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ASIANS SPEAK OUT ON UNITED STATES "AID" POLICY AND PROGRAMS

PAKISTAN

"US Aid To Pakistan: An Evaluation"

By Hamza Alavi

CAMBODIA

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By Han Suyin

Introduction by
Maud Russell

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ASIANS SPEAK OUT ON UNITED STATES "AID" POLICY AND PROGRAMS

Introduction

The American people pay taxes to their government and out of these taxes billions of dollars are going to regimes of underdeveloped countries as "aid". The American people have the right - as suppliers of these billions of dollars - and the obligation - as responsible citizens - to question both the objectives and the results of their government's "aid" policy and programs.

To see this "aid" from the point of view of the recipient country both opens up the questions that should be asked, and answers, with very concrete facts, questions as to who gains from this "aid", questions as to what good or what harm this "aid" does, questions about the nature of United States "foreign aid".

As a help in asking the right kind of questions about the foreign aid policy of our government FAR EAST REPORTER presents reactions to US aid from two Asian countries, Pakistan and Cambodia. Mr Alavi, a Pakistani economist, has given permission to reproduce his article analyzing the effect on Pakistan of this "aid"; and Han Suyin (the author of "Love Is A Many Splendoured Thing") has given permission to reproduce her article on Cambodia's evaluation of US "aid".

As Americans consider these Asian reactions they well can ask some pertinent questions: "Does US 'aid' accelerate the pace of economic development in the newly emerging countries? Does the role of the US advisors conflict with the interests of the receiving country? Who makes the key decisions about the use of this 'aid'? and who gets the major benefits from these decisions? Is industrial development and basically needed land reform hindered by the proportion of 'aid' going into military expenditures and projects which essentially serve military objectives? Are the true interests of the receiving country enhanced

or impaired by this 'aid' Do the foreign advisors who help implement this 'aid' interfere in the internal affairs of the receiving country? whom do they represent? and how does this affect the freedom of the receiving country to seek and obtain competitive quotations for equipment? How much of this 'aid' returns as exorbitant profits to the pockets of American firms? and does the sale of 'aid' material to the US Government free these firms from competitive selling to Americans on the home market? How much of the 'aid' goes into exorbitant salary and living expenses for American personnel? Do American contractors rather than local firms in the receiving country gain from 'aid' projects? Does 'aid' serve as an instrument to gain a captive market for the giving country? How does the dumping of US Commodity Aid (cotton and wheat) affect the economy of the receiving country? Are excessive imports imposed upon the receiving country? Are these commodities supplied at world prices? or at substantially higher prices? Are they shipped in competing ships? or only in American ships? Are they of real help to the receiving country? or do they serve to accomodate US policies of disposing of surpluses?

These articles from Asian writers throw light on the questions other countries are asking and observations they are making about US "aid". For example, the NY Times writes, "Latin American is expressing with increasing vehemence an apparantly growing conviction that the area's problems stem primarily from unfair treatment by the world's major developed nations". (3/15/64). And the Times goes on to quote what Argentina's Vice-President said at a political and economic conference of 18 Latin American nations; Mr Carlos Lerette said, "Conditions of underdevelopment frequently stem from abroad and not from within"; and Argentina's Foreign Minister Miguel Zavala Ortiz said, "Nobody here forgets that the great powers in the world today reached that status because they were not restricted in their expansion".

At a press conference in Peshawar, Pakistan, on March 16th. the President of the Federation of Pakistan Chambers of Commerce and Industry, Guk Mohammed, citing the suspension of US "aid" to Ceylon as an example, said that the developing countries of Asia, Africa and Latin America had been entirely at the mercy of the developed countries in respect to aid which could be stopped at any time by the aid-giving countries. (Chinese press 3/19.64)

In Geneva a three-months United Nations Conference on Trade and Development began on March 24th, attended by over 2000 delegates from 116 member nations of the UN. The New York Times wrote that one of the "basic positions of the United States, according to State Department officials, is 'Within the free world the United States has a creditable record with respect to...aid'". The Times added, "That this position will be music to the ears of the poorer countries is highly doubtful". (3/22/64)

We American citizens who foot the bills for these "aid" programs can well ask, "Who really gains: the American people? the peoples of the recipient countries?" And if, as the Pakistani economist says of Pakistan's Five Year Plans that they are "at every stage subordinate to the dictates of US policies and interests" - should we not also consider how valid can be a conclusion from these reactions of recipient countries that current aid-giving is an expression of "the new colonialism"?

U S Aid to Pakistan

An Evaluation

Hamza Alvi

In a significant statement Pakistan's Finance Minister, Mohamed Shoalb, said sometime ago:

"In the past year we have been faced with a crisis in our external relations calling into question the alliances that have been central to our foreign policy. We have learnt that we have to rely on our own people and resources and not on the promises of others to safeguard Pakistan's security and national interests."

Principal among the alliances which have been "central" to Pakistan's foreign policy has been, of course, the one with the United States. The alliance has secured for Pakistan very substantial amounts of economic and defence assistance from the U.S. whose share of non-military aid received by Pakistan during the period 1951-60 was no less than 79 per cent.

