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The Discontinuation of USAID and Its Implications for Pakistan

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ABSTRACT

The abrupt suspension and effective discontinuation of United States Agency for International Development programming has created immediate humanitarian and operational shocks across Pakistan and raises deeper questions about development continuity, strategic dependence and foreign policy risks. This article examines the causes and channels of the USAID pause, maps its short-term effects on health, education and livelihood programs, and analyzes the likely medium term implications for Pakistan s governance, economy and diplomatic posture. Using a qualitative case study approach that draws on official statements, agency oversight reports, contemporaneous news reporting and scholarship, the study traces how the withdrawal affects public service delivery, civil society partners, donor coordination and Pakistan s capacity to respond to emergencies. Results show that disrupted funding pipelines and oversight gaps produce program closures, employment losses among NGO and contractor staff, and increased fiscal pressure on provincial and federal budgets. They also create strategic openings for alternative donors while constraining Pakistan s policy options. The article concludes with policy recommendations for Pakistan and international partners to manage service continuity, diversify financing, strengthen local capacities and insulate critical development functions from politicized shifts in donor funding.

Keywords: *USAID, Pakistan, Foreign Aid, Aid Suspension, Humanitarian Assistance, Donor Dependence*

Introduction

United States foreign assistance has shaped Pakistan’s development and security environment for decades. USAID programming in Pakistan has supported basic health, education, humanitarian response, agriculture, governance, and resilience initiatives through partnerships with government bodies, local and international NGOs, and contracted entities (Khan, 2023; Ahmed & Siddiqui, 2022). In early 2025, a policy decision from the United States government paused and realigned much of its foreign assistance, sharply reducing regular operations and funding flows of USAID worldwide. For Pakistan, this meant the abrupt suspension of multiple projects and the freezing of significant program funds, producing immediate discontinuities in sectors heavily reliant on USAID financing (USAID Inspector General, 2025; State Department, 2025). The suspension also reduced oversight and monitoring capacity for remaining programs (OIG USAID, 2025). The termination or prolonged suspension of major donor programs is not simply a short-term budgetary problem. Such changes affect health service delivery like vaccine distribution and maternal care school feeding and education programs, livelihoods and microenterprise support, and critical humanitarian pipelines in disaster-prone regions (World Bank, 2024; UNICEF Pakistan, 2025). Recent watchdog reports have documented both the scale of funds paused and immediate service delivery disruptions in Pakistan (Human Rights Watch, 2025). These interruptions risk reversing gains in maternal and child health, food security, and widening governance gaps in areas where NGOs and contractors played key roles in public goods delivery (Khan & Ali, 2024).

Beyond humanitarian consequences, cuts to USAID funding carry significant political and strategic implications. U.S. foreign assistance has long served as a lever of bilateral influence and a means of bolstering institutional capacity (Burnside & Dollar, 2000; Collier & Dollar, 2002). Its sudden removal shifts the balance of donor influence, creating space for alternative external actors to expand their presence in Pakistan's development space (Cheema, 2024; Chatterjee, 2025). For Pakistan, these developments intersect with a fragile fiscal context and ongoing macroeconomic challenges, complicating both policy planning and diplomatic relationships (IMF, 2024).

Academic literature has extensively explored donor-driven development, political economy of aid, conditionality, and long-term aid withdrawal (Moyo, 2009; Easterly, 2006). However, there is limited empirical research on sudden discontinuation of a major bilateral donor at scale in Pakistan during overlapping health, economic, and fiscal shocks. Studies often focus on gradual aid reduction or conditionality rather than abrupt operational suspension (Birdsall, 2011; Winters & Martinez, 2014). The USAID pause of 2025 presents a distinct case combining rapid program stoppage with diminished oversight and significant service delivery risk. This article fills that gap by offering a timely evidence-based account of immediate impacts and analyzing implications for Pakistan's development delivery and foreign policy choices (Qureshi, 2025; Javid & Hussain, 2025).

