

AID CAUSES CONFLICT IN PAKISTAN

Nadia Tahir*

The author is Postdoctoral Researcher at the Centre of Development Studies, University of Cambridge. She can be contact at nt332@cam.ac.uk

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ABSTRACT

This paper examines conflict as a consequence of aid inflows in the case of Pakistan, an archetypical developing economy that has been a major recipient of aid and a scene of many internal and external conflicts. Heckman selection procedure is used to find the relationship between aid and conflict. Aid increased the intensity, occurrence, and scope of conflict in the country during 1961-2011. Conflict-based external policy to protect territorial integrity has challenged the state itself. Weak government's preferred indirect and implicit taxation and borrowing over direct and explicit taxation of the elite. The results show that aid and military expenditure increase the probability of conflict in Pakistan by 69 per cent. During conflict, the probability of inflation increases by 10 per cent and that of tax mobilization decreases by 12 per cent. We conclude that non-altruistic, unclear and rather general strategies of donors create rifts and insecurity in the recipient society that result into increased military expenditure and arms imports. It further results into regime instability, undermining the capability to govern and reform. Aid thus causes conflict rather than contribute to social and economic stability

Key words: *Conflict, Aid, Military expenditure, Social sector, Taxation, Inflation, Pakistan*