Foreign Policy Motives of U.S. Aid to Pakistan: The Cold War Years

NAHEED ZIA KHAN

INTRODUCTION

In the 1950s, Friedman wrote an article, whose argument, while never forgotten, appears to have generated fresh appeal in recent years. While Friedman also discusses the effects of foreign aid on development, it is his opinion that the objectives of U.S. foreign aid are mainly to further U.S. interests which is the pivotal point of this study. Throughout the Cold War, U.S. Governments tended to give generously to countries whose allegiance they wanted to buy. In 1985, Secretary of State, George Shultz, stated flatly that "our foreign assistance programmes are vital to the achievement of our foreign policy goals." Viewing the world as divided between two opposing camps, U.S. Government acted as if their country's interests were threatened by any experiment that did not emulate the U.S. economic model. Any nation seeking to alter its economic ground rules was reckoned by the U.S. policy makers as in the other camp and thus an enemy. During the Cold War era, U.S. economic assistance was highly concentrated on a few governments and its distribution between recipient countries was not related to need. Most aid was used to bolster politically allied governments. This study's scope of inquiry is focused on the foreign policy motives of U.S. aid to Pakistan. The analysis is carried out in three parts. Part I explains the geopolitical significance of Pakistan in the strategy of the Cold War. Part II gives some relative measures of U.S. foreign aid to Pakistan during the Cold War years. Finally, Part III discusses the implications of politically manoeuvred aid for developing countries like Pakistan.

Naheed Zia Khan, Assistant Professor, Department of Economics, Islamia University, Bahawalpur.
GEOPOLITICAL PERSPECTIVE OF U.S. AID TO PAKISTAN

Insofar as Pakistan produces no significant industrial raw materials and offers no considerable market for the high-technology products, it has never enjoyed very great prominence in the strictly economic calculations of USAID (US Agency or International Development). However, in so far as Pakistan borders on the three largest states of the world, the former U.S.S.R., China and India, as well as the strategically crucial Persian Gulf, its geopolitical significance was enormous in the strategy of the Cold War. In this discussion, an attempt has been made to provide a background to this assertion.

The years 1949 and 1950 were traumatic in the history of the Cold War. The Soviet Union exploded its first atomic weapon. Most Americans derived little reassurance from President Truman’s avowal, in his announcement of the event, that “ever since atomic energy was first released by man, the eventual development of this new force by other nations was to be expected. This probability has always been taken into account by the U.S.” The Americans realised that their supremacy of power had come to an end and they foresaw that, as the years went by, the Soviet Union could afford and assail the West more boldly. While Americans were adjusting to that nascent reality, China, on whose co-operation the United States had counted for security in the Pacific, fell before the triumphant Communists, trained and armed by the Soviet Union, swooped down upon South Korea. The American position in Japan and the Philippines was threatened, and the value of their main naval and air base in Okinawa depreciated.

Hence, the power struggle for world supremacy became primarily an inter-continental struggle between the U.S. and the former Soviet Union. Any Soviet plans to expand on the Western flank were stemmed by the U.S. with the formation of the military bloc of the North Atlantic Treaty Organisation (NATO) in 1949. The extended chain of American bases and garrisons from the Aleutian Islands to the Philippines similarly blocked the threat of expansion by Soviet Union or its ally China into the sphere of the Pacific Ocean. In the North the series of radar detection lines across Canada were intended to serve the same function. Only the Southern flank, by its physical and political fragmentation, indicated a number of loopholes vulnerable from the interior. From west to east these loopholes are the Straits of Dardanelles and the Bosphorus, the Persian Gulf, and the Indus low-lands and the passes which connect them to Central Asia.

