



History of U.S Economic Support for Pakistan 1950-88

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ABSTRACT

On August 14, 1947, Pakistan was officially established. Pakistan has maintained friendly relations with the United States ever since it gained independence. However, after that, the relations were like a game of hide and seek; they went from harmony to discord and back again, alternating back and forth between the two states. The researcher has made an effort, based on the primary topic of research that they have been working on, to chronically enlist the important events, agreements, and coordinations that have occurred between the two countries. The primary focus is on the economic aid that was provided by the United States to Pakistan, which brought this region to the forefront of attention in the wake of regional stability. The United States of America refashioned its relations with Pakistan in order to achieve certain personal motivations. Following a thorough examination of the pertinent published material, the researcher arrived at the upbeat and optimistic conclusion that the bilateral ties between the two nations will continue to improve in the years to come.

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1. Introduction

US President Truman on the occasion of the presentations of credential by Pakistan first Ambassador to the United States, 8 October 1947. We stand ready to assist Pakistan in all appropriate ways which might naturally benefit our two countries and the world (Arif, 1984). In early 1950's the US had delineated a program known as Marshall Plan; which aimed at the recovery of Europe and extending assistance to various Asian countries. After the partitions the US immediately extended an invitation to the Prime Minister Liaquat Ali Khan to visit the Washington. The USSR had also extended the invitation to Pakistan for visit the Moscow by Prime Minister Liaquat Ali Khan. But Liaquat Ali Khan preferred to visit Washington which confirmed Pakistan's tilt towards the west (Rabbani, 2005). Discussion of U.S influence in Pakistan was high in the mid-1950s because they shared joint interests at that time (Tahir-Kheli, 1982).

The United States is the leading donor of aid to Pakistan; it accounted for 19.3 percent of all the loans and 40.8 percent of all the grants Pakistan contracted over the period 1951-52 to 1987-88. At present the US accounts for 11.8 percent of loans and 36.3 percent of grants, which shows the declining role of the US as a source of economic assistance. Because of sharp increases in aid received by Pakistan from the OPEC countries, and primarily very small net disbursements of US Aid and rising debt service payments to the US, the percentage of Pakistan's total outstanding debt owed to the United States has consistently fallen since 1972. The decline has been even sharper since June 1977. Over the ten-year period from 1977 - 1987, only \$558 million has been disbursed on a net basis, that is \$55.8 million per year on average. In fact, the net disbursements of loans and credits have been negative in some years. The US has the largest and most technologically powerful economy in the world with the per capita GDP of \$37800. In this market most oriented economy, private individuals and business firms make most of the decision, and service predominately in the private market place (Malik, 2008).

2. Development and Material

Pakistan's share of the United States' total official development as assistance has also declined sharply, from 6.1 percent in 1965 to only 1.0 percent in 1981. This decline began in 1965, soon after the war with India, and became more pronounced after 1977, when Pakistan and the US had incongruent objectives, especially relating to the acquisition of nuclear technology. US aid to Pakistan picked up again only after 1981, when the Soviet invasion of Afghanistan prompted the US to offer a new aid package to Pakistan (Khan, 1990). The US economic assistance to could be seen in the following table:-

Table 1: Pakistan's Outstanding Debt to the US

Year	\$ Millions	Net transfers through loans + Credits (\$ Millions)	US Percentage of Pakistan's Total Debt
June 1972	1477.5	-	35.2
June 1973	1811.9	334.4	38.0
June 1974	1929.3	117.6	34.6
June 1975	1899.7	-29.8	28.6
June 1976	2062.6	162.9	27.4
June 1977	2311.9	249.3	28.0
June 1978	2331.3	19.4	25.3
June 1979	2422.4	91.1	23.5
June 1980	2443.1	20.7	21.7
June 1981	2528.6	85.5	22.3
June 1982	2642.3	113.7	22.5
June 1983	2724.6	82.3	22.0
June 1984	2737.87	13.2	21.2
June 1985	2918.0	180.2	20.8
June 1986	2928.1	10.1	17.9
June 1987	2945.1	17.1	16.2
Dec, 1987	2869.9	-75.2	14.6

Based on data from Economic Survey, Ministry of Finance, Economic Adviser's Wing, Government of Pakistan, Islamabad, and various issues

Table 2: Pakistan's Share of US official development assistance

Years	Total US Assistance (& Million)	Pakistan's Receipts (\$ Millions)	Pakistan's Percentages
1960	2702	141.5	5.2
1965	4023	243.7	6.1
1970	3125	120.9	3.8
1975	4139	130.6	3.1
1979	4684	127.4	2.7
1980	7179	150.5	2.1
1981	5782	58.7	1.0
1982	8246	173.0	2.1
1983	8359	309.0	3.9
1984	8684	228.7	2.6
1985	9294	250.1	2.7

Source: World Bank, World Development Report (New York: Oxford University Press, 1988), and unpublished data obtained from the Economic Affairs Division, Government of Pakistan, Islamabad.

