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## **Pakistan-U.S. Relations**

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# Pakistan-U.S. Relations

## Summary

A stable, democratic, economically thriving Pakistan is considered vital to U.S. interests. U.S. concerns regarding Pakistan include regional terrorism; Pakistan-Afghanistan relations; weapons proliferation; the ongoing Kashmir problem and Pakistan-India tensions; human rights protection; and economic development. A U.S.-Pakistan relationship marked by periods of both cooperation and discord was transformed by the September 2001 terrorist attacks on the United States and the ensuing enlistment of Pakistan as a key ally in U.S.-led counterterrorism efforts. Top U.S. officials regularly praise Islamabad for its ongoing cooperation, although doubts exist about Islamabad's commitment to some core U.S. interests. Pakistan is identified as a base for terrorist groups and their supporters operating in Kashmir, India, and Afghanistan. Since late 2003, Pakistan's army has been conducting unprecedented counterterrorism operations in the country's western tribal areas.

Separatist violence in India's Muslim-majority Jammu and Kashmir state has continued unabated since 1989, with some notable relative decline in recent years. India has blamed Pakistan for the infiltration of Islamic militants into Indian Kashmir, a charge Islamabad denies. The United States reportedly has received pledges from Islamabad that all "cross-border terrorism" would cease and that any terrorist facilities in Pakistani-controlled areas would be closed. Similar pledges have been made to India. The United States strongly encourages maintenance of a cease-fire along the Kashmiri Line of Control and continued substantive dialogue between Islamabad and New Delhi. Pakistan and India have fought three wars since 1947. A potential Pakistan-India nuclear 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). Recently, the United States has been troubled by evidence of "onward" proliferation of Pakistani nuclear technology to third parties, including North Korea, Iran, and Libya. Such evidence became stark in February 2004.

Pakistan's macroeconomic indicators have turned positive since 2001, but widespread poverty persists. President Bush seeks to expand U.S.-Pakistan trade and investment relations. Democracy has fared poorly in Pakistan; the country has endured direct military rule for more than half of its existence. In 1999, the elected government was ousted in a coup led by Army Chief General Pervez Musharraf, who later assumed the title of president. Supreme Court-ordered elections in 2002 seated a new civilian government (Musharraf ally Shaukat Aziz serves as prime minister), but it remains weak, and Musharraf has retained his position as army chief. The United States urges restoration of democracy and expects Pakistan's planned 2007 general elections to be free and fair. Congress has granted presidential authority to waive coup-related aid sanctions through FY2006. Pakistan is among the world's leading recipients of U.S. aid, obtaining more than \$3.5 billion in direct U.S. assistance for FY2002-FY2006, including \$1.5 billion in security-related aid. Pakistan also has received billions of dollars in reimbursement for its support of U.S.-led counterterrorism operations. This report replaces CRS Issue Brief IB94041, *Pakistan-U.S. Relations*.

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# Pakistan-U.S. Relations

## Most Recent Developments

U.S. engagement with Pakistan continues to be deep and multifaceted. President Bush traveled to Pakistan in early March for the first such presidential visit in six years and numerous high-level governmental meetings have ensued. Pakistan-specific language has appeared in several congressional bills and reports, including the emergency supplemental appropriations bill that became P.L. 109-234 on June 15. Violent conflict continues to afflict Pakistan, with the Pakistan Army engaged in counterterrorism operations in the country's western tribal region and Baloch rebels continuing to cause disruptions in the Baluchistan province. Pakistan-India dialogue continues on several fronts, but Pakistani officials express frustration at the "slow pace" of progress, especially with regard to the ongoing Kashmir dispute.