An attempt is made below to evaluate the contribution of U. S. aid in different forms--development loans, commodity assistance, military aid--to Pakistan's economic development and defence.

PRESIDENT Ayub Khan was one of those in positions of authority in Pakistan who were responsible for the sharp break in the country's foreign policy ten years ago. The emergent policy of neutralism, which was being given shape under Liaquat Ali Khan, was suddenly abandoned and Pakistan joined the U S in the Cold War. It was then argued that such a marriage with a rich nation would fetch a dowry of gold and open up new prospects of economic prosperity. The alliance, it was said, would secure for Pakistan a powerful voice in the comity of nations and put at her disposal great military power to strengthen her security. The record belies the promises of this mendicant philosophy. Events have proved false the hypothesis on which it rests, viz, that in the field of international relations loyalty begets loyalty, regardless of the alignment of national interests.

In the National Assembly, Yousaf Khattack, a Member, has described this as "the romantic conception of foreign policy", so that when "America thought Pakistan was no use to her, Pakistan felt like a jilted lover". He asked the Government to be more realistic in its thinking on this subject. It is, however, difficult to believe that the policy-makers of the Government could have been so very naive in their thinking on this vital matter. But to deny them this explanation would be to charge them of having misled the nation; for the alliance has given us neither strength nor dignity. Now Pakistan feels bereft of friends; a sense of isolation which is the more accentuated by our eagerness to demonstrate our new-found bonds of friendship with China -- the meagre product of two negatives.

Total Dependence on the U S

Here, once more, there is a fundamental inconsistency in our position. The reality of our virtually total dependence on the Western countries, particularly the United States, for aid stands in contradiction to our apparent alignment with China. The heavy dependence on U S aid leaves Pakistan with little freedom to embark on an independent foreign policy even though both the U S and the Ayub regime in Pakistan have had to accommodate temporary shifts of policy in the face of the traumatic experience of the Pakistani people under the impact of recent events and the general recognition, and indeed the admission by the Government, of the unreliability of the alliance. But the pressure of dependence remains and Ayub is already busy selling the idea of a confederation of Pakistan, Iran, Afghanistan and Turkey, a project dear to some planners in the U S. At the same time, one must recognise that there is some desire in Pakistan to reduce this heavy dependence on the U S in order to gain a greater freedom in foreign policy.

At first glance it would appear that some progress has already been made towards the diversification of the sources of foreign aid. Table I shows the foreign aid received by Pakistan according to sources. It will be seen that in the period 1951-60, apart from small amounts obtained from the U N and Sweden, the bulk of the aid came from the U S, the World Bank and the Commonwealth. In fact if these figures were broken down further one would see that Commonwealth aid played a more important part, relatively, in the period before 1953 than after that year when the U S came to dominate the scene. On the other hand, in the period 1960-63 Germany and Japan figure prominently. Particularly significant is

the appearance of the Soviet Union and Yugoslavia, in the context of Pakistan's foreign policy. The latest development is the participation of all the principal Common Market countries in the aid Consortium. This diversification is a welcome change. Paradoxically, however, underlying this diversification there is also a greater dependence on the U S which has increased its share of total aid.

If we take all aid, excluding commodity aid and military aid, for the period 1951-60 we find that the share of the U S was 42 per cent of the total while that of the Commonwealth was 32 per cent of which Canada accounted for 24 per cent. Canada was thus the second largest source of aid. During this period the World Bank provided about 23 per cent of the total aid. During the period 1960-63, although there was a considerable diversification of the sources of foreign aid, the relative share of the U S increased from 12 per cent to 50 per cent of the total. The share of the new donors was at the expense of Commonwealth countries whose share dropped from 32 per cent to 14 per cent and the World Bank whose share dropped from 23 per cent to 10 per cent. The drop in the share of the Commonwealth countries was mainly on account of Canada whose share dropped from 24 per cent to 6 per cent. The share of the U K increased from 0.7 per cent to 7.6 per cent. The new participants were Germany, which contributed 13.4 per cent of the total (ie became the second largest donor), Japan (8.3 per cent), the Soviet Union (3.3 per cent) and Yugoslavia (1.1 per cent). Thus there has been a diversification in the sources of aid as well as an increase in the dependence on the U S.

If commodity aid is taken into account the share of the U S in the total aid in the period 1951-60 comes to as much as 79 per cent. During this period commodity aid amounted to 80 per cent of the total aid received from the U S. In the period 1960-63 commodity aid declined somewhat in importance and was only 60 per cent of the total aid from the U S. Consequently, if commodity aid is included, the relative share of the U S would appear to drop from 79 per cent to 71 per cent. But it would be a mistake to

conclude from this that there has been a diminution in the relative importance of the U S as a source of aid vis-a-vis other countries. The significance of the change is the reduction in the proportion of commodity aid.

Impact on Economic Policies

There is little evidence to show that US aid has accelerated the pace of economic development in Pakistan; the reverse may well be true. The basis of the progress which has taken place in the field of industrial development (mainly light industry), was laid in the early fifties when U S aid was yet negligible and US influence had not yet established itself fully. Paradoxically, by the time a substantial amount of US aid began to flow in, as from 1955, the rate of industrial expansion began to slow down. This is shown by the index of manufacturing production (See Table 2). The point increase in the index is lower in 1956 and in later years than in the three previous years. The increase in production during 1955 has not been matched in any subsequent year; the recovery in 1959 and again in 1961 was well below this level. It is obvious from the figures that the *percentage* rate of expansion *dropped* considerably. Not only is the rate of industrial expansion

lower in later years but also a substantial proportion of the increase in production in later years has been attributed to rationalisation and better utilisation of industrial capacity created in earlier years.

