium, the percentage of commitment by non-consortium aid donors increased in this decade as against previous one. The average amount of aid during decade of 1980s remained $406.4 million as against $541.3 million during the next decade. Thus these donor agencies emerged as major players on the horizon to relieve Pakistan from impending fiscal default consortium and Islamic countries were decreasing their commitments. But IMF and WB were increasing it still in the last year 2000-2001 it was at $10 million only the amount of aid provided by Islamic countries took a downward turn averaging at $403 million as compared to $49.6 million.

Commitments VS Disbursements of Aid

Commitments have reflected a consistently increasing trend during 1989-1990, then it started lowering throughout 1990s, and touched the lowest ebb during 1999-2000 ($665 million). But in recent years rose again considerably depending on international circumstances. Quite in contrast with commitments, the disbursements as percentage of commitments have declined over time.

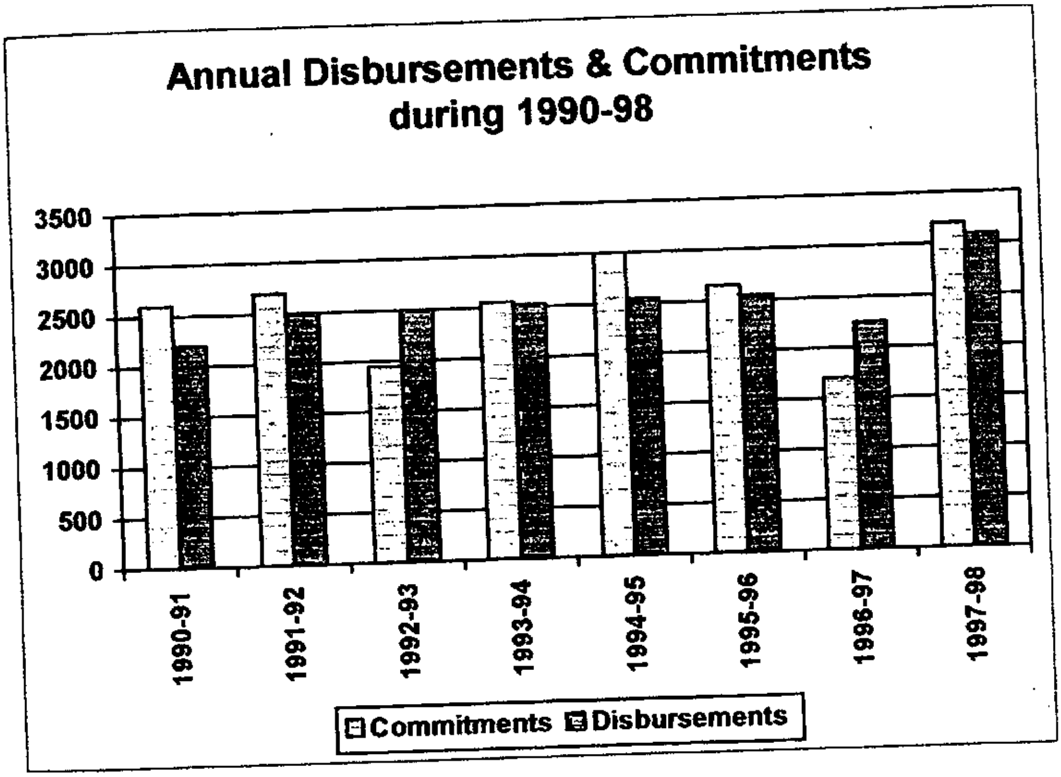

Fig. 1

The low disbursement level is attributed in 1990-1991 economic survey to the "matching funds in local currency, relatively poor quality of project evaluations, delayed submitted of appraisal reports and absence of qualified personnel to handle the complex mention work, etc. were the main reasons responsible for the low disbursements levels"

As to the share of Project VS non-project aid, it is important to evaluate because as quoted somewhere in the previous chapter that 60-80 percent (was) taken (aid money) back by US under the guise of project aid, it was a kind of tied loan provided for the completion of a specific project, with the fostered services of technical advisers selected by donor plus transport charges and expenses for provision of technical know how.

"The total amount of disbursements (excluding $0.7 billion loans repayable in local currency up to June 1991 is estimated at $ 32.1 billion, of which 56 pc in form of project and the balance 44 pc will be non-project assistance"

Besides that share of project aid in the 1990s averaged annually in the range of 55-84 %. The share of non-project aid fluctuated more widely (16-45% pc) and averaged at 27% pc per annum.

Disbursements of Project & Non-Project Aid

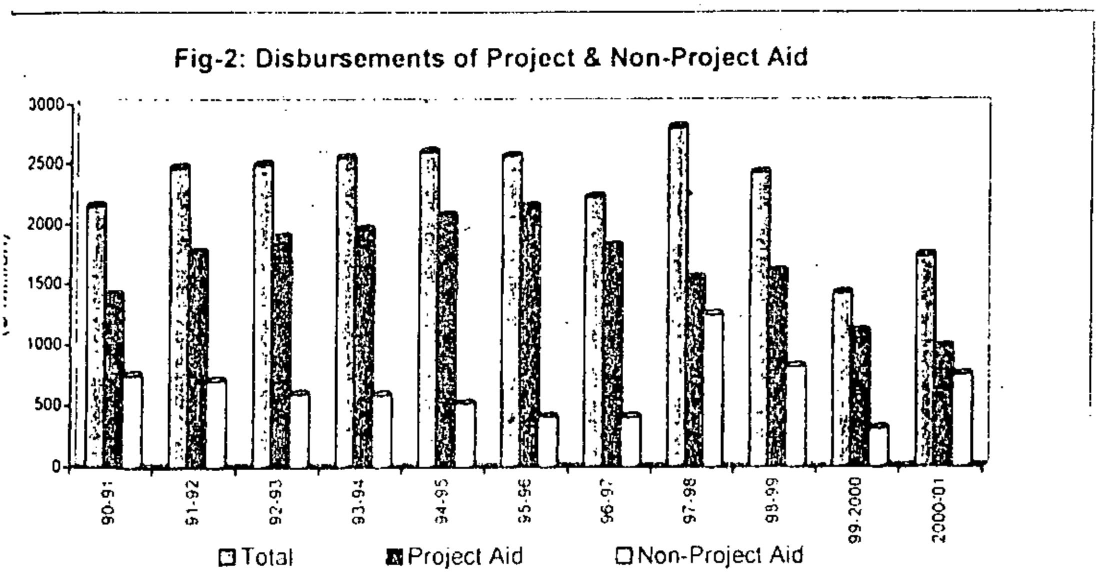

Fig.2 (2000-2001 Economic Survey p.141)

Keeping in view the empirical study done by Mahboobul Haq, an eminent Pakistani economist, that project aid provides services to the foreign experts who cost more than four local consultants. It is worth noticing that the proportion of project aid is higher than non-project aid, which is beneficial to the donor.

Debt Service Payments and Net Transfers

Debt-Servicing Definition

The aid inflows instead of being utilized to build up to the productive capacity of the economy are increasingly being utilized for debt servicing. The increased liability of debt service payments has squeezed the net inflow of foreign resources.

Accumulation of foreign debt over time has led to debt-servicing problem, particularly during the 1980s. As a combined result of maturity of loans contracted earlier and expiry of grace period of the current loans along-with shift in aid composition from aid and aid like assistance to loans repayable in foreign currency, the debt-servicing liability increased manifolds consequently net transfers of foreign aid as percentage of gross disbursements has declined tremendously over time. It was 95 pc in 1960-1961, reduced to 70 pc in 1970-1971 and came as low as 13pc during 1986-1987 mainly because of a record level of disbursements of $2,487 million.

Debt-Servicing and Net Transfer

(US $ Million)

Year	Gross Disbursements*	Debt Servicing**	Net transfer	Net transfer as % of gross disbursements
1960-61	342	17	325	95
1970-71	612	182	430	70
1980-81	861	603	258	30
1986-87	1268	1101	167	13
1988-89	2487@	1125	1362	55
1989-90	2302@	1232	970	44
1990-91(E)	1975	1342	633	32

Table 11 Economic Survey 1990-1991

Source: E.A.D.

E: Estimated
*: Excluding relief assistance for Afghan Refugees.
**: Excluding interest on short-term borrowings and IMF charges.
@: Inclusive of IMF (SAF) loan.

Debt Profile

Pakistan's disbursed and outstanding debt and debt-servicing liability almost doubled over 1980-1981 to 1990-1991 and grew at annual average rate of 6.2 pc (the debt) and 8.3 pc. (the debt-servicing) respectively during this period. These two variables also had a higher relationship to GNP and Foreign Exchange Earnings (FEE) over time. As such, the increased volume of outstanding debt and an ever increasing magnitude of debt-servicing posed a serious problem for total debt management.

This negative trend did not abate during the following decade but increased swiftly. Almost one billion US Dollar was accumulated every year in the 1990s. External debt has grown at an average of 5.4 % p.a. during the first half and almost 2.9%. p.a. in the second half of 1990s due to short term borrowing in the later half of the decade. The external debt to GDP ratio has exhibited a fluctuating trend during the 1990s. is increased from 34% in 1990-1991 to 41% in 1999-2000.

