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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

 Recent Developments

 Background

Pakistan-U.S. Relations and Key Country Issues

 Security

 Nuclear Weapons and Missile Proliferation

 U.S. Nonproliferation Efforts

 Kashmir Dispute

 Pakistan-U.S. Security Cooperation

 Democratization and Human Rights

 Democratization Efforts

 Human Rights Problems

 Economic Issues

 Overview

 Trade and Investment

 Narcotics

 Terrorism

 U.S. Aid and Congressional Action

 U.S. Assistance

 Proliferation-Related Legislation

 Coup-Related Legislation

 Other Legislation

Pakistan-U.S. Relations

SUMMARY

Key areas of U.S. concern regarding Pakistan include regional terrorism; weapons proliferation; the ongoing Kashmir dispute and Pakistan-India tensions; human rights protection; and economic development. A U.S.-Pakistan relationship marked by distance and discord was transformed by the September 2001 terrorist attacks on the United States and the ensuing enlistment of Pakistan as a pivotal ally in U.S.-led anti-terrorism efforts. Top U.S. officials regularly praise Pakistan for its ongoing cooperation, although concerns exist about Islamabad's commitment to core U.S. concerns in the region. Pakistan continues to face serious problems, including a weak economy and domestic terrorism.

A potential Pakistan-India arms race has been the focus of U.S. nonproliferation efforts in South Asia. Attention to this issue intensified following nuclear tests by both countries in May 1998; the tests triggered restrictions on U.S. aid to both countries (remaining nuclear-related sanctions on Pakistan were waived in October 2001). South Asia is viewed by many analysts as a high-risk arena for the use of nuclear weapons, as both countries have institutionalized nuclear command structures and deployed nuclear-capable ballistic missiles. Pakistan and India have fought three full-scale wars since 1947.

Separatist violence in the disputed Kashmir region has continued unabated since 1989. India blames Pakistan for the ongoing infiltration of Islamic militants into Indian Kashmir, a charge Islamabad denies. The United States received a June 2002 pledge from Islamabad that all "cross-border terrorism" would cease, along with a May 2003 pledge that all terrorist training camps in Pakistani-controlled areas would be closed. The United States encourages a cease-fire along the Line of Control and

renewed dialogue between Islamabad and New Delhi.

A stable, democratic, economically thriving Pakistan is vital to U.S. interests in South and Central Asia. Democracy has fared poorly in Pakistan; the country has endured three full-scale military coups and military rule for half of its existence. In October 1999, the government of Prime Minister Nawaz Sharif was ousted in an extra-constitutional coup led by Army Chief Gen. Pervez Musharraf. Musharraf has since assumed the title of President, a move ostensibly legitimized by a controversial April 2002 referendum. The United States strongly urges the Musharraf government to restore the country to civilian democratic rule. National elections held in October 2002 resulted in no clear majority party emerging but were marked by significant gains for a coalition of Islamic parties. A National Assembly and Prime Minister Jamali were seated in November 2002, but the civilian government remains stalled on procedural issues related to the legality of constitutional changes made by Musharraf in August 2002 and his status as Army Chief. The U.S. Congress granted the President authority to waive coup-related sanctions on Pakistan through FY2003; pending legislation may extend this authority through FY2005.

Pakistan received more than \$1.5 billion in U.S. assistance for FY2002 and FY2003. In June 2003, President Bush pledged to seek a five-year, \$3 billion aid package for Pakistan to begin in FY2005. See also CRS Report RS21584, *Pakistan: Chronology of Events*, CRS Report RS21299, *Pakistan's Domestic Political Developments*, and CRS Report RL31624, *Pakistan-U.S. Anti-Terrorism Cooperation*.



MOST RECENT DEVELOPMENTS

Pakistan-U.S. security relations in July included separate visits to Islamabad by U.S. Chairman of the Joint Chiefs Gen. Myers and the new head of the U.S. Central Command, Gen. Abizaid. Gen. Myers called the future of U.S.-Pakistan defense cooperation “very bright.” Islamabad indicated that it was willing to contribute troops to an Iraq stabilization force “under legitimate cover of the United Nations or if [it is] invited by the Iraqis.”

A surge of separatist violence in the disputed Kashmir region took a heavy toll in July. Scores died in multiple attacks by suspected Islamic militants, including an Indian general who was killed in a suicide attack blamed on the Pakistan-based Lashkar-e-Taiba terrorist group. Top Indian officials indicated that “the situation along the LOC remains unchanged” and “Pakistan’s links with terrorism have not ended.” Despite the violence, further steps were made to improve bilateral relations: a leading Pakistani Islamist politician met with Indian leaders in New Delhi; the first Indian bus to Pakistan in 18 months went to Lahore; talks for resuming air links were set for late August; and India indicated that it will participate in a SAARC summit meeting scheduled for January 2004 in Islamabad.

