

Issue Brief for Congress

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Pakistan-U.S. Relations

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CONTENTS

SUMMARY

MOST RECENT DEVELOPMENTS

BACKGROUND AND ANALYSIS

Historical Background

 Pakistan-India Rivalry

 The China Factor

 Pakistan Political Setting

 Background

Pakistan-U.S. Relations and Bilateral Issues

 Security

 Nuclear Weapons and Missile Proliferation

 U.S. Nonproliferation Efforts

 Congressional Action

 Pakistan-U.S. Military Cooperation

 Democratization and Human Rights

 Democratization Efforts

 Human Rights Problems

 Economic Issues

 Trade and Trade Issues

 Narcotics

 Terrorism

Pakistan-U.S. Relations

SUMMARY

The major areas of U.S. concern in Pakistan include nuclear nonproliferation; counterterrorism; regional stability; democratization and human rights; and economic reform and development. A potential Pakistan-India nuclear arms race, fueled by rivalry over Kashmir, continues to be the focus of U.S. nonproliferation efforts in South Asia and a major issue in U.S. relations with both countries. This attention intensified following nuclear tests by both India and Pakistan in May 1998. South Asia is viewed by some observers as a likely prospect for use of such weapons. India has developed short- and intermediate-range missiles, and Pakistan has acquired short-range missiles from China and medium-range missiles from North Korea. India and Pakistan have fought three wars since 1947.

U.S.-Pakistan cooperation began in the mid-1950s as a security arrangement based on U.S. concern over Soviet expansion and Pakistan's fear of neighboring India. Cooperation peaked during the 1979-89 Soviet occupation of Afghanistan. U.S.-Pakistan ties weakened following the October 1990 cutoff of U.S. aid and arms sales, which were suspended by President Bush under Section 620E(e) of the Foreign Assistance Act (FAA) (the so-called "Pressler amendment"). Further U.S. sanctions were imposed on Pakistan (and India) as a result of their 1998 nuclear tests. The seesaw Pakistan-U.S. relationship has been on the upswing following Pakistan's enlistment as a frontline state in the U.S.-led war on terrorism resulting from the September 2001 attacks on New York and Washington. Nuclear sanctions on Pakistan and India have been waived; Congress also has given the President authority to waive, for 2 years, sanctions imposed on Pakistan following its

1999 military coup.

Both Congress and the Administration consider a stable, democratic, economically thriving Pakistan as key to U.S. interests in South, Central, and West Asia. Although ruled by military regimes for half of its existence, between 1988 and 1999 Pakistan had democratic governments as a result of national elections in 1988, 1990, 1993, and 1997. During that time, Benazir Bhutto, leader of the Pakistan People's Party, and Nawaz Sharif, leader of the Pakistan Muslim League, each served twice as prime minister. Neither leader served a full term, being dismissed by the president under constitutional provisions that have been used to dismiss four governments since 1985.

In October 1999, the government of Prime Minister Nawaz Sharif was ousted in a bloodless coup led by Chief of Army Staff Gen. Pervez Musharraf, who suspended the parliament and declared himself chief executive. In June 2001, General Musharraf assumed the title of President, a move ostensibly legitimized by an April 2002 referendum. The United States has strongly urged the Pakistan military government to restore the country to civilian democratic rule. President Musharraf has scheduled national elections for October 10, 2002. The Musharraf government has begun to address Pakistan's many pressing and longstanding problems, including the beleaguered economy, corruption, terrorism, and poor governance. Pakistan will receive well over one billion dollars in U.S. assistance and several billion dollars from international organizations to help strengthen the country as a key member of the U.S.-led anti-terrorism coalition.

MOST RECENT DEVELOPMENTS

Pakistani President Musharraf will travel to New York September 7-13 where he will meet with President Bush and address the UN General Assembly. There are reports that Musharraf may use the opportunity to introduce a significantly new Pakistani approach to interstate relations with India and the dispute over Kashmir.

Tensions between Pakistan and India have stabilized at moderate, but still dangerous levels over the summer, as both the U.S. and Indian governments acknowledged that Musharraf has been partly successful in curtailing the cross-border movement of militants in the Kashmir region. However, insistent that infiltration is ongoing, the Indian government has maintained its military mobilization along the shared border, and a virulent war of words between the two countries has continued since the current crisis began some 9 months ago.

U.S. military commanders have suggested that as many as 1,000 Al Qaeda fighters may be active within the borders of Pakistan, and that expanding anti-terror operations to states neighboring Afghanistan may be necessary.

Anti-Christian violence in Pakistan surged during August, with grenade and machine gun attacks on two Christian schools causing many civilian casualties. The attacks are widely viewed as expressions of anti-Western sentiment in the face of President Musharraf's participation in the U.S.-led anti-terror coalition.

On August 21, President Musharraf announced major changes to the country's constitution. Many of these unilaterally imposed changes are meant to greatly augment Musharraf's already considerable powers and institutionalize a permanent governing role for the military. The United States has expressed concern that such changes will make the path to restore democracy in Pakistan more difficult, and has urged Musharraf to ensure that upcoming October elections are free and fair.

BACKGROUND AND ANALYSIS

Historical Background

The long and checkered U.S.-Pakistan relationship has its roots in the Cold War and South Asia regional politics of the 1950s. U.S. concern about Soviet expansion and Pakistan's desire for security assistance against a perceived threat from India prompted the two countries to negotiate a mutual defense assistance agreement in May 1954. By late 1955, Pakistan had further aligned itself with the West by joining two regional defense pacts, the South East Asia Treaty Organization (SEATO) and the Central Treaty Organization (CENTO). As a result of these alliances and a 1959 U.S.-Pakistan cooperation agreement, Pakistan received more than \$700 million in military grant aid from 1955 to 1965. U.S. economic aid to Pakistan between 1951 and 1982 totaled more than \$5 billion.