On March 4, President Bush and President Musharraf issued a joint statement on the U.S.-Pakistan "strategic partnership" that calls for a "strategic dialogue" and "significant expansion" of bilateral economic ties, including mutual trade and investment, as well as initiatives in the areas of energy, peace and security, social sector development, science and technology, democracy, and nonproliferation. In April, Under Secretary of State Nicholas Burns and Foreign Secretary Riaz Khan formally launched the strategic dialogue, with counterterrorism cooperation and increased trade as leading topics. In early May, Under Secretary of Defense Eric Edelman hosted a Pakistani delegation in Washington for a meeting of the U.S.-Pakistan Defense Consultative Group, the first since February 2005. The Commander of the U.S. Central Command, General John Abizaid, and State Department Counterterrorism Coordinator Henry Crumpton paid separate visits to Islamabad in May for meetings with top Pakistani officials (later, while in Kabul, Crumpton said Pakistan has not done enough to combat terrorists near the Pakistan-Afghanistan border, a claim a Pakistan Army spokesman called "totally absurd"). Later in May, Undersecretary of State for Economic, Business, and Agricultural Affairs Josette Shiner completed a visit to Islamabad, where she sought to advance the U.S.-Pakistan Economic dialogue. On June 6, the 17<sup>th</sup> meeting of the U.S.-Pakistan-Afghanistan Tripartite Commission in Rawalpindi included discussions on intelligence sharing and border security.

House hearings on U.S. South Asia policy and on the A.Q. Khan illicit nuclear smuggling network were held on May 17 and May 25, respectively. The latter hearing came only three weeks after the Islamabad government declared that its investigation into the A.Q. Khan case "is closed." In H.Rept. 109-486, the House Appropriations Committee recommended reducing the Bush Administration's FY2007 Pakistan aid request by \$150 million and it expressed concern about "what appears to be the Government of Pakistan's increasing lack of respect for human rights ... and the lack of progress on improving democratic governance and rule of

law.” In response to widespread confusion in Pakistan over the meaning of the report, the U.S. Embassy in Islamabad later issued a press release clarifying that the House-passed appropriations bill was not Pakistan-specific and that the Bush Administration remains committed to proposed aid levels for Pakistan. On May 31, the Pentagon notified Congress of a possible Foreign Military Sale to Pakistan worth up to \$370 million. The deal involves 130 Harpoon anti-ship missiles.

Pakistan’s domestic security circumstances have become a serious issue in recent months. Escalating in March, continued heavy fighting between Pakistani security forces and Islamic militants in North Waziristan has left hundreds of people dead. Concerns are growing that pro-Taliban tribals and their Al Qaeda-linked allies are consolidating control of significant areas near the Afghan border, where at least five Pakistanis suspected of spying for America and two pro-government tribal elders have been killed since April. In the Baluchistan province, clashes between security forces and Baloch rebels continue, costing perhaps hundreds of lives since a December 2005 spike in violence (in April, the Islamabad government officially banned the separatist Baluchistan Liberation Army as a terrorist organization). Sectarian violence has also killed more than 100 people in 2006, including at least 57 Sunnis who died in an April suicide bombing in Karachi. Meanwhile, tensions between Pakistan and Afghanistan continue to simmer after President Musharraf and Afghan President Karzai exchanged sharp rhetoric in March. In the midst of currently heavy fighting in southern Afghanistan, Afghan President Karzai claimed in May that Taliban-linked militants were being recruited and trained in Pakistan. Islamabad called the claims “baseless.” Moreover, anti-Western and anti-American sentiments continue to run high in Pakistan.

The Pakistan-India peace initiative continues, with officials from both countries (and the United States) offering generally positive assessments of the ongoing dialogue. In early May, Pakistan and India agreed to open a second Kashmiri bus route and to allow new truck service to facilitate trade in Kashmir (the new bus service began in June). Subsequent “Composite Dialogue” talks were held to discuss militarized territorial disputes, terrorism and narcotics, and cultural exchanges, but high hopes for a settlement of differences over the Siachen Glacier were dashed when a May 24 session ended without progress. On June 6, Pakistan’s Foreign Ministry spokeswoman expressed disappointment with the “slow pace” of progress in the Composite Dialogue. Some Indian leaders continue to blame Pakistan for continued lethal separatist-related violence in Indian Kashmir and for the activities of terrorists in India proper.