Tensions between Pakistan and Afghanistan increased during July and included the ransacking of the Pakistani embassy in Kabul. Coalition Forces Commander Gen. Hagenbeck said that “hundreds” of Taliban have crossed into Afghanistan from Pakistan and that regrouped Taliban fighters are being supported by Al Qaeda operatives. On July 15, the Tripartite Commission of officials from the United States, Pakistan, and Afghanistan met in Kabul to discuss ongoing efforts to stabilize the Pakistan-Afghanistan border region.

On July 16, the House passed H.R. 1950 (the Foreign Relations Authorization Act). Sec. 709 of the Act requires the President to report to Congress on actions taken by Pakistan to close terrorist camps, prohibit infiltration at the Kashmiri Line of Control, and cease the transfer of WMD to third parties.

July 4 saw the worst domestic terrorist attack in recent Pakistani history when suicide bombers attacked a Shiite mosque in Quetta, killing at least 53. The Sunni militant Lashkar-e-Jhangvi group is suspected of being behind the attack.

For more information, see CRS Report RS21584, *Pakistan: Chronology of Events*.

BACKGROUND AND ANALYSIS

Historical Background

The long and checkered Pakistan-U.S. relationship has its roots in the Cold War and South Asia regional politics of the 1950s. U.S. concerns about Soviet expansionism 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 1954. By the end of 1955, Pakistan had further aligned itself with the West by joining two regional defense pacts, the South East Asia Treaty Organization and the Central Treaty Organization. As a result

of these alliances, and a 1959 U.S.-Pakistan cooperation agreement, Islamabad received \$508 million in U.S. military assistance from 1953 to 1961. Total U.S. economic and military assistance to Pakistan between 1947 and 2000 totaled nearly \$11.8 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 Pakistan-U.S. 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 nuclear weapons capability. Limited U.S. military aid was resumed in 1975 but 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 key transit country for arms supplies to the Afghan resistance, as well as a camp for some three million Afghan refugees, many of whom have yet to return home.

Despite the renewal of U.S. aid and close security ties, many in Congress remained concerned about Pakistan's nuclear weapons program. Concern was based in part on evidence of U.S. export control violations that suggested a crash Pakistani program to acquire a nuclear capability. In 1985, Section 620E(e) (the Pressler amendment) was added to the Foreign Assistance Act, 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.

With Soviet withdrawal from Afghanistan beginning in May 1988, Pakistan's nuclear activities again came under closer U.S. scrutiny, and 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 by Pakistan in 1989. In December 1998, the United States agreed to pay Pakistan \$324.6 million from the U.S. Treasury's Judgment Fund, 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-held Azad (Free) Kashmir. India blames Pakistan for supporting a violent separatist rebellion in the Muslim-dominated Kashmir Valley that has claimed more than 60,000 lives since 1989. Pakistan admits only to lending moral and political support to the rebellion (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 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 repeatedly has agreed to abide by the restrictions of the regime. In 1993, the United States determined that China had transferred to Pakistan prohibited missile technology and imposed trade sanctions on one Pakistani 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 1996, leaked U.S. intelligence reports alleged that in 1995 China sold ring magnets to Pakistan that could be used in enriching uranium for nuclear weapons. Pakistan denied the reports (see CRS Report RL31555, *China and Proliferation of Weapons of Mass Destruction and Missiles: Policy Issues*).

Pakistan Political Setting

Recent Developments. Gen. Musharraf's April 2002 assumption of the title of President ostensibly was legitimized by a controversial referendum that many observers claimed was marked by "excessive fraud and coercion." In August, the Musharraf government announced sweeping changes in the Pakistani constitution under a "Legal Framework Order" (LFO). These changes provide the office of President and the armed forces powers not previously available in the country's constitutional history, including provisions for Presidential dissolution of the National Assembly and appointment of the Army Chief and provincial governors, among others. The United States expressed concerns that the changes "could make it more difficult to build strong, democratic institutions in Pakistan."

In October 2002, the country held its first national elections since 1997, thus fulfilling in a limited fashion Musharraf's promise to restore the National Assembly that was dissolved in the wake of his extra-constitutional seizure of power in October 1999. Opposition parties contesting the elections, along with Pakistani rights groups and European Union observers, complained that the exercise was "deeply flawed" and that the military government's pre-poll machinations skewed the results. No party won a majority of parliamentary seats, though a pro-Musharraf alliance won a plurality while a coalition of Islamist parties made a

surprisingly strong showing. Low turnout rates caused many to identify significant levels of voter apathy affecting Pakistan's electoral politics.