The ratio moved upwards to 43.7 % in the next year because of Paris Club rescheduling. As percentage of FEE the ext. debt has remained in the range of 252 to 327 % during 1990s positions of different countries. It is always measured in relation to some key variables. In general three indicators are used. ( )

i. External debt as %age of Foreign Exchange Reserves.
ii. Debt service as %age of GDP
iii. Debt service as a %age of export earnings

External Debt (medium and long tem)

Items	90-91	91-92	92-93	93-94	94-95	95-96	96-97	97-98	98-99	99-00	2000-01(E)
Disbursed & out-standing debt*	15,471	17,361	19,044	20,322	22,117	22,292	22,509	22,844	25,423	25,359	26,889
Debt Servicing **	1,316	1,513	1,648	1,746	2,042	2,136	2,265	2,353	1,530	1,512	1,632
-Principal	782	921	999	1,076	1,294	1,346	1,520	1,623	1,065	893	902
-Interest	534	592	649	668	748	790	745	730	465	619	730
Debt Servicing as % of Fee ***	13.7	13.2	15.3	16.2	16.5	16.7	17.6	17.6	13.6	11.9	11.9
As % of GDP											
Out standing debt	34.1	35.8	37.1	39.3	36.3	35.3	36.1	36.8	43.3	41.2	44.3
As % of Export Earnings											
Debt Servicing	21.5	21.9	24.2	25.7	25.1	24.5	27.2	27.3	19.7	17.6	17.9

Table 12 Economic Survey of Pakistan 2001-2002

- * Regular Debt (Payable in foreign exchange only)
- ** Excluding interest on short-term borrowing and IMF charges.
- *** Foreign Exchange Earning
- E: Earnings

Terms of Loans and Credits

Overtime, the terms of foreign loans and credits have significantly become harder. The terms and conditions of the loans and credits were soft during the 1960s and the 1970s, as compared to the terms of the 1950s. During the 1980s and the 1990s these terms have become somewhat harder. The rate of interest, which averaged at about 4.6 percent during the 1950s, declined to 3.3. percent during the 1960s and 1970s, but increased to 4.8 percent and 4.4 percent during the 1980s and 1990s, respectively. The payment period of the loans/credits during the 1950s was 21 years with a grace period of 2 years, which improved to 30 years with a grace period of 7 years during the 1960s, but reduced around 25 years with a grace period of 6 years during the 1970s. Repayment period, however, improved to 28 years including a grace period of 7 years in the 1980s but declined to 21 years including a grace period of 6 years during the 1990s. The terms of grant element have become quite insignificant but the aid also became donors driven i.e. on the pre-specified terms and conditions of the donors. Furthermore, the commercial loans were available only on higher interest rates. By and large, the hardening of terms reflected by higher average interest rates and lower average maturity periods of the loans have adversely affected Pakistan's external debt servicing.

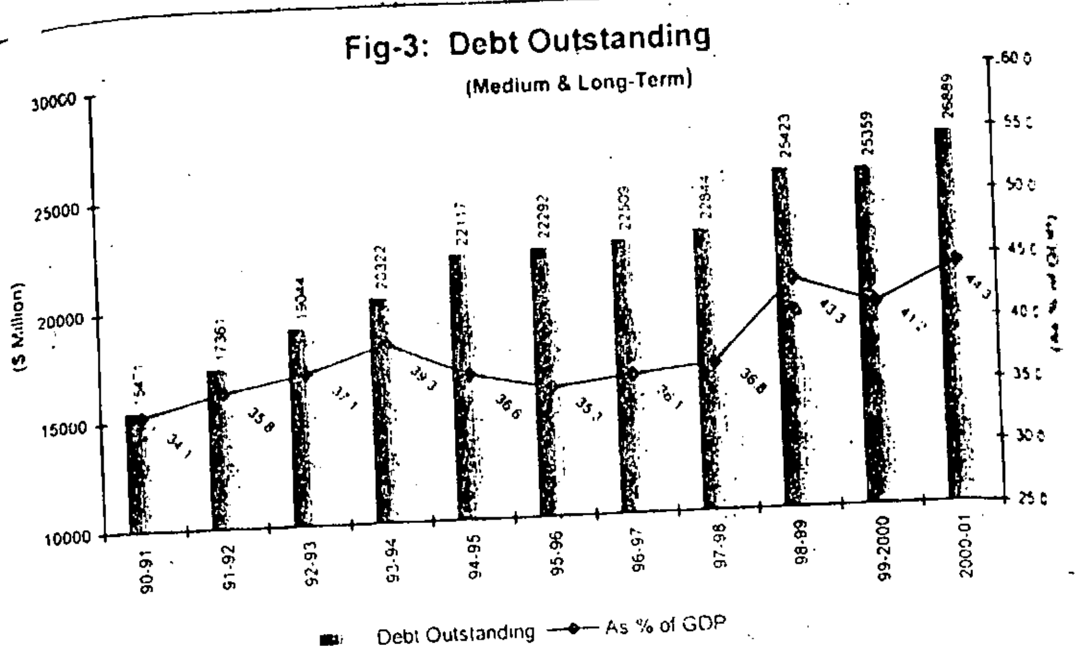

Fig 3

(2000-2001 Economic Survey)

During the 1990's the disbursed and outstanding debt increased steadily and with that the debt servicing. In the group of developing countries Pakistan is no exception as far as the external debt is concerned. The amount of debt and debt – service in absolute terms is not a meaning-ful way of comparing external debt.

Politicization of Aid

A careful examination of the facts studied against the backdrop of regional and international political scenario reveals an astonishing reality and conforms to dependency theory. *That aid is seldom given with out political motives.*

In the opening years of the two decades under study presented an upswing of aid from all quarters. The dollars and pounds inflow from various sources was there, but our debt started soaring as compared to previously accumulated debt. Because Pakistan's proximity with Afghanistan provided US with an ideal strategic ally to fight its proxy war against USSR in the region. War started in 1979 – 80 and Pakistan that had been black balled by US and its allies - tacit or explicit- (because of its nuclear programme). Now, became the blue- eyed boy of America.

For the unwavering loyalty of Pakistan, it was rewarded by huge debts on high rates. The demands for rolling back of Pakistan's nuclear programme were withdrawn. As the conflict in Afghanistan became intense, so grew the aid amount. But the end of the Afghan war and withdrawal of Soviet troops ended the euphoria of Pakistan. US friendship and the decision makers learned to their own (& nation's) cost that there is no friendship but national interest that is pursued in the foreign relations of major powers. Pak – US were unnatural partners, their honeymoon ended with a bump. The provision of F-16s were stopped (for which Pak had already paid from among its borrowed money) on the pretext of Pak's nuclear programme. Sanctions were imposed unless Pakistan guaranteed to cap and roll - back its nuclear programme. These sanctions (economic & military) were imposed on the basis of Prestler amendment that required American President to clarify a country as non nuclear state to permit it any assistance by US. In 1979, the Carter administration clarified Pakistan without any objection because Pakistan was selected as the pawn in international power game by US against USSR.

After this game was over and US satiated with the new triumph in war, it no longer had to woo Pakistan's decision makers. Pakistan's failure to satisfy America about its ongoing nuclear programme despite its constant denials resulted in cooling off the relationship. The springs of aid were drained. The debt servicing liability increased to threatening proportion. The situation worsened in 1998–1999 on words because of nuclear tests of Pakistan. The figures show a clear picture of that time. It was total $665 million committed aid in 1999–2000 and in 2000–2001; it reached $1109m as compared to $1677 million in1981-1982.But startlingly during 2001-2002 the aid commitment rose to $3935 million the highest in the previous two decades.

Only because of a catastrophic event and resultant undercurrents on international as a consequence of scenario the September 11, 2001 event and American attack on Afghanistan. It again brought Pakistan to the limelight and aid was given to woo it sanctions were removed and $1bn loan was written off.

Aid was provided not to satisfy Pakistan's needs but when it was feasible. This aid dependence has provided the donors with leverage to use it as a means of carrots and sticks policy for a recalcitrant Pakistan. The share of IMF in aid provision increased as against the western aid consortium. The IMF occupies a pivotal position in the sphere of international financial transactions and can thus influence the aid giving policies of a large number of western countries/ agencies. More over, since IMF credit is in most cases conditional on recipient countries adopting certain policies the IMF can greatly influence the pace and pattern of their economic development.

These loans are sanctioned to Pakistan government after accepting the IMF prescriptions. e.g.,

a. Lifting government subsidies on certain essential items i.e. wheat, kerosene oil and fertilizers.
b. Increasing prices of utilities particularly electricity.
c. Liberalizing imports.
d. Leasing further investment in public sector industries.

What ever the merits and demerits of IMF policy package (which in the short run would most probably be expressed in rising prices, reduced profits for investment for local manufactures of goods which are also imported and unemployment caused by reduced investment in public sector industries). The IMF has surely come to exercise significant control over domestic economic policies.

However, this dependence on foreign aid has led on the one hand to the development of an economic structure that is a far cry from the ideal state of self sustaining growth and on the other hand emergence of a rising debt burden.

The management of the large doses of aid received by Pakistan in recent years demonstrates clearly that foreign aid has neither filled the saving investment gap nor the export – import gap the two gaps it meant to fill.

The burden of excessive dependence on foreign aid has been caused largely by a combination of two factors.

1. The shift in the composition of aid from grants to hard loans has over time taken up a relatively large share of gross aid for debt servicing thereby reducing the amount of net aid available for financing imports and investment.
2. The terms aid conditions attached to tied credits have (inflicted) imposed both economic as well as political Costs on the country.

The higher price charged by suppliers in donor countries coupled with their control over economic policies have weakened the effectiveness of foreign aid as an agent of meaningful structural change in Pakistan.

Chapter 5

Chapter 5

PRIVATE FOREIGN INVESTMENT

Private Foreign Investment (PFI)

The international flow of financial resources takes two main forms.

