U.S. Economics Assistance to India & Pakistan:  
A Comparative Study

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Abstract

Pakistan and India has been among the leading recipients of U.S foreign assistance, both historically and recent years. These countries have importance to forwarding U.S security interests in the world of oil. The core issue remained balancing between two countries, is Pakistan geo-strategic importance. U.S assistance to Pakistan has fluctuated over the past 65 years. U.S economic and military assistance has been influential in reinforcing Pakistan armed forces and against civilian governments. After 9/11 U.S economic assistance to Pakistan increased because U.S administration characterized Pakistan as crucialally in war against terrorism in Afghanistan. In this article we examine the U.S economic assistance to Pakistan & India since 1947 and the status of allied & non-aligned. The study has been divided into six parts, Marshall Plan period from 1949-1952, Mutual Security Act period 1953-1961, 1969-1979, the strategy shifted to self containment on the Soviet part, 1980-1990, Soviet intervention in Afghanistan, 1990-2000, when Pakistan and India remained under nuclear sanction, Post 9/11 period, when Pakistan became front line state in war against terrorism.

Keywords:  US Economic Assistance; War against terrorism; Nuclear sanctions

I. Introduction

Economic and trade assistance between the United States and Pakistan have experienced a number of ups and downs since the birth of Pakistan in 1947. After independence Pakistan distanced itself from Russia and associated with United States. American containment policy of Russia made Pakistan an important country. Pakistan’s strategic and political importance in the region was realized by America and Pakistan became an important member of American Block.

In this bi-polar world, India breached itself first with USSR and then India became leader of non-aligned countries. But during this period, economic assistance was given mainly to Pakistan but USA continuously tried to win over India as well.
South Asia and Middle East being strategically important for USA remained the focus of American foreign policy. The US was concerned for the defense of these areas particularly after the Russian aggression in Europe and invasion in Afghanistan in 1979. In this context, Pakistan gained importance to the US in view of its strategic location and pro-western orientation.

II. Marshall Plan Period

Marshall Plan used American capital to rebuild the economic, social and political infrastructure of European societies to resist Communism and support to market for American products. During this period U.S economic and military aid to India and Pakistan were focused on containment of communism.

Security and economic interests created an alignment between two unequal states i.e. USA and Pakistan. Newly created Pakistan was in dire need of American assistance for the smooth running of the government; and for the construction of infra-structure. In this background Pak-US ties were formulated on bilateral interests and these relations flourished during American Containment Policy of Russia. Geographical location of Pakistan was important factor which made Pakistan “blue-eyed country” for USA and important criteria for the identification prospective recipients of aid [Rose, L. E. (1978)]. Even then the US assistance to Pakistan was nominal to Pakistan compared to India and the same is reflected from Table-1.

<table>
<thead>
<tr>
<th>Program</th>
<th>US Economic Assistance to Pakistan</th>
<th>US Economic Assistance to India</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Total Economic Assistance</td>
<td>11.1</td>
<td>248.7</td>
</tr>
<tr>
<td>A. USAID and Predecessor</td>
<td>10.6</td>
<td>57.3</td>
</tr>
<tr>
<td>B. Department of Agriculture</td>
<td>0.1</td>
<td>0.6</td>
</tr>
<tr>
<td>C. State Department</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>D. Other Economic Assistance</td>
<td>0.4</td>
<td>190.8</td>
</tr>
<tr>
<td>II. Total Military Assistance</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>III. Total Economic and Military Assistance</td>
<td>11.1</td>
<td>248.7</td>
</tr>
</tbody>
</table>

*Table-1* US Economic Assistance to India & Pakistan during Marshal Plan Period (1949-1952) {in Millions $US}

*Source: US Overseas Loans & Grants [Green Book]*
From Figure-1, most of the US Assistance to India was in Economic Assistance and for other --- program.

![Figure-1 US Economic Assistance to India & Pakistan during Marshal Plan Period (1949-1952) (in Millions $US)](image)

**Figure-1** US Economic Assistance to India & Pakistan during Marshal Plan Period (1949-1952) (in Millions $US)

### III. Mutual Security Act Period:

After the outbreak of the Korean War, the Mutual Security Act of 1953 became the governing legislation for foreign aid, shifted from recovery to containment and Europe to Asia. Pakistan’s geo-political importance for US, Pakistan’s membership in SEATO (South East Asia Treaty Organization) and CENTO (Central Treaty Organization) also known as Baghdad Pact were very important as far as American economic and security interests in this region are concerned [Khan, M. A. (1967)]. These pacts pushed Pakistan into American block and as a result India tilted towards USSR. But U.S remained excessively sensitive to India’s preferences.