In an unexpected outcome of the October elections, the United Action Forum (known as MMA in its Urdu-language acronym), a coalition of six Islamic parties, won 68 seats — about 20% of the total — in the national assembly and controls the provincial assembly in the North West Frontier Province (NWFP) and leads a coalition in the Baluchistan assembly. These provinces are Pashtun-majority regions that border Afghanistan and where important U.S. anti-terror operations are ongoing. This result has led to concerns that a major shift in Pakistan's foreign policy may be in the offing, most especially with growing anti-American sentiments and renewed indications of the “Talibanization” of western border regions.

In November 2002, the new National Assembly chose Musharraf supporter and former Baluchistan Chief Minister Mir Zafarullah Jamali to serve as Pakistan's Prime Minister. Jamali's coalition later won a required vote of confidence. February 2003 senate elections gave the coalition led by the Pakistan Muslim League-Quaid-e-Azam (PML-Q) a simple majority in that 100-seat body. Most analysts believe that the current pro-Musharraf coalition, while fragile and potentially unstable, likely will mean continuity in Islamabad's economic and foreign policy orientations. As of July 2003, the civilian government has remained hamstrung by a fractious dispute over Musharraf's continued role as Army Chief and the legality of the LFO amendments to the constitution. Some analysts express concern that President Musharraf will use his newly strengthened relationship with the United States to exert greater pressure on opposition forces.

Background. Military regimes have ruled Pakistan for more than half of its 55 years of existence, 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 “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. Gen. 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, 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. Ensuing elections returned Bhutto and the PPP to power. The new Bhutto government faced even more 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 and nepotism.

Nawaz Sharif's Pakistan Muslim League won a landslide victory in the February 1997 parliamentary elections, which 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, removing the President's Eighth Amendment powers to dismiss the

government and to appoint armed forces chiefs and provincial governors. After replacing the chief Justice of the Supreme Court and seeing the resignation of President Leghari, and with the Pakistan Muslim League in control of parliament, 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 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.

Pakistan-U.S. Relations and Key Country 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 traffic. These concerns have been affected by several key developments in recent years, including the cutoff of U.S. aid to Pakistan in 1990, 1998, and 1999 over nuclear and democracy issues; a worsening Pakistan-India relationship over Kashmir since 1989 and a continuing bilateral nuclear standoff; Pakistan's halting attempts to develop a stable democratic government and strong economy; and, most recently, the September 2001 terrorist attacks against the United States.

On September 13, 2001, 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 Osama 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, nuclear-armed state.

In an effort to shore up the Musharraf government, sanctions relating to Pakistan's 1998 nuclear tests and 1999 military coup were waived in the autumn of 2001. In October 2001, large amount of U.S. aid began flowing into Pakistan. Direct assistance programs 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 has supported 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 September 2002, President Bush met with President Musharraf in New York City, after both leaders had addressed the U.N. General Assembly. The U.S. President reportedly urged his Pakistani counterpart to ensure that his government take all necessary steps to end the movement of militants into Indian-controlled Kashmir, and also to ensure that the country remain on the path to full democracy.

Security

Nuclear Weapons and Missile Proliferation. 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. In May 1998, India conducted five underground nuclear tests, breaking a 24-year, self-imposed moratorium on such testing. Despite U.S. and world efforts to dissuade it, Pakistan quickly followed, claiming five tests of its own before month's end. The tests created a global storm of criticism, and represented a serious setback for two decades of U.S. nuclear nonproliferation efforts in South Asia. India currently is believed to have enough fissile material for 75-100 nuclear weapons; Pakistan is thought to have approximately half that number. Both countries have aircraft capable of delivering nuclear bombs. India's military has inducted short- and intermediate-range ballistic missiles, while Pakistan itself possesses short- and medium-range missiles (allegedly acquired from China and North Korea). All are assumed to be capable of delivering small nuclear warheads over significant distances.

Press reports in late 2002 suggested that Pakistan assisted Pyongyang's covert nuclear weapons program by providing North Korea with uranium enrichment materials and technologies beginning in the mid-1990s and as recently as July 2002. Islamabad adamantly rejects such reports as "baseless," and Secretary of State Powell has been assured that no such transfers are occurring. If such assistance is confirmed by President Bush, all non-humanitarian U.S. aid to Pakistan may be suspended, although the President has the authority to waive any sanctions that he determines would jeopardize U.S. national security. In March 2003, the Administration determined that the relevant facts "do not warrant imposition of sanctions under applicable U.S. laws."

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.

Since the September 2001 terrorist attacks on the United States, U.S. and Pakistani 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 (see CRS Reports RS21237, *Indian and Pakistani Nuclear Weapons Status*, and RL30623, *Nuclear Weapons and Ballistic Missile Proliferation in India and Pakistan*).