Differing expectations of the security relationship have long bedeviled bilateral ties. During the Indo-Pakistani wars of 1965 and 1971, the United States suspended military assistance to both sides, resulting in a cooling of the U.S.-Pakistan relationship. In the mid-1970s, new strains arose over Pakistan's apparent efforts to respond to India's 1974 underground test of a nuclear device by seeking its own capability to build a nuclear bomb. Limited U.S. military aid was resumed in 1975, but it was suspended again by the Carter Administration in April 1979 in response to Pakistan's covert construction of a uranium enrichment facility.

Following the Soviet invasion of Afghanistan in December 1979, Pakistan was again viewed as a frontline state in the effort to block Soviet expansionism. In September 1981, the Reagan Administration negotiated a \$3.2 billion, 5-year economic and military aid package with Islamabad. Pakistan became a funnel for arms supplies to the Afghan resistance, as well as a camp for three million Afghan refugees.

Despite the renewal of U.S. aid and close security ties, many in Congress remained concerned about Pakistan's nuclear program. Concern was based in part on evidence of U.S. export control violations that suggested a crash Pakistani program to acquire a nuclear weapons capability. In 1985, Section 620E(e) (the "Pressler amendment") was added to the FAA, requiring the President to certify to Congress that Pakistan does not possess a nuclear explosive device during the fiscal year for which aid is to be provided. This amendment represented a compromise between those in Congress who thought that aid to Pakistan should be cut off because of evidence that it was continuing to develop its nuclear option and those who favored continued support for Pakistan's role in opposing Soviet occupation of Afghanistan. A \$4 billion, 6-year aid package for Pakistan was signed in 1986.

With Soviet withdrawal from Afghanistan beginning in May 1988, Pakistan's nuclear activities again came under closer U.S. scrutiny. In October 1990, President Bush suspended aid to Pakistan. Under the provisions of the Pressler amendment, most economic and all military aid to Pakistan was stopped and deliveries of major military equipment suspended. Narcotics assistance of \$3-5 million annually was exempted from the aid cutoff. In 1992, Congress partially relaxed the scope of the aid cutoff to allow for P.L.480 food assistance and continuing support for nongovernmental organizations (NGOs).

One of the most serious results of the aid cutoff for Pakistan was the nondelivery of some 71 F-16 fighter aircraft ordered in 1989. In December 1998, the United States agreed to pay Pakistan \$324.6 million from the Judgment Fund of the U.S. Treasury – a fund used to settle legal disputes that involve the U.S. government – as well as provide Pakistan with \$140 million in goods, including agricultural commodities.

Pakistan-India Rivalry

Three wars – in 1947-48, 1965, and 1971 – and a constant state of military preparedness on both sides of the border have marked the half-century of bitter rivalry between India and Pakistan. The acrimonious nature of the partition of British India into two successor states in 1947 and the continuing dispute over Kashmir have been major sources of tension. Both Pakistan and India have built large defense establishments at the cost of economic and social development. The Kashmir problem is rooted in claims by both countries to the former princely state, divided since 1948 by a military line of control into the Indian state of Jammu and Kashmir and Pakistan-controlled (Free) Kashmir. India blames Pakistan for supporting

a separatist rebellion raging in the Muslim-dominated Kashmir Valley that has claimed 30,000 lives since 1990. Pakistan admits only to lending moral and political support to the rebellion, while accusing India of creating dissension in Pakistan's Sindh province. (For further discussion see below.)

The China Factor

India and China fought a brief border war in 1962, and an oftentimes tense border dispute remains unresolved. A strategic rivalry also exists between these two large nations. Pakistan and China, on the other hand, have enjoyed a generally close and mutually beneficial relationship over recent decades. Pakistan served as a link between Beijing and Washington in 1971, as well as a bridge to the Muslim world for China during the 1980s. China's continuing role as a major arms supplier for Pakistan began in the 1960s, and included helping to build a number of arms factories in Pakistan, as well as supplying complete weapons systems. In September 1990, China agreed to supply Pakistan with components for M-11 surface-to-surface missiles, which brought warnings from the United States. Although it is not a member of the Missile Technology Control Regime (MTCR), China agreed to abide by the restrictions of the regime. In August 1993, the United States determined that China had transferred to Pakistan prohibited missile technology and imposed trade sanctions on one Pakistan and 11 Chinese entities (government ministries and aerospace companies) for 2 years. The U.S. intelligence community reportedly has evidence of PRC provision of complete M-11 ballistic missiles to Pakistan. In February 1996, leaked U.S. intelligence reports alleged that China in 1995 sold ring magnets to Pakistan that could be used in enriching uranium for nuclear weapons. Pakistan denied the reports.

On November 21, 2000, the United States imposed 2-year sanctions on the Pakistan Ministry of Defense and Pakistan's Space and Upper Atmosphere Research Organization, as well as on Iranian entities, as a result of past Chinese assistance to Pakistani and Iranian missile programs. In September 2001, the U.S. State Department again imposed 2-year sanctions on a PRC company and Pakistan's National Development Complex. The PRC company reportedly delivered 12 shipments of components for Pakistan's Shaheen missiles in early 2001. (For background and updates on China-Pakistan technology transfer, see CRS Issue Brief IB92056, *Chinese Proliferation of Weapons of Mass Destruction: Current Policy Issues*.)

Pakistan Political Setting

On August 21, 2002, President Musharraf's government announced sweeping changes in the Pakistani constitution, changes that would provide the office of President with amounts of power previously unseen in the country's constitutional history. These amendments would include provisions for Presidential dissolution of the National Assembly, and appointment of the Army Chief and provincial governors, among others. The Supreme Court recently upheld a provision requiring all candidates for National Assembly seats to be college graduates. This amendment disqualifies more than 98% of all Pakistanis (and more than half of the politicians who served in the last parliament) from holding national office, and will make it difficult for opposition parties to field candidates for the scheduled October elections.