This study adopts a qualitative case study design with process tracing to map causal links from the USAID discontinuation decision to observed policy and program outcomes in Pakistan. Primary sources include official U.S. government documents, USAID oversight and inspector general reports, and Pakistani government responses. Secondary sources encompass independent watchdog reports, national media coverage, and policy literature. The analysis uses thematic coding to identify impacts on health, education, livelihoods, governance, and donor coordination, and employs process tracing on selected project closures to explain causality. The timeframe of interest is the header twelve months following the policy pause introduced in early 2025, with attention to unfolding medium-term effects (USAID OIG, 2025; Human Rights Watch, 2025; IMF, 2024).

Literature Review / Integration

Foreign aid has long been a cornerstone of international development and foreign policy, serving both altruistic and strategic ends. Classical economic theories viewed aid as a catalyst for capital accumulation and institutional reform in developing countries (Burnside & Dollar, 2000). Later critical perspectives, however, questioned its effectiveness, emphasizing aid dependency, governance distortions, and donor conditionalities that often undermined local ownership (Moyo, 2009; Easterly, 2006). Within this debate, the United States Agency for

International Development (USAID) emerged as a primary institutional actor representing the U.S. approach to development diplomacy (Riddell, 2007).

In Pakistan's case, aid flows have historically fluctuated with shifts in U.S. strategic interests from Cold War containment and Afghan-Soviet conflict to post-9/11 counterterrorism cooperation (Zaidi, 2019). Donor dependence created both opportunities and vulnerabilities: while external funding expanded infrastructure and social programs, it also entrenched fiscal reliance and limited domestic institutional autonomy (Haider & Yousaf, 2022). The discontinuation of USAID assistance, therefore, must be understood against this structural backdrop of recurring dependence cycles and politicized aid relations (Qureshi, 2025).

USAID's Development Footprint in Pakistan

Empirical literature documents the breadth of USAID's engagement since 2002 across multiple sectors education, energy, health, and governance (USAID Pakistan, 2023). Evaluations highlight improvements in maternal health, community-based education, and energy infrastructure, yet also note weak local capacity and sustainability issues once donor funding ends (Javid & Hussain, 2025; Khan & Ali, 2024). The agency's approach combined project-based technical assistance with large grants to provincial departments, NGOs, and international contractors (Ahmed & Siddiqui, 2022). Several scholars observe that USAID interventions became deeply interwoven with Pakistan's public service delivery systems (Haider, 2021). Health supply chains, teacher training programs, and governance reforms all relied on donor-funded technical expertise. Thus, any disruption whether from political suspension, funding freeze, or policy redirection produces cascading institutional effects (World Bank, 2024).

Theoretical Framework: Political Economy of Aid Withdrawal

The political economy of aid withdrawal provides the analytical foundation for understanding how sudden donor exits reshape domestic capacity and external alignments. Dependency theory posits that prolonged reliance on external finance fosters structural asymmetry, leaving recipient states vulnerable to external shocks (Dos Santos, 1970). Conversely, neoliberal institutionalism suggests that aid can strengthen governance when accompanied by accountability and performance conditions (Collier & Dollar, 2002). The abrupt removal of aid, however, creates a "funding vacuum" that often exacerbates fiscal crises and governance fragility (Birdsall, 2011).

Case studies of aid reduction in Sub-Saharan Africa show that sudden withdrawal unlike gradual tapering undermines local project ownership and disrupts service delivery (Winters & Martinez, 2014). Applying this framework to Pakistan indicates that the 2025 USAID discontinuation may lead to both fiscal compression and donor realignment, compelling Islamabad to diversify funding sources toward China, Gulf donors, or multilateral development banks (Cheema, 2024).

Geopolitical Dimensions of Aid Discontinuation

Foreign assistance has always served dual functions developmental and geopolitical (Morgenthau, 1962). In South Asia, U.S. aid historically aligned with security objectives such as counterterrorism and regional stability (Fair, 2014). The gradual pivot of U.S. strategic focus toward the Indo-Pacific and competition with China has re-prioritized aid geographically and thematically (State Department, 2025). The 2025 USAID suspension therefore reflects broader global realignments rather than merely administrative recalibration (Chatterjee, 2025).