U.S. Nonproliferation Efforts. In May 1998, following the South Asian nuclear tests, President Clinton imposed full restrictions on non-humanitarian economic and military aid to both India and Pakistan as mandated under Section 102 of the Arms Export Control Act (AECA). 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. In some respects, Pakistan was less affected by the sanctions than was India, since most U.S. assistance to Pakistan had been cut off in 1990. At the same time, Pakistan's much smaller and more fragile economy was more vulnerable to the negative effects of aid restrictions.

During the latter years of the Clinton administration, the United States set forth five nonproliferation "benchmarks" for India and Pakistan, including the following: halt further nuclear testing and sign and ratify the Comprehensive Test Ban Treaty (CTBT); halt fissile material production and pursue Fissile Material Control Treaty negotiations; refrain from deploying nuclear weapons and testing ballistic missiles; restrict any and all exportation of nuclear materials or technologies; and take steps to reduce bilateral tensions, especially on the issue of Kashmir. The results of U.S. efforts have been mixed, at best: Neither India nor Pakistan are signatories to the Nuclear Nonproliferation Treaty (NPT) or the 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 (see CRS Reports RS20995, *India and Pakistan: Current U.S. Economic Sanctions*, and RL31589, *Nuclear Threat Reduction Measures for India and Pakistan*).

Kashmir Dispute. Bilateral relations between Pakistan and India remain deadlocked on the issue of Kashmiri sovereignty. The prospects for India-Pakistan detente suffered a severe setback in mid-1999, when the two countries teetered on the brink of their fourth full-scale 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 on the Indian side of the line of control (LOC) near Kargil. Following a meeting between then Pakistani Prime Minister Sharif and President Clinton in Washington on July 4, 1999, the infiltrators withdrew across the LOC.

Tensions between India and Pakistan remained extremely high in the wake of the Kargil conflict, which cost more than 1,100 lives. Throughout 2000-2002, intermittent cross-border firing and shelling has caused scores of both military and civilian deaths. New Delhi accuses Pakistan of sponsoring the movement of "terrorists" into Indian Kashmir; Islamabad accuses India of human rights violations there. 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. A six-month-long unilateral cease-fire and halt to offensive military operations in Kashmir was undertaken by India in 2000-2001, and the Pakistani government responded by announcing that its forces deployed along the LOC in Kashmir would observe "maximum restraint." 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. A July summit meeting between Musharraf and Vajpayee in Agra 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." U.S. Secretary of

State Colin Powell visited the region in an effort to ease escalating tensions over Kashmir, but an October terrorist attack on the Jammu and Kashmir state assembly was followed by a December 2001 terrorist attack on the Indian Parliament in New Delhi. Both incidents were blamed on Pakistan-based militant groups. The Indian government responded by mobilizing some 700,000 troops to forward stations along the Pakistan-India frontier and threatening war unless Islamabad put an end to all cross-border infiltrations of Islamic militants. Under significant international diplomatic pressure and the threat of India's use of possibly massive force, President Musharraf in January 2002 vowed to end the presence of terrorist entities on Pakistani soil and upwards of 2,000 radicals were jailed (many of these have since been released).

Despite the Pakistani pledge, infiltrations into Indian-held Kashmir continued, and a May 2002 terrorist attack on an Indian army base at Kaluchak killed 34, most of them women and children. This event again brought Pakistan and India to the brink of full-scale war, and caused Islamabad to recall army troops from both patrol operations along the Pakistan-Afghanistan border as well as from international peacekeeping operations. Pakistan also tested three ballistic missiles in late-May 2002, sending an implicit message to India that it would employ nuclear weapons in a conflict. A flurry of intensive diplomatic missions to South Asia appears to have reduced tensions during the summer of 2002 and prevented the outbreak of war. Numerous top U.S. diplomats were involved in this effort. The U.S. government continues to strenuously urge the two countries to renew a bilateral dialogue that has been moribund since the summer of 2001. New Delhi refuses to engage such dialogue until it is satisfied that Pakistan has ended all militant infiltration into its Jammu and Kashmir state (for further reading, see RL31587, *Kashmiri Separatists: Origins, Competing Ideologies, and Prospects for Resolution of the Conflict*).

Pakistan-U.S. Security Cooperation. The close U.S.-Pakistan security ties of the cold war era — which had come to near halt after the 1990 aid cutoff — appear to be in the process of restoration as a result of Pakistan's role in U.S.-led anti-terrorism campaign. In the spring of 2002, U.S. military and law enforcement personnel reportedly began engaging in direct, low-profile efforts to assist Pakistani security forces in tracking and apprehending fugitive Al Qaeda and Taliban fighters on Pakistani territory. Press reports indicate that Pakistan has remanded to U.S. custody nearly 500 such fugitives to date.