While the Musharraf government states that such changes will “lay the foundation for real democracy in Pakistan,” critics contend that such amendments will make a “near puppet” of the Prime Minister and almost certainly “ring the death knell of democracy in Pakistan.” All major political parties, including those of a pro-government bent, have registered their opposition to the amendments. The country’s two main political parties have recently called on Musharraf to resign and allow a caretaker government to oversee parliamentary elections scheduled for next October.

On April 30, 2002, Pakistanis went to the polls in a national referendum to extend President Musharraf’s term by 5 years. The referendum question was, “For the survival of the local government system, establishment of democracy, continuity of reforms ... would you like to elect President General Pervez Musharraf as president of Pakistan for five years?” The president won 98% of the vote from an officially reported 50% voter turnout. The Alliance for the Restoration of Democracy, a coalition of political parties that are opposed to the election, claimed that turnout was closer to 5%. These parties denounced the referendum as fraudulent and urged Pakistanis to boycott the poll. Post-referendum protestations were such that within weeks President Musharraf publically acknowledged and apologized for irregularities in the voting.

In a post-October governmental structure likely to be instituted by Musharraf, the Prime Minister is not to have control over Pakistan’s National Security Council – an institution that is to be dominated by the President and the military. As envisaged, the Prime Minister would not cast a binding vote. The current National Security Council has a wide range of authority and advises the president on issues relating to national security, sovereignty, Islamic ideology, and the integrity and solidarity of the country.

There is also concern about the legitimacy of the scheduled October 2002 elections. President Musharraf has refused to allow former prime ministers and leading politicians Benazir Bhutto and Nawaz Sharif to participate in the elections, issuing decrees that make illegal their candidacy and threatening both with imprisonment should either return to Pakistan. Senior government sources have also stated that Pakistan’s political parties will face crucial reforms under the Political Parties Act, which could see a purge of their senior leaders. To replace them, President Musharraf apparently plans to groom a new generation of political leaders under his patronage.

At the same time, there has been an easing of pressure on Islamic fundamentalist groups in Pakistan. The leader of the pro-Taliban Jamiat-e-Ulema Islam was released from prison, while the head of the banned terrorist organization Jaish-e-Mohammad was released from prison and placed under house arrest. On Pakistan’s national day, the Jamaat-i-Islami was allowed to hold a public gathering in Rawalpindi, seat of the army’s General Headquarters. Leaders and activists of the moderate and secular Alliance for the Restoration of Democracy were arrested in Lahore when they tried to exercise their right of association.

Changes have also taken place in Pakistan’s Kashmir policy. In an effort to assuage international concerns, President Musharraf has moved away from direct support of the banned Jaish-e-Mohammed and Lashkar-e-Taiba groups. Instead, it is expected that he will call for the people of Kashmir to determine their own future without the support of the Pakistan-based Islamic jihadi network. A recent meeting in Azad Kashmir reflects Pakistan’s changing Kashmir policy: the meeting was attended by the All-Parties Hurriyat

Conference (an umbrella organization of 23 separatist groups), leading Kashmiri intellectuals, and three Pakistani brigadiers. Participants concluded that the policies of Kashmir fighters should represent Kashmiri interests rather than those of Pakistan.

Background. Military regimes have ruled Pakistan for half of its 55 years, interspersed with periods of generally weak civilian governance. After 1988, Pakistan had democratically elected governments, and the army appeared to have moved from its traditional role of power wielder or kingmaker to one of power broker or referee. During the past decade, Benazir Bhutto and Nawaz Sharif each served twice as prime minister. Bhutto was elected prime minister in October 1988, following the death of military ruler Mohammad Zia-ul Haq in a plane crash. General Zia had led a coup in 1977 deposing Bhutto's father, Prime Minister Zulfikar Ali Bhutto, who was later executed. Despite the restoration of democratic process to Pakistan in 1988, the succeeding years were marred by political instability, economic problems, and ethnic and sectarian violence. In August 1990, President Ishaq Khan dismissed Bhutto for alleged corruption and inability to maintain law and order. The president's power to dismiss the prime minister derived from Eighth Amendment provisions of the Pakistan constitution, which dated from the era of Zia's presidency.

Elections held in October 1990 brought to power Nawaz Sharif, who himself was ousted in 1993 under the Eighth Amendment provisions. The 1993 elections returned Bhutto and the PPP to power. The new Bhutto government faced serious economic problems and, according to some observers, performance also was hampered by the reemergence of Bhutto's husband, Asif Ali Zardari, in a decisionmaking role. In November 1996, President Farooq Leghari dismissed the Bhutto government for "corruption, nepotism, and violation of rules in the administration of the affairs of the Government," and scheduled new elections for February 1997.

Nawaz Sharif's PML won a landslide victory in the February 1997 parliamentary elections, which, despite low voter turnout, were judged by international observers to be generally free and fair. Sharif moved quickly to consolidate his power by curtailing the powers of the President and the judiciary. In April 1997, the Parliament passed the Thirteenth Amendment to the constitution, deleting the President's former Eighth Amendment powers to dismiss the government and to appoint armed forces chiefs and provincial governors. The new amendment was passed unanimously by both houses of parliament and signed by President Leghari. As the result of a power struggle, Sharif replaced the Supreme Court Chief Justice in November; Leghari resigned; and Sharif chose Mohammad Rafiq Tarar as president. As a result of these developments and the PML control of the Parliament, Nawaz Sharif emerged as one of Pakistan's strongest elected leaders since independence. Critics accused him of further consolidating his power by intimidating the opposition and the press. In April 1999, a two-judge Bench of the Lahore High Court convicted former Prime Minister Benazir Bhutto and her husband of corruption and sentenced them each to 5 years in prison, fined them \$8.6 million, and disqualified them from holding public office. Bhutto was out of the country at the time. Some analysts believe that Sharif acted out "political vindictiveness." In April 2001, the Pakistan Supreme Court ruled that former Prime Minister Benazir Bhutto's 1999 conviction for corruption was biased and ordered a retrial.