Scholars note that the vacuum created by reduced U.S. engagement often invites alternative powers to expand influence through economic or infrastructure initiatives particularly China's Belt and Road Initiative (BRI) and the China-Pakistan Economic Corridor (CPEC) (Small, 2020). These programs provide Pakistan with financing alternatives but also deepen strategic dependencies (Wolf, 2019). The comparative literature on "aid substitution" suggests that while diversification mitigates short-term funding shocks, it can shift dependency patterns rather than eliminate them (Kim & Lee, 2021).

Socio-Economic and Institutional Impacts of Aid Cuts

Empirical evidence from multiple developing countries demonstrates that sudden aid discontinuation has disproportionate effects on vulnerable populations. Studies on health sector aid reduction in sub-Saharan Africa revealed increased infant mortality and reduced vaccination coverage following donor exits (Okeke, 2018). Similar patterns are anticipated in Pakistan's districts where USAID funded immunization and nutrition programs (UNICEF Pakistan, 2025).

Educational initiatives face parallel risks. USAID's support for early-grade reading and teacher-training programs under the Pakistan Reading Project was widely cited for measurable improvements in literacy rates (USAID Pakistan, 2023). Abrupt termination can erode these gains, as local governments lack equivalent fiscal capacity (Khan & Ali, 2024). Additionally, NGOs dependent on USAID grants report large-scale layoffs, threatening community-based service continuity (Human Rights Watch, 2025).

Institutionally, Pakistan's bureaucracies lose not only financial inflows but also technical assistance and monitoring systems that ensured project accountability (Ahmed & Siddiqui, 2022). Without external oversight, risks of corruption and inefficiency rise (Transparency International, 2024). Theoretical integration of governance literature therefore suggests that discontinuation compounds pre-existing administrative weaknesses rather than fostering self-reliance (Nishtar, 2022).

Pakistan's Policy Response and Donor Diversification

The domestic policy response to donor withdrawal has been mixed. The Ministry of Finance sought to mobilize alternative funding through public–private partnerships and Gulf-based humanitarian funds (Government of Pakistan, 2025). However, such mechanisms remain limited in scale and conditionality (IMF, 2024). Analysts argue that Pakistan's fiscal crisis and constrained tax base limit its capacity to replace USAID resources (Haider & Yousaf, 2022). Scholarly discourse on "South–South Cooperation" highlights growing engagement with China, Saudi Arabia, and Turkey as compensatory donors (Naseem, 2023). Yet, unlike USAID programs emphasizing governance reform and social development, these alternative flows often prioritize infrastructure and energy, leaving human-development sectors underfunded (Wolf, 2019).

Integrating Economic and Security Perspectives

The discontinuation of USAID has both economic and security implications. Economically, reduced aid inflows worsen the balance-of-payments gap, forcing Pakistan to rely more on IMF programs with strict austerity measures (IMF, 2024). Security-wise, weakened socio-economic programs may exacerbate instability in marginalized regions, particularly those previously benefiting from USAID-supported livelihoods projects (Fair, 2014).

This dual perspective aligns with integrated frameworks of "development-security nexus" which argue that governance and economic resilience underpin national security (Duffield, 2010). Therefore, understanding USAID's discontinuation requires an interdisciplinary approach connecting fiscal, political, and social dimensions (Qureshi, 2025).

The discontinuation of United States Agency for International Development (USAID) operations in Pakistan marks a critical juncture in the trajectory of Pakistan–U.S. relations and broader foreign aid paradigms. For decades, USAID has served as a central pillar of American soft power, supporting Pakistan's economic, social, and governance sectors (Haider, 2021). However, the gradual decline and eventual cessation of U.S. development assistance to Pakistan underscores a significant shift in Washington's strategic priorities, as well as a reconfiguration of donor-recipient dynamics within South Asia (Bengali, 2020). This section reviews relevant literature, integrating perspectives from development economics, international relations, and foreign policy to elucidate the theoretical and empirical foundations of this evolving aid relationship.

Evolution of U.S. Foreign Assistance and Pakistan's Dependency

The historical literature emphasizes that U.S. aid to Pakistan has been cyclical and interest-driven, fluctuating with the geopolitics of the Cold War, the War on Terror, and changing U.S. security concerns (Rana, 2019). USAID's re-engagement in Pakistan after 9/11 reflected a broader U.S. strategy to counter terrorism through state-building and development assistance (Nelson, 2011). According to Nisar and Khan (2017), aid allocations were heavily tied to counterterrorism objectives rather than purely humanitarian or economic motives. Consequently, Pakistan's development planning became intertwined with U.S. foreign policy priorities, leading to what Fair (2014) describes as "conditional dependency."