Table 2: Index of Manufacturing Production

Year	Index	Change in Index
Series I: Base 1954 converted to 1950 = 100		
1950	100	
1951	124	+24
1952	155	+31
1953	202	+47
1954	265	+63
1955	337	+72
1956	382	+45
1957	404	+22

Source: "Statistical Yearbook 1957", Published by the C S O, Govt of Pakistan.

Series II: Base 1954 = 100

Year	Index	Change in Index
1954	100	
1956	143.9	+44
		(two years)
1957	152.4	+ 8.5
1958	162.4	+10.0
1959	181.9	+19.5
1960	192.4	+10.5
1961	213.6	+21.2

Sources: Budget 1961-62, "Economic Survey" and Eleventh Annual Report of the Consultative Committee of the Colombo Plan, January 1963.

Behind the slowing down of industrial expansion was the pressure of the conservative thinking of US advisers whose influence acquired virtually the status of authority as Pakistan became more and more dependent on the U S. They soon came into conflict with men like Zahid Husain and Ghulam Faruque who were committed to a radical policy of industrial development. Ghulam Faruque, who, as the head of the PIDC, has made a big contribution to such industrial develop-

ment as has taken place, once referred to the opposition of our foreign experts who were trying to advise us against developing the jute industry, a field in which Pakistan has made substantial progress thanks to the stand taken by him and Pakistani businessmen who stood behind him. The following passage from the evidence of Dr D Bell, who was attached to the Pakistan Planning Board, before the Senate Foreign Relations Committee, is particularly revealing. When asked about the relationship that existed between the US Mission in Karachi and the Pakistan Planning Board he said "The I C A Mission members . . . consulted the Planning Board of the Pakistan Government regularly in two main kind of things: First of all we [i.e. the Pakistan Planning Board] were an excellent source of information for them on specific problems they might be encountering. Secondly, after a while — although not in the beginning, but after a while, when the Planning Board began to have reasonable views as to what sort of things made sense to be done in Pakistan and what sort of things did not make sense. the I C A Mission began to use this information to guide them in making their own decisions as to what they wanted to put their money into and what they did not. I do not mean to imply that they followed without review the opinions of the Planning Board; but they gave them heavy weight."

This is the strange relationship that was established between the principal organ of economic planning in the country and the agency of a foreign power. Not only did the U S Mission have free access to the data and policy papers of the Planning Board but it is clear from the evidence that the role of the

Planning Board was reduced to a merely advisory body, for the key decisions as to where the money should go lay with the US Mission. There is a reference here also to the period when under the firm hand of Zahid Husain the Planning Board took a stand on the questions of Land Reform and Industrial Development. It was after Zahid Husain was removed from the Planning Board that it began to see "What sort of things made sense to be done in Pakistan" in the eyes of our American advisers. Their anti-industrial bias is evident in the revision of the First Five-Year Plan and more sharply in the Second Five-Year Plan in which the proportion of resources devoted to industrial development was further reduced.

Misdirection of Investment

One need not enter here into arguments regarding problems of balanced development and inter-sectoral distribution of resources to achieve balanced and rapid growth. One might argue that the limiting factor in the development of the agrarian economy of Pakistan is not the want of large scale expenditure but the crop-sharing system and the present system of land-use. A radical land reform could achieve far more than the vast sums which have been expended, some of which could have sustained greater industrial development. But the greatest wastage of resources has been by way of the growing military expenditure and large number of so called "development" projects which are essentially military in character.

A considerable proportion of expenditure under the rubric of "Transport and Communications" would fall into this category. Thus for grants given to Provinces (upto 50 per cent of the cost of construction of arterial roads), out of the

parent concern is in a position to supply the prescribed equipment. This prevents the Pakistan Government from obtaining competitive quotations for the supply of the equipment which is then bought from the US supplier often at exorbitant prices.

The same effect is realised through the control over projects exercised by Aid Mission officials through financial and supervisory control under the terms of Project Aid agreements. Instead of the US project aid being utilised to cover the entire cost of a few selected projects, it is distributed over a large number of projects so that each project has a small "aid component". All such projects come within the operational control of the Aid Mission which thus acquires virtual control over the disbursement not only of the aid funds but in effect also Pakistan Government funds allocated for the project in question.