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After the Second World War the Soviet Union had acquired access to the Mediterranean Sea, but the subsequent defection of Yugoslavia was a great blow to her strategy and it accentuated the critical importance of the Straits. Any possibility of effective penetration by the Soviet Union was also vitiated when Turkey and Greece joined NATO. Subsequently, the Middle East Treaty Organisation commonly known as the Baghdad Pact (and later as the Central Treaty Organisation, CENTO) was formed. It allied Britain with Turkey, Iraq and Iran (and later Pakistan) and was supported by the U.S. as it was meant to serve as a military cordon along the borders of the Soviet Union in South West Asia. The Pact insulated the Persian Gulf and extended NATO’s influence farther east. The fourth loophole was the Indus Valley. Here, the gap between the Soviet transport network and Pakistan’s road system was only about a hundred miles. If strategic and political considerations demanded it, an aircraft over the narrow Wakhan range could quickly bring hostile forces to the very centre of army and civil power in Pakistan, Rawalpindi. It was a very similar hypothetical threat that led the British to fortify the north-west frontier of India at the end of last century. Similar considerations might have caused the Americans to include Pakistan in the chain of bases allied to Western powers and extending along the southern Soviet periphery. Though airpower and ballistic missiles had greatly reduced dependence on these bases, it is doubtful if they could have been eliminated altogether. Further, the Afghan War finally proved in the 80’s that Pakistan always remained a critical area in the strategy of the Cold War. Indeed, the following substantial evidence supports this opinion.

Even before the creation of Pakistan, the U.S. Secretary of State, George Marshall (the architect of the Marshall Plan), in a memorandum to President Truman on July 17, 1947, referring to Pakistan said, “Pakistan with a population of seventy million persons, will be the largest Muslim country in the world and will occupy one of the most strategic areas in the world.” Further, as early as March 1948, it had been noted in an influential American journal, “We must realise what Britain and Russia have always understood: that the Eastern Mediterranean basin and the Middle East countries bordering it are parts of one political complex. This complex now extends as far as Pakistan; and a new line from Karachi north to Kabul must enter into the calculations of Washington as it has for many years into those of Moscow and London.” Soon after, in December 1948, the Truman Administration set up the Foreign Assistance Correlation Committee which consisted of senior representatives of the state and defence departments and the Economic Co-operation Administration. The Committee believed that, in the context of
United State’s strategic plans the geographic location and terrain of a country was an important military criterion for the identification of prospective recipients of aid. And, in a memorandum dated March 24, 1949, the U.S. Joint Chiefs of Staff highlighted the importance of Pakistan and Afghanistan and the Karachi-Lahore area as vital for meeting the basic strategic objectives of the region. Truman himself, in his report to Congress, expressed the view that ‘Pakistan’s friendship for the West may become an important factor in giving stability to the Near East. At the same time Pakistan is a valuable ally in South Asia because of its strategic location on the Indian Ocean and its control of land passes from Central Asia.’

Indeed, with a population of 76 million and an army of about 200,000, Pakistan offered obvious advantages from the standpoint of regional defence in the Middle East and Southern Asia. Its troops included some of the most famous regiments of the old British Indian army; its borders included the Khyber Pass, the historic invasion route of the Indian Subcontinent. Most importantly, John Foster Dulles, Eisenhower’s Secretary of State believed that Islam-oriented Pakistan was psychologically best suited to oppose Communism. As he noted, the “strong spiritual faith and martial spirit of the people make them a dependable bulwark against ‘Communism,’ an observation which, about three decades later was to become the most effective emotional instrument to manipulate in the strategy of the Afghan War.

II
FOREIGN AID TO PAKISTAN: THE U.S. CONTRIBUTION 1951 To 1988

The regressed evidence concerning the total commitments of major donors is given in Table I. These figures are the aggregate magnitudes of the gross flows of various kinds of loans and grants until the end of 1988. The United States appears to be the largest source of foreign aid to the Pakistan, a share of 26.5 per cent for the period between July 1951 to June 1988. In the 1950s, over two-thirds of all economic assistance was from the U.S.; this share fell to a little over a half in the 1960s, and it was considerably less during 1971-77. The relative fall is the U.S. aid to Pakistan continued until after the Soviet invasion of Afghanistan in 1979. The Carter Administration then offered Pakistan US $402 million in economic and military assistance. This offer was rejected on the grounds that it was not worth the price that Pakistan would have to pay in terms of its relations with the Soviet Union. Later the Reagan Administration’s offer of a five-year package of military and economic assistance was accepted by the Government of Pakistan.
Figures in Table 2 show that Pakistan then became the fourth largest recipient of U.S. economic assistance after Egypt, Israel and El Salvador. As mentioned above, the U.S. Government's motive behind this new initiative was political. The principal aim at that time was to give Pakistan confidence in its external security, internal stability and conventional military forces to enable it to stand up to Soviet pressure from Afghanistan.

