

Political Economy of US Aid to Pakistan



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Reg. No. 14 Msc-Eco/PIDE/2013

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2015

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*A Dissertation Submitted to the Pakistan Institute of Development Economics,
Islamabad, in partial fulfillment of the requirements of the Degree of Master of
Economics*

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DEDICATED

TO

My Father

Muhammad Musaddiq

For his endless support and motivation

Acknowledgements

First of all a special gratitude and special appreciation goes to **ALLAH** almighty; without His blessings I would not be able to think of completing this work. After that, I offer my admirations and respect from the core of my heart to the Holy Prophet Muhammad (Peace be upon him) who urges his followers to “Seek knowledge from cradle to grave”. I would also like to pay my humble thank to my beloved **MOTHER**, who prayed for me a lot and always encouraged me and guide me in a proper way and advise me not to lose heart.

Being a fresh researcher and a student in the field of economics, this dissertation would not have been possible without the help, provision and patience of my dedicated supervisor, **Dr. Karim Khan**, Assistant Professor, *PIDE Islamabad*, who supported me and guided me right from the first day of my research. He made valuable and fruitful comments that helped me to improve my research. I deeply appreciate and recognize all that I have received from him.

I would never have been able to finish my dissertation without the kind leadership of my teachers, **Sir Ali Kemal, Sir Haider Ali and Dr. Iftikhar**. Assistance from friends **Ghulam Ghouse, Muhammad Naeem Khan, Haroon Khan, Matiur Rehman, Tariq Bashir** and moral support from my **Sister and wife**, who helped me a lot, give me his precious time and valuable suggestions in completing this piece of work.

I would like to thank all of my **Friends**, my **Class Fellows** who helped me to grasp some key concepts regarding subject knowledge during course work and morally supported me on regular basis throughout the session.

Mubashir Hassan

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Abstract

Foreign aid is the transfer of funds, capital goods or services from one country to another whose purpose is to serve other nations during any emergency situation or to better their economic condition. This study will focus on the political aspect of US aid to Pakistan. In particular, I am interested in highlighting the donors' political agenda as far as the foreign aid is concerned. This study examined the political implication of three dictatorial Eras of Pakistan history in which most of the US Aid was sanctioned to Pakistan. This study concluded that the US Aid was directly linked with our GDP growth but this increase in growth was on the cost of our country's security. Because the US aid given to Pakistan for political consideration not for economic consideration. US decision makers were aware of the fact that political say in south-Asian countries can ensure an effective role play in dissolving unipolarity of the world in their favor and the aid donor mainly pays attention to its own political interest rather than to the needs of the recipient country.

Chapter 1

Introduction

In today's world there are about 200 countries which are linked together via globalization. Some are developed while others are in a way of being developed i.e. they are developing. The developed countries are efficient in their resources utilization and spent large amount of funds in research and development; moreover, transfer their funds to developing countries so as to help them in fulfilling their economic and social goals. This transfer of funds, capital, goods and services from one country to another is known as foreign aid. The foreign aid has important implications for the domestic economy. To some, it enhances investment and productivity; and hereby enhances economic growth. While to others, it results in rent-seeking; and thereby results in the curse. The empirical literature regarding the implications of foreign aid is still not in consensus. For instance, there are studies that find no impact, positive impact and negative impact of foreign aid on economic development.

According to Ramesh et al. (1998), foreign aid has no impact on investment or income growth in Least Developed Countries (LDCs). Khan and Ahmed (2007) also examined that at the aggregate and disaggregate level the foreign aid does not have any significant impact on the growth. Foreign aid has no important effect on macroeconomic policy and growth of recipient country because it forcefully removes private savings and supports public consumption (Jepma 1997). Boone (1995) investigated that foreign aid had no significant impact on growth, tax proxies and on the measure of distortionary policies but the government institutions expands due to increase in consumption from aid.

Khan (1997) has explored that Foreign aid negatively affects GDP and economic growth. Islam (2003) used the data of 21 sub-Saharan and 11 Asian countries for the period of 1968 to 1992 and found that growth is negatively affected by Foreign aid and the effect of foreign aid on growth depends upon political regime of the economy, like in countries with totalitarian dictatorship (*i.e.* leader maximizes control over population) the aid positively affects on growth while in tin pot dictatorship (worthless leader who assumes power for small time period during any crises) the effect was opposite. Khan and Ali (1994) explained the negative impact of foreign aid on the development of human resource; the reason was that generally foreign aid was not given for bountiful assistance to economic or social development because it was for the purpose of return like commercial gain or political assistance.

Khan and Rahim (1993) investigated that a weak positive relationship existed between foreign aid and economic growth. It is difficult to capture the strong relationship between foreign aid and economic growth because of not being able to get the pure statistical analysis. Easterly (2001) finds that foreign aid has a positive relationship with growth only for those developing countries which contain good monetary, fiscal, and trade policies. There's positive correlation between bilateral aid and saving (Nushiwat, 2007). Hatemi-J and Irandoust (2005) used panel co-integration and found the positive and significant impact of Foreign aid on the economic activity of the sample countries *i.e.* Botswana, Ethiopia, India, Kenya, Sri-Lanka, and Tanzania. Griffin and Enos (1970) revealed positive and significant aid effects from the capital inflows to the country and also proved that foreign aid caused benefit to only rich political leaders and did not provide any improvement in the infant mortality, education and life expectancy. Karras (2006) explained the positive and significant impact of foreign aid on growth of the economy from the data of 71 aid recipient countries from 1960 to 1997 and also found that for every \$20 increase in

foreign aid gave rise to growth rate of real GDP per capita by 0.16 percent but these results were without taking into account the effects of policies. Gomanee et al. (2005) take sample of 25 Sub-Saharan African countries from the data spreading over 1970 to 1997 and cited that there was a positive effect of foreign aid on growth. Reddy and Minoiu (2009) also explained that development aid had a positive effect on the growth.

Ram (2004) also explored that foreign assistance with appropriate policies not only increased growth but also helped to reduce poverty in developing countries. Ekanayake and Chatrna (2009) examined the results from empirical studies of time period of 1980-2008 and using the panel data of 83 aid receiving countries including Asian, African, Latin American, and the Caribbean countries and concluded mixed effect (positive on African countries and negative on others) of foreign assistance on the growth of these countries due to differences in income level, region and time period.

Anwar (2007) investigated that foreign aid to Pakistan was purely for their own political interest and overall increase and decrease in giving aid was due to change in political priorities of aid donors and failed to enhance the economic development and also did not play any significant role for the betterment of the living standards of the peoples of the country. Khan and Ali (1994) provided the evidence that foreign aid to Pakistan failed to play any role in the development of human resources because aid money was frequently used for the purpose of trade promotion activities.

Qayyum and Javid (2011) explained the effect of foreign aid and recipient country's (Pakistan) policy on economic growth by empirical analysis based on ARDL co-integration approach and

the data was taken from 1960 to 2008. They concluded that there was negative relationship between foreign aid and country's real GDP and positive relationship between aid-policy interactive term and real GDP growth because of the effect of sound macroeconomic policy. They got positive insignificant effect in the long run and negative weak significant in the short run when they checked the relationship of foreign aid and GDP. When they checked the relationship of aid-policy interactive term then got positive and significant coefficient both in long run and short run. On the bases of bilateral and multilateral aid in Pakistan the results in short run are significantly positive for bilateral aid and insignificant for multilateral aid while positive in both cases when checked for aid- interactive term. Therefore, good macroeconomic policies are necessary to get the benefit of foreign aid. These studies reveal that in modern world it is a burning issue and is still unsettled.

1.1 Foreign Aid, its Purpose and Global Trends

Foreign aid is transfer of funds, capital goods or services from one country to another in the benefit of receiving country. Foreign aid has direct effects; but it also has some harmful indirect effects. Therefore, the net development effect on average results is zero. Generally, foreign aid is of many types: Bilateral aid, Multilateral aid, Project aid, Non Project aid, Program aid, Development aid, Non development aid. Bilateral aid is in which the government of one country gives aid directly to the government of another country.

Tarnoff and Curt (2005) explained that bilateral development aid has become the leading category of U.S. aid and this economic assistance is supporting U.S. political and security goals. Multilateral aid is that which is given by a group of countries or an institution that represents the

group of countries like World Bank and International monetary fund, etc. United States is declared as the largest bilateral donor, while the World Bank followed by Asian Development Bank (ADP) and International monetary fund (IMF) ranks the highest in the list of multilateral donors.

Project aid is provided in foreign exchange terms for the capital investment and for specific productive activity and Non-project aid is not provided for special purpose and is provided in the forms of non-food commodity, food commodity, relief and technical assistance. Program aid is provided for a large variety of expenditures of recipients, according to their need for development or growth purposes rather than any particular purpose. Development aid is that which is given for the specific purpose, i.e to promote development through economic growth or some other way, whereas Non development aid is not specific for development purposes, it includes all kinds of aid other than development (Reddy and Minoiu 2009). Subsistence aid is the minimum amount of aid that is necessary for supporting life of human beings. Morgenthau (1962) said that only humanitarian aid is non-political while subsistence aid may stop the development process and the type that help in the development of country may vary with the needs and goodwill of receiving country.

The main purposes of getting foreign aid include developmental projects, humanitarian relief, and commercial and diplomatic purposes which include military, security and political interest abroad. Foreign aids are used for the purpose of financing BOP deficit, deficit in saving, for enhancing the development and growth of the country, increase in technical assistance by getting skilled workers for the efficient use of aid resources and country's resources. The amount of aid given is decided on the basis of absorptive capacity of recipient country; observe by the donor

(Din, 2005). Bjorncove (2014) explores the purposes of foreign aid as; economic, social which have no impact on growth and reconstruction purpose, which is a remaining category has direct positive impact on growth.

Aid is the global process and more than billions of dollars given to the developing countries through which a large number of people get employed. The origin of aid can be found at least in the 19th century. Two different trials in the past US foreign aid give the stress in aid programs between relief and assistance and the main objective is to provide the political and commercial advantage to the donor. Similarly the same clash is apparently seen in the early years of UK assistance in 1929. Colonial development act allowed for loans and grants for the purpose of development of infrastructure and become able to pay for imports then also the objective was to get inputs for British manufacturing.