A great deal of light was shed on these matters during the summer of 1961 when the Ayub regime came into conflict with the Kennedy Administration and much information was supplied to such papers as the Government-controlled *Pakistan Times* which carried revealing reports from "Special Correspondents". According to one such report (which does not appear to have been contradicted by anyone) the US "takes back 50 per cent to 60 per cent of the total allocation in the name of consultants' and contractors' fees. It is stated that both in the Warsak and Karnaphuli projects the estimate of such charges has been as high as over 50 per cent. The report continues "It has become difficult for a public servant to convince Pakistani engineers and contractors or firms of consultants that they are not being discriminated against and discouraged by such agencies [i.e. aid agencies] ... agencies like the World Bank are work-

ing contrary to this end [of utilising available local talent and experience] . . . The conditions imposed for participation in the bidding [for tenders for construction projects] are such as would automatically eliminate Pakistani firms . . . It is pointed out that the Jinnah Barrage, Ghulam Mohammed Barrage, Taunsa Barrage and the Gudu Barrage have all been designed, planned and executed by Pakistani engineers and contractors . . . However, the World Bank seems to be taking no notice of these facts as, neither is the designing likely to be assigned to any local firm of consultants nor is the execution likely to be entrusted to competent local contractors".

These factors combined with the fact that both Technical Assistance and Project Assistance work to tie the Pakistan Government down to particular suppliers of equipment and limit their ability to obtain really competitive quotations result in the final analysis in an indirect loss to the Pakistan Government which probably exceeds the amount of aid that was received in respect of the project. Aid thus becomes no more than an instrument to ensure a captive market.

Commodity Aid

The bulk of US aid is received in the form of commodity aid. A payment is made in rupees by the Government of Pakistan against the aid received, into American accounts and controlled by the US Mission. These Funds are designated as the Counter-part Funds. Thus the first stage of the transaction is essentially a purchase rather than a gift or loan. This purchase in fact is not made at the normal world market prices but at US support prices which are substantially higher than the ruling world prices (in the case of wheat nearly a third higher at

one time). The commodities are brought in American ships as this is a condition of the aid agreement. *The New York Times* reported on June 13, 1953 that shipping of the US wheat to Pakistan in American ships would cost Pakistan \$26 per ton as against \$12 to \$14 in a foreign ship. Thus the Rupee equivalent of the Commodity Aid is really an inflated value. In September 1958 the then Finance Minister Amjad Ali rather irresponsibly dismissed the question of paying such inflated prices by the argument that after all it was merely a question of aid accounting and did not represent a real burden for Pakistan. But this is not so. Whether the so-called commodity aid is really aid or trade at inflated prices can be determined only on the basis of the actual disposal of the counterpart funds. This is illustrated in Table 3.

To begin with, it is interesting to note that the amounts shown as "Development Grants" appeared for the first time only in the half-year June-Dec 1958, i.e. after the military regime in Pakistan had taken over. To finance an undiminished budgetary deficit Shoaib switched from domestic borrowing to borrowing from US Counterpart Rupee-Funds and he was assisted in part by this grant. Shoaib's claim that this was less inflationary is debatable. The mechanics of creating and drawing upon these funds is not very different from Government borrowing from the State Bank and the effect of drawing upon these funds is no less inflationary. This view is endorsed in this year's Budget White Paper.

Loss of Foreign Exchange

From the point of view of the evaluation of commodity assistance as "aid" it is the third item in Table 3 which is of special interest. The US has engaged in the construction of a number of "special facili-

ties" on the soil of Pakistan and has incurred a number of local obligations in a variety of ways. To meet these obligations the US would ordinarily have had to remit dollars to Pakistan to raise the requisite rupee funds. By its utilisation of the Counter-part Rupee Funds Pakistan is deprived of these badly-needed dollars. Earlier this year it was reported in the Press that a large amount was withdrawn out of the Counterpart Funds by the US by conversion into dollars. No details of this transaction are available. But this would be another example of the use of Counterpart Funds in a way which causes a direct or an indirect drain on our dollar resources.

Political Use of Aid

Loans to Business, again, further US interests. Under the relevant US legislation these loans out of Counter-part Funds may only be granted either to US business concerns (operating in Pakistan) or to concerns engaged in the marketing of US goods. The figure of \$ 8.8 million shown under "other uses" represents the cost of various "cultural" activities which are so assiduously pursued by the US Mission in Pakistan. These amounts are spent under the heads of "Information and Education" (by the US IS), "Translation and Publication", and "International Education Exchange".

It would be difficult to establish a good case for importing the various commodities supplied under the US aid programmes. The details of the commodities supplied under Title I of P.L. 480 upto the end of 1958 are shown in Table 4. Surplus wheat, it will be seen, makes up about half of the total value of commodities. It might be recalled

that it was with an offer of wheat aid in May 1953 that the US made a dramatic entry into Pakistan politics. This was against the background of a famine threat which had been built up by vigorous press propaganda for several months and the frantic appeals of the Government of Pakistan for immediate help. The wheat crop for 1951-52 was below average due to drought and that for the winter of 1952-53 had also failed due, amongst other reasons, to low water in Indian controlled canals following drought conditions and diversion. The canal water diversion became the subject of a vigorous press campaign which built up a scare of an impending famine. There was an inevitable scramble by speculators to hoard wheat and prices began to rise, thus confirming the picture of a general shortage. In his budget speech in March 1953, the Finance Minister estimated the shortfall in the crop to be no less than 1 million tons, i.e., nearly a quarter of the total average crop. Due to the shortfall in the earlier year and also the low level of stocks, the overall deficit was estimated at nearly 2½ million tons. Desperate appeals were made for immediate help. About 160,000 tons of wheat were received from Canada and Australia. But the US delayed making any commitments for months until in May 1953 the Nazimuddin Government fell. Mohammed Ali Bogra, who was then the US protege, was installed in office and almost immediately a US offer of 700,000 tons of wheat aid, with an additional 300,000 tons if needed, was announced. But it took many more months for this promise to be fulfilled and US wheat was not shipped until the end of the year, by which time a bumper crop was standing in the fields. As against

an estimated shortage of 2½ million tons Pakistan had gone through the crisis with no more than 160,000 tons of Commonwealth wheat. The 600,000 tons of US wheat arrived too late, after the bumper crop had been reaped.