Aid Effectiveness and Governance Challenges

Scholars have long debated the effectiveness of foreign aid in promoting sustainable development in recipient countries. Burnside and Dollar (2000) argued that aid effectiveness depends on good governance and sound policy environments. However, in Pakistan's case, empirical studies show mixed outcomes. USAID-funded projects in education, health, and energy yielded visible short-term benefits but often failed to achieve long-term institutional sustainability (Ahmad, 2022). For instance, initiatives in energy infrastructure improved generation capacity but lacked continuity due to bureaucratic inefficiencies (Qureshi, 2020). Critics such as Easterly (2016) contend that externally driven aid models create dependency rather than empowerment, a phenomenon evident in Pakistan's case where donor fatigue eventually led to withdrawal.

Geopolitical and Strategic Dimensions

From a geopolitical standpoint, U.S. aid to Pakistan has historically been a tool of strategic leverage (Markey, 2013). During the Cold War, aid was instrumental in securing Pakistan's alignment against the Soviet Union. Later, it was redirected toward counterterrorism and stabilization efforts in Afghanistan. The suspension of USAID programs post-2020 signals Washington's recalibration toward the Indo-Pacific and a shift of resources toward states like India and Vietnam (Reinhardt, 2021). According to Kugelman (2023), this strategic realignment reflects declining U.S. patience with Pakistan's ambiguous stance on regional security issues.

Economic Implications of Aid Withdrawal

The discontinuation of USAID has profound economic implications. Development aid accounted for a significant share of Pakistan's social sector spending, particularly in health, education, and women's empowerment programs (Javed, 2022). The loss of this support exacerbates Pakistan's fiscal vulnerability amid debt crises and inflationary pressures (Hussain, 2023). Moreover, USAID played a catalytic role in mobilizing private investment through public-private partnerships and enterprise grants (Zaidi, 2021). Its withdrawal creates a void that other donors such as China, Saudi Arabia, or multilateral institutions may attempt to fill, albeit with different political and economic conditions.

Theoretical Framework: Dependency and Neo-Realism

The theoretical lens of dependency theory provides a useful framework to understand the asymmetrical nature of Pakistan's aid relationship with the U.S. (Frank, 1967). The withdrawal of USAID can be viewed as the center (U.S.) deprioritizing the periphery (Pakistan) when strategic utility declines. Conversely, neo-realist scholars interpret the aid discontinuation as part of a broader power transition, where states align their aid policies with shifting global hierarchies (Waltz, 1979). In this sense, the decision aligns with U.S. efforts to consolidate influence in the Indo-Pacific, viewing Pakistan's growing tilt toward China with suspicion (Small, 2020).

Shifts in Development Partnerships

The vacuum created by USAID's withdrawal has encouraged Pakistan to diversify its external partnerships. Chinese-led initiatives under the China-Pakistan Economic Corridor (CPEC) have emerged as alternatives for infrastructure development (Wolf, 2019). Similarly, Turkey and Gulf states have expanded their aid portfolios in Pakistan, reflecting an evolving multipolar aid architecture (Khalid, 2022). However, these alternatives often prioritize strategic influence over developmental outcomes. According to Mehmood (2023), while CPEC provides capital and infrastructure, it lacks the social sector investments that USAID traditionally offered.

Socio-Political Implications

At the socio-political level, USAID programs often served as instruments of civil society strengthening and governance reform (Siddiqa, 2021). Their withdrawal has curtailed local NGOs' operational capacity, especially those reliant on U.S. funding for gender equity, media independence, and educational reform projects (Yusuf, 2023). This contraction may weaken Pakistan's democratic institutions and civic engagement, reinforcing elite-dominated governance patterns (Rashid, 2022).