A large number of events of providing assistance are present in the history of foreign aid. The main developments in the history of foreign aid are: 1940s Marshall Plan and UN system which is the European recovery program started from April 1948 in which America provided \$13 billion to Europe and Asia after the end of World War II for the purpose of reconstruction, as a program aid. In 1950s, United States provided substantial amount, for Community Development Movement (CDM), as food aid and project aid. In 1960s, organization of bilateral programs, for productive sectors and infrastructure of Asian subcontinents as technical assistance, 1970s expansion of multilaterals due to oil price shock and fall in the commodity prices required assistance which was provided by IMF, World Bank and Arab funded agencies for the purpose of reducing poverty as food aid and import support aid. In 1980s rise of Non Governmental Organizations (NGOs) from mid eighties for the purpose of macroeconomic restructuring as

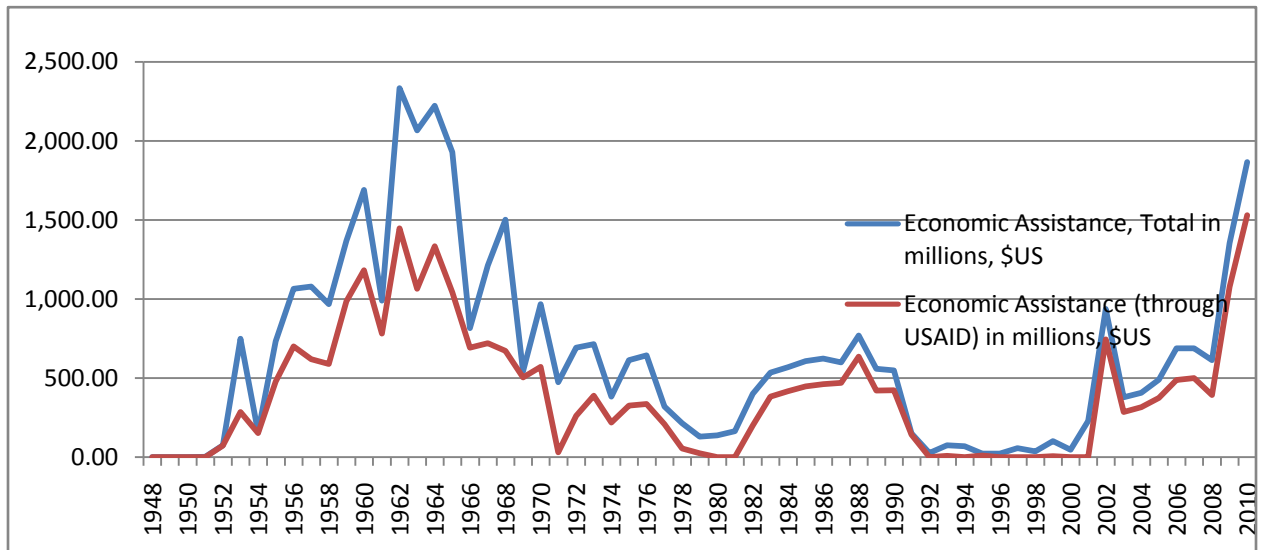
financial program aid and debt relief and 1990s Eastern Europe and Former Soviet Union became recipients rather than donors for the appearance of parallel institutions whose main focus was on Poverty and then on governance. In 2000s, Organization for Economic Co-operation and Development (OECD), worked for the purpose of reducing poverty having major emphasis on the health, education and water and also support budget.

1.2 Pakistan and Foreign Aid

Foreign aid is an important source of income in developing countries and these countries are highly relying on the foreign assistance for their development. This approach decreases the dependency on country's resources for development. Pakistan, being a capital deficient country is included among recipients of foreign aid for financing, saving-investment and maintaining balance of payment (Mubarak, 2008). Also, It has lack of political and macroeconomic stability, and lack of human capital. Although it has received the foreign aid of US\$73.14 billion from 1960 to 2002 (Anwar and Michaelowa, 2006), but this aid has not been properly used for the development purpose of the country due to which the aid becomes unsuccessful to progress the economic conditions in Pakistan which is shown by low literacy rate, more unemployment low quality education, low saving rate and more trade gap (Khan and Ahmed, 2007).

If we have a look on the general trend of foreign aid to Pakistan which started getting aid in 1950 and then there is changing behavior over time in terms of official development assistance as well as per capita aid. At start, there is an increase in the aid trend up to 1966 and then decreasing trend from 1968 to 1973 and then again rising trend from 1978 to 1988 then again decline in aid

from the period of 1990 to 1998 then there is sharp increasing trend after 2000. So the net amount of aid received increases over the period.



After independence of Pakistan in 1947 the United States was one of the top most countries to recognize Pakistan as an independent state and the first military assistance was given by Washington to Islamabad and on May 19, 1954 in Karachi, the Mutual Defense Assistance Agreement was held between two nations. This deal was assisted by first prime minister of Pakistan ; Liaquat Ali Khan’s refusal to visit Moscow in 1950 and in results get the US aid of \$700 million military assistance and \$2.5 billion economic aid.

Due to the military assistance Pakistan Army set, round about 66 Infantry Brigades, 15 Armored Brigades, 30 Artillery Brigades, eight Air Defense Brigades and 17 Army Aviation Squadrons organized under 19 Division Headquarters and 9 Corps Headquarters, and became eighth largest armed force of the world. So the foreign aid in the beginning after independence in 1950s United state is the largest aid donor to Pakistan *i.e.* two third of all amount of foreign aid was from

United States, and this share declines to half in 1960s. The amount of foreign aid received during 1960 was 6.6 percent of Gross National Product (GNP). Private investment was majorly associated with increase in the foreign aid.

From 1960 to 1970 the foreign aid is majorly used for different development projects, like Terbela dam, Mangla dam and other small projects like infrastructure, power-generation and irrigation. Foreign aid is significantly less during 1970 to 1979. In the early 1970s the foreign aid remains at 4.2 percent of GNP and was increased to 5.5 in the period 1974-75 during which the government started the projects of roads like Indus Super Highway and Pakistan steel mill. After that in the period 1977-78 and 1978-79 the donor countries like United States cut aid to Pakistan due to its nuclear policy, and when Soviet Union attacked Afghanistan then the amount of US \$402 million offered to Pakistan for financial and military assistance by the Carter Administration but this offer was not accepted by Pakistan. Then the Reagan administration offered US \$1575 million as five years military assistance and US \$1625 million as financial assistance which was accepted by Pakistan.

The motive behind these offers was purely political, *i.e.* to enhance Pakistan economy to fight against Soviet Union in Afghanistan. After that, in the period from 1985 Pakistan signed six year agreement with United States for getting US\$ 4.02 billion in terms of loans and grants from which 57 percent was to be used for economic purpose and the remaining used for military purpose and that agreement started from September 1987. (Khan and Ahmad, 2007).

After signing that agreement Pakistan received a gross amount of US\$1.8 billions as US aid during the period of 1987-88 and this aid over time got changed to loan on difficult terms. In

1993 Pakistan would wind up the projects based on aid because of announcement of United States that it would not do any further agreements for aid. In 1998 when Pakistan did nuclear test then US cut aid to Pakistan due to which foreign aid falls drastically during the period of 1998 to 2001. After the incident of 9/11 Pakistan joined the War against terrorism then received the aid of US \$ 776.5 million. The US also provided the aid of US \$3 billion in June 2003. This situation clearly pictured that the foreign aid was given to support the geopolitical interests of donors particularly, United States. (Khan and Ahmad, 2007).

1.3 Agenda of US Aid

Pakistan received a large amount of aid from independence up till now but the development and growth was not so speedy so it became easy to say that the foreign aid given to Pakistan depended upon political consideration not for economic consideration. Foreign aid given to Pakistan from 1960 to 2002 was 73.1 billion from both bilateral and multilateral sources from which 30 percent was given from United States in the form of bilateral aid. After joining the South East Asia Treaty Organization (SEATO) and the Central Treaty Organization (CENTO) and by signing the agreements of military cooperation with United States in 1950s and 1960s, US agreed to give financial and military aid to Pakistan. “It would be in the interest of the United States to ensure a stable Pakistan, with a liberal, democratic government focused on development”.

US aid in 1960s plays a significant role for different development projects, food support and other humanitarian and civilian economic assistance but this aid was declined after starting of 1965 war against India. Again the military aid was significantly increased after starting the war

of Soviet Union with Afghanistan. But this aid was not for Pakistan military and that aid was provided to *MUJAHIDEEN* and the purpose of US aid provided during the war was purely political in order to defeat Soviet Union in Afghanistan. Again after 9/11 incident America provided aid for the War against terrorism and to defeat Alqaida and Taliban. So we come to know that US aid was purely for gaining political interest not for the purpose of economic development (Zaidi, 2011).

Tarnoff and Nowels, (2004) explained that In 1990s US played an important role in establishing peace in Middle East, by supporting the war affected countries Israel, Egypt, Jordan, and Palestine. United States developed a framework to contribute in “War on Terrorism” after 9/11 attack. In fiscal year 2004/5 the contribution in rehabilitation of Afghanistan and Iraq was more than the budgets of all foreign aid programs. Now the main focus of US foreign aid is supporting her associates and terrorism affected countries.

US foreign aid also incorporate low income countries by supporting them to establish economic development and strengthen institutional structures, and enhancing the living standards of the inhabitants and development of democratic systems. In 2006/7 US issued \$6 billion aid to improve the economic well being of the low income countries. Another focus of US foreign aid is the health standard of the developing countries like Polio free world, HIV/AIDS Control Campaign and World Health Program in African and Asian countries. US give aid of \$15 billion to fight against malaria, tuberculoses, and Aids. US aid works also for geostrategic wellbeing, particularly in countries such as Iraq, Afghanistan, Pakistan, Jordan, Egypt, and Israel and to improve famine and mitigating immigrant situations in places throughout the world. But the aid

donor mainly pays attention to its own political interest rather than to the needs of the recipient country. (Boone, 1996)

1.4 Objective of Study

This study focuses on the political aspect of US aid. In particular, I am interested in highlighting the donors' political agenda as far as the foreign aid is concerned. For instance, to Pakistan, the US aid is provided in three dictatorial eras, i.e. Ayub Khan's era, Zia-ul-Haq's era, and that of Musharraf Era. Rest of the thesis is organized in four chapters. Chapter 2 highlights the political economy of US aid in Ayub Khan Era. Chapter 3 explained it in the regime of Zia-ul-Haq while chapter 4 expressed that of Pervaiz Musharraf's era and the last chapter concludes this study.