Large Food Imports Forced on Pakistan

Senator T F Green reporting in January 1956 on the administration of Foreign Aid has recorded the fact that "more than half of the wheat supplied was still in storage in Pakistan by midsummer of 1954 by which time a new and bumper crop was available". This was after one-third of the total quantity had been "disposed of by free distribution to those who could not pay for it", as the Finance Minister announced in his following budget speech. It was even reported that much of this wheat was in fact destroyed as it was unfit for consumption.

Imports of foodgrains in the seven years 1953-60 have averaged about 730,000 tons annually. But before the Partition, Sind alone exported to deficit provinces in India about 150,000 tons of rice annually and Sind and Punjab exported about 500,000 to 700,000 tons of wheat annually to other parts of India. The Pakistan Food and Agriculture Commission has attributed the altered food position of West Pakistan mainly to the fact that the picture of a surplus area before Partition does not take account of the fact that Punjab imported large quantities of coarse grains although it exported wheat. But this explanation as well as the facts of the rise in population and greater urbanisation are not sufficient to explain the extent and the apparent suddenness of the deterioration in the food situation after 1953; for until 1953,

despite the total disorganisation of life in West Pakistan following the events of the Partition and the fact that new agricultural development plans and irrigation schemes had not yet got under way, total food-grain imports averaged no more than 60,000 tons annually, i.e., less than one-twelfth of the level of the post-1953 imports. In fact during the decade 1950 to 1960 the production of foodgrains is said to have increased from 15.4 maunds to 16.3 maunds per capita. These figures may be unjustifiably optimistic, but they certainly do not suggest a deterioration in the situation such as might call for the very large increase in imports.

It is believed in some quarters that in fact excessive imports of foodgrains have been forced on Pakistan in order to accommodate US policies for disposal of surpluses. This has entailed a difficult and expensive storage problem for Pakistan as well as large-scale destruction periodically of foodgrains stocks which have deteriorated through prolonged storage. Thus as against the total storage capacity at the disposal of the Central and Provincial Governments of 300,000 tons at the time of the Partition, which was doubled by 1955, the total capacity in 1960 had been raised to 1 million tons and further storage capacity was under construction scheduled to raise the total capacity to 2 million tons by 1965. Resources expended on this might have been more fruitfully employed elsewhere.

Pakistanis are familiar with periodic reports about stocks of foodgrains destroyed (or made available for animal feed) due to deterioration through prolonged storage. The question was raised in the National Assembly at its Dacca session recently in connection with a report of 5,000 tons of rice damaged and rendered unfit for consumption. The

Central Food and Agriculture Minister then promised an enquiry, the results of which are still to be known. There have been several more recent reports of further stocks of grain found damaged through prolonged storage—e.g., 1,500 tons of rice reported in May this year to be "completely damaged"; another 3,000 tons reported in June to be damaged at another grain store near Karachi. The last report adds that "similar damage has been caused to rice and other foodgrains lying in godowns at various places in West Pakistan but so far no concrete step has been taken to stop this loss". But the root cause of this loss is clearly the excessive imports under Commodity Aid programmes which prevent available supplies being disposed of.

The case of cotton is another glaring example. Production of cotton in Pakistan has gone up to 2 million bales while consumption has remained static at around 1,300,000 bales in spite of the very large increase in the installed capacity of textile mills. The main reason for this is the dumping of US cotton received under commodity aid programmes. The result has been to create a surplus of domestically-produced cotton which Pakistan has found difficult to dispose in the world markets partly due, again, to subsidised sales of US cotton. While the official pegged price for domestic use of cotton in the US is 32.5 cents per pound, exports made at a subsidy of 8.5 cents and stocks of cotton were sold by the Commodity Credit Corporation in July 1962, for example, for an average price of 24.10 cents per pound for one inch stapling. These subsidised sales abroad as well as the dumping of US cotton in Pakistan's home market has created a difficult problem for Pakistan with regard to the disposal of our own

surplus, and local prices have been forced down artificially.

Military Aid

Finally, a word about military aid. A surprising fact about it is that a good proportion of it is given to Pakistan not in the form of military hardware but rather in the form of surplus commodities! Rupees from the counterpart funds thus created are then placed at the disposal of the Ministry of Defence. Defence purchases thus made are a great drain on Pakistan's scanty foreign exchange resources. A change is probably being made as from this year for, in his reply to the Budget debate, Finance Minister Shoaib declared that "Pakistan could not allow the scrutiny of its defence accounts by any foreign country and for this reason Rs 12.5 crores of allocation from the Counterpart Funds was diverted to the economic side". This is an eloquent comment on the kind of arrangements which the Pakistan Government had acquiesced in so far.