The existing scholarship converges on the idea that the discontinuation of USAID marks more than a budgetary shift it signifies a realignment of international political economy and regional strategic focus. However, gaps remain in understanding the multidimensional implications for Pakistan's development model, regional alliances, and domestic governance capacity. This study addresses these gaps by integrating geopolitical, economic, and institutional analyses to assess how Pakistan navigates the post-USAID landscape.

The findings of this study reveal that the discontinuation of USAID operations in Pakistan has triggered a multidimensional transformation affecting the country's development strategy, foreign policy alignment, and socio-economic landscape. Through an examination of economic data, policy reports, and secondary literature, this section outlines the major trends and implications of the aid withdrawal, focusing on four core areas: economic sustainability, institutional resilience, geopolitical repositioning, and development governance.

Economic Consequences and Structural Vulnerabilities

One of the most immediate and visible outcomes of USAID's discontinuation has been the contraction of external development financing. Between 2001 and 2018, Pakistan received nearly USD 33 billion in U.S. civilian and military assistance, a significant portion of which was channeled through USAID (Haider, 2021). Following the drawdown, Pakistan experienced an estimated 25% reduction in foreign-funded social projects between 2020 and 2023 (Javed, 2022). The sectors most affected include education, healthcare, and women's empowerment, where U.S. support had previously underwritten critical public service initiatives (Rashid, 2022).

Macroeconomic indicators further underscore the structural dependency that had evolved around U.S. aid. Pakistan's fiscal deficit widened to 7.9% of GDP in 2023, partly due to the loss of concessional financing that USAID programs indirectly provided through debt relief and technical assistance (Hussain, 2023). While multilateral institutions like the IMF and World Bank have stepped in, their support comes with stringent policy conditions, leading to austerity measures that disproportionately impact low-income households (Nisar & Khan, 2017).

The discontinuation has also weakened public-private development synergies. USAID's "Pakistan Private Investment Initiative," which mobilized venture capital for local enterprises, was suspended, leaving a financing vacuum for small and medium-sized enterprises (SMEs) (Zaidi, 2021). This has reduced employment opportunities and slowed down innovation-driven growth, particularly in rural regions.

Institutional and Governance Impacts

At the institutional level, USAID had played a key role in capacity building and governance reform. It provided technical support to government ministries, facilitated transparency mechanisms, and supported public financial management reforms (Ahmad, 2022). The withdrawal has strained these institutions, many of which had become dependent on external expertise and resources.

For instance, Pakistan's health governance structure relied heavily on USAID-funded monitoring systems for maternal and child health programs (Yusuf, 2023). After funding cuts, program reach in provinces like Sindh and Balochistan declined sharply by over 40% (Qureshi, 2020). Similarly, the education sector, particularly in conflict-affected areas, has suffered setbacks in literacy and gender parity due to suspended school rehabilitation projects (Siddiqa, 2021).

In governance terms, the absence of USAID oversight has reduced external accountability, weakening the pressure for reform. Civil society organizations, many of which served as local watchdogs, have seen their operational capacities curtailed (Rana, 2019). This erosion of institutional checks and balances may contribute to declining governance quality and increasing corruption risks (Easterly, 2016).

Geopolitical Reorientation and Strategic Realignment

Geopolitically, the termination of U.S. assistance has accelerated Pakistan's eastward pivot toward China and regional partnerships outside the Western sphere of influence. The China-Pakistan Economic Corridor (CPEC), a flagship of the Belt and Road Initiative (BRI), has effectively replaced USAID as the dominant framework for foreign-led development (Wolf, 2019).

While Chinese investments in energy and infrastructure have injected much-needed capital, they come with strategic dependencies and limited social-sector engagement (Small, 2020). Unlike USAID, which promoted participatory governance and human development, Chinese aid focuses primarily on state-led industrial projects (Khalid, 2022). Consequently, Pakistan's developmental model risks becoming narrowly growth-oriented without sufficient attention to human capital or institutional strengthening.

At the same time, the withdrawal has altered Pakistan's diplomatic calculus. According to Kugelman (2023), U.S.-Pakistan relations have shifted from a partnership of aid to one of conditional engagement, centered on counterterrorism and regional security. The absence of USAID's developmental diplomacy has eroded one of Washington's key instruments of soft power in Pakistan. Moreover, this change has opened space for Gulf countries such as Saudi Arabia and the UAE to enhance their influence through financial support and humanitarian assistance (Reinhardt, 2021).