The decline in Pakistan's share of US development assistance is even more pronounced. Reports that on a net basis Pakistan's share US official development assistance fell from 6.1 percent 1965 to 3.1 percent in 1975, and to less than one percent in 1981. It may also be noted that even though Pakistan is considered to be a major beneficiary of US aid, Pakistan has received only 3.9 percent of total US assistance while Israel, Egypt, Korea, and Turkey accounted for 26.8, 20.5, 5.2, and 4.2 percent, respectively, of total US assistance. For details see Zaman (Zaman, 1985).

3. Loan and Funding Deals with US

Pakistan earmarked on a major development program in 1955 through the initiation of its first five-year plan. Pakistan's resources were rather limited and any major efforts to raise levels of per capita income necessitated foreign assistance. However, only limited amounts of aid were

available from the US and other developed countries through the end of the fifties. In the second plan period (1960-65), however, Pakistan received sufficient aid to finance its development effort. Care taker government appointed Shahid Javed Burkey the vice president of World Bank, as its economic advisor, accepting the demand of IMF (Rafique, 2012).

Table 3: Share of US in Economic Assistance Contracted by Pakistan

Years	US Economic to Pakistan (\$Millions) Total	Annual average	Total economic assistance contracted by Pakistan (\$Millions) Total	Annual average	Percentage of total economic Assistance from US
1951-52 to 1954-55	244.2	61.1	335.9	84.7	72.1
1955-56 to 1959-60	752.2	150.4	1032.3	26.5	72.9
1960-61 to 1964-65	1662.8	332.6	2979.2	595.8	55.8
1965-66 to 1969-70	1280.5	256.1	2897.3	579.5	44.2
1970-71 to 1977-78	1265.3	158.2	6993.6	874.2	16.1
1978-79 to 1982-83	819.1	163.1	7477.0	1495.4	11.0
1983-84 to 1987-89	2033.6	406.8	11467.0	2293.1	17.7
Total	8057	217.8	33185.2	896.8	24.3

Based on, Economic Survey 1967-88 op.cit.

The table shows increasing level of US aid up to 1964-65, falling and depressed levels of US aid from 1965-66 to 1982-83, and a sharp rise in loans and grants contracted from the US over the last five years. US aid to Pakistan rose sharply during the mid-sixties, averaging \$334.6 million per year. The importance of US aid in Pakistan's economy during this period may be gauged from the fact that US aid amounted to one third of Pakistan's foreign exchange earnings from exports and financed almost 20 percent of Pakistan's investment. The increased US aid up to the mid-1960s was, however, accompanied by a decline in the percentage of Pakistan's total assistance that came from the US, essentially because the European countries also committed aid to Pakistan in significant amount during the period (Khan, 1990). The increased interest of other countries in the development process of the third world countries has been due to a number of factors, including the enhanced capacity of the European economies to provide economic assistance, the United States calling upon its allies to assist in the development process of the less developed countries and much more importantly, the pressure applied by the third world countries to enhance the aid flows. The balance of payment of country is systematic records of all economic transactions between the resident and reporting country and the resident of rest of the world over a specific period of time (Malik, 2008).

Table 4: Loans and Credit contracted by Pakistan with the US

	Loans and Credits Contracted with US (\$Millions) Total	Annual average	Total Loans and Credits Contracted (\$Millions) Total	Annual average	US percentage of Total Loans and Credits
1951-52 to 1954-55	63.1	15.3	121.3	30.1	51.9
1955-56 to 1959-60	279.3	55.9	456.1	90.9	61.5
1960-61 to 1964-65	900.0	180.0	1961.4	392.9	45.9
1965-66 to 1969-70	895.3	179.1	2270.6	454.1	39.4
1970-71 to 1977-78	1055.2	131.9	6278.0	772.3	17.1
1978-79 to 1982-83	679.9	135.0	5701.8	1152.4	11.8
1983-84 to 1987-89	1025.6	205.1	8591.9	1738.4	11.8
Total	4898.3	132.4	25439.1	687.5	19.3

Source: Economic Survey 1987-88 op. cit.