Pakistan-U.S. Relations and Bilateral Issues

U.S. policy interests in Pakistan encompass a wide range of issues, including nuclear weapons and missile proliferation; South Asian regional stability; democratization and human rights; economic reform and market opening; and efforts to counter terrorism and narcotics. These concerns have been affected by several developments in recent years, including: 1) the cutoff of U.S. aid to Pakistan in 1990, 1998, and 1999 over nuclear and democracy issues; 2) India and Pakistan's worsening relationship over Kashmir since 1990, and their continuing nuclear standoff; 3) Pakistan's see-saw attempts to develop a stable democratic government and strong economy in the post-Cold War era; and, most recently, 4) the terrorist attacks of September 11, 2001 on New York and Washington.

The Bush Administration has identified exiled Saudi dissident Osama bin Laden, who had long been harbored by the Taliban government in Afghanistan, as the prime suspect in the terrorist attacks on the United States. On September 13, President Musharraf – under strong U.S. diplomatic pressure – offered President Bush Pakistan's "unstinted cooperation in the fight against terrorism." Because of its shared border with Afghanistan and former close ties with the Taliban, Pakistan is considered key to U.S.-led efforts to combat terrorism in the region. The Taliban and bin Laden enjoy strong support among a substantial percentage of the Pakistan population, who share not only conservative Islamic views but also ethnic and cultural ties with Afghanistan. A major issue facing the Administration is how to make use of Pakistan's support — including for military operations in Afghanistan — without seriously destabilizing an already fragile state that has nuclear weapons and ballistic missiles.

In an effort to shore up the Musharraf government, most sanctions relating to Pakistan's (and India's) 1998 nuclear tests and Pakistan's 1999 military coup were waived in September and October of last year. On October 29, 2001, a State Department spokesman pledged well over one billion dollars in U.S. assistance for Pakistan and several billion dollars from international organizations to help strengthen it as a key member of the U.S.-led anti-terrorism coalition. Direct assistance programs will include aid for health, education, food, democracy promotion, child labor elimination, counter-narcotics, border security and law enforcement, as well as trade preference benefits. The United States also will support grant, loan, and debt rescheduling programs for Pakistan by the various international financial institutions, including the World Bank, International Monetary Fund, and Asian Development Bank. In addition, Pakistan has received promises of substantial aid, debt relief, and trade concessions from Japan and the European Union in recognition of its support for the international anti-terrorism coalition. Japan, Pakistan's largest bilateral aid donor, announced on October 26, 2001, that it was suspending sanctions imposed on Pakistan and India following their 1998 nuclear tests.

On November 10, 2001, President Bush met with President Musharraf in New York, where both addressed the U.N. General Assembly. According to the White House, the two leaders discussed the anti-terrorism campaign, regional security issues, economic cooperation, human rights, the October 2002 Pakistani elections, and ways to strengthen the U.S.-Pakistan relationship.

Security

Nuclear Weapons and Missile Proliferation. Since the September 2001 terrorist attacks on the United States, U.S. and Pakistan officials have held talks on improving security and installing new safeguards on Pakistan's nuclear weapons and nuclear power plants. Fears that Pakistan could become destabilized by the U.S. anti-terrorism war efforts in Afghanistan have heightened U.S. nuclear proliferation concerns in South Asia. On May 11 and 13, 1998, India conducted a total of five underground nuclear tests, breaking a 24-year, self-imposed moratorium on nuclear testing. Despite U.S. and world efforts to dissuade it, Pakistan followed, claiming five tests on May 28, 1998, and an additional test on May 30. The unannounced tests created a global storm of criticism, as well as a serious setback for two decades of U.S. nuclear nonproliferation efforts in South Asia. (See also CRS Report 98-570, *India-Pakistan Nuclear Tests and U.S. Response* and CRS Report RL30623, *Nuclear Weapons and Ballistic Missile Proliferation in India and Pakistan: Issues for Congress*.)

On May 13, 1998, President Clinton imposed economic and military sanctions on India, mandated by section 102 of the Arms Export Control Act (AECA), and applied the same sanctions to Pakistan on May 30. Humanitarian assistance, food, or other agricultural commodities are excepted from sanctions under the law. In November 1998, the U.S. Department of Commerce published a list of more than 300 Indian and Pakistani government agencies and companies suspected of working on nuclear, missile, and other weapons programs. Any U.S. exports to these entities required a Commerce Department license, and most license requests reportedly were denied. On the one hand, Pakistan was less affected than India by the sanctions, since most U.S. assistance to Pakistan had been cut off since 1990. On the other hand, Pakistan's much smaller – and currently weaker – economy was more vulnerable to the effects of the sanctions.

U.S. policy analysts consider the apparent arms race between India and Pakistan as posing perhaps the most likely prospect for the future use of nuclear weapons. India conducted its first, and only, previous nuclear test in May 1974, following which it maintained ambiguity about the status of its nuclear program. Pakistan probably gained a nuclear weapons capability sometime in the 1980s. India is believed to have enough plutonium for 75 or more nuclear weapons. Pakistan may have enough enriched uranium for 25 nuclear weapons. Both countries have aircraft capable of delivering weapons. India has short-range missiles (Prithvi) and is reported to have inducted an intermediate-range ballistic missile (Agni) with enough payload to carry a nuclear warhead. Pakistan reportedly has acquired technology for short-range missiles (Shaheen) from China and medium-range missiles (Ghauri) from North Korea, both capable of carrying small nuclear warheads.

Proliferation in South Asia may be part of a chain of rivalries — India seeking to achieve deterrence against China, and Pakistan seeking to gain an “equalizer” against a larger and conventionally stronger India. India began its nuclear program in the mid-1960s, after its 1962 defeat in a short border war with China and China's first nuclear test in 1964. Despite a 1993 Sino-Indian troop reduction agreement and some easing of tensions, both nations continue to deploy forces along their border. Pakistan's nuclear program was prompted by India's 1974 nuclear test and by Pakistan's defeat by India in the 1971 war and consequent loss of East Pakistan, now independent Bangladesh.