On May 12, Islamabad announced the appointment of retired Major General Mahmud Ali Durrani to be the new ambassador to the United States. On May 14, exiled former Prime Ministers Nawaz Sharif and Benazir Bhutto jointly issued a “Charter of Democracy” that calls for removing the military from politics and reversing most of the constitutional changes made by President Musharraf, among other goals. On June 5, Pakistan’s annual federal budget allocated a total of \$22.5 billion, including a 38% increase for public sector development and a 12% increase for defense (to about \$4.2 billion). On June 16, the handcuffed body of Pakistani journalist Hayatullah Khan was found in a rural area of North Waziristan. Khan, who had been missing for more than six months, was abducted by unknown gunmen after he reported on an apparent December 2005 U.S.-launched missile attack in

Pakistan's tribal region. More information is in CRS Report RS21584, *Pakistan: Chronology of Recent Events*.

## Setting and Regional Relations

### Historical Setting

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 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 (or "Baghdad Pact"). As a result of these alliances, Islamabad received nearly \$2 billion in U.S. assistance from 1953 to 1961, one-quarter of this in military aid, thus making Pakistan one of America's most important security assistance partners of the period. Differing expectations of the security relationship have long bedeviled bilateral ties, however. During and immediately after 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 and a perception among many in Pakistan that the United States was not a reliable ally. In the mid-1970s, new strains arose over Pakistan's efforts to respond to India's 1974 underground nuclear test by seeking its own nuclear weapons capability. U.S. aid was suspended by President Carter in 1979 in response to Pakistan's covert construction of a uranium enrichment facility. However, following the Soviet invasion of Afghanistan later that year, Pakistan again was viewed as a frontline ally in the effort to block Soviet expansionism. In 1981, the Reagan Administration offered Islamabad a five-year, \$3.2 billion aid package. Pakistan became a key transit country for arms supplies to the Afghan resistance, as well as home for some three million Afghan refugees, most of whom have yet to return.

#### PAKISTAN IN BRIEF

**Population:** 166 million; *growth rate:* 2.1% (2006 est.)

**Area:** 803,940 sq. km. (slightly less than twice the size of California)

**Capital:** Islamabad

**Ethnic Groups:** Punjabi, Sindhi, Pashtun, Baloch, Muhajir (immigrants from India at the time of partition and their descendants)

**Languages:** Punjabi 58%, Sindhi 12%, Pashtu 8%, Urdu 8%; English widely used

**Religions:** Muslim 96% (Sunni 81%, Shia 15%), Christian, Hindu, and other 4%

**Life Expectancy at Birth:** female 64.4 years; male 62.4 years (2006 est.)

**Literacy:** female 35%; male 62% (2004 est.)

**Gross Domestic Product (at PPP):** \$377 billion; *per capita:* \$2,410; *growth rate* 7.8% (2005 est.)

**Inflation:** 8.9% (2005 est.)

**Military Expenditures:** \$4.26 billion (3.9% of GDP; 2005 est.)

**U.S. Trade:** exports to U.S. \$3.25 billion; imports from U.S. \$1.25 billion (2005)

**Sources:** CIA World Factbook; U.S. Departments of Commerce and State; Government of Pakistan; Economist Intelligence Unit; Global Insight

Despite this renewal of U.S. aid and close security ties, many in Congress remained troubled by Pakistan's nuclear weapons program. 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. With the Soviet withdrawal from Afghanistan, Pakistan's nuclear activities again came under intensive U.S. scrutiny and, in 1990, President Bush again suspended aid to Pakistan. Under the provisions of the Pressler amendment, most bilateral economic and all military aid ended, and deliveries of major military equipment ceased. In 1992, Congress partially relaxed the scope of the aid cutoff to allow for food assistance and continuing support for nongovernmental organizations. Among the notable results of the aid cutoff was the nondelivery of F-16 fighter aircraft purchased by Pakistan in 1989. Nine years later, the United States agreed to compensate Pakistan with \$325 million in cash payment and \$140 million in goods, including surplus wheat. During the 1990s, with U.S. attention shifted away from the region, Islamabad further consolidated its nuclear weapons capability, fanned the flames of a growing separatist insurgency in neighboring India-controlled Kashmir, and nurtured the Taliban movement in Afghanistan, a radical Islamist group that took control of Kabul in 1996. After more than a decade of alienation, U.S. relations with Pakistan were once again transformed in dramatic fashion, this time by the September 2001 terrorist attacks on the United States and the ensuing enlistment of Pakistan as a pivotal ally in U.S.-led counterterrorism efforts.