In July 2002, Congress was notified of two Foreign Military Sales arrangements with Pakistan reportedly worth \$230 million. Under the deals, Pakistan is to receive 7 used C-130E transport aircraft (one being for spare parts) and six Aerostat surveillance radars. These mark the first notable arms sales to Pakistan in more than a decade and are intended to bolster Islamabad's counterterrorism capabilities. Islamabad continues to seek U.S. weapons and technology, especially in an effort to bolster its air forces. Several Members of Congress are reported to be supportive of these efforts. A revived high-level U.S.-Pakistan defense consultative group — moribund for the past 5 years — met in late-September 2002 and included high-level discussions of military cooperation, security assistance, and anti-terrorism. The two countries also have planned regular joint military exercises (see CRS Report RL31624, *Pakistan-U.S. Anti-Terrorism Cooperation*).

Democratization and Human Rights

Democratization Efforts. There had been hopes that national elections in October 2002 would reverse Pakistan's historic trend toward unstable governance and military interference in democratic institutions. Such hopes were eroded by the passage of a number of highly restrictive election laws, including those that prevented the country's two leading civilian politicians from participating, as well as President Musharraf's unilateral imposition of major constitutional amendments in August 2002. While praising Pakistan's recent electoral exercises as moves in the right direction, the United States has expressed concern that these seemingly nondemocratic developments may make the realization of true democracy in Pakistan more elusive (see CRS Report RS21299, *Pakistan's Domestic Political Developments*).

Human Rights Problems. The U.S. State Department, in its *Pakistan Country Report on Human Rights Practices, 2002* (issued March 2003), determined that the Islamabad government's record on human rights remains "poor." Along with concerns about anti-democratic practices, the United States identifies "acute" corruption, extrajudicial killings, lack of judicial independence, "extremely poor" prison conditions, and increased violence against Christians as serious problems. Police have abused and raped citizens with apparent impunity. Improvement in some areas is noted, however, particularly with press freedoms and governmental efforts to curb religious extremism.

The Human Rights Commission of Pakistan, Amnesty International, and Human Rights Watch have issued reports critical of Pakistan's lack of political freedoms and of the country's perceived abuses of the rights of women and minorities. Discrimination against women is widespread, and traditional constraints — cultural, legal, and spousal — have kept women in a subordinate position in society. "Honor killings" continue to occur throughout the country. The adult literacy rate for men in Pakistan is more than 50%, while half as many women are literate. Religious minorities, mainly Christians and Ahmadi Muslims, reportedly are subjected to discriminatory laws and social intolerance. 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 commonly brought as a result of personal or religious vendettas. Anti-Christian and anti-Western violence, which peaked in the summer of 2002, has cost scores of lives. In 2003, Islamist lawmakers in the NWFP have launched efforts to impose harsh penalties under *Sharia*, such as amputating the hands of thieves and stoning adulterers, as well as establish a Department of Vice and Virtue to implement Islamic law.

Economic Issues

Overview. Pakistan is a poor country with great extremes in the distribution of wealth. The long-term economic outlook for Pakistan continues to be rather bleak, given a low national savings rate (15-20%) and high labor force growth rates (2.4%) in a country that remains highly dependent on foreign lending and the importation of basic commodities (public debt is equal to more than 53% of GDP). In the middle-term, greater political stability following October 2002 elections brightened the outlook by providing President Musharraf with a political base for the further pursuit of economic reform, but conflict with India is an ever-present risk. In the short-run, substantial fiscal deficits and the still urgent dependency on external aid donations counterbalance a major overhaul of the tax collection

system and have been notable gains in the Karachi Stock Exchange, the world's best performer in 2002. Per capita GDP is \$425 (or \$2,000 when accounting for purchasing power parity).

Output from both the industrial and service sectors grew in 2002, but the agricultural sector's output has been weak and significantly slowed growth overall (in part due to severe drought). Agricultural labor accounts for nearly half of the country's work force. Pakistan's real GDP for the fiscal year ending June 2002 grew by some 3.6% over FY2001 (but 4.5% for the calendar year). An industrial sector recovery and the end of a 3-year drought have some foreseeing even more robust growth ahead, with predictions putting the growth rate at above 5% for both FY2003 and FY2004.

The Pakistani government had stabilized the country's external debt at about \$36.3 billion by the end of 2002. The country's total liquid reserves grew to \$10.8 billion by July 2003, an all-time high and an increase of more than \$8 billion since October 1999. In December 2001, the Paris Club of creditor nations agreed to reschedule \$12.5 billion in repayments on Pakistan's external debt, one-third of the country's total burden. Foreign remittances for FY2002 exceeded \$2.3 billion, more than twice the amount in 2001. Inflation, at about 3.7%, is at a relatively low level, largely as a result of weak consumer demand. Interest on public debt and defense spending together consume 70% of total revenues, thus squeezing out development expenditure, including social spending.