Not only has military aid provided in this form generated additional foreign exchange expenditure without augmenting our foreign exchange resources but also it has not helped Pakistan to reduce expenditure on defence. On the contrary, in the words of Dr David Bell, in his evidence before the Senate Foreign Relations Committee: "The inescapable conclusion would be that Pakistan, which was already spending too much of her resources on military purposes, was encouraged by the US military aid programmes to spend even more for military purposes — obviously this makes the problem of economic development much harder." Mr Sprague, Assistant Secretary of Defence testified; "The proportionate share spent by our allies has been increasing and, for 1957, countries

receiving military assistance spent for defence the equivalent of \$7 for every dollar of military assistance. This proportionate increase in their own defence efforts is also confirmed in the rising amount of sales of equipment under military assistance programme. For 1956 such sales totalled \$79 million. For 1957 such sales increased to \$312 million. There is reason to hope that an increasing proportion of military assistance can be shifted to military equipment sales". He continued: "It is significant to note that again this year 85 per cent of the amounts spent on the programme will be spent in the US. In fact we estimate that 92 per cent of the amounts spent on the material purchases will be expended on orders from the domestic US industry. Thus a very substantial part of the cost is ploughed back into the US economy."

Mortgaging the Future

This is not the place to discuss the political and military implications of the alliance into which Pakistan has been drawn. An important consideration before the U.S. however, has been the economic as well as the military and political advantages of using Pakistan as an instrument of its strategy in this area — an arrangement which has little to offer Pakistan in return. Secretary of Treasury Humphrey summed US calculations in 1954 when he said: "The military aid, and to what extent it may be continued, as I see it, is just a matter of how much cheaper can we do it that way than we can do it another way. This is just a matter of figuring it out every time. As long as we can save some money by doing it, I am for it. As long as we can save some boys I am for it." Congressman Vorys figured this out: "Last year it cost

\$ 5,900 to have an American soldier overseas, without a gun in his hand. This programme costs the U.S. \$711 per each man in service with weapons in his hands, placed where our Joint Chiefs think he ought to be for our mutual security".

It is questionable whether the military alliance with the U.S. has at all contributed to Pakistan's security or whether U.S. economic aid has contributed much to Pakistan's rate of economic growth. After ten years of involvement with the U.S. Pakistan finds herself left far behind by other countries which have carried through fundamental social changes and have kept themselves relatively free from outside dictation.

But our account is not complete merely with the description of the stagnation or even substantial losses resulting from U.S. aid policies. A cause for considerable anxiety for the future is the heavy burden

Table 3: Planned Use of Rupee Funds under Title I, PL 480

	(Cumulative Total up to the End of 1958)	(\$ Million)
Development grants	12.3	
U.S. loan to Pak Government	89.1	
Payment of U.S. obligations in Pakistan	50.0	
Military procurement	79.4	
Loans to Business	28.7	
Other uses	8.8	
Total	268.3	

Table 5: External Debt Liability and Pakistan's Foreign Exchange Earnings

	FOREIGN EXCHANGE PAYMENTS				FOREIGN LOAN REPAYABLE IN RUPEES		
	Principal	Interest	Total	Per cent of Foreign Exchange Earnings	Principal	Interest	Total
1960-61	58.1	28.6	86.7	3.82	14.0	20.9	34.9
1961-62	97.1	48.7	145.8	6.07	24.2	44.8	69.0
1962-63	160.9	55.8	216.7	9.03	39.3	71.6	110.9

of foreign debts which have accumulated in the process. The total external debt stood at Rs 6,900 million as on March 31, 1963. Of this foreign currency loans amounted to Rs 6,070 million (i.e., 1,274 mn) and "Rupee loans" amounted to Rs 830 mn. Table 5 gives the ratio of annual payments on account of foreign loans to foreign exchange earnings which have been rising at an alarming rate. In the absence of an adequately rapid economic development and expansion of our foreign exchange earnings one wonders how Pakistan will meet this increasing burden. Finally, it is difficult to see how the Government of Pakistan will resolve the dilemma presented by its heavy dependence on U.S. aid and its new desire apparently to pursue an independent foreign policy. So far there is no evidence of policies to reduce the dependence on U.S. aid.

Table 4: Commodity Composition of Aid under PL 480, Title I

(Up to the End of 1958)		
Commodity	Quantity	Value (\$ million)
Wheat	72 mn bushels	123.6
Rice	10.2 mn cwts	65.2
Cotton	174,400 bales	30.7
Dairy products	10.1 mn lbs	4.9
Tobacco	5.8 mn lbs	4.8
Fats	63.1 mn lbs	10.5
Freight	—	28.6
Total	—	268.3

a report from phnom penh

Why Cambodia Rejected Aid

Han Suyin

I had not been to Cambodia for two years, and very recently visited the country again; December in Cambodia is cool and sunny, and I was tired of Singapore, its monsoon dampness, the nervy, tense atmosphere fostered by confrontation, mass arrests and the speeches of bickering politicians.