One major alternative to market economy is centrally planned in which political authorities set price and decide to quotas for production and consumptions of each commodity according to the long term plan (Goldstein, 2008). Not only did US economic assistance to Pakistan decline

but the decline in grants was more pronounced up to 1982-83. However, the increased economic assistance from 1952-83 to 1987-88 was largely in terms of grants, and the amount of loans increased less sharply, as shown in Table 4.

Loans contracted by Pakistan declined somewhat from 1965-66 to 1969-70, but fell sharply from then onwards until 1982-83. During the period 1965-66 to 1978-79, major declines in US assistance came from withdrawing US grants programs. In the period 1978-79 to 1982-83, however, the cuts in aid came in both loans and grants. Even though loans and credits contracted rose sharply from 1983-84 to 1987-88, the amounts fell short of the totals of the 1960s in real terms. The loans and credits, on a basis, are very small even in nominal terms. The United States works to gather with its regional friends and other allies to protect mutual interest. (E.Rose, 1987, p. 50). Grants fell even more sharply than loans, from an annual average of \$152.6 million from 1960-61 to 1964-65, to \$77.0 million from 1965-66 to 1969-70, to only \$26.3 million and \$27.8 million in the periods 1970-71 to 1977-78 and 1979-80 to 1982-83 respectively. However, US grants increased sharply during the period 1982-83 to 1987-88 (see table 5).

Table 5: Grants Contracted by Pakistan

	From US (\$Millions) Total	Annual average	Frol and Countries (\$Millions) Total	Annual average	Percentage share of US
1951-52 to 1954-55	181.2	45.3	217.6	54.4	89.3
1955-56 to 1959-60	472.9	94.6	578.2	115.6	81.8
1960-61 to 1964-65	762.8	152.6	1017.8	203.6	74.5
1965-66 to 1969-70	385.2	77.0	626.7	125.3	61.5
1970-71 to 1977-78	210.1	26.3	815.5	101.9	25.8
1978-79 to 1982-83	139.2	277.9	1715.2	343.0	8.0
1983-84 to 1987-88	1008.0	201.6	2775.1	555.0	36.3
Total	3159.4	85.4	7746.1	209.34	40.8

Based on, Economic Survey, op.cit various issues.

The more rapid decline in grants than in loans and credits contracted has resulted in declining share of grants in the United States economic assistance to Pakistan. (See table 6). Whereas the share of grants fell from 74.9 percent in the first half of the fifties to 45.9 percent in the first half of the sixties, the declining share was offset by an increase in volume. However, sharper falls in the share of grants in subsequent years were due to fall in the volume of US grants to Pakistan. Over the period 1983-84 to 1987-88, however, the share of grants increased significantly and to roughly the levels of the sixties. The United States were the only promising source of assistance. Emerging from the second world war with its economy intact, it was the wealthiest nation in the World accounting for over 40 percent global production (A.Basit, 2010; Sattar, 2010).

Table 6: Grants as a percentage of US Economic Assistance Contracted by Pakistan

Period	Percentage
1951 -52 to 1954-55	74.9
1955-56 to 1959-60	62.9
1960-61 to 1964-65	45.9
1965-66 to 1969-70	30.1
1970-71 to 1977-78	16.6
1978-79 to 1982-83	27.0
1983-84 to 1987-88	39.2
1951-52 to 1987-88	39.2

Based on, Economic Survey, op.cit. various issues

The declining importance of grants and the maturing of loans have led to sharp increases in debt servicing. (See table 7). With falling disbursements and rising debt servicing, the net inflow of US capital has been rather small, as noted earlier. The United States and Pakistan will continue to economic cooperation with each other's (Jain, 2007).

Composition of debt depends both on the pattern of aid disbursements as well as the maturities of different loans. Therefore, the composition of debt outstanding may not necessarily show the pattern observed in aid disbursements as has been brought. Agriculture is the largest production sector of Pakistan's economy, accounting for one quarter of output and one half of employment. Even though agriculture has realized an average growth rate of around 4 percent over the last ten years, it has largely been due to higher levels of input and expansion of cultivated areas. Productivity levels remain low, and there is an urgent need to institute measures to improve them. These measures would include optimal combination of inputs and an emphasis on research and extension. The United States has provided such assistance to Pakistan in the past and it is quite encouraging that the share of agriculture in US aid commitments and disbursements is increasing. American aid to Pakistan continued throughout the 1980s at the annual rate of more than \$500 million. Opposition to the aid policy, however, had developed in the congress with the knowledge that Pakistan was continuing its economic program (Rai, Walsh, & Best, 1997).