Eisenhower wrote in his memories that “India was the magnet that drew him into the subcontinent” [Kux, D. (2001)]. Pakistan-China friendship created enmity between India and China and this India’s enmity against China created a new bond of friendship between US and India. US increased economic funding to India. This increased funding to India as a new friend to counter China became the main cause of strained relations between Pakistan and US. This strained relationship can be fully illustrated by comparison of aid given to Pakistan and India from 1953 to 1961. During this period, US contributed 10 Billion dollar to India’s economic development and her ally Pakistan received only 4 Billion dollar [Choudhry, M. A. (1970)]. Total US assistance to India was 2,407 Million US $ whereas, US ally Pakistan received only 1,418 Million US $. However, the Military Aid to Pakistan remained on higher side as shown in table-2 and figure-2.
Table-2 US Economic & Military Assistance to India & Pakistan during Mutual Security Act Period (1953-1961) (in Millions $US)

Source: US Overseas Loans & Grants [Green Book]

American Economic aid permitted India to divert other funds to equip Indian Army with sophisticated and modern weapons of war. USSR supplied latest weapons and gave military aid to India. Russia’s military assistance, the large US economic aid and India’s trouble with China increased India’s importance in the region and the situation was used as a leverage by Nehru for the problem of Kashmir. That is why, this problem is still unsolved.
IV. Foreign Assistance Act

In 1961, the Foreign Assistance Act replaced the Mutual Security Act. During this period alliance for progress was launched in an attack on communism in the Western Hemisphere. Aid was contributed to third World, which would faster stable democratic governments.

<table>
<thead>
<tr>
<th>Program</th>
<th>US Assistance to Pakistan</th>
<th>US Assistance to India</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Total Economic Assistance</td>
<td>11,342.3</td>
<td>12,776.2</td>
</tr>
<tr>
<td>A. USAID and Predecessor</td>
<td>7,201.4</td>
<td>5,171.0</td>
</tr>
<tr>
<td>B. Department of Agriculture</td>
<td>3,086.6</td>
<td>7,166.8</td>
</tr>
<tr>
<td>C. State Department</td>
<td>551.5</td>
<td>122.2</td>
</tr>
<tr>
<td>D. Other Economic Assistance</td>
<td>502.7</td>
<td>316.1</td>
</tr>
<tr>
<td>II. Total Military Assistance</td>
<td>4,341.5</td>
<td>168.5</td>
</tr>
<tr>
<td>III. Total Economic and Military Assistance</td>
<td>15,683.8</td>
<td>12,944.7</td>
</tr>
</tbody>
</table>

Table-3 US Economic & Military Assistance to India & Pakistan during Foreign Assistance Act Period (1962-2008) [in Millions $US]
Source: US Overseas Loans & Grants [Green Book]

Even in this period, the economic development aid to Pakistan remained on lower side compared to India. For the reason, the economic development is Pakistan was not appreciable. However, on the other side military aid to Pakistan was increased many fold as this period is dominated by Military governments.

In addition to that, in 1961, during President Kennedy period, the level of pledges rose dramatically from 320 million dollars to 945 million dollars but military aid to
Pakistan remained at a level of 50 million dollars annually [Kux, D. (2001)]. In mid 1964, when China provided 60 million dollar interest free loan to Pakistan, then President Johnson approved a long term military aid programme for India. About 50 million dollar annual aid programme was approved for India with a similar amount in credit sales. This US aid programme upset the balance of power in the sub-continent. In 1965 Pakistan received military aid estimated to 1.5 billion dollar. In this year, US economic aid to India reached nearly 6 Billion dollars and aid to Pakistan was 3 Billion dollars [Khan, S. I. (1972)]. The US could not differentiate between a non-aligned country and an ally. The US military aid to India against China was ten times greater than Pakistan [Palmer, N. D. (1966)].

V. 1969-1979: Self Containment

“Detente” symbolized an important shift in their global relationship. In term of containment the strategy shifted more towards self-containment on the Soviet part then American militant containment [Haendel, D. (1977)]. The aid provided falls into three main categories: Economic Support Funds, Development Assistance and Food for Peace. During Indo-Pak war in 1971, the Nixon administration expressed its concern about human rights violations in Pakistan and restricted the flow of assistance, and rejected Pakistan policy in words and in deeds [Haendel, D. (1977)].