1. Public development assistance (Foreign aid).
2. Private foreign investment (PFI). PFI is foreign direct investment by large multinational corporations (MNCs) and flow of financial capital by private international banks to the LDCs.
   i. Portfolio Investment
   ii. Direct Investments

The former refers to purely financial assets, such as bonds and stocks, denominated in a national currency. The later type is real investments in factories, capital goods, land and inventories where both capital and management are involved and the investor retains control over use of the invested capital.(1)

In the international context, the direct investments are usually undertaken by MNCs engaged in manufacturing, resource extraction, or services. These terms own, control, or manage production facilities in several countries. Direct investments constitute a major part of PFI that the portfolio investment.

The motive for this PFI is to earn high returns (possible resulting from higher growth rates abroad, more favorable tax treatment, or greater availability of infrastructure) and to diversity risks. Indeed, it has been found that firms with strong international orientation, both through export or through foreign production and of sales facility, are more profitable and have a much smaller variability profits than a purely domestic firm.(2)

MNCs are also in a better position to control or change to their advantage the environment in which they operate than are purely national firms. For example, in determining where to set up a plant to produce a component, an MNC can and usually does 'shop around' for the low-wage nation that offers the most incentives in the form of tax holidays, subsides, and other tax and trade benefits. The sheer size of most MNCs in relation to most nations also means that the MNCs are in a better position than purely national firms to influence the policies of local governments and extract benefits. MNCs can buy up promising local firms to avoid future competition and are in a much better position than purely domestic firms to engage in other practices that restrict local trade and increase their profits. MNCs through greater diversification face lower risks and generally earn higher profits than purely national firms.

Charges against MNCs

1. They dominate host country's economies.
2. They effect on nation's tastes through large-scale advertising.
3. Absorb local savings and entrepreneurial talent, thereby usurping the fair share of domestic enterprises that are really stimulant for growth and development.

There are well over 100 MNCs working in Pakistan at present. They are investing in various sectors, with their parent firm situated in some developed country. In the area that is now Pakistan, Siemens Germany was perhaps the first MNC to be established here in 1933. While ICI followed in 1942. Unilever, Shell, Burma Oil came in 1947. American and other European companies came in the second wave while Middle Eastern and South Korean companies are active in construction, commutation and other fields. The Japanese operate mainly the automobile industry like Toyota, Mitsubishi, Suzuki, Nissan, Hino and Honda.[3]

In 1990s, the governments have encouraged MNCs to invest in the country. The PPP government asked Hong Kong based companies/groups to invest in power generation. The privatization process of various sick industries, business and public sector has encouraged MNCs to invest. Recently many MNCs have begun their economic ventures. Kentucky Fried Chicken, Pizza Hut, McDonald's and Dixy Chicken. Coca Cola and Pepsi took the lead in beverages industry by opening their outlets/factories far back in 1960.

Pakistan's industry is mainly agro-based. Exxon (now energy) came in 1960, establishing urea factories. For example Hercules of USA, Massey Ferguson, Fiat, Belarus established various agro-based industrial machines units. The French based SOGEA has built Karachi airport terminal. There are also twenty foreign banks functioning in the country. One hundred and seventeen foreign investors in Pakistan represent 1/4th of total PDI, in the country. Generating annual revenue of nearly 8% of GNP (Gross National Product) MNCs employ directly 52,000 people.[4]

MNCs constitute the highest tax paying sector of Pakistan and governments in succession have been trying desperately to attract PFI, in order to enhance savings and for development. But the thing in question is not the importance of their potential to contribute to the development effort but the structural adjustment under which they operate, especially the manner in which the factors crucial to their operations are obtained and the price that is paid for them.

Terms and Conditions

There are simply no absolute or firm terms and conditions of MNCs operations in Pakistan. In its desperation to attract foreign investments every government in office has followed a policy of gradual deregulation and privatization. They are working in Oil, Gas, Fertilizers, Pharmaceuticals and Light Engineering industry. Under IMF prescriptions other areas were also opened to MNCs investments. Agricultural production, Forestry, Migration, Real Estate, Commerce, Housing, Health and Roads, Bridges, Infrastructures, Dams, Water

Management System, Communications. The following industries fall under the category of specified industries.

1. Arms and Ammunitions
2. Security Printing, Currency and Mint
3. High explosive
4. Radioactive Substance (5)

Second condition is related to the degree of profits repatriated to the country of origin by a certain MNC. The profits reaped are to be paid in an internationally convertible currency most likely dollar. But if all the profits are to be allowed to repatriate, there would be no benefit of investment to the host state. Secondly, all the negotiated percentage of profits is not paid back in hard currency. Pakistan already down on foreign exchange would lose a lot of foreign exchange in that way, so a twofold condition is set.

a) Previously 5% of the profits were to be repatriated foreign currency ($) the rest in local currency (Rupee). But now no such condition exists.

b) All the profits are not permitted to be deposited to home state. But a certain fixed amount of profits is to be reinvested in the host country for development purposes.

c) All the provincial governments have notified negative areas where project cannot be setup for reason of security, defense or environment. Outside of these negative areas, the entrepreneurs are free to setup these. Projects (without going through the formalities of obtaining NOC from the provincial government) However, if any entrepreneur is interested to setup industry in a negative area and has justification for the same, he is required to obtain NOC from the concerned provincial government(6)

Foreign investments in Pakistan have always been precarious, because of various variables.

1. Political Instability
2. Inconsistency in Policies
3. Domestic Law and Order Situation
4. Pakistan's court activities in Afghanistan
5. Political turmoil in the region
6. Armed hostilities with India

There is an intrinsic link between peace and prosperity. Investors, whether individuals and groups or conglomerate of firms and cartels of products, have always been wary of unstable conditions in Pakistan. Various coup dé-tats have led to political condemnation of Pakistan by democratic countries of the world, and have resulted in curtailment of aid.

The corollary of political instability is inconsistency of polices of government. These polices are adopted and dropped on the wishes of political leaders in office rather on practical and feasible basis. Zulifqar Ali Bhutto's nationalization policy discouraged the foreign investors and local manufacturers. Even when Zia-ul-Haq tried to normalize the economic environment He started a process of de-nationalization (a reverse of nationalization policy) foreign investors remained cautious. As the saying goes that once bitten twice shy.

Later on, Benazir Bhutto and Nawaz Sharif's policies could not help much. The scandalous issues of IPPs (International Power Producers) during Benazir Bhutto's (1989-1992) first tenure put a negative influence on these investments.

During Nawaz era investment climate improved to some degree largely because of liberalization of economic directions and of sick industrial units under IMF prescriptions. These investments again fell dangerously in post-nuclear test time because economic sanctions were imposed. Investor's confidence and investment environment has still not been restored.

On the local scene, cross-fires, sectarian violence, innocent killings, and bomb blast did not help to attract foreign investments. Security is the first step towards investments from abroad. Justice was delayed and denied and grievances were not put to an end. MNCs who aim to work in peace were unlikely to invest in these circumstances.

For over more than one decade, Pakistan's involvement in Afghanistan has earned Pakistan a bad name in the recent years. The influx of uprooted Afghan refugees and resultant drugs and Kalashnikov culture adversely affected Pakistan's investors.

Political turmoil in the region and Pakistan's alleged over active participation in it has led investors to believe that at any moment Pakistan may also plunge into this vortex. The effects of these conflicts were felt across border in Pakistan. The training schools of Jihadis were viewed with skepticism by foreigners that as to where this indoctrinated robust male youth would be utilized.

The possibility of war with India has always been hovering on the horizon. With a history of three bloody wars, one conflict, festering issue of Kashmir and constant exchange of fiery speeches and jingoistic rhetoric of states the war may erupt at any time. Nuclearization of both countries makes the matters only worse under this line of reasoning.

In order to curb this investment negative tendency, restore investor's confidence, stop flight of capital from country and to nurture an investor-friendly environment, the government has softened its policies. These new measures adopted by government in 1993, under IMF pressure, were labeled as incentives for foreign investment.

The Package of Incentives to FDI

1. The foreign firms (MNCs) avail fiscal and monetary concessions at par with their local counterparts.
2. Foreign investors are allowed to select any field of investment of their own choice without any restrictions, for instance, power generation, petro-chemical, petroleum's and gas, electronics, fertilizers, engineering, agro-based and export oriented industries and hi-tech.

Giving equal opportunities access to MNCs and local traders and manufacturers is fatal for later because MNCs are far more skilled and resourceful that local agencies or firms, there's simply no comparison between the two.

- Foreign currency loans can be obtained directly by foreign companies without Government's approval.
- Free repatriation of capital and the return on investments.
- No restriction on payment of royalty and technical fees.
- Same treatment for foreign and local investors on dividends, and interest income.
- Capital gains on investments in listed securities exempted from tax.[7]

There are no restrictions from the government on remitting back profits, facilities for maintaining foreign currency accounts, tax concessions etc. Shahid Kardar has observed this concessionary treatment in his book, The Political Economy of Pakistan, in the following words that MNCs are invited and provided all benefits under the sun. No exchange controls are imposed over the importation of machinery. Government financial institutions and banks fall head over heels to provide loans, and the foreign aid package encourages and subsidizes, such investments by financing complementary public infrastructure investment. The other sectors of economy earn the foreign exchange to meet the import requirements of MNCs. There is also a misallocation of scarce resources (Foreign exchange, skilled labour, etc) which in turn curbs the growth of the agriculture sector and increases the polarization of wealth between rich and poor.(8)

Costs of Investment by MNCs

1. Monopoly in the market.
2. Overpricing of goods (Headquarters)
3. Repatriation of exorbitant sums of money.
4. Selling out local enterprises.
5. Pharmaceuticals using poor as guinea pigs.
6. Connections with the high fly.
7. Emergence of a new value system and consumption pattern.