Table 7: Servicing of US Debt (\$Millions)

	Principal	Interest	Total
1975-76	18.4	13.5	31.9
1976-77	2.4	21.3	43.7
1977-78	18.9	35.6	44.5
1978-79	27.2	37.2	64.4
1979-80	75.4	60.9	136.3
1980-81	81.6	52.8	134.4
1981-82	23.2	23.1	46.3
1982-83	75.1	68.4	143.5
1983-84	104.7	75.1	143.5
1984-85	129.8	77.7	207.5
1985-86	135.5	78.8	214.3
1986-87	169.8	76.9	246.7
1987-88	146.2	76.1	222.3

Source: Economic Survey, op.cit. 1987-88.

US assistance has focused on the development and strengthening of agricultural institutions in Pakistan. Through the provision of equipment and technical assistance, agriculture universities at Faisalabad, Tando Jam, and Peshawar have been strengthened and at the Peshawar Agriculture University, field research and extension have been integrated with the teaching programs. The Arid zone research institute in Quetta has similarly benefited. US assistance has also helped in forging long term relationships between Pakistani agricultural researcher and institutions such as the International center for wheat and maize improvement (CIMMYT) in Mexico City, the international food policy research institute (IFPRI) in Washington, and the international center for agricultural research in dry areas (ICARDA) in Aleppo. Similarly, to help in extension services, USID is helping national agriculture research center (NARC) in Islamabad to establish a multimedia studio to better publicize and bring to the farmer agricultural breakthroughs. The US assistance program during 1982-1987 essentially financed the project known as Management agricultural research and technology (MART), which has the following five components, research management and administration, information transfer training, and zone research, and wheat and maize coordinated programs. The project cost \$31.85 million, of which the US accounts for \$30 million (A.Basit, 2010).

There is no doubt that the US aid program have provided Pakistan with access to improved technologies and brought home the importance of institutions and extension services, but the programs that are heavily inclined toward PL-480 have a negative impact on agricultural development in Pakistan. They led to neglect of the agricultural sector from the fifties to the late sixties and development of the edible oils sector in Pakistan is being neglected even at present. In June 1969, a sixteen year \$ 27.8 million project was initiated to strengthen agricultural research, increase production and improve the income of small farmers, 197 research scientists and administrators where trained abroad, and \$ 4.4 million of research equipment was provided. A number of research institutions were established and twelve nationally coordinated agricultural research programs were started.

Also part of agricultural development, the \$18.4 million on farm water management program was started in October 1976 and lasted ten years. The goals of the project were to increase agricultural production, improve farmer income and establish public and private sector capabilities to deliver on farm water management services. These included improving irrigation, precision land leveling and improvement of crop and water management practices. In all 1,319 watercourses were improved, 74,857 acres leveled, 156 government employees were financed for overseas training, and 8,723 government employees and farmers were trained in Pakistan. For model and demonstration farms (one in each province), training centers and a media resource center were established.

Pakistan has one of the world's largest and most complex irrigation systems. The United States has helped Pakistan in the construction Mengla, Tarbela, and small dams and barrages. At present, USAID is assisting Pakistan through irrigation system management and on farm water management. Water resources have claimed 4.7 percent of total aid committed. In view of its importance, Pakistan requires more commitment of US resources in this vital sector. Manufacturing is the leading sector of Pakistan's economy but accounted for less than 5 percent of US assistance. That it's would be low is to be expected, because the largest source of capital inflow into manufacturing industries is foreign private investment. However, as shall be seen later, even US private investment in Pakistan has been rather small (Kux, 2001). Pakistan has pressing health concerns, and there must be an emphasis on preventive approaches and community health care, as they are most cost effective. In collaboration with the Ministry of Health and with other donors, such as UNICEF and the world health organization, US assistance was effectively utilized to nearly eradicate malaria. An estimated 21 million malaria cases have been prevented as a result of this program, which successfully, controlled what could otherwise have become one of Pakistan's major health problems. In recent years, preventive programs have been effectively implemented to immunize children against whooping cough, tetanus, measles, polio, etc. eight health technician training schools emphasizing preventive health approaches have also been completed.

