

Book Reviews

Mumtaz Anwar. *The Political Economy of Foreign Aid to Pakistan.* HWWA Studies. Volume 79. Hamburg: Hamburg Institute of International Economics. 2006. 141 pages. Paperback. Price not given.

Foreign aid has played a significant role in Pakistan's economic development. In the 1950s and 1960s it was aid that helped propel the high rates of growth of the economy. Again in the 1980s and the early 21st century, aid has supported the high levels of growth in the economy. Many books and articles have looked at the role of aid in a narrow economic perspective, but the present volume looks at aid in a political economy framework. The time-period covered is 1960–2002, and both bilateral as well as multilateral aid flows are included in the analysis. Seven chapters make up the book, along with a number of tables at the end which throw light on the author's analysis. The theoretical framework followed is one that examines both the donor's and the recipient's need for aid. The objectives and the needs of both do not always match. Chapters 3, 5, and 6 form the crux of the book. Chapter 3 discusses and examines the politico-economic factors that are responsible for the allocation of aid. A number of actors are responsible here. These include business lobbies, ethnic lobbies, former colonial linkages, non-governmental organisations, and the bureaucrats. An interesting aspect of consumer theory, utility maximisation, is also discussed in Chapter 3, in which the donor country may provide more aid to specific countries if their immediate perception of the threat—e.g., “terrorism”—can be contained. In that case, the donor country would be willing to raise taxes and other levies so that its immediate security concerns are met. Economic considerations in such a scenario are not of paramount importance. Chapter 5 examines the issues of bilateral aid to Pakistan with specific reference to US assistance and the role of various lobbies, while testing six hypotheses empirically. A similar framework of analysis can be developed for multilateral aid.

Chapter 6 examines the political and economic considerations of lending by multilateral bodies, e.g., the World Bank, the International Monetary Fund, the International Development Agency (IDA), and the Asian Development Bank (ADB). Again, six hypotheses are put forth. The results are interesting. Although the economic needs of the borrowers are considered to some extent, the regression results show that it is the self-interest of the bureaucracies of these international lending organisations that dominates the lending behaviour. A second major finding is that the IDA and the ADB are more open to politico-economic pressure than the World Bank and the IMF.

This book is a refreshing addition to a topic of great concern to Pakistani economists and policy-makers. It charts new ground by developing a theoretical and empirical framework in which the major determinants of foreign aid to a country are spelt out. The author's use of a political economy framework broadens the scope of the debate. It is made clear that aid is largely influenced by political factors rather than by purely economic ones. Pakistan's experience in this regard is clear too—the country has

witnessed large inflows of aid under military rule largely because American interest coincided with that of the Pakistani military (in the 1950s, 1960s, 1980s, and then from 2001 onwards). As Pakistan in its 60-year history has received substantial foreign assistance, a second book by the author to examine the impact of this foreign aid would be greatly illuminating. The present book is well-written, concise, and with an argument ably supported by the relevant data.

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