Many analysts believe that Pakistan's resources and comparatively well-developed entrepreneurial skills may hold promise for more rapid economic growth and development in coming years. 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. Only 1.4% 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.

Attempts at economic reform historically have floundered due to political instability. The Musharraf government has had some modest successes in effecting economic reform. As of April 2003, the Islamabad appears to be maintaining general continuity in its economic policies since the previous year's elections, and the seating of a pro-Musharraf ruling coalition in the Parliament has added to analysts' confidence that reforms will remain on track. Moreover, participation in the post-September 2001 anti-terror coalition had the effect of easing somewhat Islamabad's severe national debt situation, with many countries, including the United States, boosting bilateral assistance efforts and large amounts of external aid flowing into the country.

An October 2002 World Bank report commended Pakistan for bringing about macroeconomic stability and implementing wide-ranging structural reforms to spur economic growth, while also noting that the country's poverty levels are both high and static. A November 2002 IMF report identifies a "worrisome trend of declining growth" linked in part to "a turbulent domestic and regional political environment." A December 2002 World Bank report claims that "Pakistan's economic revival program is beginning to produce good results," but also notes numerous problems that seem to require further implementation of structural reforms. An April 2003 report of the Asian Development Bank noted that

continued macroeconomic stability is enhancing Pakistan's medium-term economic prospects, but warns that renewed tensions with India and/or domestic political instability could quickly dampen current optimism. In June 2003, World Bank President Wolfensohn lauded several years of Pakistani economic reforms and said the country's "dramatically improved financial position" puts it on a "strong footing to really tackle poverty." The national budget passed in June 2003 largely reflected the need to meet IMF poverty reduction and growth facility conditions that end in 2004.

Trade and Investment. Pakistan's primary exports are cotton, textiles and apparel, rice, and leather products. During 2002, total U.S. imports from Pakistan were worth about \$2.3 billion, a slight increase over the previous year. Nearly 90% of this value came from the purchase of textiles, clothing, and related articles. U.S. exports to Pakistan during 2002 were worth \$694 million, a major increase of 28% over 2001. The U.S. trade deficit with Pakistan has been approximately \$1.7 billion for each of the past three years. The State Bank of Pakistan reports a steady increase in foreign investment in the country since 2001, with a total of \$820 million for the year ending June 2003. More than one-quarter of this amount came from the United States.

During a February 2003 visit to the United States, the Pakistani foreign minister requested greater access to U.S. markets as a means of reducing poverty and thus also the forces of extremism in Pakistan. He made a direct link between poverty and the continued existence of Islamic schools (madrassas) that are implicated in teaching militant anti-American values. Several nongovernmental Western analysts have made similar arguments.

According to the report of the U.S. Trade Representative for 2002, Pakistan has made progress in reducing import tariff schedules, though 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. The U.S. pharmaceutical industry believes that Pakistan maintains discriminatory practices that impede U.S. manufacturer profitability, while several U.S. companies have complained about Pakistani violations of their intellectual property rights. The International Intellectual Property Alliance estimated trade losses of \$116 million in 2002, and widespread piracy (Pakistan is a world leader in the pirating of CDs) has kept Pakistan on the U.S. Trade Representative's "Special 301" watch list for 13 consecutive years.

Narcotics

Pakistan is a major transit country for opiates that are grown and processed in Afghanistan and western Pakistan, then distributed throughout the world by Pakistan-based traffickers. The region has in the past supplied up to 40% of heroin consumed in the United States and 70% of that consumed in Europe, and has been second only to Southeast Asia's Golden Triangle as a top source of the world's heroin. The U.S. Department of State indicates that Pakistan's cooperation on drug control with the United States "remains excellent." The Islamabad government has made impressive strides in eradicating opium poppy cultivation. Estimated production in 2001 was only 5 metric tons, down 59% from 2000 and less than one-thirtieth of the estimated 155 tons produced in 1995. In March 2003, the Acting Assistant Secretary of State for International Narcotics and Law Enforcement Affairs claimed that Pakistan has "essentially eliminated opium production," but the State Department's International Narcotics Control Strategy Report for 2002 indicated that

Pakistan remains a “substantial trafficking country” and notes that opium production rose slightly in 2002 from a record low in 2001.

Pakistan’s counter-narcotics efforts continue to be hampered by a number of factors, including lack of total government commitment; scarcity of funds; poor infrastructure in drug-producing regions; government wariness of provoking unrest in tribal areas; and “acute” corruption. In March 2003, former U.S. Ambassador to Pakistan Wendy Chamberlain stated that the role of Pakistan’s intelligence service in the heroin trade over the past six years has been “substantial.” Direct U.S. counter-narcotics aid to Pakistan totaled \$2.4 million in 2002. The program is administered by the State Department’s Bureau of International Narcotics and Law Enforcement Affairs (INL), which oversaw Pakistan projects with more than \$90 million in FY2002, including \$73 million in emergency supplemental appropriations for border security efforts that continue in FY2003. The INL allocation for FY2003 was \$6 million; rising to \$38 million requested for FY2004.