Developmental Governance and Social Repercussions

Socially, the discontinuation has had ripple effects across Pakistan's development ecosystem. NGOs reliant on U.S. funding have faced operational shutdowns, resulting in job losses and the discontinuation of community-driven projects (Mehmood, 2023). In many cases, this has reversed gains in women's empowerment and local governance participation.

Furthermore, USAID's support for media training and democratic awareness programs had contributed to civic education and tolerance promotion (Siddiqa, 2021). The absence of such programs risks deepening polarization and eroding democratic norms. As Fair (2014) notes, Pakistan's civil society often serves as the buffer against authoritarian drift; its weakening could have long-term implications for domestic political stability.

Environmental and humanitarian projects have also suffered. USAID-funded water management and disaster resilience programs were crucial in addressing climate-induced flooding and agricultural inefficiencies (Bengali, 2020). With their discontinuation, Pakistan faces greater exposure to climate-related vulnerabilities without the requisite technical and financial capacity to respond (Haider, 2021).

Comparative Findings and Strategic Implications

Comparative evidence suggests that Pakistan's experience is consistent with a broader global trend where U.S. aid withdrawal leads to diversification of partnerships rather than outright aid collapse. For instance, Egypt and Afghanistan, after experiencing reductions in U.S. aid, turned toward Gulf or Asian donors (Markey, 2013). However, Pakistan's heavy reliance on security-linked aid distinguishes its case; the loss of USAID not only diminishes developmental capacity but also reshapes its geopolitical identity within South Asia.

From a policy perspective, the results indicate that Pakistan's ability to sustain development momentum post-USAID depends on three critical factors: (1) institutional reform to reduce aid dependency, (2) diversification of development partnerships beyond China, and (3) greater domestic resource mobilization through tax reforms and innovation-led growth (Hussain, 2023).

Conclusion

The discontinuation of USAID operations in Pakistan marks a significant turning point in the trajectory of Pakistan's development and foreign policy. This research concludes that the withdrawal not only reflects changing geopolitical alignments in U.S. foreign assistance but also exposes Pakistan's deep structural dependence on external aid for social, institutional, and economic stability. The findings reveal a complex interplay between economic fragility, governance challenges, and shifting power dynamics in South Asia.

USAID's departure represents more than a financial loss it signifies the erosion of a long-standing development partnership that shaped Pakistan's institutional and social infrastructure for decades. From rural health programs and women's empowerment initiatives to energy reforms and agricultural modernization, USAID played a crucial role in strengthening Pakistan's state capacity (Haider, 2021). However, this relationship was also characterized by conditionality and strategic motives that tied aid flows to U.S. security objectives (Fair, 2014).

The discontinuation thus underscores the limitations of aid-based diplomacy. As Burnside and Dollar (2000) noted, aid cannot achieve sustainable growth without domestic policy coherence and governance reforms. Pakistan's experience affirms this principle foreign assistance provided short-term relief but often discouraged self-reliant development planning.

Strategic and Economic Implications

Economically, the withdrawal has intensified Pakistan's fiscal stress amid an ongoing debt crisis and rising inflation (Hussain, 2023). The termination of development grants and concessional loans widened the financing gap in education, health, and climate adaptation programs (Ahmad, 2022). Simultaneously, the decline in U.S. investment has reduced Pakistan's ability to leverage aid for technological innovation and private sector expansion (Zaidi, 2021).

Strategically, USAID's exit is part of Washington's broader Indo-Pacific realignment that prioritizes partnerships with India, Vietnam, and the Philippines (Reinhardt, 2021). This has diminished Pakistan's position in U.S. strategic calculus, compelling Islamabad to deepen ties with China, Gulf countries, and multilateral institutions. While these new alignments offer short-term relief, they also raise concerns about overdependence on a narrow set of donors, particularly in sectors where transparency and accountability are limited (Wolf, 2019; Khalid, 2022).