By June 1988, Pakistan received commitments of a little over US $33 billion of nominal aid. These inflows are composed of both grants and loans given in number of different forms and with a variety of conditions on the use of resources and repayment. As listed in Table 3, between 1951 and 1988 roughly 23 per cent of the total aid committed to Pakistan was in the form of grants while the rest consisted of different forms of loans. Thus, only a part of the assistance given to Pakistan was actually in the form of outright grants. Further, there have been notable shifts in the composition of grants and loans between different periods. Table 3 lists the composition of the nominal inflow of all external assistance in four sub-periods. These sub-periods have been devised in line with the shifts in Pakistan Government's economic policy.

### TABLE 3

**Foreign Aid Commitments: Composition**  
**Pakistan: 1951 - 1988**

<table>
<thead>
<tr>
<th>No.</th>
<th>Period</th>
<th>Percentage Share</th>
</tr>
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<tbody>
<tr>
<td></td>
<td></td>
<td>Percentage of Total Aid</td>
</tr>
<tr>
<td>1.</td>
<td>1951 - 58</td>
<td>2.50</td>
</tr>
<tr>
<td>2.</td>
<td>1958 - 69</td>
<td>16.50</td>
</tr>
<tr>
<td>3.</td>
<td>1969 - 78</td>
<td>22.00</td>
</tr>
<tr>
<td>4.</td>
<td>1978 - 88</td>
<td>22.00</td>
</tr>
<tr>
<td>5.</td>
<td>1981 - 88</td>
<td>100.00</td>
</tr>
</tbody>
</table>


At first sight, the periodic record of different forms of aid flows to Pakistan, as given in Table 3, is very revealing. The fact that the figures have been compiled from a single source makes them particularly significant in indicating basic trends. During 1951-58, out of the total economic assistance 61 per cent was in the form of grants while the rest was composed of loans. In the next period, 1958-69, grants declined to 33 per cent while the volume of loans increased to 67 per cent. It is perhaps indicative but not totally unfair to suggest that grants decreased once Pakistan’s alignment with the U.S., acceptance of U.S. military aid and membership in CENTO were assured. The suspicion is further reinforced by the aid figures for the later two periods. In the third period, 1969-78, the amount of grants fell to the lowest level of 12 per cent of the total while the amount of loans jumped to the highest level of 88 per cent of the total commitment for this period. The last period, 1978-88, the peak years of the Cold War with indirect but significant involvement of Pakistan, witnessed a favourable change in the composition of grants and loans, the proportion being 23 and 77 per cent respectively.

### III

**COLD WAR POOR ALLIES OF U.S.: DEVELOPMENT AND THE LEGACY**

How was this development aid spent? During the 1950s and 1960s, much of it went to install infrastructure (power plants, transportation, communication and the like) benefiting mainly businessmen, landlords, and others in an economic position to take advantage of such facilities. In the late 1970s and 1980s, the trend has been toward smaller-scale projects, including agricultural credit programmes and the development of small and medium-sized businesses. But even these smaller-scale projects failed to reach the vast majority of the poor. The Development Committee of the World Bank and the IMF conceded that “rural development programmes have usually been unable to benefit the poorest of the poor”, i.e., the lowest 20 per cent or so of the rural income distribution.”