Terrorism

After the September 2001 terrorist attacks on the United States, Pakistan pledged and has provided support for the U.S.-led anti-terror coalition. According to the U.S. Departments of State and Defense, 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 a landmark speech in January 2002, Musharraf vowed to end Pakistan’s use as a base for terrorism of any kind, and banned numerous militant groups, including Lashkar-e-Taiba and Jaish-e-Muhammad, both blamed for terrorist violence in Kashmir and India. In the wake of the speech, thousands of extremists were arrested and detained, though many of these have since been released (see CRS Report RL31624, *Pakistan-U.S. Anti-Terrorism Cooperation*).

In January 2002, *Wall Street Journal* reporter Daniel Pearl was kidnaped in Karachi and later found murdered. May and June car bomb attacks on Western targets, including the U.S. consulate in Karachi, killed 29 people: 11 French military technicians and 18 Pakistani nationals. These attacks were widely viewed as expressions of militants’ anger with the Musharraf regime for its cooperation with the United States. The incidents were linked to Al Qaeda, as well as to indigenous militant groups. In September 2002, Pakistani authorities announced a series of high-profile arrests of those deemed responsible for the car bombings, and they claimed to have “broken the back” of the Al Qaeda network in Pakistan. Yet press reports indicate that Al Qaeda and Taliban fugitives still are numerous in Pakistan and may be attempting to re-establish their organizations in Pakistani cities such as Karachi. Alleged Al Qaeda leader Osama bin Laden may himself be in Pakistan.

Islamabad has been under continuous pressure from the United States and numerous other governments to terminate the infiltration of insurgents across the Kashmiri Line of Control. Such pressure elicited an explicit promise from President Musharraf to U.S. Deputy Secretary of State Armitage that all such movements would cease. After confirmations from both U.S. and Indian government officials that infiltration was down significantly in the summer of 2002, the rate reportedly rose again in the autumn, and in December 2002 the U.S. envoy to New Delhi claimed that the problem in Kashmir is “cross-border terrorism” that is “almost entirely externally driven.” President Musharraf adamantly insists that his

government is doing everything possible to stop such movements. Critics contend, however, that Islamabad has provided active support for the insurgents in Kashmir as a means to both maintain strategically the domestic backing of Islamists who view the Kashmir issue as fundamental to the Pakistani national idea, as well as to disrupt tactically the state government in Indian Kashmir and so seek to erode New Delhi's legitimacy there.

U.S. Aid and Congressional Action

U.S. Assistance. Actual U.S. assistance to Pakistan in FY2002 was just over \$1 billion, up from about \$5 million in FY2001 (excluding food aid). The Bush Administration requested a total of \$505 million in assistance to Pakistan for FY2003, including supplemental appropriations. Congress allocated about \$495 million of this. Security-related assistance in the amount of \$56.5 million was allocated in P.L. 108-7, as was \$188 million in Economic Support Funds that Congress authorized Pakistan to use to cancel approximately \$1 billion in concessional debt to the U.S. government. (At the end of 2002, Pakistan's international debt was estimated at \$36.3 billion. P.L. 107-57 allowed Pakistan to reschedule \$379 million of its debt to the United States thereby enabling it to cancel its arrearage.) In April 2003, President Bush signed into law P.L. 108-11 (the Emergency Wartime Supplemental Appropriations Act, 2003), allocating \$200 million in additional security-related assistance to Pakistan for FY2003. The current Administration request for FY2004 stands at \$395 million, including about \$120 million for security-related programs (see **Table 1**, below). During a June 2003 visit to Washington by President Musharraf, President Bush vowed to work with Congress on establishing a 5-year, \$3 billion aid package for Pakistan. Five annual installments of \$600 million each are meant to begin in FY2005 and be evenly split between military and economic aid.

Proliferation-Related Legislation. Through a series of legislative measures, Congress incrementally lifted sanctions on Pakistan and India resulting from their 1998 nuclear tests. President Clinton signed into law P.L. 106-79 (the Department of Defense Appropriations Act, 2000) in October 1999. 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; Sec. 597).

After the September 2001 terrorist attacks on the United States, 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 tests, finding that denying export licences and assistance was not in the national security interests of the United States. Some Members of the 108th Congress have urged reinstatement of proliferation-related sanctions in response to autumn 2002 reports of Pakistani assistance to the North Korean nuclear weapons program, though no relevant legislation is pending.

