Jan 28, 2012

**Reordering Economic Relations with the U.S.**[[1]](#footnote-1)

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Pakistan – US relations suffered several major setbacks in 2011. A Parliamentary review under way will define the new terms of engagement. Along with this review, a reassessment of the economic relations between the two countries is also called for.

The main instrument of economic ties is bilateral official aid for which the US Administration persuaded the Congress to approve the Kerry-Lugar Bill amounting to US $7.5 billion over a five year period.

However, right from the beginning, skepticism has been expressed in Pakistan as the bill had political conditions built into it, the mode of delivery of assistance was unclear and there is in general reservation about the effectiveness of aid. The U.S. Congress, implicitly harboring a mistrust of government executing agencies in Pakistan, tightened the conditions under which aid could be disbursed, placed stringent monitoring and certification requirements and arrogated the power of allocation of aid resources among different uses to itself.

The actual experience of this bilateral assistance has not been very positive either in improving the economy or creating better understanding among the two countries. Pakistan’s fiscal troubles have persisted as very little has flown into the exchequer from this source. Pakistan’s energy and infrastructure weaknesses have become more acute as the investment needs of the sector remain unattended. U.S. assistance has proved to be more effective and responsive to the natural disasters such as earthquake and floods and has won kudos from the affectees. But, other than that, US economic aid has become a highly contentious issue due to the widely differing perceptions held in the two countries.

The general feeling among the Americans is that Pakistan is an unreliable ally playing a double game in the war against terror. While Pakistan is drawing huge financial resources from the U.S. it is providing safe haven to the militants who carry out attacks against the US and NATO troops and Afghan Government across the border and then return to their sanctuaries located in the tribal areas of Pakistan. Given the high domestic unemployment rate and growing fiscal deficit in the U.S.the opinion makers argue that it is better to suspend and stop financial assistance to a country that is not behaving as a trustworthy partner in this war.

A majority of Pakistanis resent that the U.S. has obtained a disproportionate leverage on Pakistan’s policy space because of this paltry sum of assistance. They feel the sovereign autonomy and dignity have been sacrificed and the country has been relegated to the status of a rent-a-state. The long term stability of the country is at risk because by entangling in the war on terror, Pakistan is suffering enormous losses financially, economically, socially and psychologically. The economy is suffering disruption and dislocation, population has been displaced, expenditure on military operations and internal security have increased several fold, and external visitors particularly investors have boycotted Pakistan. Even the amounts under the Coalition Support Fund which are simply reimbursement of the expenditures incurred on logistical support and supplies to NATO and U.S. troops are being shown as aid and being withheld.

In light of these widely different perceptions it would be better for both the countries if this official assistance is terminated sooner than later. The growing ‘trust deficit’ between the two countries will be bridged when the US Congressmen would not have a stick to hurl at Pakistan and their pressure tactics would come to an end. Ordinary US citizens would have no qualm that their taxes were being wasted in a country for which they have very little empathy. In Pakistan, the termination of US bilateral assistance may force the political leadership to take some tough decisions to mobilize domestic resources. The Pakistani intelligentsia would no longer be concerned about the loss of honor, sovereignty and dignity in exchange for a few billions of dollars.

Will Pakistan be economically able to cope with the loss of US assistance? Although the Congress authorized $1.5 billion per year, the actual disbursements so far have been less than one third. Assuming that the whole $3 billion in economic and military assistance is disbursed fully, this accounts for less than seven percent of the total foreign exchange earnings of the country. The increase in export revenues and remittances in the previous year was almost twice the amount of U.S. assistance. The government’s precarious fiscal situation has not been eased as only 12-15 percent of the total amount is channeled through the budget. World Bank data shows that net Official Development Assistance from all sources to Pakistan in the last five years has averaged less than 1.5 percent of Gross National Income. Aid per capita from all sources in 2009 was $14 only. These facts do not, indicate that the Pakistani economy will collapse if the US decides to withdraw its assistance.

The termination of the bilateral aid does not imply that we enter into an adversarial relationship. Pakistan and the U.S. should maintain cordial and friendly relations. This mutually beneficial relationship should survive beyond Afghanistan. The best way forward to strengthen US-Pakistan economic relations is through the following alternative measures.

* First, the US should finance only such infrastructure, education and health projects that are included in the government’s development program and that too by co-financing these projects with the World Bank and Asian Development Bank that have the required expertise and the experience. 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 percent, about four times the average US tariff rates on imports from other countries. A reduction in tariff rates would not confer any favor 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 organizations in agriculture, water resources, renewable energy and low-cost building materials.
* Fifth, Pakistan should charge transit fees on fuel and other supplies for NATO troops going to Afghanistan from Karachi port. These will not form part of U.S. aid but a commercial charge for the use of our infrastructure. A lot of misunderstanding on both sides will disappear if these fees take the place of Coalition Support Fund.

1. Presentation made at the US-Pakistan Dialogue at Stanford University, Palo Alto, Ca. Jan 22-24, 2012. [↑](#footnote-ref-1)