While the poor in developing countries may not be the chief beneficiaries of AID’s development assistance projects, one group that did benefit handsomely includes the U.S. corporations and universities that got AID’s contracts. Under the U.S. law, its economic assistance is “tied”, meaning that any imported goods and services paid for with U.S. aid funds must come from the United States, even if they could be purchased more cheaply from elsewhere. In FY 1984, 20 US corporations and universities received over $159 million in AID’s funds, equal to almost half of US development assistance to Sub-Saharan Africa that year.

Due to the unavailability of data on military assistance to Pakistan, this study has only utilised the data on economic assistance. However, overwhelming importance of military assistance can be inferred from the fact that in 40 years to 1985 since the end of World War II, U.S. aid provided more than $47 billion worth of military equipment and training to the developing countries, a substantial portion of which went to military controlled governments. The U.S., no doubt, has the dubious distinction of being the world’s largest donor of military arms to the developing world.
As for Pakistan, it is legitimate to conclude that U.S. military and economic assistance made General Zia-ul-Haq’s military rule over Pakistan the ‘longest ever’ in the country’s history. Lacking any claim for political legitimacy, Zia’s military dictatorship decided to justify its attempt to perpetuate its rule by a new claim: namely that it had a mission to create an Islamic economy and polity in Pakistan. Since Soviet troops were in Afghanistan in the 1980s, the U.S. supported Zia’s Islamising military regime. Zia used Pakistan’s willingness to act as a ‘conduit’ for military and economic aid to the Afghan Mujahedin to develop a complex military and economic relationship with the United States. Between 1977 and 1988, the number of military personnel in Pakistan rose manifold. Zia’s regime corrupted and destroyed the key institutions of Pakistan. The 1980s witnessed the presence of Zia’s men in the judicial, legislative, administrative and executive bodies. With such persons so deeply entrenched, the challenge for any democratically elected Government of Pakistan working to overcome the Zia’s legacy and fight under-development and poverty is made incalculably more difficult.22

Finally, Foreign Policy motives of U.S. foreign aid programmes are only tip of the iceberg. Over and above the AID’s performance, through numerous other overt channels (not to mention the covert ones, like the CIA), the US Government supports governments of its choosing, often in ways diametrically opposed to the interests of the developing countries. For example, the Export-Import Bank (EXIM) and the Commodity Credit Corporation (CCC) can have a greater impact on the economy and policies of the developing countries than official U.S. foreign aid. In a typical year, these two agencies alone channel about one and one-half times as much U.S. Government support to the developing world as the Economic Support Fund and development assistance portion of U.S. aid combined.23 Further, the International Monetary Fund (IMF) has become decisive in recent years in determining who can afford to spend on what in many developing countries. The United States holds the largest voting block and an effective veto in this ‘lender of last resort’.24 Another overt aid channel 1 will like to mention is the World Bank. Although technically multilateral, the United States is unmistakably the Bank’s most powerful member, wielding 20 per cent of the votes and appointing the Bank’s President.25

Moral: In a world of sheer interests the resources channeled through the powerful have the remote chance of putting the house of powerless in order.

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3. Out of the 70 odd governments, for example, receiving almost $34 billion in U.S. bilateral economic assistance in the first half of the 1980s, just 10 countries got over half of all assistance. U.S. Agency for International Development (USAID), Congressional Presentation FY 1987, Main Velazquez., Parts I and II.
4. In Fiscal Year 1985, the 31 low-income countries receiving U.S. economic assistance got about $1 per person, compared to almost $28 per person for the high-income recipient countries. Overseas Development Council (ODC), “U.S. Foreign Aid in the 1980s”, Policy Focus, No. 4, Table 2, Washington, D.C., 1985.
5. Israel and Egypt together got almost one-third of the total U.S. bilateral assistance in the first half of the 1980s. In Central America, three governments designated U.S. allies, Honduras, El Salvador and Costa Rica, received over $69 per person, while the 48 nations of Sub-Saharan Africa got only about $3 per person in the same period. USAID, op.cit., pp. 185-87, 664-68.
11. Ibid.
12. Ibid.
16. Ibid., pp. 53-54.


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