1. Monopoly in the Host Market

MNCs establish their monopolies in host countries. Their subsidiaries and agencies purchase the agricultural produce or semi manufactured items from open market. For instance, cotton, tobacco, onions, rise etc. Mostly these are the things of common household use but also required by MNCs as well in that field. MNCs offer high prices of these products to the grower directly and the growers\manufacturers lured by the chance of earning more profits, happily sell their produce to the MNCs concerned.

Now, if these MNCs, for example, purchase all the best quality cotton from the market or any other edible item, a crisis situation would occur; price of that commodity would go up. And the common man would have to pay more for his need.

This is an artificial crisis situation that establishes the monopoly of MNC in that sector. It may resell that good on a high interest rate earning more profit, or may charge more for it indirectly in the form of finished product.

2. **Overpricing of Goods:**

A concomitant effect of market monopoly of MNCs is the overpricing of products. The mechanism of patents in medicines industry or buying of raw material from local market provides MNCs with an opportunity to raise prices.

3. **Repatriation of Exorbitant sums of Money:**

An empirical study on role of MNCs in Pakistan revealed the profits repatriated as a percentage of actual investments. The results were staggering in almost all the cases; they were more than 100% and in 5 cases greater than 200%. But if the transfer pricing effect is assumed to be a minimum of 100% profits repatriated as a percentage of actual investment in the case of pharmaceuticals it appears to be greater than 300% (Per cent).(9)

These profits are repatriated in hard currency. Pakistan always short of foreign exchange reserves faces a gigantic loss of precious foreign exchange. In order to honour its commitments with MNCs, the country has to request for more loans. 'These loans are usually extended on commercial interest basis.'(10)

Repercussions of contracting new loans for an overburdened economy like Pakistan have been discussed in previous chapter and there is no need to delve into it now. Need is to pinpoint the linkage between the two. The creditor and the investor are facilitating the operation of one an other only to reap their respective benefits and keeping an under developed economy like Pakistan dependent on them.

4. **Selling-out local Enterprises**

The local enterprises that are still flourishing and may offer a promising future are, in no way a match to MNCs, which have an international financial and management repute. The resourcefulness of MNCs results in buying out the local competitors, thereby, the local industries and manufacturing the real assets for the country are bartered away by these intrusive actors.

5. Pharmaceuticals treating the peoples as Guinea Pigs

With their headquarters in developed countries they face severe limitations to their experimentations in the developed states. They avoid health hazards there that may erupt into scandals and affect their amount of profits. The developing countries like Pakistan provide ideal outlets for their research and development activities. But in fact, these governments seem to be grateful to these medicine companies. These pharmaceuticals market their newly made drugs even if has been rejected. The results are objected by the researchers in developed countries. The people are used as guinea pigs for these drug tests. It may result in health hazards, but the ignorant and sick people are just gratified for these medicines without knowing the costs, that may be their life as well. Aids, Cancer and other incurable diseases as yet are cured in developing countries through the newly launched drugs of these pharmaceuticals. Shahid Kardar in his book "The Political Economy of Pakistan" examined the activities of those MNCs in Sri Lanka which are working in Pakistan right now in the field of Medicines.

"The MNCs used all sorts of propaganda measures and pressures to ensure the failure of the experiment. There were false reports in the press and rumours prospered. However, no evidence was produced to prove these rumours and the need stop the experiment. In one case, even the US Government applied pressure to product of these MNC. It should be noted that almost all the companies operating there (Sri Lanka) are operating in Pakistan today".[11]

6. Connections with the high fly

MNCs in order to gain more benefits and facilitate their activities in the host country get involved in local politics. They establish connections with pressure groups and lobbyists provide support to aspiring politicians to win elections. In the long run this would pay them in more concessions.

They give generous gifts and kickbacks to the bureaucrats in order to obtain tenders and construction projects or for other financial gains. Shahid Karder sums up this phenomenon in following words.

"Moreover, vested interests in the form of local capitalists, bureaucrats (through their sons employed with TNCs) etc. Provide a powerful lobby. Their rosy futures are linked with the operations of TNCs. Therefore they instinctively form perfect allies who vociferously defend the profits and practices of TNCs.[12]

7. Emergence of a new value system and consumption patterns

MNCs who initially started their venture in a far flung area/region very often bring foreign tastes and textures to the host nation. Now, they use colourful advertisements and media technology to attract a large clientele all over the world. These MNCs ensconced in the developed states symbolize fashion and status in their related field. Local tastes and cultural patterns are rendered redundant against this foreign onslaught. Gradually, population from all sections of society becomes user and consumer of these new more efficient services, and appetizing food. Local hoteliers and restaurant owners face a set-back and their profits start falling down and with that the GDP of the nation as well.

New values deeply entwined with the liberal market economy start taking roots. In the name of Globalization and universally cherished life-style, these MNCs organize festivities and parties. Youth in developing countries in particular is beckoned to attend these feasts e.g., celebrating valentine's day. Besides that now prevalent practice among international food chains to hire female waitresses is against the values of conservative Pakistani society.

MNCs have been employing Pakistanis on higher salaries as compared to the others of the same qualifications and even sometimes more experienced employed in local public or private organizations.'[13]

Result is the sharpening of class cleavages in society.

8. Miscellaneous Effects

These MNCs have a proclivity to flex their muscle in the body politic of the country. It has been suspected that through the employees of MNCs (which include foreigner and local alike) the intelligence data is collected and sensitive information is gathered and manipulated. Strings are held to mould and influence business tycoons, bureaucrats, feudal lords and politicians of the country.[14] Bechtel, an American based MNC, started its construction operations in Pakistan in late 1980s and remained busy till 1990s.

The strategically sensitive area of Baluchistan was selected for research and development. Financing was done through loans and aid money solicited from World Bank. The bedrock of the plan was the build roads network, airport and water management in under developed and uncultivated area of Baluchistan. After years of toil and incessant efforts, an incomplete road network was built. Sensitive information, mapping of the area and surveillance activities were carried out. These intelligence reports later on help the United States the Wheeler and dealer of international politics to utilize it against that state.

Among other concomitant effects are, MNCs discourage local business because of their monopoly in the market. Shahid Kardar has stated very aptly, that these MNCs "tend to create and diffuse a consumption-oriented value-system ill-suited to the needs of a developing country. This and the blind faith of governments in the market, and the status quo of income distributions tend to perpetually reproduce the dependency socially, economically and psychologically.[15] In Pakistan the governments have failed to regulate the price index of the MNCs who supply, assemble or manufacture spare parts, medicines and other consumable goods, because the decisions are taken in the headquarters which are outside Pakistan.

A few years back, following a liberal market economy line, nearly all the restrictions were removed. This policy intended to give incentives to foreign investors, handed a carté balanche to the MNCs for their market maneuvers. This policy measure brings into question the quality of decision making, the fourth variable to examine dependency in Pakistan.

The Decision Making in Pakistan

The phenomenon of dependency never takes place without the collaboration of local decision makers and elite at the helm. Dependency is a post-colonial occurrence that forgoes direct armed assault as an option for exercise of power. In fact, it requires the tacit or explicit assistance of local appendages as well. Identification of interests among these local foreign elements leads to the perpetual (Politico-economic) slavery of the state in question. So, keeping in view these facts, the decision makers of the victimized country cannot be absolved of their share of advertant or inadvertent follies.

While carrying out their responsibilities, the decision makers in Pakistan are influenced by some variables. These variables are:

1. Political instability
2. Adhocism
3. Dependence on easy money
4. Economic mismanagement
5. Bias against local traders/manufacturers (the gora-sahib syndrome)
6. Clandestine nexus between bureaucrats and their foreign clients
7. Usurping of National exchequer
8. Miscalculated priorities

1. Political instability

In Pakistan, political instability has become chronic and cyclical. In previous chapters under the heading of political instability, emphasis was laid on the connection between stability, certainty and trade, investment and economic growth. Now, a totally different dimension of this factor is under close review.

Persistent political instability, praetorianism and toppling of elected government have imbued political leaders with a strong feeling of insecurity. The governments come into power in Pakistan, after spending (investing) millions of rupees in election campaigns and political give and take. Still, they have to from a coalition government. It tries hard to appease military and other contenders of power. Still, the possibility of its ouster from office lurks in the minds of leaders at the helm. Against this backdrop of power struggle, the politicians responsible for key offices and departments try to make most of this opportunity. They have to save money for their re-election, also. That results in rampant corruption. These political leaders are preoccupied with retaining the source of their prestige and authority i.e, their public office. Issues of national importance like economic management on productive lines take a back seat.

2. Adhocism

It implies the tendency among government officials to take a decision on a shot-term or temporary basis. When a long run foolscap picture is not taken into view than the policy formulated to remedy the impending crisis is mere window dressing. Adhocism has been festering the political economy of Pakistan. Instead of retiring its debt every government in office has grown to rely on foreign aid. Because they do not want any crisis as far as is in office on leaving the office, they are not concerned. Actually the previous government turned opposition harangues the government in power about the policies and issues similar to its own term in office.

Adhocism reflects that the leaders have never been ready to overhaul the economy completely and take independent decisions for its long term prosperity. The policies adopted for the time being only extend the disaster but never remove it.

3. Dependence on easy money

Pakistan has immersed in the quagmire of debt so deeply that even for debt-servicing and paying the installments of loans, it has to contract more loans.