Coup-Related Legislation. The new geopolitical circumstances after September 2001 spurred Congress to take action on democracy-related aid restrictions on Pakistan. P.L. 107-57 (October 2001) granted presidential authority to waive coup-related sanctions on Pakistan through FY2003. President Bush exercised this authority in March 2003. Some Members of the 107th Congress had introduced legislation (H.R. 5150; H.R. 5267) to reimpose restrictions on aid to Pakistan in light of perceived to be continuing anti-democratic practices by the Musharraf government. These resolutions did not see floor action. In the 108th Congress, pending legislation includes H.R. 1403, which seeks to remove the President's waiver authority with regard to Sec. 508 sanctions on Pakistan; Sec. 608 of S. 790 (the Foreign Relations Authorization Act), which would extend the President's P.L. 107-57 waiver authority through FY2005; and Sec. 236 of S. 1161 (the Foreign Assistance Authorization Act), which would limit the extension through FY2004 only (see also CRS Report RS20995, *India and Pakistan: Current U.S. Economic Sanctions*).

Other Legislation. On July 16, 2003, H.R. 1950 (the Foreign Relations Authorization Act) was passed by the House. Sec. 709 of the Act requires the President to report to Congress on actions taken by Islamabad to close terrorist camps in Pakistan-controlled areas, prohibit the infiltration of militants at the Kashmiri Line of Control, and cease the transfer of WMD or related technologies to any third parties. Many Pakistanis held the "India lobby" responsible for the legislation of "conditions" on future U.S. aid to Pakistan. When considered alongside a senior White House official's June assertion that long-term U.S. aid requires that the United States be "satisfied" with Pakistan's progress on nonproliferation, anti-terrorism, and democratization — and a July letter to President Bush signed by 16 Members of Congress outlining their concerns on these same issues — the legislation has renewed Pakistani concerns about the reliability of U.S. pledges of assistance.

Legislation in the 107th Congress included S. 1675 to authorize the President to reduce or suspend duties on Pakistani textiles. The bill did not see floor action. In the 108th Congress, H.R. 2267, H.R. 2467, and S. 1121 seek to extend certain trade benefits that are meant to increase trade and investment with eligible countries of the greater Middle East, including Pakistan.

Two provisions for further debt forgiveness for Pakistan are pending in the 108th Congress. An amendment to S. 925 would provide a maximum of \$200 million in FY2004 Economic Support Funds for the modification of direct loans and guarantees for Pakistan. However, H.R. 2800 (the Foreign Operations Appropriations Act) would provide a maximum of only \$65 million for these purposes.

Table 1. U.S. Assistance to Pakistan, FY2001-FY2004
(in millions of U.S. dollars)

Program or Account	FY2001 Actual	FY2002 Actual	FY2003 Allocation	FY2004 Request
CSH	-.-	14.0 ^a	15.6	25.0
DA	-.-	10.0	34.5	50.0
ERMA	-.-	25.0	-.-	-.-
ESF	-.-	624.5	188.0 ^b	200.0
FMF	-.-	75.0	224.5	75.0
IMET	-.-	0.9	1.0	1.3
INCLE	3.5	90.5 ^c	31.0	38.0
NADR	-.-	10.1	-.-	5.0
PKO	-.-	220.0	-.-	-.-
Subtotal	\$3.5	\$1,070.0	\$494.6	\$394.3
P.L.480 Title I	0.5	10.0	15.0	-.-
P.L.480 Title II	1.9	5.1	(^d)	(^d)
Section 416(b)	85.1	75.7	-.-	-.-
Total	\$91.0	\$1,160.8	\$509.6	\$394.3

Sources: U.S. Departments of State and Agriculture; U.S. Agency for International Development.

Abbreviations:

CSH: Child Survival and Health
 DA: Development Assistance
 ERMA: Emergency Refugee and Migration Assistance
 ESF: Economic Support Fund
 FMF: Foreign Military Financing
 IMET: International Military Education and Training
 INCLE: International Narcotics Control and Law Enforcement (includes border security)
 NADR: Nonproliferation, Anti-Terrorism, Demining, and Related
 PKO: Peacekeeping Operations
 P.L.480 Title I: Trade and Development Assistance food aid (loans)
 P.L.480 Title II: Emergency and Private Assistance food aid (grants)
 Section 416(b): The Agricultural Act of 1949, as amended (surplus agricultural commodity donations)

Notes:

- a. Includes \$9 million in U.N. Family Planning Funds that currently are on hold pending presidential determination. The U.S. Department of State is including this amount in actual assistance totals for FY2002, while the U.S. Agency for International Development is not.
- b. Congress authorized Pakistan to use this ESF allocation to cancel approximately \$1 billion in concessional debt to the U.S. government.
- c. Includes \$73 million for border security projects continuing in FY2003.
- d. Title II food aid accounts generally are held in reserve.