Chapter 2

Ayub Khan Era (1958-1969)

2.1 Introduction

Ties between Pakistan and US dates back to early 50's, the newly born country was in process of making its alliances in international arena. Gauged with precision, US decision makers were aware of the fact that political say in south-Asian countries can ensure an effective role play in dissolving unipolarity of the world in their favor. Thus being practitioners of realism, US decision makers paid the price for building initial foot print in Pakistani politics by granting US Aid. Vice Versa on the other side of shore Pakistani decision makers were looking forward to extensive economic relationship.

During the era of Ayub Khan started from 1958 till 1969, Pakistan had very strong relationship with US and Ayub Khan was pro American¹ and aid from United States was the main source of military and economic assistance for Pakistan but the relationship was always transactional based. In this regime, association with US widened and the amount of aid given to Pakistan also increased but this was not the free lunch for Pakistan.²

¹When he visited America in 1954 before starting dictatorship he told American Brigadier-General Henry A. Byroade "I didn't come here to look at barracks, Our army can be your army if you want us. But let's make a decision".

²In 1960, Ayub Khan gave permission for spy air craft to fly from Peshawar Air Base to Soviet Union Just to show unity with united state and to show that population of Pakistan also pro American and they had positive point of view about United States but actually that aircraft was used to get secret information about Russia. The interest of Pakistan in doing such activities was to get military and economic aid.

In order to enhance the economic condition of Pakistan; Ayub Khan also brought industrial (which contribute 11.4% to GDP), agricultural, trade and business reform policies. These sectors, especially the agriculture, manufacturing and industrial sectors performed well during his era. The GDP growth jumped from 3% to 6%, with manufacturing sector showing consistent growth of up to 9 % annually. With the introduction of Green Revolution Technology, the agriculture sector grew up at the rate of 4 %. New institutions were built; policies were laid out and were effectively implemented through good governance (Husain, 2009).

The military dictator regime promptly implemented economic management reforms resulting in brilliant success. Country's economy flourished and major projects were started that helped the industrial and agriculture sector in gaining high productivity ratios. There were huge investments in the country which resulted in steady growth. The total aid received to Pakistan before the Ayub Khan era was \$4829.84 million out of which the aid given by US solely amounted to \$2899.58million. The first assistance was sanctioned due to multiple reasons, first and foremost due to the refusal of the then Prime Minister of Pakistan Liaquat Ali Khan's visit to Moscow in 1950s, secondly Pakistan signed the agreements of SEATO and CENTO against USSR and got assistance from US aid (Husain, 2009).

This study, in this very chapter will discuss the political economy of US aid to Pakistan in Ayub Khan Era. The first section gives a brief of country's political and economic status in the era of Ayub Khan, second section highlight the agreements between US and Pakistan and the secret political agendas behind those agreements. Third section of this chapter provides a details description of economic policies of Ayub Khan and US aid. Fourth section helps in

understanding the economic, social and political implications US Aid during Ayub Khan Era and then concludes the chapter.

2.2 Economic and Political Background of Ayub Khan Era

The political system of the country was very weak and was almost at the edge of being collapsed, as Nine Prime Ministers were appointed to the supreme office within nine years after the formation of Pakistan but none of the office bearer turned to be a game changer, thus situation was very uncertain. In October 1958, Ayub Khan took over the country as a Martial Law administrator and ruled country for nearly ten years. His tenure was the first military led government of the country.

To better understand Ayub Khan Regime can be divided in two phases: the first phase started from 1958 to 1965 and during this period, from 1958 to 1962 Ayub Khan lead the country as the Chief Martial Law Administrator then he withdrew from Martial law and governed country as President from 1962 to 1965. In the first phase the public policies helped to introduce modern version of Islam backed by legislation, but the traditionalist led by religious scholars passionately resisted this modernization agenda of Ayub Khan. The second phase of Ayub Khan Regime, i.e. from 1965 to 1969 portrays the democratic government in whose attention were diverted on the reversal of modernization agenda, followed strictly because of mounting pressure from religious scholars who warn the legitimacy of Ayub Khan's regime (Ansari, 1970).

Before Ayub Khan the political situation of Pakistan was very ambiguous and the political leaders of East Pakistan deteriorated from the imposition of limits from West Pakistan, due to

which political instability was created throughout the regime of Iskandar Mirza. The situation became worse when Iskandar Mirza himself generated a state of insecurity. Sensing the vulnerability of the situation, Iskandar Mirza and Ayub Khan jointly made a scheme following which Ayub Khan took over the country. After becoming the Martial law administrator, Ayub Khan forced Mirza to resign after nineteen days of the imposition of Martial Law and sent him to exile. Struggling through such political situation country's economy rendered enough loss that its revival was itself a challenge. Due to his solid planning and implementation, Ayub Khan was able to earn public trust. During his era average GDP growth rate stood at 5.82%, on average the industrial growth was recorded as 8.51%, regardless of the fact that he even indulged in war with India in 1965.

2.3 Agreements between US and Pakistan during Ayub Khan Era

Pakistan associated itself with US over the period of cold war era against USSR and became the member of anti-Soviet CENTO and SEATO organizations; Ayub Khan played an important role in negotiations related to US sponsored military alliances SEATO and CENTO. US provide the support to all the members of these organizations against external aggressions. Pakistan also got a large benefit from that membership and received a lot of foreign aid which was the major factor for economic growth. But US disappointed Pakistan during 1965 war by putting an end to military aid, as a result of which Pakistan stepped back from these agreements in 1971. Along with these agreements Pakistan also became the member of World Bank and IMF. World Bank provided assistance to Pakistan on different occasions especially to solve the issue of water with India and also to help in building of Terbel Dam.

The major interest of US to provide aid was to ensure success in the cold war. Cold War is the term used to explain the relationship between USA and USSR after the World War II (WWII). It was actually the state of military and political tension between these two super powers. Cold War continued from 1945 till 1991. Practically Cold War was a bit different from the previous conflicts of “the Vietnam War” and “the Korean War” i.e. with some additional expenditure of resources and small armed conflicts. At the same time it was the clash of ideologies i.e. Capitalism versus Communism (Bailey, 1998). In 1945 Russia was USSR including countries like Georgia, Ukraine etc that exist individually today. Later on Soviet Union collapsed squeezing the mighty USSR to today’s Russia.

Cold war can be divided into four phases. In the first phase of Cold War (1947 to 1953) policies of US were under the guidance of President Truman who faced hard line economic and political strategies adopted by Stalin (leader of Soviet Union). The alliance among Great Britain, Soviet Union and United States was abolished and Soviet Union wanted to expand its political and economic power to full capacity. In 1947 US developed Marshal Plan for Western Europe to protect it from the influence of Soviet Union (Bailey, 1998). The Truman provided US aid to countries like Turkey and Greece that play a major role against the ideology of Soviet Union i.e. communism.

US also adopted containment policy to keep communism in its border limits. For this purpose United States and the allies nations (Western Europe) formed North Atlantic Treaty Organization (NATO) in 1949. NATO ensured the collective defense of all its member countries from all any external aggression. In response to NATO the Soviet Union and its allies formed Warsaw pact in

1955 which was a treaty of friendship, cooperation and mutual assistance made among eight states of communist bloc for defensive purposes.

After the death of Stalin, Policies of US for the second phase of cold war were guided by Eisenhower and Kennedy (the second phase Era started from 1953 to 1981) defense strategies were given more importance because of multiple armed conflicts. Then in the third phase of cold war (1981-89) the then president Reagan led all the US policies to accelerate the downfall of Soviet Union. He adopted multidimensional strategies focused on politics, military, economy, morality and ideology and then the final phase of cold war was succeeded and led by Bush administration which started from 1989 till collapse of Soviet Union in 1991. Then Bush administration again restored the policies of existing state of affairs which provided relief to Soviet bloc to survive (Bailey, 1998).

In 1961, President Ayub Khan had very productive meeting with US president consequently US provided a considerable aid to Pakistan which brought green revolution in Pakistan. Simultaneously construction of World's largest irrigation system with a huge dam and major industrialization program under Pakistan Industrial development corporation (PIDC) were started. Ishrat Hussain (the great Economist), explains that "the manufacturing sector expanded by 9 % annually and various new industries were established. With introduction of Green Revolution technology agriculture grew at a substantial rate of 4 %. Governance improved with a major expansion in the government's capacity for policy analysis, design and implementation, as well as the far-reaching process of institution building. The Pakistani polity evolved from what political scientists called a "soft state" to a "developmental" one that had acquired the semblance of political legitimacy. By 1969, Pakistan's manufactured exports were higher than the combined

exports of Thailand, Malaysia and Indonesia. Though speculative, it is possible that, had the economic policies and programs of the Ayub regime continued over the next two decades, Pakistan would have emerged as another miracle economy.”The maximum growth rate was 9.38% while minimum growth rate recorded was 0.88% (in 1959) and the overall economic growth was 5.82%. This steady economic growth was achieved due to continuation of economic policies secured with help of long lasted dictatorship of eleven years (1958-1969).

Iqbal and Khalid (2011) explained the change in the relationship between Pakistan and US in the Era of Ayub Khan: In 1958 when Ayub Khan took over the country as a Marshall Law administrator Pakistan was facing two main problems: the Kashmir issue and the apparent security threats from India, at that time Ayub Khan preferred to resolve the issue of Kashmir and focused on securing western aid for economic prosperity and stabilizing military sectors of Pakistan. Similarly, United States was securing its own interests indirectly by helping Pakistan form restraining it to join communist alliance.