U.S. Nonproliferation Efforts. Neither India nor Pakistan are signatories to the Nuclear Nonproliferation Treaty (NPT) or the Comprehensive Test Ban Treaty (CTBT). India has consistently rejected both treaties as discriminatory, calling instead for a global nuclear disarmament regime. Pakistan traditionally has maintained that it will sign the NPT and CTBT only when India does so. Aside from security concerns, the governments of both countries are faced with the prestige factor attached to their nuclear programs and the domestic unpopularity of giving them up. Following the 1998 tests, the United States set forth five nonproliferation “benchmarks” for India and Pakistan. They include the following: halt further nuclear testing and sign and ratify the Comprehensive Test Ban Treaty; halt fissile material production and pursue Fissile Material Control Treaty negotiations; refrain from deploying nuclear weapons and testing ballistic missiles; restrict totally the exportation of any nuclear materials or technologies; and take steps to reduce bilateral tensions, especially on the issue of Kashmir.

The prospects for India-Pakistan detente suffered a severe setback in May-July 1999, when the two countries teetered on the brink of their fourth war, once again in Kashmir. In the worst fighting since 1971, Indian soldiers sought to dislodge some 700 Pakistan-supported infiltrators who were occupying fortified positions along mountain ridges overlooking a supply route on the Indian side of the line of control (LOC) near Kargil. Following a meeting between then Pakistan Prime Minister Nawaz Sharif and President Clinton in Washington on July 4, the infiltrators withdrew across the LOC. (See CRS Report RS20277, *Recent Developments in Kashmir and U.S. Concerns.*)

Tensions between India and Pakistan remained extremely high in the wake of the Kargil conflict, which cost more than 1,100 lives. Throughout 2000, cross-border firing and shelling continued at high levels. India accused Pakistan of sending a flood of militants into Kashmir and increasingly targeting isolated police posts and civilians. Pakistan also accused India of human rights violations in Kashmir. The United States strongly urged India and Pakistan to create the proper climate for peace, respect the LOC, reject violence, and return to the Lahore peace process. In November 2000, India announced a unilateral halt to its military operations in Kashmir during the Muslim holy month of Ramadan. In December, the Pakistan government announced that its forces deployed along the LOC in Kashmir would observe maximum restraint and that some of its troops would be pulled back from the LOC. Indian army officials noted that clashes between Indian and Pakistani forces along the LOC had virtually stopped since the cease-fire began and that there had been a definite reduction of infiltration of militants from Pakistan. In February, Prime Minister Vajpayee extended the cease-fire until the end of May 2001. Kashmir’s main militant groups, however, rejected the cease-fire as a fraud and continued to carry out attacks on military personnel and government installations. As security forces conducted counter-operations, deaths of Kashmiri civilians, militants, and Indian security forces continued to rise.

In May 2001, the Indian government announced that it was ending its unilateral cease-fire in Kashmir but that Prime Minister Vajpayee would invite President Musharraf to India for talks. The July summit talks in Agra between Musharraf and Vajpayee failed to produce a joint communique, reportedly as a result of pressure from hardliners on both sides. Major stumbling blocks were India’s refusal to acknowledge the “centrality of Kashmir” to future talks and Pakistan’s objection to references to “cross-border terrorism.” Since the Agra talks, tensions have continued to rise. According to Indian government reports, more than 2,000 people have died since January 2001 as a result of the fighting in Jammu and Kashmir state, including 618 civilians, 1,133 militants, and 228 security forces. According to

Amnesty International, more than 1,100 people have disappeared in Kashmir since the revolt began in 1990.

On October 16-17, 2001, U.S. Secretary of State Colin Powell visited Pakistan and India in an effort partly aimed at easing the seriously escalating tensions over Kashmir. India responded to an October 1 terrorist attack by the Pakistan-based Jaish-e-Muhammad, which killed 38 people in Kashmir, by resuming heavy firing across the line of control that divides the disputed territory. Cross-border firing between India and Pakistan had been largely suspended since November 2000. Powell urged both countries to seek a peaceful resolution of the Kashmir dispute. On October 29, the chief of the U.N. Military Observers Group in India and Pakistan (UNMOGIP) accused both countries of playing “political games” on the issue of Kashmir. In reportedly the first instance of a public statement by the UNMOGIP in 50 years, Maj. Gen. Hermann K. Loidolt stated further: “My assessment is that the situation will become more tense in the time coming, not only along the LOC [Line of Control] but also in the whole of Jammu and Kashmir state.”

An attack against the Indian parliament on December 13, 2001, thought to have been carried out by Pakistan-based Islamic militants, left 14 dead and brought India and Pakistan to the brink of war. India blamed the suicide attack on two militant groups that Indian leaders believe were sponsored by Pakistan: Jaish-e-Muhammad and Lashkar-e-Taiba. These two groups allegedly have been fighting from bases in Pakistan to end Indian rule in part of the disputed Himalayan region of Kashmir. Following the attack, Indian Prime Minister Vajpayee stated “We do not want war, but war is being thrust on us, and we will have to face it.” Pakistani leaders, in turn, accused India of ratcheting up tensions between the two countries and said that Pakistan would make India pay “a heavy price for any misadventure.” In the weeks following the attack on the Indian parliament, both India and Pakistan have, in a “tit-for-tat” fashion, issued threats, conducted military maneuvers and repositioned missile batteries along their border, and levied sanctions against each other.

The events of May seemed to be pushing India and Pakistan to escalate the standoff on their border to a full-scale military conflict. The attack by Kashmiri militants on the army base in Kaluchak, Jammu was viewed as a serious provocation by the Indian government and it intensified war plans. In response, the Pakistani government began to reassign troops from the Afghanistan border to the eastern border with India. It also recalled all Pakistani troops engaged in international peacekeeping operations.