The goal of bridging the imbalance of payments and saving-investment gap is no-where in sight.

The decision makers lack the political will to go for austerity measurers, instead of a cut-on luxury items in our imports, or cutting short the lavish life-styles and facilities of the elite class, the leaders decide in favour of more loans. These loans increase the hard currency deposits to required level and the country avoids default on its foreign obligations. The ignorant masses are beguiled into a belief that the crisis has been averted because of the prudence of government whereas in reality, it is only financial jugglery, or a deception.

Because loan means that it is to be repaid with interest. Shot-term or long term, soft or hard loan, it only entangles a developing country in the tentacles of International lending institutions. Easily available aid money, though not without substantial costs relieves the leaders and the fellowmen of the tough efforts, they, otherwise, would have done.

4. Economic mismanagement

Whatever aid package is handed to the government of Pakistan with stringent terms and conditions, that is readily accepted without weighing its cost. The policy of liberalization of trade and reduction of trade barriers is a prescription or rather condition by donor agencies to qualify for more loans.

Though, a developing economy like Pakistan requires protection from government but government treats foreign investors more affectionately and provides them better facilities than domestic manufactures. That is step-motherly treatment to local manufactures. Because they do not have enough resources at their disposal to compete with MNCs. As a consequence of liberal trade policy imports are welcomed and it results in widening balance of payments gap and intrusion of IFIs to rescue the country.

Many Pakistani scholars and economists are crying their throats hoarse that WTO (world trade organization) and liberal trade policies are not beneficial for Pakistan's economy. Its domestic market would be flooded with foreign goods far more superior in quality than locally processed ones. But the plenipotentiaries in Pakistan the main beneficiaries of aid-money have been following blindly to the IMF prescriptions. Because they cannot risk IMF's displeasure and incur its wrath. The economic management of ruling elite is affected by the patterns of patronage, kinship and a personalized way of doing things.(16)

5. Bias against local traders/manufacturers (the gora-sahib syndrome)

Centuries of colonial rule (in Pakistan's case it was 90 years direct colonial rule in the United India) has instilled in the minds of colonized people a reverence for their white overseas masters. They try to follow their each gesture, every jesticulation. Their minds have been cast into a colonial mould. This centuries of training by colonial ruler does not instantly end with the renunciation of colonial rule. The nation that once ruled the colonies is appreciated and copied. The brown previously colonized people are always in awe of their erstwhile gora sahib (who no matter exploited them and distorted their psyche). History of post-colonial societies is replete with such examples.

After independence or decolonization, the colonies looked towards their colonial masters for economic, technical political guidance. Pakistan being no exception, invited some foreign technicians as part of an aid package to undertake some projects. Still other advisers were requested to pave the economy on developmental lines. The second group of advisers was termed as the "Harvard Advisory Group'.(17)

It divided country into two sectors:

i- Leading Sector with infrastructure and fertile land (West Pakistan).

ii- Lagging sector with no viable infrastructure, rain-drenched forests and cyclone-prone climate (East Pakistan).

It was advised to local management that to spend precious earnings in the lagging sector would be an utter waste of wealth. All the investments and industrial establishments should be setup in leading sector. This policy was followed tooth and nail. Hardly few years passed, that the world witnessed the growing disenchantment between two wings of Pakistan and the separation of East Pakistan.

Besides that, the people under strong illusion of all-the-wise white race that dominates the world and international financial architecture must revisit Joseph Stiglitz, the ex IMF chief, who criticized the policies of IMF fiercely in his book "*Globalization and its Discontents*".

The IMF follows the same policy everywhere in the world and does not pay much need to local imperatives and differing symptoms. Diagnosis remains the same. Uniformity of IMF policies and its rigorous measures resulted in economic collapse in Mexico in 1992-93, and later in Argentine during 2001-2002. The IMF official and mostly foreign personnel have little knowledge of local customs and tradition that is essential for their successful project implementation.[18]

While foreign investors, (MNCs) have encouraged, the domestic investors have not been encouraged. Except for some political reasons sometimes. The subsidies on key items are removed, strapping these sectors of government support and revenues have been increased. General sales tax (GST) has been imposed on various edibles and things of daily use. Enhancing the cost of life and making it more miserable for common man.

These measures have been adopted under the guidance and "demand" of IMF. (a Gora Institution).

6. Clandestine nexus between bureaucrats and their foreign clients

Bureaucrats and technocrats carry out various policy plans and offer proposals and suggestions. They are the backbone of state apparatus. These mandarins are the sure target of foreign investors and donors. In a country, like Pakistan, with authoritarian traditions, absence of transparency and lack of accountability, the bureaucratic network in much more powerful. Politicians are illiterate and rely mainly on bureaucrats for technicalities. It widens the domain of a public servant and when these officials are contacted by some person for a favour in exchange for kickbacks or gifts, they are ready to do it. Corruption, and the misuse of public office have become pervasive. Besides, that Shahid Kardar in his book, The Political Economy of Pakistan, notifies that the corrupt and dishonest practices are not restricted to just bureaucratic level but moves up the ladder.

7. Usurping of National Exchequer

Petty corruption exists everywhere in the world, with high or low ratio. But the main culprit of public trust is the top most echélons of power. This type of corruption has been found in underdeveloped and developing countries, particularly.

In Pakistan corruption is noticeably rampant and affects all institutions of the state not even sparing Zakat Committees, or the religious establishment. The revenues are not collected properly, the official responsible "settles" the matter to the satisfaction of tax evaders in exchange of money.

Unfortunately, the prime ministers in Pakistan, Benazir Bhutto and Nawaz Sharif exploited the national treasury and embezzled exorbitant amounts of wealth. In Ms. Bhutto's Case, purchases of estate in suburbs of London and siphoning off aid money to foreign bank accounts were highlighted. Nawaz Sharif was also no angel. In his second tenure his policy of self-reliance encouraged Pakistanis at home and abroad to contribute as much as they could afford to national treasury to get rid of their dependence on donors. As he was ousted from office in 1999, no one knew what happened to that ambitious policy and public wealth.

Another incidence of corruption involving the same Prime minister highlighted that a $3 billion loan provided by a Japanese bank for social action program (SAP) in 1997 was usurped by him. On later enquiry, no proof was found as to where this money was spent. Actually it was directly deposited in the foreign bank accounts of Nawaz Sharif.

The efforts for accountability in Pakistan have not been very successful. The process of accountability launched few years ago, was obstructed by authoritarian pattern of decision making and lack of transparency. Institutions responsible for digging out the cases of corruption have been a vehicle in the hands of used power brokers. These are for political witch-hunting and personal vendetta.

8. Miscalculated priorities

For the development purpose the loans, aid and external financial assistance were obtained. The projects which were undertaken by the government to utilize this aid money were not of much development importance. Huge sums of borrowed wealth are spent to building infrastructure of little economic values. Instead of connecting the far off villages to nearby market, highways and motorways are created. The ruling groups want highways for their cars, not lanes through muddy settlements, demand water for houses with plumbing not for those in shacks, they want airports for flights abroad, not bus service to bring squatters to jobs, hospitals, and schools must be built where the well off live, clinics and classes in the slums can wait.[19]

The same has been happening in Pakistan. The presence of lavish housing schemes coexist with slums and "Katchi Abadis', plazas and the shopping malls cater to the needs of the privileged few and the cheap Sunday markets with makeshift shop are there for poor. Because of these wrongly set priorities the incidence of poverty has risen.

The aid and debt money have gone down the drain without any hope for return of profits. The miss-spent money has resulted in mal-development and burgeoning debt burden, shackling Pakistan's economy tightly to the whims of their patrons abroad. This discussion on the role and quality of decision making in Pakistan throws the light on the shenanigans of ruling elite as well.

In fact, the mess the Pakistan's economy finds itself in is due not to the meddling and interference of the IMF (although that does exacerbate the Problem), but is largely of our own creation. In order to ensure their extended survival, governments do not touch controversial issues such as agricultural income tax and military spending. Instead, they rush to the IMF for financial assistance, in order to delay the day of reckoning. They acquire loans to meet their revenue gap, so that unpleasant measures can be avoided. In this if the people of Pakistan have a voice, it must be directed at criticizing the wrongdoings of their elected representatives, not the officials of an international bureaucracy. By blaming the IMF (and other donors) we (Pakistanis) are simply letting our governments off the hook.[20]

Dependencia in Pakistan – An Analysis:

The variables discussed at length in chapter four and chapter five have substantiated that Pakistan over the years has became a victim of Dependencia. Because of the glaring economic shortcomings, the country is immersing deeper and deeper in the debt quagmire and that is casting a shadow on its political sovereignty as well. The in-depth study of these variables reveals that one factor leads to another and reinforces the pattern of dependency. A vicious circle of dependency has ensued that is very difficult to break from.

Imbalance of payments because of Pakistan's few export and more imports occurred in the early years of its establishment. The project aid and commodity assistance were also offered to Pakistan in these early years. Since then, growing reliance on foreign economic assistance has been providing the temporary bail out of crises. Even the policy making since Ayub era has been done under the guidance of foreign consultants. The division of Pakistan into leading and laging sectors for development culminated in widespread economic disparity and separation of East Pakistan.

These foreign consultants are conditioned to be employed as part of the tied or project aid, give the impression that they have been invited by the government to get the country out of dire straits and that they have been selected by the world financial institutions to rule this country as if this is a conquered territory.

Any attempt by government to assert its independent however minor results in severing of aid. It is noted in the daily down, dated October 20, 2000, that the World Bank has taken a serious view of Pakistan government's policy to discourage appointments of foreign consultants in foreign-funded projects has informed the government that this condition was simply "unacceptable" to the Bank.