On 5th March, 1959 a bilateral agreement was signed between Pakistan and United States, according to which United States agreed to, cooperate with Pakistan in order to deal with security threats and fulfill defense requirements. Political experts cited withdrawal of Iraqi revolutionaries from SEATO Pact as the primary reason for this bilateral agreement. These strong ties between Pakistan and United State helped in promoting peace instead of violence of communists and helped Pakistan against the threats of India. The apparent motive behind this help of US was to maintain peace in South Asia and to defeat the communism. United State also wanted to setup a base in Pakistan to keep an eye on Russian defense and military research centers (Iqbal and Khalid, 2011).

In 1959 US provided aid for Indus river waters and different development projects and also provided fresh arms to Pakistan. Pakistan received a lot of foreign aid from western countries over the five year plan in 1960. The United States provided aid to Pakistan for strengthening its military front and to encourage signing defense agreements with other countries. However a significant change in US Policies was witnessed during Kennedy period. A major turn was witnessed in US-PAK relationship when US provided aid to India for Sino Indian War 1962. It was then Pakistan became more threaten from India and Ayub Khan critically evaluated membership of SEATO and CENTO and was equally justified to withdraw from these pacts but later on he decided to keep the membership as Western aid was necessary for the project of Terbela dam which was very vital for economic prosperity of Pakistan.

Kundi (2009) explored that right after Independence of Pakistan, the relationship between US and Pakistan started strengthening positively. The relationship during Ayub Khan Era was the evidence of considerable growth between two countries. Ayub Khan exploited US Aid to the ultimate extent. He has ensured success at two major fronts. First be gaining public support and pacifying the legitimacy of incumbent, secondly he strengthened the economy and made it to be allies in regional politics just like Pro-US Middle East Defense Organization (MEDO) also known as Baghdad Pact.

2.4 Economic Policies during Ayub Khan Era and US Aid

Kiran (1988) explained that due to negligence of economic development and political instability, Pakistan was economically struggling when Ayub khan took over the country. Implementation of First five years plan was sluggish and was not complete by any definition. The government of

Ayub Khan was extremely worried about economic development and established its consciousness in the economic development. Hence government strictly emphasized on addressing Unserved and underserved areas of economy, mainly including exports, agriculture and industry.

To make thing real, Cabinet played an important role. Then cabinet is cited for introducing favorable economic policies and most importantly along with introduction of such policies cabinet made sure their continuation. Finding the enacted policies long termed private sector made huge investments in economy and growth rate was boosted rigorously. Such planning turned the cards in favor of stabilizing Pakistan's economy at macro level and by 1960's experts start citing Pakistan as model of capitalist economy. The key role in the development of private sector capital was played by the economic institution of the government. The Cabinet rescheduled the status and objectives of all the institutions including Economic Committee of the Cabinet (ECC), Pakistan Industrial Development Corporation (PIDC) and Planning Board which after reorganization was renamed as Planning commission (PC). Key component of president's secretariat and president himself was elected as chairman of the commission, while finance minister was elected as his deputy.

The Commission was authorized for making key economic decisions and for laying out mechanism for policy development. The commission was also authorized of planning for installation of heavy industry with consultation of private entrepreneurs. Provincial authorities were also bound to bring their suggestions regarding industrial development and working of 2nd five year plan to planning commission Once or twice a year. Similarly, the function and status of PIDC was also reformulated by the cabinet. The cabinet bound PIDC to submit its plans related

to disposal of projects to it. Cabinet upgraded the status of planning commission and minimized the status of PIDC.

Cabinet declared Economic Committee of the Cabinet (ECC) as Supreme Economic body. Its members were Ayub Khan who was the President, Muhammad Shoaib (Minister of Finance), Minister for Food and Agriculture, Lt.GenAzam Khan, AbulKasem Khan (Minister of industries), Zulfiqar Ali Bhutto (Minister of Commerce) and other officials. Its functions included supervision and approval of the implementation of Annual development program and Five year plan. It could authorize development schemes and would report to cabinet about the implementation of plans. In addition to it an economic coordination Committee of cabinet comprises of Minister of Finance, Industrialists, Commerce-men, Foreign Affairs and Natural Resources personnel. Its function included the paper work on vital economic issues.

Among the notable economic institutions National Economic council, National Finance commission, National development program and Economic Coordination Committee of Cabinet were included. National Economic Council consisted of Federal Minister of Agriculture, Finance, Information, Education, Communication, commerce and defense. At provincial level NEC consisted of Provincial Finance Ministers, Governors and key officials. Agriculture Development Program was established in March 1964, while Economic Coordination Committee of Cabinet was developed in 1966.

2.4.1 Industrial Policy during Ayub Khan Era

New industrial policy was announced in 1959 by the regime of Ayub Khan. The objective of that policy was rational development on the basis of agriculture, local raw material, small scale

industry and development of cottage. Private industrial development was controlled by the cabinet by all means and the responsibility to implement the industrial policy was given to Provincial Governments. Cabinet was in-charged to design and setup heavy industry both in private and public sector in Pakistan. In order to fulfill military requirements of Pakistan, investment of capital was started in form of stabilizing ordinance factories especially after the war of 1965. Power generation capability for heavy industry was enhanced. Trade, banking and foreign investment in industry was encouraged under the Supervision of Cabinet.

Industrial sector flourished during this regime especially before Indo-Pak war of 1965. The contribution of industrial sector to GDP has increased from 9.2 percent to 11.4 percent. Few cons of Industrial policies during Ayub Regime included high ratio of Dependence on Foreign Aid, and confiscation of labor rights as formulation of labor Unions were unlawful.

2.4.2. Business and Trade Policy

In early years of Ayub Khan Era Trade was very slow. The stock market supported by policy makers and economic institutions was playing field for small number of people. The cabinet was extraordinarily active in making trade policy comparatively than in other fields of the economy. Ministry of Foreign Affairs was source of assistance in clearance of the trade delegations going abroad. Cabinet was acting as a supreme body in-shape of approving the establishment of trading bodies for export and import of all main items.

The idea of flourishing the trade was presented by Ayub Khan, after evaluating the thick and thin of this idea, it was approved by Cabinet. Indirect subsidies for exports were provided by cabinet as an incentive and permits were given to industrialists to create export industries. Finance

Ministers designed trade policies to encourage exports, improving the position of balance of payment and building up foreign exchange. Export of manufactured goods also promoted by export bonus scheme. In addition to this, imports were also liberalized except of domestically produced items and luxury goods. Manufacturing Industries depended on imported items also flourished in this period due to high imports; also foreign aid was a main factor to enhance imports.

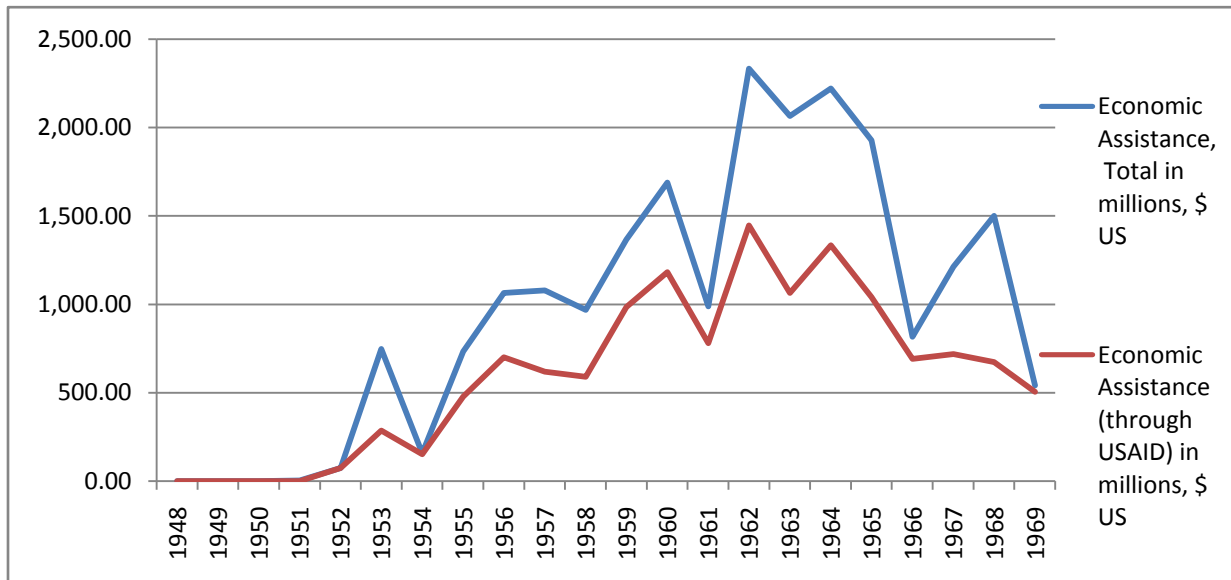
2.4.3 Agricultural Policy

Government gave equal attention to agriculture sector like industry and also declared economic policies for agricultural development with the aim of self reliance in food supplies. President Ayub Khan himself belonged to a middle class family so he was interested in improving the living standard of poor farmers and also the main purpose was to remove social inequality from the rural areas.

2.4.4 Foreign Aid to Pakistan during Ayub Khan Era

Pakistan was on foreign aid payroll from the very beginning. Initial Aid was not enough to fulfill the requirement and cover the planned goals. Over time foreign aid share for Pakistan started increasing. In 1953, an adequate amount of foreign aid was received i.e. \$748.29 million, out of which US \$, 286.23 million was provided by US. The total aid before the Era of Ayub Khan was \$4829.84 million out of which \$2899.58 was granted by US. President Ayub Khan was successful in establishing fruitful relationships with United States. His Government has received immense amount of Aid. The total foreign aid received in his Era was \$16673.36 million out of which \$10419.81 million was received from US which was used for development projects and strengthens his armed force leading to a boost in economy. The larger share of foreign aid was

used for modernizing and equipping military with state of the art technology. The Era of Ayub Khan was the golden era in the History of Pakistan.



If we evaluate the ratio of foreign aid granted to Pakistan starting from 1948 till the end of Ayub's regime. General trend curve remains stagnant till 1953 because the country has received no foreign aid, it was due to Ayub lobbying that after 1953 Pakistan started receiving foreign aid and kept increasing till 1958. The only period with low ratio of foreign aid was during 1953, when Ayub was dealing with political turmoil created by the formation of Moulvi Fazal-ul-haq party and constitutional amendments.