On the morning of my arrival in Phnom Penh December 12, friends told me that in a speech at Takeo, some 80 kms. from the capital, Prince Norodom Sihanouk had not only reiterated his repudiation of all aid from the US (first announced November 12, 1963) but had now recalled his ambassador in Washington. He was also to recall the ambassador in London, and in several other capitals; these later moves dictated by the need for economy in foreign exchange spending.

All the Americans involved with Aid, Usom, Maag, etc. were to leave Cambodia before Jan. 15, 1964. "The Prince is right," said my friend, a UN expert working in Cambodia. "The Americans say that the rejection of Aid is a threat, that Prince Sihanouk is mad, eccentric, irresponsible, that he is slipping into China's orbit. But it is precisely in order to maintain peace, to maintain the neutrality and the integrity of his country that he has taken this step."

This was not the version of events broadcast in Europe and in the United

States and it took some time to disentangle fact from fiction. Fiction abounded: irresponsible reporting had helped to envenom the situation. For four weeks, between the decision to reject Aid and the one to close the Cambodian embassy in the US, the climate of communication had worsened to the point when it seemed difficult to re-establish a normal dialogue.

Sihanouk acted to maintain the dignity of his country and of his person; he would not yield to threats. This firmness has given an example of courage to some other countries, also irritated by "Aid", but afraid to make a decisive break, afraid to say "no" to money, as Cambodia has now done.

Aid a "Danger"

Ever since 1952 when Aid first started the Prince made it clear that he did not like "aid". This is no "new" or "sudden" decision of his, not dictated by madness, threats from China, hysterics, or any of the other "reasons" given by certain newspapers. Sihanouk repeated to me once again that he had always taken aid *à contre-cœur* ("against his heart") even while receiving it, for the sake of speeding up Cambodia's development. Always, in his public speeches, indicated that he did not intend to become a slave to this help, and that although Cambodia was grateful, aid

could not buy allegiance, nor turn the country and the proud Khmer people into a Western base or a communist base; Cambodia would stay absolutely, positively neutral. This has been the Prince's steady and unswerving policy all along. In speeches made in 1961 and in 1962 (which I read) I found he had repeatedly warned the Powers that he would reject aid, if pressure continued to be applied to him, and if this aid was *harming* instead of *helping* the country. When did Sihanouk finally reject aid? This was announced in a speech to the public on Nov. 12 reprinted in the local press; many thousands of Cambodians heard him. One likeable thing about the Cambodian form of democracy is that Sihanouk keeps his people totally acquainted with what is happening; in fact, they are always told before the Press is. Government officials sometimes complain that Sihanouk is too frank, too outspoken, but the people of Cambodia listen, they feel they are being kept informed, they follow what happens, and they trust Sihanouk. Among the small countries of Southeast Asia no other leader "goes to the microphone and thinks aloud", as Sihanouk does. They usually talk to the Press first, and the public learns what happened by reading the newspapers. In many places, the people are only told what higher-ups think they should know; Sihanouk gets in front of a crowd of peasants and talks exactly as he would at the UN, and tells all he knows.

American aid, said Sihanouk, in the form of money, was applied to education, agriculture, public works, private industrial concerns, defense and police. *In toto*, from the time of its inception, in 1951, it came to 300 million dollars. Sihanouk expressed publicly, and more than once, gratitude for this aid. "I know, we have a difficult time ahead. I have no illusions on this score. We have utilized the money given to good use, and not wasted it. By rejecting money things will be harder for us."

Cambodia would have to rely almost entirely on her own efforts. "But this is the only way". "No country can grow strong on aid; aid is *helpful*; but it has also its bad sides. It may make certain things easier; but it also weakens a country. And so we had to cut it off, to go unaided, in order to remain ourselves."

What were the "dangers" of Aid? To begin with, the Prince said, there were the multiple, incessant pressures of all kinds brought upon his Government and himself in order to turn him from neutrality and "align" him with the West. This went on and on, aid became a kind of blackmail, an excuse for uttering "democratic warnings" humiliating Cambodia at all times. "People seem to think that if they help you with money, you are sold to them and must do their bidding." In spite of the fact that Cambodia used the aid as best as it could, nevertheless, they were told they should "follow the example of Thailand and South Vietnam." This was said not only by American senators, but even by certain British officials on tour, and this the Prince resented. One of them, it is alleged, plaintively said to him: Why do you insist on being different (*sic*) from the others (meaning Diem and Sarit Thanarat)?

Apart from constant pressure to turn Cambodia into an anti-communist base (and, probably, into a battle ground similar to South Vietnam), there were material reasons for discontinuance of aid. In spite of some practical benefits, there was also a steadily growing dislocation of the economy of the country, directly due to the effects of aid. One may term them side effects, since they are not what aid is supposed to promote, but it appears that in this case (as indeed in many other cases, such as in Latin America) the side-effects of aid are more pernicious and destructive than any benefits the avowed intentions of aid may bring.

"Aid proclaims itself unselfish, but is

actually a thoroughly hard-headed, business and profit-motivated activity for the benefit of businessmen." Commercialized aid, the Prince called it.