This and such types of conditions are attached with aid package and concomitantly 50 t0 60% percent of aid money goes back to the donor.

Since quite some time, IMF and World Bank group, the ground stones of International Financial structure have come to reserve Pakistan's economy. In order to upgrade its economic performance Pakistan has been asked to adopt certain measures as part of the aid packages. They aim at securing the return of the debt and regular debt-servicing to the donor.

1. They decide to cut back expenditures on development
2. Expand tax net (mainly for middle income people)
3. Imposition of GST raises the cost of life for poor man.
4. Reduce and gradually remove tariff and trade barriers.
5. By means of reducing trade barriers, they indirectly encourage more imports, deliberately increasing the Bop Gap.
6. Downsizing of the government and resultant unemployment.

The debt-servicing expenditure has increased than the disbursements of debt, and the government has to borrow afresh to repay the part of the past debts. Well, the more debt the more dependence. A large part of foreign exchange earnings, depletes every year of MNCs.

MNCs and donor agencies have pressurized and tempted the governments in Pakistan at the same time. Under the carrots and sticks policy (Promise of more aid and investments, personal gratifications and curtailing of aid) have led the decision makers in Pakistan to give into external pressures.

Besides that all the governments in Pakistan have misused the foreign lending and never tried to live within means. The government has been unable to keep a lid on non-development expenditures in the face of less than projected income. When faced with a difficult situation, these decisions makers readily accept the loans on tough conditions. This economic and political exploitation has continued unabated.

Chapter 6

Chapter 6

CONCLUSIONS AND PRESCRIPTIONS

Harry Magdoff, in his book "The Age of Imperialism" has stated that eighty percent of aid/loan goes back to the donor (in terms of personnel services transportation, technical and shipment cost) 15 percent is embezzled and only five percent is utilized in the country. [1]

This is exactly the story of dependencia. Dependency theory a post-colonial explanation emerged in late 1970s. This scholarly effort was a part of the attempt to explain the relationship between developed and less developed states that had resulted in phenomenon of neo-colonization. At present, dependency theory is ignored by some as a shibboleth and is criticized by others as Pro-Marxist.

The research conducted on strictly neutral basis. With the help of the government data available it has been evidently proved that dependency is very much a reality. It's neither an obsolete theory nor Pro-Marxist because the soviet socialist utopia proved to be as much exploitative as any other developed country. Review of Sino-Soviet relationship in its first decade (1949-1959) after China's communist revolution is enough.

The purpose of this treatise is neither to harangue capitalism nor support Marxism, but to explain the internal dynamics of Pakistan's political economy that combined with some exogenous variables have worked to the detriment of Pakistan's sovereign status. Foreign aid instead of being a milestone as it has turned out to be a yolk round the neck of nation that drowns it in the debt-quagmire.

The government remains desperate for the IMF's pittance to retain a modicum of legitimacy in world's capital markets. Foreign economic assistance and foreign private investments have been motivated by political considerations. Country's economic management has transcended into next related realm of politics.

Being an aid recipient country, Pakistan has been left with limited choices of decision making in domestic and external environment. From Harvard Advisory group headed by Papnek to Prestler amendment, Pakistan has been pushed to the wall in the realm of economy whose political consequences have outdistanced the economic ones.(2)

USA, the hegemon of the world and chieftain of emerging global village leads the developed countries of the world. International financial institutions are also run according to America's desires and interests.

Relationship of Pakistan with the actors in international arena is largely affected by its interaction with USA. America patronized Pakistan by providing commodity assistance and project aid (SCARP) in the early years. These were grants or concessional loans but with the gradual passage of time the terms and conditions became severe and tough to fulfill. The lenders from the developed world are getting harder to appease and tougher to negotiate with.(3)

History of Pakistan's relations with donors enunciates that the assistance is provided in exchange of Pakistan's unequivocal stance conforming to American interest. After joining SEATO and CENTO, Pakistan qualified for America's project aid. Whenever the decision makers tried to show their own mind and assert their independence, they were made to see the reality and they realized the futility of their efforts.

Pakistan has had to face hot waters because of its nuclear program. Economic sanctions and suspension of aid come in its wake. Pakistan's firm support to US stance during Soviet invasion in Afghanistan, earned Pakistan the title of America's friend and the $4.02 billion of aid. After soviet defeat and subsequent withdrawal from Afghanistan, the Pak - America relation went into cold storage. US adopted a diabolical stance on Kashmir issue. America's direct attack on Afghanistan in September 2001 required Pakistan's support that followed the disbursements of more loans from other sources as well.

Foreign aid, borrowing and the roles of MNCs have acted negatively in the country and have fostered the conditions of dependency. This whole discussion would be futile if a strategy to reverse existing situation is not presented.

Four variables have been operationalized to find out the reality incase of Pakistan.

3. Loans and Borrowings.
4. Foreign Aid.
5. Role of MNCs.
6. Investments.

Their operationalization on Pakistan has brought forth that Pakistan is in a serious mess. The history has established that but the period since 1980 is full of contradictions on the policy implementation in the country. Zia-ul-Haq used Afghanistan issue to obtain economic resources through explicit or under world (Intelligence related) dealings. He tried to generate conditions to respond to debt servicing and keep the balance of payment. He had been making efforts to please donors, particularly the United States, but could not succeed. Nawaz Sharif and Benazir have been stuck in the Tug-of-War. They could not follow policies to bring the country out of the trap. Nawaz Sharif did take some steps like privatization of sick industrial units as well as business concerns; development and encouragement of private sector; and stabilize the political system but failed. In his second tenure, he launched 'safe the country,' movement. It was to pay the installment of debt-servicing. The long term policies to develop sustainable economic development could not be carried out.

Pervaiz Musharaf is only obeying the policies of IMF and the World Bank. He is so much tightly roped up that he cannot take bold steps to get out of it. On the one side, he is vocal about economic nationalism but on the other, he is running here and there and negotiating with agencies and countries to get more loans.

Prescriptions

The goal of the state management should be sustainability. Maintenance of sustainable development refers to productivity without jeopardizing the future of coming generations. This sustainability is best achieved through a policy of self-reliance.

In order to reduce the debt-burden as well as to develop a self-reliant economy free of whims and wishes of donors, the economy must be thoroughly restructured. This can be achieved if a long-term development strategy towards achieving self reliance is initiated and sacrifices and benefits of this are equitably distributed amongst the people and regions of the country.

As a matter of fact, Pakistan has to take the following steps to come out of it.

1. Indoctrinate the people about economic nationalism. One of the dimensions is to use indigenous products.
2. Austerity programme is to be followed.
3. Savings at individual and national levels.
4. Formulate policies to make our economy sustainable.

Some of the steps towards self-reliance are proposed below.

1. Encourage Domestic Saving

Lavish expenditures be controlled and tax net should be tightened for those who have amassed large amount of wealth.

2: Productive Economy

Economy should be paved on productive lines. Indigenous industries should be facilitated and promoted.

3: Austerity Measures

In order to break out of this economic impasse, the country needs to adopt rigorous measures. Excessive consumer culture is to be controlled somehow. The luxury items imported by Pakistan only cater to the demands of a small elite class.

Cosmetics, Jewelry, clothes, footwear, and these all tell heavily upon the meager foreign exchange earnings.

Besides, Pakistan will have to undergo a lot of belt-tightening measures. Especially, defense expenditures and other non-development expenditures, which no government uptil now has seamed to be inclined to reduce, need to be curtailed and controlled.

REFERENCES

Chapter One

1. Dos Santos, 'The Structure Of Dependency', The American Economic Review, May, 1970. PP. 231-32

Chapter 2

1. Lucian Pye,
2. Robert C. North and Nazli Choucri,
3. Cortez
4. John Baylis and Steve Smith. 'Globalizalrion of World Politics' (UK: Oxford University Press, 2001) P. 207
5. Wolfgang J. Mommsen, 'Imperialism And After: Continuities And Discontinuities' (Sydney : Allen & Urwin (Pb) Ltd., (1986), P-351
6. Paul A Baran and Sweezy, 'Monopoly Capital: An Essay On American Economic And Social Order', (New York: McGraw Preview Press, 1966) P. 375
7. Paul Baran, 'The Political Economy Of Growth', (New York, Modern Reader Paper Book ,1968) P. 221
8. Wolfgang J. Mommsen, 'Theories Of Imperialisms', (Chicago: University of Chicago Press, 1980) P. 133
9. Andre Gunder Frank, 'On Capitalist Underdevelopment', (New Delhi: Oxford University Press, 1976) P. 107-109
10. Andre Gunder Frank, 'Capitalism And Underdevelopment In Latin America: Historical Studies in Chile and Brazil' (London: Oxford University Press, 1969) P. 343
11. Harry Magdoff, 'The Age Of imperialism: Economics of US foreign Policy', (New York: Oxford University Press, 1969) P. 166
12. Wolfgang J. Mommsen, 'Op. Cit', 1980, P. 138

13. Ibid. P. 139
14. Ibid.
15. Ibid. P. 135
16. Ibid. P. 137
17. Javeed A. Sheikh, 'Pakistan; A Classical Case Of Dependency'. Journal of Political Science, Vol. xx Summer-Winter 1997. P. 1
18. Mahmood Awan, 'Foreign Capital And Development; The Pakistan Experience' (Washington, D.C. University Of America Press, 1977) PP. 297-281.
19. Anwar Iqbal Qureshi, 'Economic History of Pakistan' (Lahore: Pakistan Economic Book Service, 1978) PP. 348-378
20. Javeed A. Sheikh, Op. Cit., P.2
21. Hassan Gardezi and Jamil Rashid, ed. 'Pakistan: The Unstable State', (Lahore: Vanguard Books Ltd., 1983) P. 4
22. Ibid. P. 17

Chapter 3

1. Shahid Kardar, 'The Political Economy of Pakistan', (Lahore: Progressive Publishers, 1987) P. 258
2. Ibid.
3. Ibid. P. 259
4. Ibid. P. 260
5. Mahbub-ul-Haq, 'Tied Credits: A Qualitative Analysis In Capital Markets And Development', ed. T. H. Adler, (London: McMillan, 1967) P. 39
6. Hssan Gardezi and Jamil Rashid, 'Pakistan: The Unstable State', (Lahore, Vanguard Publishers; 1983) P. 7
7. Ibid. P-8
8. Ibid.