Post 1958 era is cited as the golden era with respect to economic indicators. During this era economy was flourishing, GDP was showing consistent growth figures. Ratio of foreign aid was high. Post golden era started from 1961 during the shift from martial law to presidency. And more vitally during 1965 Indo-Pak war when US stopped funding Pakistan's economy under the flag of foreign aid.

2.5 Economic, Social and Political Implication of Ayub Khan's Era

Military Governments remained ahead of civilian governments in securing US Aid to Pakistan. Lag in development is characterized by inconsistent practice of macro and micro policies and parameters. Same happened in case of Pakistan, both military and civilian governments remained unsuccessful in taking care of the ongoing economic policies and this inconsistent behavior at decision making level has coasted the whole rhythm of economic development.

Classical example of such inconsistency in policies evident from empirical figures is shift of power from Ayub to Bhutto. With gaining power Bhutto nationalized the industrial sector to decrease the inequality. The main reason being polarized industrial sector, extreme inequality, and rent seeking behavior of Industrialists. But such abrupt change in policies cause great deviation from economic goals and economic indicators suffer due to inconsistent practice. As in this case the whole mission of US Aid drained right after nationalization of industrial sector by Bhutto. This sudden change also raised few vital questions for experts. One of the prime questions was authenticity of the hype of stabilization and strengthening of institutions during Ayub Regime, as the being the first aftermath of Ayub's regime this economic failure/lag portrayed itself in favor of the slogans that Ayub has only strengthened Military machinery rather than working on other vital institutions.

Pakistan allied itself with US against USSR and became the member of SEATO and CENTO organizations in order to get assistance from US against external aggression. Due to this decision of joining the US bloc the economic policy was not in balance with Russia and this decision proved alarming when US stopped aid to Pakistan during the war of 1965. Although Nehru was

known as a hard core communist but comparatively he was able to manage good relations with both blocs and never preferred to rely on any bloc at large.

Not only our military relied heavily on military aid but also their intervention had caused a gap in political evolution which has coasted this country indirectly for long. Along with creation of gap in political evolution, also Ayub's Regime has defamed and devalued the supremacy of parliament and institutional independence. These two implications were the foremost important and drastic implications and lasted for many years. Reliance on foreign Aid turned into our diplomatic approach and a lot of work is still needed for 100% restoration of independent decisions at macro level.

Chapter 3

Zia-ul-Haq Era (1977-1988)

3.1 Introduction

After the end of Ayub's era, the democracy comes only for six years that was of Bhutto Regime. He became the president of Pakistan from 1971 to 1974 and then Prime Minister up to 1977. During Bhutto's government there was quiet cold war between Pakistan and US, because Bhutto's foreign policy focus was toward the countries that were closed to USSR. US aid to Pakistan in the Bhutto regime was cut off due to his bad attitude toward US and the secret search of nuclear technology during the last years of his regime. In general the economic growth depends primarily on the political stability of the country but in case of Pakistan the growth is more directly dependent on our relationships with US.

The economic growth during 1970s fell from 6.8% (recorded in 1960s) to 4.8%, with high inflation rate and more income inequality. The performance of manufacturing sector was not satisfactory and due to nationalization policy of Bhutto, the industrial sector also gone in worse condition (Rafi, 2012).

Due to tensions with Bhutto, the US planned to get rid from Bhutto, and then his government was over thrown by military chief General Zia ul-Haq in 1977, with the imposition of Martial law and he ruled the country for 12 years. The famous 1973 constitution of Pakistan promises for social justice, democracy, freedom, and equal rights; but when Zia comes in government he suspended the constitution and use his power to do anything and implement policy according to his desires and use force against any opposition to make them silent on his policies.

He becomes very much supportive with US after invasion of Soviet forces to Afghanistan in December 1979, and Pakistan become the natural ally for US. Due to this alignment US aid increased from \$60 million to more than \$600 million in mid 1980s, in addition to this \$3.1 billion also provided as a military assistance. Due to this inflow of US aid, our economic growth was 6.6% annually with 9% manufacturing sector and 4 % agriculture sector.(Rafi, 2012).

The agenda behind the US aid to Pakistan was not for the development purpose or to help the poor but actually US want support from Pakistan to crush Soviet forces in Afghanistan by using Pakistani *Mujahideen* who fought against Red army of USSR (Zaidi, 2011). US also provide money to Pakistan for caring Afghan refugees and for the purpose of communication infrastructure development. Despite the fact that America provide a lot of aid but still its image was not good in the eyes of Pakistanis because of not helping Pakistan in 1971 war with India, and his agenda of aid was to put emphasis on Pakistani *Mujahideen* to fight with Soviet in Afghanistan. For this purpose, US help Zia for the implementation of Islamization policies which gave importance to Jihad and his aid also provided to *Mujahideen* through military and particular agencies such as ISI and led to raise political Islam in Pakistan during Zia Era. (Zaidi, 2011).

3.2 Background of Zia-ul-Haq Era

After Ayub's longer tenure the democracy comes after thirteen years when Bhutto took the charge of the country in 1971 as a President and elected as prime minister in 1973. At that time Pakistan was facing a lot of problems like Separation of Bangladesh which was a major shock for economy. Bangladesh was the major contributor to GDP of Pakistan mainly in agriculture. Due to separation the GDP of Pakistan fell to half of the amount approximately, (From \$14 billion to \$8 billion) and also the foreign aid was cutoff. This situation was a great challenging for Bhutto but in this difficult situation; administration of Bhutto was working very well. He

emphasized on real economic growth for that purpose he invested in different long term projects along with emphases on agriculture growth and made land reforms which are related to middle and lower class. His administration also worked for the expansion of industrial sector such as Steel mill with the assistance of USSR and first nuclear program was also started by him.

Bhutto's foreign policy shifted from Western world to Muslim countries and also balanced the relation with USSR, France, China, North Korea, and other Eastern Countries. Due to his foreign policy and concentration on nuclear program, the interest of US was affected badly and that led the US to start thinking against Bhutto and many people have a doubt that there was hand of US in overthrowing the Bhutto's government. In view of all these situations Bhutto was not interested in making relationships with US because of bad experience in the past. And extend his relations with several other countries which he found as real friends and for this reason, the US aid was not provided in sufficient amount during the Bhutto regime.

General Muhammad Zia-ul-Haq was selected for the post of Army Chief during Bhutto's government on 1st March 1976, after the completion of General Tikka Khan's service tenure. Zia superseded number of army officer who were higher in ranking in service to him. He invited Bhutto in different functions in order to attract the attention and was bountiful in his command of prime minister due to which Bhutto agreed to promote him to the post of Chief of Army Staff.

In 1973, Zia was selected to control General Court Martial set up in Attock in which number of officers charged with the scheme to over throw the government of Bhutto. Bhutto was informed about the nature of trial and its progress by Zia-ul-Haq and therefore; Zia won the Trust of Bhutto during this long trial. The loyalty of Zia was checked when peoples start movement against the government of Bhutto in 1977, Zia was passed in this loyalty test by visiting the army

officers and ordered them to follow the commands of government blindly. The political situations go on difficult stages and on 4th July 1977 Bhutto called meeting of their senior advisors in which Zia also present; where Bhutto discussed the scenario of political situation and he wants to resume the dialogue with the leaders of Pakistan National Alliance (PNA, which was the political alliance) in order to resolve the deadlock. But Zia don't want to create any possibility of success between the dialogue of PNA and government (Khan, (2002).

Moreover, the PNA leaders were not cooperating with the government of Bhutto because they want to remove him and enforced Shariah laws (Nizam e Mustafa) in the country. But with the passage of time PNA split in to two groups, i.e first was the religious or conservative group which support martial law and other was the communist or socialist group which support Bhutto and Democracy.

After getting brilliant success in the 1977 elections by People party, National Campaign started by PNA against the government that their victory was full of allegedly rigged and controversial results. After long struggle of Street fighting, under advised to open the negotiation with PNA leaders the Bhutto opens the speculation with them, but the anti-Bhutto bloc wants only to remove Bhutto from government (Fawaz, 2008). Meanwhile, the most trusted companion of Bhutto, Dr. Mubashir Hassan advised him not to use power against this alliance and he also tackle the situation on Bhutto's behalf by bringing them on the table in order to solve this political issue. As a result negotiations both parties were near to sign an agreement in June 1977 and the final signature by Bhutto on 5th July were required. But the PNA leaders had certain doubts about the agreement, and then Bhutto tried to crush their power with the help of his agencies and this becomes the cause of hanging of Bhutto in April 4, 1979 (Haqqani and Husain, 2005). After that immediately Zia take over the government and the Bhutto was sent to prison in

the murder case before the morning of 5th July on the promise to set up the elections within ninety days, which was accepted by the Majority of people.

3.3 Zia and Foreign Aid

Like other military regimes Zia also received too much foreign aid especially the US aid due to his working as a key alliance for US in the Afghan War. US provided a lot of military aid to Pakistan in this regime and also US provide direct aid to *Mujahideen* who were fighting in Afghanistan against Soviet Union. The agenda of US aid was to defeat Soviet Union in order to get victory in the cold war from USSR.

Apart from the fact that Pakistan was the major recipient of foreign aid among the various aid receiving countries; Pakistan military is the most significant beneficiary. From 1960 to 2002, Pakistan received about \$73.14 billion that comes under Official Development Assistance (ODA) which include more than 72% amount received in terms of bilateral sources and fifty percent of this bilateral amount was financed by US (Anwar and Katharina, 2006). The argument follows from the fact that US was the major Aid donor to the Pakistan over the history and noticeable fact is the considerable difference in terms of aid due to different regimes in the form of military and civilian rules. This fact is further stimulated by analyzing the that aid trends given from 1958 to 2008, which shows that \$51.7 billion were provided military regimes of 34 years while civilian rulers receive only \$5.82 billion in their 18 years of rule from the total amount of \$58.5 billion. On average the civilian rulers receive \$0.34 billion per annum while the military rulers receive \$1.34 billion in their regimes and interestingly during civilian rules the assistance given to military was neglected.

