

BUSINESS

Pakistan-US economic ties

By Ishrat Husain

Wednesday, 08 Apr, 2009 | 01:45 PM PST |

THE Obama administration has recently completed a review of Washington's Pakistan strategy. The US Congress is considering a bill that will triple aid appropriations to Pakistan for non-military economic development and another bill to set up Reconstruction Opportunity Zones in Fata.

Is US aid as envisaged in the Kerry-Lugar bill an appropriate tool for Pakistan's long-term economic development? Is its disbursement through the existing channels the most preferred mode of assisting Pakistan in its endeavour to resume its journey to sustainable and equitable growth? Before we get overwhelmed by this act of generosity the issue needs to be explored.

In my view, the proposed appropriation and mode of delivery with inherent political conditions built into the bill is the least desirable of all options to help Pakistan and improve the US image. Literature on the effectiveness of aid gives evidence that very few developing countries have made good use of this resource for the larger benefit of their populations. Government-to-government assistance results in the relaxation of domestic efforts to mobilise revenues through taxation, non-tax receipts, user charges, and induces wasteful and unproductive expenditures.

Tied aid, in the form of procurement of goods and services sourced from the donor country, reduces the net benefits to the recipient country. USAID is particularly notorious in this respect as it is popularly believed that as many as 70 cents per aid dollar ends up in the hands of US-based private contractors, consultants, administrators and suppliers. This form of assistance hardly creates a significant number of jobs in the economy.

There is a mistrust of government agencies in developing countries and these are often bypassed. This has created more distortions in the economy. Instead of strengthening the capacity of institutions responsible for delivering basic services to the people, NGOs are permitted to act as intermediaries in the execution of projects. They hire government officials or professionals at very high compensation packages. This tends to deplete the human resource reservoir available to the government and impairs its capacity. Aid flows also lead to 'Dutch disease' where the appreciation of domestic currency discourages exports and exportable goods and makes non-tradable goods more attractive.

The political dependence and loss of control over these aid resources are the most persuasive argument as far as public opinion is concerned. Pakistanis are convinced that their economy waxes and wanes with the rise and ebb of US assistance. As democratically elected governments, in contrast to military dispensations, may not always toe the US line they are more vulnerable to the abrupt suspension of aid and the consequent economic dislocation. The goal of building a stable civilian government thus remains at risk.

Although there is no empirical evidence to substantiate it, there is a widespread feeling that exceptional US aid has been instrumental in boosting economic growth recorded under military governments. Despite huge losses suffered by the economy (an estimated Rs37bn) as a result of 9/11, most outsiders attribute Pakistan's economic turnaround to the inflow of \$10bn from the US.

Although the proposed US aid of \$1.5bn in the Kerry-Lugar bill would contribute only three to four per cent of Pakistan's total foreign exchange earnings the psychological damage it will cause to Pakistanis and Americans far exceeds the benefits derived from this paltry sum. Pakistanis will resent their economic fortune being controlled by the US and strong anti-American sentiments would be reinforced as a result.

There is no doubt that the Obama administration wishes to demonstrate through this aid bill that the US is a long-term friend of Pakistan. But there is the risk that Congress, think tanks, and the media will use this as a stick against Pakistan every time they perceive that it is not doing enough. Hundreds of Pakistani soldiers have been killed in the war on terror, many more have suffered crippling injuries. The country, which has captured hundreds of Al Qaeda and Taliban operatives, has seen infrastructure destroyed, hundreds of thousands of people internally displaced, its political leaders exposed to terrorist threats, millions among its population antagonised, and has spent large amounts from its resources on beefing up internal security. Yet the consistent theme from the other side is that Pakistan is providing sanctuary to the Al Qaeda leadership, nurturing the militants and that its intelligence agencies leak sensitive information to the other side. The possibility of the suspension of US aid, under pressure from American public opinion, will, therefore, always loom large, cause economic disruptions and sour relations between the two countries. The best way forward to strengthen US-Pakistan economic relations and create a vibrant economy is through the following measures.

First, the US should finance only such infrastructure, education and health projects that are included in the government's development programme. It should commit the money by co-financing these projects with the World Bank and Asian Development Bank that have the required expertise and the experience of working with and strengthening the institutions responsible for project planning and execution. This would be the most effective use of the US taxpayers' money.

Second, the US Chamber of Commerce has rightly called for easing access for the country's textiles to American markets. American tariffs on Pakistan's leading exports average approximately 10 per cent, about four times the average US tariff rates on imports from other countries. A reduction in tariff rates would not confer any favour on Pakistani exporters but provide them with a level playing field. For a country that so strongly believes in marketplace competition this is a correction not a concession.

Third, Pakistan needs foreign direct investment in power-generation, transmission and distribution, gas pipelines, oil and LNG terminals, refining capacity, petrochemical complex, etc. US investors should be encouraged through Export-Import Bank loans and Overseas Private Investment Corporation guarantees to participate in Pakistan's energy development plans.

Fourth, the US leads the world in higher education and scientific and technological research. They should resume their assistance in training our teachers and scientists in leading US institutions, forging links between Pakistani and American universities and strengthening the capacity of our research organisations in agriculture, water resources, renewable energy and low-cost building materials.

These four channels of US assistance have a much better chance of achieving the goals shared by the US and Pakistan – a strong and prosperous Pakistan capable of safeguarding its territorial integrity – than direct US assistance administered through the existing traditional channels.

The writer is a former governor of the State Bank of Pakistan.

<http://www.dawn.com/wps/wcm/connect/dawn-content-library/dawn/news/business/pakistan-us-economic-ties-ha>

Copyright © 2009 - Dawn Media Group