Pakistan's population growth rate of 3.1 percent is one of the highest in the world. The US is providing technical assistance to strengthen family planning services in Pakistan, especially the innovative communications and social marketing activities. Pakistan's development depends on meeting its sharply growing demand of energy. Energy requirements consume more than 20 percent of Pakistan's foreign exchange earnings; therefore, there is a need to use energy more efficiently and to develop indigenous energy sources more rapidly. USID, together with WAPDA and the Asian development bank, is working to build a major new 900-MW combined cycle power plant at Guddu in upper Sindh and to improve the efficiency of WAPDA is new power distribution wing. A computer system has been introduced for computer aided planning and design. A distribution training institute has also been established. Already more than 30,000 WAPDA personnel have received in country training as part of this effort to improve operational efficiency. US assistance is also being provided for WAPDA's energy loss reduction program and to improve the efficiency of WAPDA and KESC power plants (Khan, 1990).

Coal is increasingly seen as an energy resource for the future. Exploratory drilling by the Geological survey of Pakistan, assisted by the United States geological survey, is dramatically increasing provisional reserves of coal in Pakistan. Feasibility studies for Pakistan's first coal fired power plant at Lakha have also been completed. Coal related equipment has been provided to the Pakistan Hydrocarbon Institute and the Fuel research center at the Pakistan center for scientific and industrial research in Karachi. US assistance has been used in new oil and gas exploration as well. Similarly, the efforts of provincial forestry departments to encourage farmers to grow more fuel wood crop have also received support from the US. A national energy conservation program, an energy conservation center (ENERFON), and an energy wing within the Ministry of Planning have been established (Kux, 2001).

4. Conclusion

In order to assist Pakistan in developing its economy, the United States encouraged the country's government to reduce subsidies in the areas of food, energy, transportation, and agriculture. This was done as part of the private sector development initiative. In many instances, financial assistance was conditioned on the implementation of internal reforms that reduced the role that the government had in the economy. Concurrently, Pakistan became eligible for funding from the International Monetary Fund (IMF), the World Bank, and the Asian Development Bank

(ADB), which is mostly earmarked for the private sector. In 1988, the Reagan administration devised a plan to spend four billion dollars over the course of the next six years. The initial assistance package that had been provided to Pakistan in 1981 consisted of economic and development assistance to the tune of fifty percent and concessional foreign military sales to the tune of fifty percent. The aid package that was passed in 1988, on the other hand, allocated 57% of its funds to economic help and 43% to military assistance. The second package consisted of terms that were more lenient in order to prevent Pakistan's debt burden from becoming even more severe.

The destitute but strategically crucial western provinces of the federally governed Tribal Areas, as well as the North West Frontier province and Baluchistan, benefited from the economic support in the form of developed cities and infrastructure. Because of the high concentration of refugees and the burden that this puts on the infrastructure, tensions had the potential to erupt in these border regions with Afghanistan. In addition to this, these regions have a long history of being centres of separatist sentiment and tribal violence, both of which have the potential to make the country more unstable. Washington's push for legislative reforms and development of the private sector occurred concurrently with the provision of American aid to Pakistan. These were successful in achieving such policies as reduced restrictions on private sector edible oil imports, reduced monopoly control of the Ghee corporation of Pakistan in buying cotton seed oil (edible oil accounts for 10% of imports), increased private sector share of imported fertiliser distribution from less than 10% to 50% with a goal of 60%, deregulation of production and distribution of nitrogenous fertiliser, and gradually increased water rates until operation.

After the United States, Japan, the World Bank, and the Asian Development Bank contributed a combined total of \$954.2 million to Pakistan's economy through development assistance in 1988, the United States Agency for International Development (USAID) was the country's greatest donor. USID was responsible for \$ 205 million, or 21% of the total. USID had the largest technical team of any donor in Pakistan, and it collaborated with the World Bank and the Asian Development Bank on the funding of projects and the establishment of the conditions that were connected to those programmes. The United States of America, along with the World Bank and the Asian Development Bank, has provided funding for various projects relating to irrigation, electricity, and farm water management, one of which is the Guddu plant, which has a capacity of 350 megawatts. Pakistan undoubtedly obtained significant economic and military assistance, which she desperately required in order to strengthen herself and develop her economy. However, in exchange for this assistance, Pakistan agreed to allow the United States to operate a base on her territory.

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