The analysis of Bhutto's regimes shows that military assistance was stood at less than per annum on average, while the second phase of civilian rule (1988-1999) was characterized with an average of \$65.77 million per annum of military assistance as compared to the average of \$286.7 million per annum of its predecessors. The Carter administration had stopped the aid facility to Pakistan due to development of Uranium enrichment process by the country.

The soviet invasion to Afghanistan served as a turning point for Pak-US relationship and this invasion helps in opening the door of American Aid to Pakistan in return to support by the country against soviet forces in Afghanistan. This point can be further illustrated by observing the trend of foreign aid to Pakistan from 1975-1979 which accounted for \$900 million per annum but then sharp rise and stood at \$1.3 billion per year over the coming five years from 1981 to 1985. In the decade of 1980s the US provided \$5 billion dollar of aid to Pakistan which constitute \$2.19 billion for military assistance and \$3.2 billion for economic assistance. After Israel, Pakistan was the largest US aid recipient due to the approval of a \$4.02 billion of aid program in terms of military and economic assistance in 1987 (Khan, 2013).

3.3.1 Zia Islamization Policy

Zia legitimize his policies by the using the ideology of Islam. Due to his Islamic changes in the constitution of Pakistan and his support to Jihadi activities in war against Russia in Afghanistan gave importance to his rule within the country as well as on international level. By making relations with the religious parties, Zia made the basis of his Islamization program from the Sunni-Hanfi school of thought, which was practiced by the majority of people in the country so in turn they provided sufficient political support to him. Secondly, the Jihadi activities also started in Afghanistan and Pakistan due to Soviet invasion to Afghanistan in 1979. These

activities were also sponsored by the State of Pakistan during Zia regime, which helped him to become a major ally of United State. Along with these supports the Arab countries and the whole West also become against the Soviet's occupation, which further provide support to get international legitimacy for Zia. In addition to that, the military ruler, also attract foreign aid in the form of economic and military assistance due to their involvement in Afghan war (Khan, 2013).

Major Islamic amendment during Zia regime was the formation of a body named as “council of Islamic ideology”, which was established to formulate the recommendations for the Islamic policy. He gave power to Supreme Court to nullify all the non-Islamic laws, brought new Education policy to include Islamic principals in education, enforced different Islamic laws in “Hudood ordinance” regarding adultery, rape and prohibition of Wine, theft, murder and robbery and also gave punishment for these crimes as prescribed by the Shariah. He also made ordinance in which punishments explained according to the rules of Shariah. The introduction of “Zakat and Ushr ordinance” and “the elimination of Usury” and giving power to government to deduct the amount 2.5% (rate given by Islamic law) as Zakat from saving interest bearing accounts was brought by Zia. He also established the federal Shariat court “to examine and decide the question whether or not any law or provision of law is repugnant to the injunctions of Islam”, and made strict law for Blasphemy;

“With the regard to Blasphemy, the Pakistan Penal Code (PPC) and the Criminal Procedure Code (CPC) were amended, through successive ordinances in 1980, 1982 and 1986. Accordingly, anything implying disrespect to Muhammad (P.B.U.H.), Ahle Bait (family of the prophet), Sahaba (companions of the prophet), and Sha'ari-Islam (Islamic symbols), were recognized as offences. The punishments for the crimes were described in Act III of 1986 which

is also called the Criminal Law Act. According to the Section 2 of the Act, blaspheming Muhammad (P.B.U.H.) is punishable with death or life imprisonment, disrespecting the Quran is punishable by life imprisonment; and insulting the family or the Companions of the Prophet is punishable by prison up to 3 years, or a fine, or both” (Khan, (2013)).

3.3.2 Relationship between US, Pakistan Military and Jihadists

Zia-Ul-Huq, US and religious groups had two features in their relationship with each other, the first is the major contribution of religious groups in Afghan Jihad and secondly the organization of Jihad was financed with increased foreign aid to the country. The patch up of Zia with religious groups was done by providing incentives to religious groups in term of Islamic amendments in the constitution which in turn increased the bargaining power of these groups against other privileged groups. Such measurements by the state largely facilitate the religious groups in conducting the Jihadi activities under the legal umbrella which set a stage of rent generating due to association of these activities with foreign aid coming from US and many Gulf states.

The religious groups were benefited by Zia in return of their Jihadi services such as the formation of committee to give policy recommendations in order to improve the economic affairs and conditions of Madrassas. With the help of policy recommendations of committee the Madrassas were provided unconditional and direct financial assistance from Zakat fund by the government. In order to improve the employment status of Madrassa graduates, the University Grants Commission (UGC) was directed to issue equivalency certificates to the Madrassa graduates that allow them to recognize as Masters of Islamic studies. Moreover, in 1980 all sects were awarded representation in the rubber stamp Assembly by giving seats to all sects of Ulema.

In 1979, due to large number of incentives given to Madrassas, the new education policy includes approval of five thousand new mosque schools and re-organization of curriculum of public schools with greater emphasis on Islamization and Jihad. Madrassas were free to use internationally supplied funds, religious literature related to Jihad, and arms. Furthermore, the domestic donations to Madrassas was also a major source of funding, all these activities have two crucial effects on the society as a whole. Firstly, the society largely bears on the payoff of religious groups and secondly society face increased growth in the Jihadi organization (Khan, 2013).

3.4 Economic, Social and Political Implications of Zia Era

The Zia's slogan for ensuring Pakistan's security from external threat which was mainly posed by USSR due to invasion of Afghanistan was one of the major factor that allow him to find legitimacy for his rule in the country. His alignment with the religious groups for Jihad which is a unique source of motivation for Muslim's soldiers as a key weapon to fight against non-Muslim soldiers-a Russian military to stop them from further invasion and bound them to leave the Afghan territory as soon as possible that will also ensure external stability of Pakistan. The future prospects of Zia's Islamization policy and Afghan Jihad policy have very devastating consequences and still the country is facing long last deep consequences of his policies.

For Afghan Jihad and ensuring his rule in country, Zia made radical changes in the social infrastructure of the society and paradigm shift in the policies of State. Due to Afghan war, the huge influx of Afghan refugees was allowed in the country by Zia's administration was one of the major decision of the time. The migrants in millions of masses found the refuge in KPK and Baluchistan and created ethnic diversity in both provinces specifically in Baluchistan. The influx of millions of refugees also burdened our economy with high labor supply and reduces

employment prospects for unskilled labor of the country. Moreover, the presence of large number of migrants also promises the huge expenditures in fulfilling their basic needs such as education, health and relief which was finance partly by Pakistan government and remaining by other international donation organizations namely UNECEF and USAID at the beginning. This was the major burden on the economy and labor market particularly, the concentration of Afghan migrants into local population also complicated the problem and raises security issues in the country. Most of the refugees involved in illegal activities such as smuggling, kidnapping, and robbery in order to earn money for the support their families to improve financial conditions which was mainly due to capacity constraint of local job market that was unable to provide jobs.

The accomplishment of Soviet defeat in Afghanistan was the sole objective of US which was achieved with the assignment of “Geneva Accords” of USSR with US, Afghanistan, and Pakistan in 1988 and forces withdrew the Afghan territory in February 1989. After the withdrawal of forces US made paradigm shift in foreign policy for Pakistan and Pakistani officials and authorities also showed criminal negligence and completely ignored the Mujahidin. The Madrassas formed for Jihad purpose and thousands of students with Gorilla training were ignored and the non-state actors who were very strong in the Zia’s era started to exercise control over these Madrassas. The center stage for these heavens of extremists was KPK and federally administrated tribal areas (FATA) where these non-state actors started to challenge the writ of the government by imposing their own laws and own interpretation of Islam.

The empowerment of non-state extremist actors and massive aid in the country also introduce the weapon culture in the society and weapons were cheaply and easily available to the citizen this can be confirmed by the fact the forty to fifty loaded trucks of weapons daily supplied for Jihadists but 80% of these trucks crossed the Durand line and 20% remains in the Pakistan. The

weapon culture also increased violence and crimes in the country which was reported by federal bureau that crimes were high due excessive availability of weapons.

Due to policies of Afghan Jihad by Zia, the Pakistan Afghanistan border was relaxed and people were freely allowed to cross the border, such relaxation was given in order to facilitate the Mujahidin to find easy access to Afghan territory. But the relaxation of snap checking on Durand line and free mobility of people also provide incentive for smuggling of drugs and income generated from this source was major financing channel of extremists. As Afghanistan is the largest opium producer worldwide and this opium was supplied throughout the world by using Pakistani territory and Pakistani society also suffered from the drug business. The drug addiction rises sharply due to cheaper and easy access of drug to the youth of the country; moreover, this scenario also leads to increase production of opium and other drugs inside Pakistan.

Zia's longest regime also strengthen the military power within the country and military also started various corporate businesses as well as expanded the existing business empire such as National Logistic Cell (NLC), and Frontier Works Organization etc, by utilizing the American aid given for economic assistance (Khan, 2013). The introduction of NLC by an organ of State is one of the major reasons for downfall of Pakistan Railway because NLC started major logistic forwarding throughout the country which was priority carried out by Pakistan Railway. Furthermore, the organizations namely Bahria Foundation, Shaheen Foundation, and Army Welfare Trust started various projects in order to provide welfare to the military by investing in projects like heavy machinery industries, cement, cereals, insurance business, and banking services (Siddiq, 2007). In nut shell the major effect of huge aid to military reshaped the whole institution and military started keen participation in the profit seeking business and corporate sector.

CHAPTER 4

Parvez Musharraf Era (1999-2008)

4.1 Introduction

Democracy is good because of freedom of all individuals. “People shouldn't be afraid of their government. Governments should be afraid of their people.” (Alan Moore). But In case of Pakistan the situation is quite ambiguous major development and growth takes place during dictatorship and the country's GDP growth was quite high in all three dictatorial Eras. The major factor of the enhancing economic growth was foreign aid which increases significantly when dictator came and ruled the country because US aid was not provided to better our economic prosperity but they want a payback for that aid by putting conditions and these conditions create violence in the country and the fulfillment of such conditions during democratic era was impossible because it is difficult to convince the whole parliament for those conditions. Musharraf Era was also a high growth Era and he ruled the country for Eight years without any hesitation and fear because he was the main authority of the state. Three Prime Ministers were changed during his tenure but the political stability was the common characteristic of all dictatorships.