9. Javeed A. Sheikh & Nasreen Javeed , 'Dependency: A Classical Case Of Pakistan' Journal of Political Science, Vol . xx : Summer Winter of 1997. No 1. 2. P. 10
10. *Pakistan Times*, Jan 11. 1971.
11. Shahid Kardar. Op. Cit., P. 60
12. Ibid. P. 270
13. Ibid. P. 271
14. Ibid. P. 280
15. Javeed A. Sheikh, Op. Cit., P. 16

Chapter 4

1. Rhodes.
2. Kindlberger.
3. GATT to WTO; An Impact On The Third World Comtries.
4. S. Akbar Zaidi, 'Issues in Pakistan's Economy'. (NewYork: Oxford University Press, 1999.) P. 161
5. Ibid. P. 159
6. Ibid.
7. Ibid. P. 171
8. Ibid. P. 170
9. Ibid. P. 171
10. Ronaquejahan, 'Pakistan: Failure of National Integration' (New York: Columbia University Press, 1972) P. 220
11. John Adams and Shiba Iqbal, 'Exports, Politics and Economic Development in Pakistan', (Lahore: Vanguard, 1987.) PP. 29-30
12. World Bank, 'Pakistan: Growth Through Adjustment', Report No. 7118-Pakistan Washington, 1988. PP. 63-64
13. Zaidi, OP. Cit., P. 173.
14. Zaidi, OP. Cit., PP. 182-183.

15. G. K. Helleiner. Et Al., '<u>IMF Adjustment Policies And Approaches And The Needs Of Children</u>', World Development Journal, Vol. 19, No. 12 1991, P. 1825.
16. <u>Ibid.</u>
17. <u>Ibid.</u> P. 56.
18. Shahid Kardar. <u>OP. Cit.</u>, P.24.
19. Viqar Ahmed and Rashid Amjad, '<u>The Arrangement of Pakistan's Economy 1947-82</u>', P. 303
20. <u>Ibid.</u> P. 304

Chapter 5

1. Dominik Salvatore, '<u>International Economics</u>', (New York: McMillan Publishers, 1990.) P. 345.
2. <u>Ibid.</u> P.347
3. <u>Ibid.</u> PP. 355-356
4. Qais Aslam, '<u>Globalization, Multinationals And Pakistan's Economy</u>'. P. 11
5. Economic Survey (1993-1994)
6. <u>Ibid.</u>
7. <u>Ibid.</u> P.23
8. Shahid Kardar, '<u>The Political Economy of Pakistan</u>', (Lahore: Progressive Publishers, 1987.) P. 305.
9. <u>Ibid.</u> P. 307
10. Javeed A. Sheikh, '<u>Pakistan: A Classical Case of Dependency</u>', Journal of Political Science. Vol. xx Summer-Winter, 1997. No. 1,2, P. 11.
11. Shahid Kardar, <u>OP. Cit</u>., P.303
12. <u>Ibid.</u> P.306
13. Benjamin I. Cohen, '<u>Multinational Firms And Asian Export</u>', (New Heaven: Yale University Press, 1975) PP. 131-141

14. Javeed Ahmad Sheikh, OP. Cit., P. 11
15. Shahid Kardar, OP.Cit. P. 297
16. S. Akbar Zaidi, 'Issues In Pakistan's Economy', (Karachi: Oxford University Press, 1999) P. 438
17. Hassan Gardezi & Jamil Rashid, 'Pakistan, The Unstable State' (Lahore: Vanguard Publishers, 1983) P. 18
18. Joseph E. Stiglitz, 'Globalization and Its Discontents', (London: The Penguin Publishers, 2002) P. 320
19. Najmul-Saqib Khan, 'New-Economic Factors in Development', The Pakistan Development Review (Winter 2000) Vol. 39. P. 720
20. Zaidi, OP. Cit., P. 329
21. Ghulam Asghar Khan, 'A New Crop of Financial Wizards'. Daily, 'DAWN', Tuesday Nov. 14, 2000.
22. Shahid Javeed Burki, 'Point And Wizards Counterpoint', Daily 'DAWN', FEB. 13, 2001.
23. Daily 'DAWN', Oct. 29, 2000.
24. John T. Rourke, 'International Politics On The World Stage', (6th Ed) (US: McGraw Hill, 1997) P. 418
25. Joshua S. Goldstein, 'International Relations', (New York: Harper Collins College Publishers, 1994) P. 312.
26. Ibid. P. 1104
27. Goldstein, Op. Cit. P. 375.
28. Ibid. P. 531.
29. Ibid. P. 377
30. Shahid Kardar, 'Political Economy of Pakistan' (Lahore: Progressive Publishers; 1987) P. 296.
31. P. T. Bauer, 'Equality, The Third World And Economic Delusions', (London: Weidenfield and Nicholson Ltd., 1981) PP. 146-147
32. Ibid. P. 1106

33. Ibid.

34. Joseph E. Stiglitz, 'Globalization And Its Discontents' (London: The Penguin Press, 2002) P. 166

35. Mommsen, OP. Cit.,1986. P. 347

36. Ibid. P. 329

Chapter 6

1. Harry, Mgdoff, 'The Age of Imperialism: Economics of US Foreign Policy',
   (New Yark: Oxford University Press, 1967), p.320

2. Javeed, A.Sheikh, 'Dependecy: A Classical Case of Pakistan', Journal of Political Science, Vol. XX. Summer-Winter 1997, No.1,2, pp.7-8.

3. Daily 'Dawn', Dec., 04-10-00.

4. Viqar Ahmed and Jamil Rashid, 'The management of Pakistan's Economy 1947-1982, (Karachi: Oxford University Press, 1986) P.320

BIBLIOGRAPHY

Books & publications

Adams, John, and Shiba Iqbal, 'Exports, Politics and Economic Development in Pakistan,' Lahore: The Vanguard Publishers, 1987.

Anell, Lars and Birgitta Nygren, 'The Developing Countries and the world Economic Order,' London: Methern & Co. (Ltd.), 1980.

Awan, Mahmood, 'Foreign Capital and Development Process: The Pakistan Experience,' Washington, D.C. University of America Press, 1977.

Ahmed Viqar, & Rashid Ahmjad. 'The Management Of Pakistan's Economy, 1947-82', Karachi: Oxford University Press, 1986

Jahan, Rounaque, 'Pakistan: Failure in National Integration', New York: Columbia University Press, 1972.

Baran, Paul A. and Paul M. Sweezy, 'Monopoly Capital; An Essay On American Economic and Social Order', New York: Monthly Review Press, 1966.

Baran, Paul A. 'The Political Economy of Growth', New York: Modern Reader Paperback, Ed. 1968.

Bauer, P.T., 'Equality, 'The Third World And Economic Delusions', London: Weidenfield and Nicholson Ltd, 1981.

Bauer, P.T. and B. S. Yamey, 'The Economics Of Under Developed Countries', Cambridge: Cambridge University Press, 1957.

Baylis, Jahn and Steve Smith, 'The Globalization Of World Politics', UK: Oxford University Press, 2001

Becker, David G., Jeff Fridden and Sayce P. Schatz, Richat L. Sklar, 'Post-Imperialism: International Capitalism And Development In Late 20th Century', Colorado: Lynne-Reinner Publishers Ltd., 1992.

Benjamin, Frederic, 'Economic Aid To The Under-Developed Countries', Toronto: Oxford University Press, 1961.

Brown, Seymon, 'New Forces, Old Forces And The Future Of World Politics: Post-Cold War Edition,' New York: Harper Collins College Publishers, 1995.

Burnell, Peter, 'Economic Nationalism In The Third World', Sussex: Wheat Sheaf Book Ltd., 1986.

Chacholiades, Miltiades, 'International Economics', USA: McGraw Hill, Inc., 1990.

Cohen, Benjamin I, 'Multinational Firms and Asian Exports,' New Heaven: Yale University Press, 1975.

Corbridge, Stuart, Ed., 'Development Studies: A Reader,' USA: Halsted Press, 1967.

Dasgupta, Ajit K., 'Economic Theory and the Developing Countries', London: MacMillan Press Ltd., 1979.

Davis, Jonathan T. ed. 'Forbes' Annual Review Of Today's Leading Businesses', New York: John Wiley & Sons, Inc., 1997.

