

Globally, bilateral development aid has been declining in recent years and, as a percentage of donors' GDP, it was the lowest in 20 years in 1994-95.¹³ The importance of bilateral aid is particularly small for some of the south Asian countries, as it accounts for a small proportion of their GDP. This is specially true for India and Pakistan. It accounts for only 0.8% and 2.5% of their GDP respectively. Furthermore, as the figures in **Table 6** show, the importance of bilateral aid in the economy of these countries has declined in the 1990s. As bilateral aid is not very important for India and Pakistan (and China), the potential of using bilateral aid as a lever to influence defence expenditure is small.

In contrast with the decline in bilateral aid, the importance of multilateral aid from multilateral funding agencies such as the IMF and the World Bank, has increased in recent years. Both India and Pakistan are heavily indebted to the IMF and the World Bank, and these agencies have (at least in theory) strong leverage to influence their policies. In fact, both the countries have modified their economic policies to meet IMF conditions. There are also reports that these agencies are applying pressure to reduce defence expenditure.¹⁴ Their influence on defence policies, however, is likely to be much smaller than on economic policies.

The IMF and the World Bank could influence economic policies due to local support to their suggestions. As the shortcomings of a controlled economy (particularly in India) became increasingly obvious during the 1980s, the policy makers and the media were already receptive to the IMF-World Bank supported economic policies. In other words, the IMF-Bank policies found acceptance because an influential section of the society already favoured these policies. In the case of defence policies, however, the situation is very different. There is a general consensus in favour of strong defence in both India and Pakistan. Furthermore, defence is an extremely emotive issue and any hint of interference by an international agency is likely to generate a strong reaction. These factors limit the potential of multilateral aid as a lever to influence defence

¹³ World Debt Tables: External Finance for Developing Countries, Volume I, A World Bank Book, 1996.

¹⁴ Times of India, New Delhi, June 20, 1996.