Pakistan tested three ballistic missiles, the intermediate range Ghauri and the short-range Ghaznavi and Abdali, from May 25-28, 2002, sending a message to India that it would not hesitate to use nuclear weapons in a forthcoming conflict. Pakistan’s representative to the United Nations also made it clear that in the event of a conflict the country had not ruled out the first use of nuclear weapons. President Musharraf added that Pakistan would not start a war, but it would respond forcefully to aggression and carry out “offensive defense” – take the war into Indian territory. The thinking in Pakistan, reportedly, is that should a conflict take place, India’s Muslim minority would rise in rebellion – particularly in the state of Kashmir. This would complicate Indian warfighting efforts.

Congressional Action. Through a series of legislative measures, Congress has incrementally lifted sanctions on Pakistan and India resulting from their 1998 nuclear tests. In October 1999, Congress passed H.R. 2561, the Department of Defense Appropriations Act, 2000, and it was signed by the President as P.L. 106-79 on October 29. Title IX of the

act gives the President authority to waive sanctions applied against Pakistan and India in response to the nuclear tests. In a presidential determination on Pakistan and India issued on October 27, 1999, the President waived economic sanctions on India. Pakistan, however, remained under sanctions triggered under Section 508 of the annual foreign assistance appropriations act as a result of the October 1999 coup. The Foreign Operations Export Financing and Related Appropriations Agencies Act, 2001, provided an exception under which Pakistan could be provided U.S. foreign assistance funding for basic education programs (P.L. 106-429; Section 597). The U.S. Agency for International Development request for FY2002 includes \$7 million for programs to strengthen civil society and reform public education in Pakistan.

After the terrorist attack on the United States on September 11, 2001, and in recognition of Pakistan's cooperation with the U.S.-led coalition being assembled, policymakers searched for new means of providing assistance to Pakistan. President Bush's issuance of a final determination on September 22, 2001, removed remaining sanctions on Pakistan and India resulting from their 1998 nuclear test, finding that denying export licences and assistance was not in the national security interests of the United States. Also, on October 27, President Bush signed into law S. 1465 (P.L. 107-57), which gives the President 2-year waiver authority to lift sanctions on foreign assistance imposed on Pakistan following the 1999 military coup if he determines that such a waiver would facilitate the transition to democratic rule in Pakistan and is important to U.S. efforts to combat international terrorism. The law not only gives the president authority to waive sanctions related to democracy but to waive sanctions imposed on Pakistan for its debt servicing arrearage to the United States under the terms of the Foreign Operations Appropriations Act. At the end of 2000, Pakistan's international debt was estimated at \$38 billion. P.L. 107-57 allowed for an agreement of Pakistan to reschedule \$379 million of its debt to the United States thereby enabling it to cancel its arrearage. After President Musharraf's visit to Washington D.C. in February 2002, President Bush wrote a letter to Congress stating that he had ordered \$220 million in emergency funds that had been given to the Defense Department for warfighting and to the State Department for security upgrades, be reallocated to Pakistan "for costs incurred in aiding U.S. military forces in Operation Enduring Freedom."

For FY2003, the Bush Administration has proposed increased funding for Pakistan that includes \$50 million for development assistance (up from an estimated \$15 million in 2001), \$200 million in the Economic Support Fund (up from \$9.5 million in 2001), \$1 million for International Military Education and Training (same as 2001), \$50 million for Foreign Military Financing (up from zero in 2001), and \$4 million for International Narcotics Control (up from \$2.5 million in 2001). (For details, see CRS Report RS20995, *India and Pakistan: Current U.S. Economic Sanctions*, by Dianne E. Rennack.)

Pakistan-U.S. Military Cooperation. The close U.S.-Pakistan military ties of the Cold War era – which had dwindled since the 1990 aid cutoff – are in the process of being restored as a result of Pakistan's role in the U.S. anti-terrorism operations in Afghanistan. Pakistan also has been a leading country in supporting U.N. peacekeeping efforts with troops and observers. Some 5,000 Pakistani troops were stationed in Saudi Arabia and the United Arab Emirates as part of the U.S.-led Persian Gulf War efforts in 1990. Pakistani troops played an important role in the U.S.-led humanitarian operations in Somalia from 1992 to 1994. In November 2001, there were 5,500 Pakistani troops and observers participating in U.N. peacekeeping efforts in Sierra Leone, East Timor, Kosovo, Congo, and other countries. In the wake of the September 11 attacks and President Musharraf's participation in the anti-

terror coalition, U.S. law enforcement agents have assisted in tracking and capturing Al Qaeda and Taliban fugitives that have sought refuge in Pakistani border areas and cities.

Democratization and Human Rights

Democratization Efforts. The United States considers the October 1999 Pakistan military coup to be a serious setback to the country's efforts to return to the democratic election process beginning in 1988. National elections, judged by domestic and international observers to be generally free and fair, were held in 1988, 1990, 1993, and 1997. Pakistan democracy between 1988 and 1999, however, was marred by wide-scale corruption, volatile mass-based politics, and a continuing lack of symmetry between the development of the military and civilian bureaucracies and political institutions. The politics of confrontation between parties and leaders flourished at the expense of effective government; frequent walkouts and boycotts of the national and provincial assemblies often led to paralysis and instability. The major political parties lacked grassroots organization and failed to be responsive to the electorate.

There had been hopes that upcoming national elections in October 2002 would reverse the trend and set Pakistan back on the path toward democratic governance. Such hopes have been eroded by the passage of a number of highly restrictive election laws – including those that likely will prevent the country's two leading civilian politicians from participating – as well as President Musharraf's unilateral imposition of major constitutional amendments in August, 2002. The United States has expressed concern that these developments may make the ultimate realization of true democracy in Pakistan more elusive.