When Bhutto came in to power in 1972, he acted vigorously in the international arena to establish new ties with the Muslim Middle East, to strengthen the country’s non-aligned credentials. Bhutto withdrew Pakistan from SEATO, and established diplomatic relations with North Vietnam and North Korea. He tackled tougher task of trying to mend fences with Moscow [Kux, D. (2001)].

In 1973 Bhutto visited U.S and Nixon administration resumed economic assistance to Pakistan, amounting to 24 million dollars for wheat and 19 million dollars as aid loan. The Ford administration lifted the embargo on arms sales to Pakistan and Pakistan purchased spare parts worth 160 million dollars. Although India received 1,273 million dollars arms aid from Soviet Union during 1964-1973 [Sattar, A. (2007)]. In 1975, Washington removed all limitations on arms transfers to Pakistan and India ended the Embargo that Lyndon Johnson had imposed during 1965 war on Kashmir. Washington provided four hundred Thousand Tons of wheat, worth about 65 million dollars and 78 million dollars of development loans, because of poor wheat corps in Pakistan [Kux, D. (2001)].

VI. Nuclearization and U.S Sanctions:

India initiated its nuclear program largely in response to China’s nuclear explosion in 1964. India tested its nuclear explosion in 1974. In the 1950’s and early 1960’s American policy makers helped India to acquire peaceful nuclear energy [Tallbott, S. (1999)].

In March 1976, Bhutto made a deal for the acquisition of a nuclear reprocessing plant from France. The deal shifted U.S non-proliferation concerns from India to Pakistan. In 1979, President Carter imposed unilateral military economic sanctions against Pakistan under section 669 of the Foreign Assistance Act. Because Islamabad was constructed the facility to enrich uranium and violated the Simonton Amendment of 1979
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[Montagne, S. L (2001, June)]. Carter administration had concluded that India’s hegemony in South Asia was unquestioned and unchallenged [Hagerty, D. (1995/96)].

Since 1982, the United States has provided $17 billion in military aid, compared to $13 billion in economic aid to Pakistan. This was largely the result of U.S. military operations in Afghanistan covert and overt, which began in late 1979.

But U.S. waived sanctions, provide economic and military assistance to Pakistan from 1982-1990, as a reward for its anti-Soviet efforts in Afghanistan and called Pakistan as a “Front Line State” [Azmi, M. R. (2001)]. During Afghanistan war Zia-ul-Haq rejected American $400 million economic assistance as it was only a pea-nut [Alvi, H. (2002)]. In 1986 U.S assisted Pakistan with $4 billion, including 57% for economic assistance [Clad, J. C. (1996)].

VII. Post Cold War: Democratic Period & U.S Economic Assistance

The U.S. military and economic aid in 1980 and 2002 offered to General Zia & General Musharraf from the general fund of the U.S. military against the civilian population are examples of how dictators are reinforced set-up in Pakistan by the American funds.


The cutoff of U.S. aid to Pakistan in 1990, 1998 and 1999 was due to nuclear issue. Pakistan as a crucial ally during the past fifty years received nearly $ 12 Billion less than to that of India from 1947 to 2000. The immediate impact of the sanctions increased the poverty from 17 to 35 in 1999 [Bhatty, M.A. (2002)] and unemployment increased during the decades of 1980s and 1990s.

The graph below clearly shows that in the 1990s, when parliamentary democracy prevailing in Pakistan, U.S. assistance has largely been missing.

![Graph](image)

*Figure-4: “US Bilateral Economic Assistance to Pakistan” (1997-2006)  
Source: Source: US Overseas Loans & Grants [Green Book]*)
VIII. After 9/11 Political Setting and U.S Aid:

Pakistan political history is a troubled one, military regimes have ruled Pakistan more than half of its existence. From 1989 to 1999, Pakistan had democratically elected governments. Benazir Bhutto (leader of People’s Party) and Nawaz Sharif (leader of Pakistan Muslim League) each served twice as Prime Minister during this period. In democratic period Pakistan received minimum economic assistance than Marshal Law period.

In October 1999, Chief of Army Staff General Pervez Musharraf over threw government of Nawaz Sharif and appointed himself as Chief Executive. Islamabad was subjected to automatic coup related U.S economic sanctions under section 508 of the Annual Foreign Assistance Appropriations Act. (Pakistan was already under nuclear related U.S sanctions).

