

## ***Book Review***

Anwar, Mumtaz, *The Political Economy of Foreign Aid to Pakistan*, Nomos Verlagsgesellschaft, Baden-Baden, 2007, pp. 141, Price not mentioned.

There are an increasing number of studies that analyze the discrepancies between the stated and the actual motives behind giving aid to developing economies. Given this divergence the subsequent effectiveness of aid is also questioned, paving way for debates on whether aid should be given at all. An analysis of the former question of motives is imperative to understand whether aid will have a positive impact on economies with weak institutions, political instability and economic decision-making backed by the need to preserve the status quo.

The book under review has established a well-grounded premise with reference to foreign aid and developing countries such as Pakistan. It has successfully brought together extensive literature that has delineated various methods to analyze the motives behind bilateral and multilateral aid and also evaluate its effectiveness. From a theoretical point of view, it has sought to answer questions involving the impact of aid in general and specifically on savings and investments. Further, it also looks into what factors determine the volume and allocation of aid by investigating incentive mechanisms in developed countries that lead to a greater amount of aid being given.

The book can essentially be divided into three parts, the first dealing with a review on literature to acquaint the reader with the direction of thought and contemporary views on foreign aid and Pakistan in particular. This has been coherently done by first critically examining studies on aid projections to Pakistan followed by a review of whether aid supplements or substitutes savings in the country. As a corollary, the book further examines whether aid has had a positive impact on growth and other macro-economic variables; the definition of foreign aid not being limited to bilateral aid only. The sub-section on multilateral aid enlists that weak growth in Pakistan is not purely indicative of an economic problem but of several socio-political problems and structural weaknesses such as unequal distribution of income, inadequacy of the savings and investment rates, external balance etc. respectively. Thus, most studies point towards little or no positive impact of

aid on growth in Pakistan setting the stage for questioning what actually governs the allocation of funds to the country.

Studies in the past have revealed that geopolitical considerations have been at the centre of aid allocation decisions with regard to Pakistan. The book takes this a step forward and further undertakes a review of literature on foreign aid allocation vis-à-vis developing countries in general. The preliminary section examines aid allocation decisions through models that incorporate donor interest and recipient need simultaneously. The literature indicates that aid is not categorically determined by donor interest or recipient need as the intent varies across donors. However, it may also be interesting to note that irrespective of the two factors, the proclivity of aid is either towards trading partners or old colonies with to political governance in recipient countries. In the discussion on multilateral aid, political and institutional variables in addition to need on the part of developing nations and benevolence of IFIs have been brought under scrutiny through various studies that have been conducted.

However, the significance of the second part is inherent in the discussion of the utility functions of various groups or lobbies in the donor country. In this, the book dwells on an explanation of how aid to developing countries can augment the utility of politicians, voters, bureaucrats and interest groups which include business lobbies, ethnic groups and NGOs. For instance, literature indicates that business lobbies can influence both bilateral and multilateral aid to developing countries based on their infrastructure, debt recovery needs, etc. in the country of operation. By highlighting different stakeholder nodes, these explanations in the second part form the basis of the hypotheses tested in the third.

The third part is the primary contribution of the author where he has examined the nature of foreign aid and its determinants empirically. 'The Evidence' undertakes an investigation into the history of aid flows to Pakistan with reference to changes in Pakistan's strategic geo-political status. It looks into the sources of bilateral and multilateral aid to Pakistan as well. Accordingly, the United States ranks the highest in the list of bilateral donors while the World Bank followed by the ADB and the IMF are the largest source of multilateral aid to Pakistan. However, in likeness to the second part, the significance of the third lies in the hypotheses generated based on the utility maximization discussion mentioned above. The econometric analysis subsequently points towards the significance of variables such as FDI from the US to Pakistan and India and non-governmental lobbying expenses undertaken by Pakistanis and Indians in the determination of US aid to Pakistan. On the multilateral front, it is

interesting to note that lower GDP per capita is unequivocally linked to higher aid. Moreover, the analysis points towards the IMF and IBRD rewarding good policy performance and the IDA and ADB responding to greater need highlighted by worsening budget deficits. The utility maximization discussion also lends weight as bureaucratic and U.S and Japanese trade interests play a significant role in determining aid flows to Pakistan.

Mumtaz Anwar has been successful in analyzing the contributing factors to foreign aid in Pakistan. He has exhaustively explored linkages through which flows can be explained at both the bilateral and multilateral levels. This study would provide grounds for further exploration of aid and its impact as it clears and resolves the suspended issues on the sources side. The fact that he has taken in to account recipient need and donor interest in aid allocation to Pakistan is an achievement and a unique contribution to the existing literature on this issue. As the general data availability improves over time the model presented in this book can be used as the main premise for a much more detailed examination of connecting issues pertaining to aid and foreign inflows. The importance of the analysis presented will be much appreciated by students who in addition to understanding aid in the context of Pakistan also want to learn about the existing literature on foreign aid in general given the difficulty of accessing renowned works of literature in Pakistan.

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