Dell, Sydney, 'Policies For Development' London: MacMillan Press Ltd., 1988

De Silva, S.B.D., 'The Political Economy Of Underdevelopment', London: Routeledge & Kegan Paul Ltd., 1982

Dixon, Chris, 'South East Asia In World Economy', Cambridge: Cambridge University Press, 1991

Frank, Andre, Gunder, 'On Capitalist Underdevelopment', Bombay: Oxford University Press, 1976

Frank, Andre, Gunder, 'Capitalism and Underdevelopment in Latin America: Historical Studies of Chile and Brazil', London: Oxford University Press, 1969

Frey, Bruno S., 'International Political Economy', Oxford: Basil Blackwell Pb. Ltd., 1986

Gardezi, Hassan and Jamil Rashid, 'Pakistan: The Unstable State', Lahore: Vanguard Publishers, 1983

Ghouse, Agha M., 'The Economy of Pakistan: A Review', Businessmen's Seminar, Nov. 20 – 23, 1961, Assembly Chambers, Lhr.

Gilpin, Robert., 'The Political Economy of International Relations', New Jersey: Princeton University Press, 1967

Goldstein, Joshua S., 'International Relations,' New York: Harper Collins College Publishers, 1994

Gough, Ian, 'The Political Economy of the Welfare State', Surrey: Urwin Brothers Ltd., 1979

Haq, Mahbubul, Tied Credits, 'A Quantitative Analysis in Capital Movement and Economic Development', London: McMillan Press, 1967

Haque, Irfanul, 'A Compendium Of Pakistan's Economy', Karachi: Royal Book Co., 1987

Hasan, Pervez, 'Pakistan's Economy at the Crossroads: Past Policies and Present Imperatives', Karachi: Oxford University Press, 1998

Helleiner, G.K. et al, 'IMF Adjustment Policies And Approaches And The Needs Of Children', World Development Review, Vol. 19, Nov. 12, 1991, P. 1825

Hussain Ishrat, 'Pakistan: The Economy of Elitist Class', Karachi: Oxford University Press, 1999

Iqbal, Dr. Munawar, Ed., 'Pakistan State of the Economy: A Long Run Perspective', Islamabad: Institute of Policy Studies, Sep. 1989

James, William E, and Suhroto Roy, Ed., 'Foundations of Pakistan's Political Economy: Trends and Agenda for the 1990s', Karachi: Oxford University Press, 1992

Kardar, Shahid, 'Political Economy of Pakistan', Lahore: Progressive Publishers, 1987

Kegley, Charles W. and Eugene R. Wittkopf, 'World Politics: Trends and Transformation', New York St. Martin Press. Inc., 1997

Khan, Shahrukh Rafi, '50 Years of Pakistan's Economy. Traditional Topic and Contemporary Concerns', Karachi: Oxford University Press, 1999

Kitching , Garith, 'Development and Underdevelopment in Histoncal Perspective,' UK: Routledge Publishers, 1989.

Magdoh, Harry, 'The Age of Imperialism: the Economics of US. Foreign Policy,' New York: Oxford University Press, 1969.

Meier, Gerald M. and James E. Rauch., 'Leading Issues in Economic Development,' New York: Oxford University Press, 2000.

Mommsen, Walfgang J., 'Imperialism and After: Continuities and Discontinuities,' Sydney: Allen & Urwin (Pb.) Ltd., 1986.

Mommsen, Walfgang J. Translated by P. S. Falla., 'Theories of imperialism,' Chicago: University of Chicago Press, 1980.

Nasir, M. Saeed and Syed Kamal Hyder., 'Economics of Pakistan,' Lahore: ILMI Book House, 1993.

Nayak, Pandav. 'Pakistan Political Economy of a Developing State,' New Delhi: Patriot Publishers, 1988.

Nester, William, 'International Relations,' USA, Wordsworth Group, 2001

Noman , Omar, 'The Political Economy of Pakistan: 1947-85,' UK: Routledge & Kegan Paul , 1988.

Norqine J. and A. Gonzalez, ed., 'The Third World: States of mind and being,' Winchester: Urwin Hyman, Inc., 1988.

Obminisky, Ernest, ed.,'Economic Problems of development Countries,' Bamglore: Sterling Publishers Pvt. Ltd.,1988.

Qureshi, Anwar Iqbal, 'Economic History of Pakistan,' Lahore: Pakistan Economic Book Service, 1978.

Qureshi, Anwar Iqbal, 'Economic Problems Facing Pakistan,' Karachi: Pak Publishers Ltd., 1971.

Rosenberg, Nathan & L. E. Birdzell., 'How the west Grew Rich: The Economic Transformation of the Inderstrial world,' London: Basic Books, Inc., 1986.

Rourke, John T. and Mark A. Bayer, 'International Politics on World Stage,' USA, Megraw hill Co., 1996.

Roxborough, Ian, 'Theories of underdevelopment,' London: The Macmillan Press Ltd., 1979.

Santos, Theotonin Dos, 'The Structure of dependency,' the American Economic Review, May, 1970.

Salvatore, Dominik, 'International Trade,' New York, McMillan Publishers, 1990

Seers, Dudly, 'Dependency Theory: A Critical Reassessment,' London: Francess Printers Ltd., 1983.

Simpson S.E., 'The Developing world: An introduction,' UK: Longman Group, 1987

Staley, Eugene, 'The future of Underdeveloped Countries: Political Implications of Economic Development,' New York: Harper and Brothers, 1961.

Stiglitz, Joseph E. 'Globalization and Its Discontents,' London: The penguin Press.2002

Szentes, Tamas, 'The Political Economy of Underdevelopment,' Budapest: Akademiai Kiado, 1971

Thakur, Devendra, ed., 'Foreign debt and Third world Development,' New Delhi: Deep & Deep Publishers, 1993.

Uri, Pierre, 'Dependence Without development,' New York: Praeger Publishers,1976.

Warren Bill, 'Imperialism: Pioneer of Capitalism,' Norfolk: Thetford Press Ltd., 1985

Zaidi, S. Akbar, 'Issues in Pakistan's Economy' Karachi: Oxford University Press, 1999

Ziring Lawrenece, 'Pakistan in the Twentieth Century: An Anthology', Karachi: Oxford University Press, 2000

Research Articles & Journals

Ahmed, Javeed & Nasreen Javeed, Dependency: A Classical Case of Pakistan, Journal of Political Science VOL. XX. Summer Winter of 1997, No.12. PP. 1-20

Chaudhury, Ali Farhan, Debt. Trap, Published in Pakistan and Gulf Economist July 22, 28-2002.

Chandhury, Mohammad Aslam, And Sbahat Anwar, Foreign Debt Dependency and Economic Growth in South Asia, The Pakistan Development Review (Winter 2000) Vol: 39. PP. 551-570

Parenti, Michael, Imperialism, Encyclopedia of Government and Politics. Ed.Mary Hawkesworth and Maurice Kogan, Vol. 2. London Routledge 1992. PP 1099 1113.

Ghayur, Sabur, IFI, Conditionalities Poverty Reduction and Employment, The Pakistan Development Review. (Winter 2001) PP. 435-451, VOL. 40 Pb: Pakistan Institute of Development Economics, Islamabad.

Hasan, Parvaiz, Pakistan's Debt Problem its Changing Nature and Growing Gravity. The Pakistan Development Review, (Winter 1999) Vol. 38. PP. 435-475. Pb: Pakistan Institute of development Institute of Development Economics, Islamabad

Khan, Najamul Saqib, Nen Economic Factors in Development

The Pakistan Development Review (Winter 2000) Vol. 39, PP.715.725 Pb: Pakistan Institute of Development Economics Islamabad.

Khan, Shahrukh Rafi, Has Aid Helped in Pakistan? The Pakistan Development Review An International Journal of Development Economics, Winter 1997, VOL.36. PP. 947-957. Pb. Pakistan Institute of Development Economics, Islamabad

Nunnenkamp, Peter, Developing Countries' Attractiveness for foreign direct investment debt overhang and sovereign Risk as Major Impediments, Winter 1991, Vol: 30, PP. 1145-1158, Pb. Pakistan Institute of Development Economics, Islamabad

Pakistan's Public Debt (Particularly External Debt Management), Pakistan Administrations: A Journal of Pakistan's Administrative staff College, Vol. 37, No,2, (July –Dec.2000), PP. 103-123

Rahim, sikandar, Globalization, Pb. The Lahore Journal of Economics, Vol. 3, No.1, June, 1998, PP. 21-45

Rahim, Sikandar, What is the Neo-Classical Theory of International Trade?, The Lahore Journal of Economics, Pb. at Lahore School of Economics, Vol: 4,(Jan-June 1999) PP. 89-113,

Shirazi, Yusuf H., Reconstruction of Pakistan Economy: An Entrepreneur's view Point, The Pakistan Development Review Pb. Pakistan Institute of Development Economics, Islamabad, (Winter 2001) Vol.40, PP. 901-909

Talha, A. M., Foreign Deft Burden who is responsible?,In daily 'Dawn' 4th Feb., 2002

Zaman, Arshd, The Economics of Stateless Nations: Foreign Debt and Popular Well-Being in Pakistan, The Pakistan Development Review, (Winter 2001) Vol. 40, PP. 1121-1134

World Bank Report, Pakistan: Growth Through Adjustment, Report No. 7118-Pakistan, Washington, 1988.

"Aid Linked To fulfilling IMF Commitment," Dawn, 25, April, 1996.

"The IMF Shows its displeasure," The Herald, March 1996.

"High Cost of IMF Vigilance," Dawn, 13, April 1995.

Daily Pakistan Times, January 11. 1971.

Daily 'Dawn,' Oct. 29, 2000

Khan, Ghulam Asghar 'A New crop of Financial Wizards,' Daily 'Dawn' Tuesday, Nov. 14. 2000

Burki, Shahid Javed 'Point and Counter Point,' Daily, Dawn, Feb. 13, 2001

Daily Dawn, 'Time for 'Economic Politics,' 4,-6, 2000