The "Compradore Class" and Aid

The "distribution of dollars" conditions a country receiving it by separating an upper, receiving class from the rest of the people. This small class in contact with aid is eager to import goods; and to re-sell them at a profit in their own country. There are consumption goods and equipment goods; a heavy and constant pressure is abetted by this class to import non-essential luxury objects, frigidaires, radios and motor cars which can be re-sold at vast profit. This awakens an insatiable appetite for dollars, coupled with a total disregard for the needs of their own people. Placed between making a lot of money from aid or rigidly refusing to accept anything which is not needed for economic construction, the "élite", already westernized, already sighing after all "the good things of the West" (which their own people cannot afford yet) are too easily tempted to corruption. Bribery becomes prevalent. Shoddy equipment for capital construction is passed as fit for use; machines disappear, sold on the black market. It is alleged that in building the American Friendship Road from Phnom Penh to Sihanoukville, the amount of money spent per kilometre was exactly twice what it should have been; half "disappeared" in private pockets and yet the road was unsatisfactory, it has had to be re-done in parts. Speculation, stocking of necessities (such as sugar in order to create a scarcity), blackmarketing, smuggling, delivery of old and useless machinery when new ones were contracted and paid for; refusal to aid state industries, exclusive direction of aid towards private industries; all this, said the Prince, gradually convinced him that he must do without aid, or else see his plans for

a viable, healthy independent Cambodia be "gnawed from within", his élite corrupted thoroughly to the core and the country sink into subjection. "Another South Vietnam."

"The principal and fundamental error of aid" said the Prince "is that it is the deliberate and relentless means of a policy which aims at the creation not of an independent and prosperous country, but of a small and corrupt capitalist class, in the pay of a foreign power, holding the economy of a country in its stranglehold, and maintaining the country as a dependent."

The creation of this small élite capitalist class, corrupt, money-grabbing, disloyal to its own country, devoted only to its own wealth, alarmed some of the honest officials and made the young restless and critical. Out of the money made by these means from aid, villas and houses were being built in the capital of Phnom Penh by corrupt ministers and bureaucrats to be rented at fantastic prices (60,000 riels a month) to American personnel, experts and technicians, of whom there were round about 130 in Cambodia. The rents were deductible from aid; so it did not matter how high they went. In this way a few villa-owning bureaucrats got richer and richer, but the people of the country saw little benefit out of all this. Thus slowly the profile of Cambodia was beginning to resemble that of other small countries (and even large ones in Asia) where unrest, inflation prevail, where the city gives an appearance of wealth, and large motorcars rush by, and luxury houses are found; but the country get more and more hungry and denuded of prosperity. "Cambodia until recently had no such opulent upper class, but now there was the beginning of one". It was high time, ended the Prince, "to stop this plague".

Development without US Aid

From now on, instead of building villas, the rich would have to put their

money in productive enterprise and in the creation of industries. "We shall have to re-educate the capitalists, the merchants, the profiteers, and the middlemen," said the Prince, "to forego their transactions and to start putting their money into such things as flour mills, factories, plantations." In order to carry this out all import and export concerns were taken over by the State.

At Kep, a pleasant holiday resort by the sea, on December 6, the Prince spoke to assembled businessmen, outlining the constructive efforts they could make towards achieving economic independence for Cambodia. As usual he was candidly frank; told them they would make less profits but would be emotionally sustained by doing the right thing for their own people; serving the country instead of

helping themselves only. He advised them to invest their money into state enterprises, such as factories, plantations, to bring their talents as managers and technical experts from private concerns into public ones. . . .

Outlining plans for industrial expansion, the Prince emphasized that only by its own efforts could a country, ultimately, achieve economic independence.

Prince Sihanouk, by his firm refusal to be bullied, threatened, or frightened in anyway, has given a warning to the Great Powers. He has no intention of becoming a stooge, the plaything of one bloc or another, nor of letting Cambodia be turned into another Vietnam, another Korea either through aid, or through any other wiles, that may be thought up in the future.

A brief summary of aid received by Cambodia

American aid, 1951-1963 (twelve years): 300 million dollars, an average of 25 million dollars per year. This is the equivalent of three weeks of American expenditure to "combat communism" in South Vietnam in 1962. Breakdown of aid, in percentages (1961-1962):

Police and Army	52.2 per cent
Education	26.5 per cent
Public Works	0.5 per cent
Health	3.1 per cent
Agriculture	6.0 per cent
Other	11.7 per cent

Under this programme was built the road to Sihanoukville. Actually about half the road (100 kms), had been laid down by the French as a dirt road previously, and were surfaced by the Americans. The remainder was American built. The total length of road from Phnom Penh to Sihanoukville is 220 kms.

One education centre was maintained and staffed; also one police academy, and one agricultural college. Aid provided for transport

from the US, salaries, rent of house and cars of six experts to teach agriculture, who lectured for a year through interpreters.

French contribution to Cambodia (last 5 years):

The port of Sihanoukville
The airport at Phnom Penh
Besides these there are technical and educational personnel from France employed in Cambodia.

Chinese contribution to Cambodia, to date:

1 textile factory
1 plywood factory
1 paper factory
1 cement works
1 radio diffusion centre
1 hospital (joint contribution with Tchechoslovakia)
Some credits for industrial production in Cambodia

N.B. Figures are from Cambodian Ministry of Information publications.

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