The foreign policy of Musharraf defined after the incident of September 11, 2001. He also made strong relations with United State after joining the war against terrorism. Musharraf stands in favor of US during his whole tenure by ignoring its bad attitude in the past. In return he had received substantial amount of foreign aid. Due to his supportive attitude towards US Pakistan suffered a large number of problems; the whole country became unsecure and faced enormous

threats, suicide attacks became common, talibanization emerged which creates violence in the country. In return of providing aid to Musharraf the US use him for his interests and when all jobs was done by Musharraf US changed the policy toward Pakistan as usual and took a U-turn by demanding from Musharraf to step down and bring Democracy in the country. Whenever Pakistan gives space to US in making foreign policy we get failed, same situation happens with Musharraf, his foreign policy was unsuccessful because of security threat issues.

In this chapter, this study will discuss the political economy of US aid to Pakistan in Musharraf Era. The first section organized as political and economic background in the era of Musharraf Era, second section explained the situation of Afghanistan and Talibanization before 9/11 incident. Third section of this chapter explains the post 9/11 scenario. Fourth section explains the US aid in Musharraf Era and the politics or agenda of US behind that aid and then conclusion of the chapter.

4.2 Background of Musharraf Era

In between the Era 1958 to 1988, Civilians ruled the country for only six years from 1971-77 Zulfiqar Ali Bhutto and in remaining period dictators ruled the country. Military government was over when Zia-ul-Haq died in air crash in 1988, and the democracy was returned back in which the two democratic parties were led by Nawaz Sharif (Pakistan Muslim League) and Benazir Bhutto (Pakistan People Party). Both leaders appointed two times and also dismissed two times in the democratic era of 1988 to 1999. The democratic era suffered a lot from the constitutional change done by Zia in 1973 constitution law i.e. 58(2b) in which full authority given to president to dismiss the parliament and elected prime minister without any consultation with supreme court or Senate, and the implementation of 58(2b) was not favorable for democracy. At that time the sovereignty of military power was major threat for democrats. From 1988 to 1999 four

democratic governments were dissolved due to 58(2b). This caused political instability and triggered imbalances in Pakistan Economy.

The two times governments of Benazir Bhutto was dissolved by president by using 58(2b) i.e. first by Ghulam Ishaq Khan in 1990 and second by Farooq Laghari in 1996 due to charge of Murder of Murtaza Bhutto (brother of Benazir). In the same fashion, in 1993 the first government of Nawaz Sharif was dissolved by President Ishaq Khan, and during the second government the foreign policy of Nawaz Sharif government was not much effective due to this policy the fluctuation in relationship between Pakistan and foreign countries especially with US was not eliminated. At that time there was misunderstanding between political and military leaderships and hence his second government was dismissed by the General Pervez Musharraf and took over the country as Marshall Law administrator in 1999 and ruled the country for eight years from 1999 to 2008.

4.2.1 Musharraf and His Coup or Military Takeover

October 12, 1999 was the black day for the democratic government of Pakistan when Musharraf took over the country. The eight years of Musharraf regime (started from October 12, 1999 to August 18, 2008) were very imperative in the history of Pakistan. He took over the country due to certain misunderstandings between the government of Nawaz Sharif and military because of Kargil war and Nawaz Sharif wanted to dismiss Musharraf from the post of Army Chief but the high command of military didn't accept this decision. In repercussion, the military dismissed Nawaz Sharif's democratic government and imposed Martial Law by dissolving Senate and national Assembly.

Musharraf's regime had certain positive as well as negative implications. When he came in to power, the economic growth was improved; the average growth rate recorded in the Musharraf Era was 5.12 percent, literacy rate increased from 45 percent to 53 percent (recorded in 2002 and 2005 respectively). The poverty decreased from 34.46% percent to 23.9% from 2001 to 2005 (economic survey of Pakistan). Industrial sector also grown up and new industries were also flourished such as Sundar industrial, M3 industrial, and Chakri industrial estate. The investment in the Compressed Natural Gas (CNG) sector increased over 70 billion in his Era. Large number of new CNG stations installed about 30,000 people was employed due to this the encouraging policies of government. Five dams (Khurram, Mirani, Tangi Subakzai, and Gomalzam), seven motorways and Gwadar sea port were established in his regime. Foreign direct investment was \$8.5 billion in 2007. Exports recorded in 2007 were \$18.5 billion. In nutshell, it was the aid factor that played important role in high economic growth in Musharraf era despite the fact that the global economy was not performing very well (Abidi (2010)).

On the other hand if we have a look toward the negative aspects of Musharraf's regime then it demoralizes the freedom of expression's rights. No social freedom with individuals even people were afraid to talk against military. The civilian rights deteriorated, missing persons issue got importance, no independence to judiciary even Chief Justice arrested when his decision was going against dictator, Senior military officers got large number of benefits according to their desires like land ownerships e.t.c. The other major negative factor of his Era was National Reconciliation Ordinance (NRO) which was the illegal ordinance. Under this ordinance large number of bureaucrats, parliamentarians and politicians who were accused of terrorism, murder, corruption, money laundering and embezzlement were released from cases of National Accountability Bureau (NAB). Other negative acts of his Era were the pending of the

construction of Kala Bagh Dam (whose completion resolve the much more problem of water and electricity of Pakistan), Killing of Akbar Bugti, Operation of Lal Masjid, Crackdown in madrassas and other jihadist organizations.

4.2.2 Afghanistan and Talibanization

Afghanistan is the mountainous region located in central Asia, whose exact population is unknown but around twenty one to twenty six million people divided into four major ethnic groups; Pashtoons, Uzbeks, Hazaras and Tajiks with some other minority groups. Majority of people around 99% had Islamic faith and small population of Hindus, Sikhs and Jews. Kabul is the capital of Afghanistan but due to many years of war Kabul was totally destroyed and shattered. Before 9/11 incident Afghanistan was already a poorest country and due to longer war period and political instability the country was ruined and dependent on foreign aid. During the good years of Afghanistan the main source of income was agriculture and it produces enough food for their people as well as export the surplus. The Majority of area was under Taliban rule whose leader was Mullah Omer (Tokhi, 2001).

Taliban was the Islamic fundamentalist group which ruled the country from 1996 to 2001, after emergence in the early 1990s by the Mujahideen who fought against USSR and supported by American Central Agency (CIA) and Pakistan Inter service Intelligence (ISI). Younger Pashtuns who studied in Pakistani Madrassas also becomes the part of these Islamic fighters or Mujahideen. In 1994, Taliban entered in to Kandhar to brought peace in this crime ridden city, while in 1996, Taliban takeover the capital from Burhanuddin Rabbani (the president), and come in power in around 90 percent of the country. They imposed brand of justice and complete Shariah Laws in their territory and Mullah Omar led Taliban from 1996 to 2001 as commander.

He provided safe way to Al-Qaida (led by commander Osama Bin Laden) on the conditions that do not launch any extremist activity against America, but bin Laden deviate from his agreement in 1998 when he organized bombing in US embassies in East Africa. This incident brought tension between two groups, where Taliban was actually Islamic fundamentalists while Al-Qaida was global Jihadist minds (Laub, 2014).

Taliban and Al-Qaida were totally different groups with different ideologies, goals and sources of recruit. Taliban just wants to impose Islam in their country and they are the students of Madrassas. Whereas Al-Qaida is basically an organized Islamic faction, its goal is to lift the word of God, to make his religion victorious. They continue jihad even after the soviet war and make jihad as a global struggle, and have global perspective with long term goals. Their ultimate concern was to work for plight of Chechnyans, Kashmiris, Palestinians, and Muslims everywhere (Schott, 2012). In the eye of America Taliban provided safe passage to Al-Qaida (Which was terrorist organization in their eyes) even they condemn the attacks but they had a role in different attacks like in 9/11 incident by providing safe havens to Al-Qaideans.

4.3 The Post 9/11 Incident Scenario

It was Tuesday, 11th of September when a big destruction of the world started from New York, America when the terrorists from Al-Qaeda group attacks on the world trade centre. This attack was done by the passenger airlines hijacked by 19 members of Al-Qaeda group. Due to this incident around 3000 peoples died including law enforcement officers, Civilians, 19 terrorist and loss of four planes and loss of infrastructure damage of at least \$10 billion. Making base of this incident America attacked Afghanistan by arguing that this attack was done by 19 Muslims Members of Al-Qaida group organized by their founder Osama bin Laden who was in Afghanistan. They argue that Taliban in Afghanistan provide safe haven to these terrorist

organization and on demand of US they refuse to handover Bin Laden to America. But all their arguments are without any proof and the 9/11 incident did not provide any legal justification for the attack on Afghanistan (Griffen, 2010).

The US invasion to Afghanistan was decided two months before 9/11 incident. The background of this decision was Union Oil Company of California (UNOCAL)'s proposed pipe line supported by US who transport natural gas and oil to Indian Ocean from Caspian Sea Region through Pakistan and Afghanistan. This project was late and becomes difficult because civil war in Afghanistan during 1990s after the withdrawal of Soviet Union. When Bush came in power their administration want to make a government of national unity with Taliban but Taliban would not accept this offer. After rejection of offer this offer, the US decided to attack on Afghanistan (Griffen, 2010).

From the preceding three decades before 9/11 Pakistan had a very strong relationship with several jihadist groups including Taliban and Osama bin Laden's organization. Behind these relationships the driving force was the fear of India. The ISI Directorate itself creates these jihadist organizations like Taliban and different Kashmir's organization. Pakistan provided safe havens and sometimes direct support to them. Due to strong relation with Osama bin Laden and other jihadist organization, Pakistan also worked with them against India. These Jihadist organizations are majorly brought up during 1980s when Pakistan indulge in war with Russia in Afghanistan and at the same time America also support these organization through providing foreign Aid. In the beginning of the war few observers expect that these Mujahideen only survived for a long time against the Red army of Soviet. After the War ended, in 1990s when America achieved their objective to defeat Soviet Union, America imposed sanctions on Pakistan on their nuclear programs and also stopped military aid, and also suspended the delivery of F-16

fighters for which Pakistan already paid. CIA made these judgments when United States don't need any more help of Pakistan in Afghan war (Riedel, 2008).