Human Rights Problems. The U.S. State Department, in its *Pakistan Country Report on Human Rights Practices for 2001* (issued March 4, 2002), noted that, although Pakistan's human rights record remained poor under the military government, there were improvements in some areas, including freedom of the press. The government bureaucracy continued to function but was "monitored" by the military. The judiciary continued to be subject to the executive branch but in May 2000, President Musharraf promised to abide by a Supreme Court ruling that national elections will be held no later than 90 days after October 12, 2002. The State Department report cited continuing problems of police abuse, religious discrimination, and child labor. Security forces were cited for committing extrajudicial killings and for using arbitrary arrest and detention, torturing and abusing prisoners and detainees, and raping women. Political and religious groups also engaged in killings and persecution of their rivals and ethnic and religious minorities. Politically motivated violence and a deteriorating law and order situation reportedly continued to be a serious problem.

In recent years, the Human Rights Commission of Pakistan and Amnesty International have issued reports critical of abuses of the rights of women and minorities. According to the reports, rape is a serious problem, particularly rape of minors and gang rape. The State Department human rights report also noted a high rate of abuse of female prisoners – including rape and torture – by male police officers. Women also suffer discrimination in education, employment, and legal rights. Discrimination against women is widespread, and traditional constraints – cultural, legal, and spousal – have kept women in a subordinate position in society. The adult literacy rate for men in Pakistan is about 50% and for women about 24%. Religious minorities – mainly Christians, Hindus, and Ahmadi Muslims –

reportedly are subjected to discriminatory laws and social intolerance. A 1974 amendment to the Pakistan constitution declared Ahmadis to be a non-Muslim minority because they do not accept Muhammad as the last prophet. The Zia government, in 1984, made it illegal for an Ahmadi to call himself a Muslim or use Muslim terminology. Blasphemy laws, instituted under the Zia regime and strengthened in 1991, carry a mandatory death penalty for blaspheming the Prophet or his family. Blasphemy charges reportedly are usually brought as a result of personal or religious vendettas.

Economic Issues

Pakistan's current military government inherited an economy in recession. The period from July 2000-June 2001 saw the economy grow by only 2.7%, a significant decline from the previous year. A decade of political instability left a legacy of soaring foreign debt, declining production and growth rates, failed economic reform policies, and pervasive corruption. Foreign debt totals more than \$32 billion; foreign reserves are less than \$1.5 billion (about 6 weeks of imports); and both agricultural and industrial growth have dropped since 1998.

Over the long term, analysts believe Pakistan's resources and comparatively well-developed entrepreneurial skills hold promise for more rapid economic growth and development. This is particularly true for Pakistan's textile industry, which accounts for 60% of Pakistan's exports. Analysts point to the pressing need to broaden the country's tax base in order to provide increased revenue for investment in improved infrastructure, health, and education, all prerequisites for economic development. Less than 1% of Pakistanis currently pay income taxes. Agricultural income has not been taxed in the past, largely because of the domination of parliament and the provincial assemblies by wealthy landlords.

Successive Bhutto and Sharif governments made agreements with the International Monetary Fund (IMF), promising austerity, deficit reduction, and improved tax collection in return for loans and credits. The promised reforms, however, fell victim to political instability and a host of other problems, including floods, drought, crop viruses, strikes, a bloated and inefficient bureaucracy, widespread tax evasion, weak infrastructure, and a swollen defense budget. The Musharraf government has had some success in putting economic reforms back on track, including expanding collection of income and sales taxes, trade liberalization, and improving transparency. In January 2001, the Paris Club of creditor nations agreed to reschedule \$1.7 billion in repayments on Pakistan's foreign debt of \$32 billion. On August 29, an International Monetary Fund team cleared release of the final installment of a \$596 million standby loan to Pakistan and confirmed "Pakistan's solid macroeconomic performance, including lower inflation, a strengthening of the balance of payments, and reduction of fiscal imbalances."

Meetings between Pakistani government officials and representatives of the IMF, the World Bank, and the Asian Development Bank have been successful, as the financial institutions reportedly have been pleased with the progress made in stabilizing and reforming the Pakistani economy. The Pakistani government has stabilized the country's external debt at \$38 billion and the country's hard currency reserves grew to \$6.41 billion by July 2002 — an increase of more than \$4 billion since October 1999. At the same time, the IMF and the World Bank urged the Pakistani government to cut defense expenditures from the current 3.5% GDP to 3.3% of GDP by 2003-2004. The World Bank said that if regional tensions subsided and the Kashmir dispute was resolved, this would provide a further fiscal cushion

for a peace dividend. Most recently, a “structural adjustment credit” of \$500 million and four projects totaling \$237 million were approved to support Pakistan’s ongoing reform program. A new arms race with India, however, could be fiscally disastrous.

On the positive side, Pakistan’s economic reforms and a more prudent fiscal policy have reduced the fiscal deficit from 7% of GDP to about 5.2% of GDP. Foreign remittances have exceeded \$1.6 billion — \$772 million more than in 2000. Exports exceeded \$9 billion for the first time in 7 years, and inflation, at 3%, was the lowest in three decades. Interest on public debt together with defense spending, however, consume 70% of total revenues, thus squeezing out development expenditure, including social spending. A July country report from the IMF indicates that progress toward macroeconomic and structural goals is meeting program standards as of March 2002.

In the view of the International Financial Institutions — the World Bank, the IMF, and the Asian Development Bank — the major risk to economic reforms and to future investment was the possibility that there might be a break in the continuity of policy after the October 2002 elections for the national and provincial assemblies. President Pervez Musharraf’s victory in the April 30, 2002 referendum has had some effect of boosting investor and international financial institution confidence that the economic and political reforms will stay the course.