<table>
<thead>
<tr>
<th>Funding Agency</th>
<th>Assistance to Pakistan</th>
<th>Assistance to India</th>
</tr>
</thead>
<tbody>
<tr>
<td>Department of Agriculture</td>
<td>600.64</td>
<td>409.09</td>
</tr>
<tr>
<td>Department of Commerce</td>
<td>-</td>
<td>0.40</td>
</tr>
<tr>
<td>Department of Defence</td>
<td>191.24</td>
<td>2.85</td>
</tr>
<tr>
<td>Department of Energy</td>
<td>164.07</td>
<td>1.55</td>
</tr>
<tr>
<td>Department of Health and Human Services</td>
<td>89.78</td>
<td>157.38</td>
</tr>
<tr>
<td>Department of Justice</td>
<td>0.04</td>
<td>0.07</td>
</tr>
<tr>
<td>Department of Labor</td>
<td>18.49</td>
<td>31.65</td>
</tr>
<tr>
<td>Department of State</td>
<td>1,142.59</td>
<td>339.25</td>
</tr>
<tr>
<td>Department of the Interior</td>
<td>-</td>
<td>7.91</td>
</tr>
<tr>
<td>Department of the Treasury</td>
<td>0.95</td>
<td>0.29</td>
</tr>
<tr>
<td>Environmental Protection Agency</td>
<td>-</td>
<td>6.39</td>
</tr>
<tr>
<td>Federal Trade Commission</td>
<td>-</td>
<td>0.09</td>
</tr>
<tr>
<td>Trade and Development Agency</td>
<td>9.06</td>
<td>25.99</td>
</tr>
<tr>
<td>U.S. Agency for International Development</td>
<td>6,012.08</td>
<td>934.36</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>8,228.94</strong></td>
<td><strong>1,917.25</strong></td>
</tr>
</tbody>
</table>

Table-4: US Economic Assistance to India & Pakistan (FY2001 to FY2011) Million SUS
Since 2001, U.S. renewed large economic assistance packages for Pakistan to militarize counterterrorism efforts; by the end of 2010 Pakistan has received $15 billion about half of this in the form of coalition support. Another $4.6 billion for economic purposes and some $3.1 billion for security related programs. After 9/11 U.S assistance to Pakistan was to maintain the country’s ongoing support for U.S led counter terrorist effort. Since 2002, the U.S has provided an average $825 million annually in economic assistance to Pakistan [Epstein, S. B. & Kranstadt, K.A. (2012)].

On the other hand, Pakistan expenses are more than support. American war in the region was very destructive with economic and social infrastructure of Pakistan. As government of Pakistan declared, more than $68 billion in direct and indirect costs reached in the NATO-led war in Afghanistan, started from 07 October 2001. The export damaged 3 to 4 billion dollars and 36 thousand civilian lost their lives [Haider, M. (2012, Feb 15)]. These economic losses are higher than what the U.S has given military and economic assistance to Pakistan.

**Figure-5:** US Economic Assistance to Pakistan & India (2001-2011) in Million $US

**Figure-6:** Pakistan’s Cost resulting from War on Terror
Source: Pakistan Economic Survey 2010-11
Since 1948, the US has pledged more than $30 billion dollars in direct aid, about half for military assistance. Two thirds of this total was appropriated in the post 9/11 era from FY 2002 to FY 2012 [Haider, M. (2012, Feb 15)]. On the other hand $15.9 billion in direct US aid went to India from 1947 through 2010, nearly all in form of economic grants and loans, more than half as food aid [Kranstadt, K.A. (2011, Sep)].

IX. Conclusion:
No doubt India has been one of Asia’s fastest growing economics and Pakistan is a poor country. But despite of American economic assistance, poverty in Pakistan is the result of instability of political system in Pakistan and disturbance and terrorism in the region. Long spells of dictatorships and American support of dictators have created mistrust among the people of Pakistan against their own governments and against America. This mistrust can be overcome by giving continuity to the democratic political system in Pakistan. And the peace in the region can be ensured by a constructive dialogue with different Taliban groups operating in the region. After the withdrawal of NATO forces from Afghanistan, a stable government in Kabul will be an essential factor for the peace and stability in this important geo-strategic region.

American economic assistance & Pakistan and India must be punctuated by ensuring to promote peace and stability in the region and by supporting democratic governments so that the gulf among the governments and the people can be bridged. Without ensuring peace, stability and continuity of democratic process in the region, American economic assistance will not be fruitful for Pakistani and American interests.

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