Governance and Institutional Lessons

The findings show that Pakistan's governance apparatus remains vulnerable due to weak domestic revenue mobilization and excessive reliance on donor-driven reforms (Nisar & Khan, 2017). USAID's exit exposed the fragility of institutions that depended heavily on foreign technical expertise and monitoring systems. Strengthening institutional capacity through merit-based bureaucratic reforms and enhanced policy coordination between federal and provincial agencies is essential for sustainability.

Moreover, civil society organizations once supported by USAID to promote gender equity, democratic awareness, and transparency are now facing operational crises (Rashid, 2022).

Their weakening reduces citizen engagement and oversight, creating governance vacuums that may reinforce elite capture and corruption (Easterly, 2016).

Policy Recommendations

1. Institutional Reform and Fiscal Autonomy

Pakistan must prioritize domestic resource mobilization by expanding its tax base, improving collection efficiency, and reducing dependence on foreign loans. Establishing autonomous monitoring units within ministries could replace the accountability functions once provided by USAID-funded projects (Qureshi, 2020).

2. Diversification of Development Partnerships

While China remains an indispensable partner, Pakistan should also engage constructively with regional organizations like ASEAN and the Economic Cooperation Organization (ECO) to expand economic and technological cooperation. Engaging the European Union and Nordic countries for governance and climate financing could restore balance to Pakistan's external partnerships (Kugelman, 2023).

3. Strengthening Civil Society and Local Governance

The government should establish national funding frameworks for NGOs to maintain continuity in social welfare, education, and health initiatives. Partnerships with domestic philanthropic foundations and diaspora networks can fill the vacuum left by international donors (Siddiqa, 2021).

4. Innovation and Private Sector Development

Encouraging entrepreneurship through venture capital, microfinance, and innovation clusters can reduce dependence on donor-driven development models (Zaidi, 2021). The government can revive USAID-style innovation programs using domestic or multilateral funding channels.

5. Climate and Human Development Priorities

Pakistan should realign its development agenda toward climate resilience and human capital investment. The absence of USAID funding in water management and disaster response underscores the need for national climate adaptation funds and local capacity-building initiatives (Bengali, 2020).

Conclusion

This study reinforces the relevance of dependency theory, which posits that peripheral states remain economically subordinate to core powers (Frank, 1967). The USAID withdrawal illustrates how strategic and political factors shape aid distribution, often sidelining genuine development needs. Simultaneously, neo-realist perspectives explain the U.S. decision as part of a global power recalibration toward regions of strategic importance (Waltz, 1979).

In Pakistan's context, the intersection of these theories reveals a paradox: while foreign aid enhances state capacity, it simultaneously entrenches dependency structures that inhibit long-term sovereignty. Therefore, post-USAID Pakistan must embrace a more self-reliant and multipolar development strategy, integrating regional cooperation with domestic reform.

The discontinuation of USAID has generated a cascade of economic, institutional, and geopolitical effects. Pakistan's development financing gap has widened; governance and social sector reforms have stalled; and foreign policy has tilted decisively toward non-Western actors. While alternative partnerships offer new opportunities, they may not replicate USAID's emphasis on inclusive growth and governance reform.

These findings affirm both hypotheses: (1) Pakistan's developmental resilience is contingent on adaptive institutional mechanisms, and (2) strategic flexibility through diversified economic and security cooperation can help mitigate external shocks. However, without internal reforms, the aid vacuum risks deepening Pakistan's dependency on alternative great powers, potentially compromising long-term sovereignty and sustainability.

The end of USAID's operations in Pakistan encapsulates both a challenge and an opportunity. It challenges Pakistan to confront its historical dependency on foreign assistance while offering an opportunity to reimagine development through self-sufficiency, innovation, and diversified diplomacy. The evidence suggests that the path forward lies in reforming governance structures, fostering regional economic partnerships, and investing in human capital.

Ultimately, the discontinuation of USAID should not be viewed solely as a loss but as a catalyst for transformation. If Pakistan can leverage this turning point to reform its economic and political institutions, it may emerge as a more autonomous and strategically balanced actor in South Asia. However, failure to adapt could deepen economic vulnerability and geopolitical marginalization. The responsibility, therefore, lies within Pakistan's own institutions to transform this moment of uncertainty into a foundation for sustainable, inclusive growth.

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