Trade and Trade Issues. In 2001, U.S. exports to Pakistan totaled \$542 million, an increase of 17.3% over 2000. Imports from Pakistan totaled \$2.2 billion for 2001, up nearly 4% over the previous year. The resulting trade deficit of \$1.7 billion has remained static. The United States has been strongly supportive of Pakistan’s economic reform efforts, begun under the first Nawaz Sharif government in 1991. According to the report of the U.S. Trade Representative (USTR) for 2001, however, a number of trade barriers remain. Some items are either restricted or banned from importation for reasons related to religion, national security, luxury consumption, or protection of local industries. U.S. companies have complained repeatedly about violations of their intellectual property rights in the areas of patents and copyrights. Pakistan’s patent law currently protects only processes, not products, from infringement. A 1992 Pakistan copyright law that provides coverage for such works as computer software and videos is being enforced but has resulted in a backlog of cases in the court system. The International Intellectual Property Alliance estimated trade losses of \$143.3 million in 2001 — a result of pirated films, sound recordings, computer programs, and books — and recommends that Pakistan be placed on the Priority Watch List.

Narcotics

In recent years, the Pakistan-Afghanistan border region has supplied a reported 20%-40% of heroin consumed in the United States and 70% of that consumed in Europe. The region is second only to Southeast Asia’s Golden Triangle as a source of the world’s heroin. Opium grown in Afghanistan and Pakistan is processed into heroin in more than 100 illegal laboratories in the border region. Although much of the heroin is smuggled by land and sea routes to Europe and the United States, a substantial portion is consumed by Pakistan’s rapidly growing domestic market. The Pakistan government estimates the 4 million drug addicts in the country include 1.5 million addicted to heroin. According to some experts, Pakistan’s drug economy amounts to as much as \$20 billion. Drug money reportedly is used to buy influence throughout Pakistan’s economic and political systems.

Pakistan's counter-narcotics efforts are hampered by a number of factors, including lack of government commitment; scarcity of funds; poor infrastructure in drug-producing regions; government wariness of provoking unrest in tribal areas; and corruption among police, government officials, and local politicians. U.S. counter-narcotics aid to Pakistan, administered by the State Department's Bureau of International Narcotics and Law Enforcement Affairs, totaled \$3.5 million in FY2001, with \$3.5 million requested for FY2002. The major counter-narcotics efforts engaged in by the Pakistan government, some of which receive U.S. or U.N. support, include: improved law enforcement; reduction of demand; opium crop destruction and crop substitution; and outreach programs that include supplying roads, irrigation, drinking water, and schools to remote tribal areas.

In March 2001, President Bush submitted to Congress his annual list of major illicit drug producing and transiting countries eligible to receive U.S. foreign aid and other economic and trade benefits. Pakistan was among the countries certified as having cooperated fully with the United States in counter-narcotics efforts, or to have taken adequate steps on their own. According to the report, Pakistan almost achieved its goal of eliminating opium production by reducing the poppy crop to a record low of 500 hectares, down from 8,000 hectares in 1992. A more recent State Department report shows Pakistan's poppy production dropping by 59% from 2000 to 2001. Pakistan, however, faces major challenges as a transit country, despite reduced production of opium in Afghanistan. Cooperation with the United States on counter-narcotics efforts was described as excellent, including arrests, extradition, and poppy eradication.

Terrorism

After the September 11 attacks on the United States, Pakistan pledged and has provided support for the anti-terror coalition effort. According to the U.S. State Department report on global terrorism for 2001, Pakistan has afforded the United States unprecedented levels of cooperation by allowing the U.S. military to use bases within the country, helping to identify and detain extremists, and tightening the border between Pakistan and Afghanistan.

In December 2001, President Musharraf announced a proposal to bring Pakistan's madrassas (religious schools) – some of which have served as breeding grounds for extremists – into the mainstream educational system. Pakistan also began sweeping police reforms, upgraded its immigration control system, and began work on new anti-terrorist finance laws. Musharraf also began cracking down on “anti-Pakistan” extremists and, by January 2002, authorities had arrested more than 2,000, although many have subsequently been released.

In May 2002, a bomb blast in Karachi killed 14 people (including 12 French military contractors) and raised fears that terrorist groups would complicate the law and order situation within the country. The blast was attributed to various groups including Indian intelligence and members of the Al Qaeda. In the war on terror, Pakistani troops, for the first time since independence, operated in tribal areas of the country – an area that they traditionally stayed out of for fear of antagonizing the local population. By late May, however, President Musharraf was beginning to pull some troops from the region to help strengthen the eastern border with India.

At the same time, the Pakistani government has been under pressure from various nations to terminate the infiltration of insurgents from Pakistani Kashmir into Indian

Kashmir. As India increased its preparations for war – following the attack in the Kaluchak region of Jammu – the United States, Britain, and Russia called upon Pakistan to stop militants from crossing into Indian Kashmir. President Bush challenged President Musharraf to show results in stopping militants from carrying out terrorist acts in Indian Kashmir. While expressing concern about Pakistan’s missile tests the president made it clear that preventing terrorism was a higher priority. He said, “I am more concerned about making sure ... that President Musharraf show results in terms of stopping people from crossing the border.” He added, “Stopping terrorism – that is more important than the missile testing.” President Musharraf, in an interview with the *Washington Post*, countered, “[T]here is nothing happening across the Line of Control. And I’ve also said that Pakistan is a part of the coalition to fight terrorism. And we will ensure that terrorism does not go from Pakistan anywhere outside into the world.” Critics have charged, however, that President Musharraf has eased up on militants in the country by releasing some of the people he had jailed after September 11 in his promised crackdown on Islamic militants.

President Musharraf asked the international community to credit Pakistan for having the courage to send troops into the tribal areas to capture suspected Al Qaeda operatives. He pointed out that Pakistani troops were the first troops to have moved into the area in more than a century. The President continued that there were three elements of terror that the world was concerned with: Al Qaeda, Kashmiri militants, and the growing Sunni sectarian terrorism in Pakistan. He also pointed out that the Indian goal was to destabilize Pakistan: “[T]heir aim is to destabilize me, my government, and Pakistan. Destabilize us economically, and politically, and diplomatically. That is what they want to achieve.”