After 9/11 incident the Musharraf take a U-turn regarding the relationships with these jihadist organization (Taliban, Al-Qaeda, etc which was called terrorist organization after getting benefit from them in Afghan war) on the ultimatum given by Deputy Secretary of state Armitage to our ISI leader Lt. Gen Mahmoud Ahmad that, either to help us against these Taliban and Al-Qaida or to be seen us as an enemy and we will attack on you (Musharraf, 2006).

Musharraf gave explanation of his decision against Taliban in 2006 in his book *In the Line of Fire* that Pakistan was not able to choose military conflict against America. Moreover, he concluded that India was the major beneficiary if Pakistan decided to stand with Taliban. According to him; "I also analyzed our national interest. First, India had already tried to step in by offering its bases to the U.S. If we did not join the U.S, it would accept India's offer. What would happen then? India would gain a golden opportunity with regard to Kashmir. Second, the security of our strategic assets would be jeopardized. We did not want to lose or damage the military parity that we had achieved with India by becoming a nuclear weapons state". In short the decision to go against Afghanistan was actually to safe Pakistan from India (Riedel, 2008).

4.4 US Aid in Musharraf's Era

It was the foreign aid which played a vital role in the economic growth and development in the Musharraf era. After the withdrawal of Soviet forces from Afghanistan in 1989, US attitude was completely change toward Pakistan and this shift was depicted by an amendment known as Pressler amendment in 1990 thus stop military aid to the country and impose nuclear sanctions as well. US imposed complete economic and military sanctions on Pakistan due to nuclear test in

1998. In the democratic era of ten years (1989-1999) Pakistan did not receive significant amount of aid from the US. The incident of 9/11 in 2001 again bring US and Pakistan to go for joint venture and Musharraf was on the driving seat as he was the ultimate authority so he announced Pakistan as frontline ally of US for the war against terrorism without any consultation with other stake holders in the country.

In return for the frontline ally of US, Musharraf find legitimacy for his rule from the Bush administration; moreover, all economic and military sanctions were uplifted by the international community. In the first decade of 21st century, Pakistan got 17 billion dollar from the US, and 70% of this aid was given in the Musharraf's regime for security related programs, especially for War on terror (Mian, 2008). Furthermore, the Bush administration also allows Pakistan to buy modern American military technology.

For moving on the track given by US, Musharraf was invited to visit Washington in February 2002 and was promised debt relief and economic assistance. When Musharraf visited Camp David in 2003, a five year package of \$3 billion military and economic assistance was announced by President George W. Bush. Furthermore, in 2004 Pakistan was selected a Major Non-NATO Ally, in which militaries of both countries shared their additional technologies. In 2005, US made a promise to sale F-16 fighters to Pakistan for their military prosperity, and more than \$10billion of Aid was provided to Pakistan by 2007 (Riedel, (2008).

4.4.1 Agenda of US Aid in Musharraf Era

The American aid in Musharraf era was not free of agenda and the broad objective of this aid was to use military bases and airports of Pakistan in order to facilitate the US attack on Afghan territory. The support was not limited to the use of bases but also want Pakistan to help US for

the war against Terrorism. Pakistan also arrested number of Al-Qaida members and handed over to US that also include number of Pakistanis where Afia Siddiqui was one of them. Crack down of Madrassas and removal of Jihadi culture from the country was also the objective of US. Major portion of the aid was provided to Pakistan to indulge in the war against the enemies of US (Taliban and Al-Qaeda). In short US provide aid to Pakistan in order to take the revenge against their enemies. The alignment of Pakistan in war against terror induced Taliban to expand their extremist activities in Pakistan and the country accounts for heavy military and civilian casualties, suicide attacks were common in the country. The GDP growth of country enhanced at the price of security, because the GDP growth is directly proportional to foreign aid and Foreign aid is directly related with security violence. Pakistan had sacrificed its security for receiving foreign aid in all three dictatorial eras but the highest aid received during Musharraf Era.

4.5 Implications of US Aid in Musharraf Era

The regime of Pervaiz Musharraf was the second most dangerous military Era in the history of Pakistan and the country will face its consequences for many coming years. The country was struggling against the consequences of the Zia regime in the last decade of the twentieth century in terms of unnecessary and massive military intervention in political and governmental affairs of the country and sudden changes of the governments. The military of coup of 1999 led by General Musharaf started another black regime in the history of Pakistan. Unfortunately, the attack on World Trade Centre in American on 11th September again provided an opportunity for the dictator to align with US for helping them to invade Afghanistan. This alignment with US was again a paradigm shift in the policy of state which was in lined with the trait of previous

military dictator Zia in order to find legitimacy for the Marshal Law and gain aid from United States of America.

The policy of Frontline alley against terrorism accelerated the hate against state in the country due to reversal of state policies, because these non state actors were fed up under the umbrella of state by the previous dictator and now the declaration of terrorist by Americans. The military operations against extremist in the FATA and intelligence based raids on various Madrassas led the Musharaf un-popular in the country and started the layer of suicide attacks in the country on civilian and military personals and in public places. Following the tradition of his predecessors, Musharaf also strengthen the military by utilizing the US aid given to the country in terms of coalition support fund and further stimulated the rent seeking behavior in the society. According to the various estimates the country faces heavy economic and human loss due to war against terrorism and US aid for supporting the war against terrorism was very meager as compared to the losses. More than 45000 citizens lose their lives in this war and economy which was at the boom in the Musharaf Era started the journey of downfall due to increased layer of terrorism in the country which reduces investment prospects in the economy.

The decision to conduct military operations in the tribal areas of the country was not taken by the country officials of the time on its own but the driving force was the US pressure to conduct military operations in the tribal areas and military official cashed this pressure by receiving high amount of US aid. Due to large military operations in the FATA and unsettled areas of KPK the large influx of population migrated from the tribal areas to the cities of Punjab and Karachi specifically, which in turn increases security issues in the country because the extremist element often escapes from the war zone by showing yourself affective of war to the cities and then carry out various extremist activities in the country easily. The Karachi is the most striking example of

Musharaf's bad policies in his Era, which is the economic hub of the country but currently hijacked by the extremist, ethnic conflicts and polarized segments of the society.

CHAPTER 5

Conclusion

The analysis of military regimes and the association of US aid with military regimes shows striking observations, and it completely altered the whole institutional structure of the Pakistani society with high stimulation of rent seeking behavior in the society. The most important aspect of US aid in the military rules is the prosperous economy specifically to the military regime where economy have boom and high investment, consumption and GDP growth was at its peak during these times. In all the three main rules of military, the US aid was in significant amount and some share of this huge financial assistance to the country was translated in term of high GDP growth in the country.

The high GDP growth in the dictatorship Era also leads to pose several moral hazards in the society in form of undermined civilian supremacy, high military involvement in the executive system as well as in judicial system of the state. The analysis revealed that the US aid in the country also posed serious problems in the country due to the fact that US aid and support was the major support to military ruler for their legitimacy in the country. The Ayub Khan's Era was comparatively better than the other two dictatorships because in this era the utilization of Aid had very few long lasting impacts on the society and most of the aid was devoted to mega projects that led the economy to flourish. But the most drastic implication of his Era is the introduction of new ventures such as ruling the country to the military General who were never trained for ruling the country and it was the foremost important implication that lasts till to the time.

The Zia's dictatorship was the most controversial regime in the history of Pakistan and the utilization of aid in his Era was also controversial because he legitimizes his rule in the country by using religion. Although the economy was in boom in Zia's era but the cost to the country due to his Islamization policy is very high and still the country is facing the aftermath of this policy. It was the US aid that was the major source for financing the execution of Islamization policy and very small portion directed toward economic assistance of the country. His policies completely altered the whole institutional structure of the country and brought radical changes in the constitution of Pakistan in order to facilitate his rule and execute the policy of Islamization which further helped in achieving the American goal in the region.

Moreover, it was the Zia's rule in which Army had a prime shift in their organizational structure and went for profit seeking businesses. There was huge expansion in military owned business and formation of new corporate enterprises took place in the country due to large fund transfers from US in terms of aid. It was also the result of Zia's policies that country had weapon culture in the society where weapons are cheaply available to the citizen and led the extremism in the society. The weapons was brought to the country in order to supply to Mujahiddin for their fight in the Afghanistan against USSR but most of the these weapons never delivered to the Mujahiddin and reached to the black markets of the country where everyone was able to buy the latest American weapons. This regime also introduced the massive drug smuggling in the Pakistan as well as rest of the world because Afghanistan was the largest opium producer in the world and Mujahiddin also find it more economical to finance their expenditures and an easy way of earning money. Furthermore, the acceptance of 3-4 million refugees from Afghanistan was also a bad decision of the time because it was the major burden on the economy and country as well. The main reason for acceptance of these refugees was to gain rent from the international

donors for their support and rehabilitation in the country but after few years the financial assistance from international donors stopped and Pakistan's economy was the major source to finance the expenditures incurred on health, education and other facilities to the refugees. The migration of millions of Afghan refugees led to pose many security problems in the country and also created ethnic diversity in the province of Baluchistan.

The regime of Musharraf was also accompanied with large funds transfers from US in the name of Aid to the Pakistan but this was not used for economic assistance of the country by following the tradition of his predecessors. The policies of Musharraf to support US in war against terrorism was also executed in order to reap Aid from US for economic assistance but after the end of Musharraf regime the benefit of these economic assistance received from US was also diminish the cost of such policies is still the country facing. More than forty thousand Pakistanis lose their lives in the war against terrorism and more than this amount injured and disabled and forces loss is also higher than the loss faced in the three wars fought against India. So the study concludes that the impact of US aid to the Pakistan's economy is very drastic in the long run and Pakistan had unable to manage the results or outcomes of its own past short term benefited policies for rent seeking. The long run consequences of US aid to the country is still very deep rooted and the country is struggling against these impacts in order to get rid of from further damage to the society.

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