## **Political Setting**

The history of democracy in Pakistan is a troubled one, marked by tripartite power struggles among presidents, prime ministers, and army chiefs. Military regimes have ruled Pakistan for more than half of its 58 years of existence, interspersed with periods of generally weak civilian governance. From 1988 to 1999, Islamabad had democratically elected governments, and the army appeared to have moved from its traditional role of "kingmaker" to one of power broker. Benazir Bhutto (leader of the Pakistan People's Party) and Nawaz Sharif (leader of the Pakistan Muslim League) each served twice as prime minister during this period. The Bhutto government was dismissed on charges of corruption and nepotism in 1996 and Nawaz Sharif won a landslide victory in ensuing elections, which were judged generally free and fair by international observers. Sharif moved quickly to bolster his powers by curtailing those of the president and judiciary, and he emerged as one of Pakistan's strongest-ever elected leaders. Critics accused him of intimidating the opposition and the press.

In October 1999, in immediate response to Sharif's attempt to remove him, Army Chief General Pervez Musharraf overthrew the government, dismissed the National Assembly, and appointed himself "chief executive." In the wake of the military overthrow of the elected government, Islamabad faced considerable international opprobrium and was subjected to automatic coup-related U.S. sanctions under section 508 of the annual foreign assistance appropriations act (Pakistan was already under nuclear-related U.S. sanctions). In April 2002, after a controversial referendum, Musharraf assumed the title of president. National elections were held in October of that year, as ordered by the Supreme Court. A new civilian government was seated — Musharraf ally Shaukat Aziz became prime minister in August 2005

— but it remains weak. In apparent contravention of democratic norms, Musharraf continues to hold the dual offices of president *and* army chief. Pakistan's next national elections are slated for late 2007. President Bush has said that electoral process will be “an important test of Pakistan's commitment to democratic reform” and, during a March 2006 visit to Islamabad, said Musharraf understands the elections “need to be open and honest.” In June 2006, the House Appropriations Committee (H.Rept. 109-486) expressed concern about the Pakistani government's “lack of progress on improving democratic governance and rule of law.” (See “Democracy and Governance” section below. See also CRS Report RL32615, *Pakistan's Domestic Political Developments*.)

## Regional Relations

**Pakistan-India Rivalry.** Three full-scale wars — in 1947-1948, 1965, and 1971 — and a constant state of military preparedness on both sides of their mutual border have marked six decades of bitter rivalry between Pakistan and India. The acrimonious partition of British India into two successor states in 1947 and the unresolved issue of Kashmiri sovereignty have been major sources of tension. Both countries have built large defense establishments at significant cost to 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 (LOC) 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 taken perhaps 66,000 lives since 1989. Pakistan admits only to lending moral and political support to the rebels, and it criticizes India for alleged human rights abuses in Kashmir.

India held Pakistan responsible for late 2001 terrorist attacks in Kashmir and on the Indian Parliament complex in New Delhi. The Indian response, a massive military mobilization, was mirrored by Pakistan and within months some one million heavily-armed soldiers were deployed at the international frontier. After an extremely tense 2002 during which time another full-scale war seemed a very real possibility, an April 2003 peace initiative brought major improvement in the bilateral relationship, leading to a January 2004 summit meeting and a joint agreement to re-engage a “Composite Dialogue” to bring about “peaceful settlement of all bilateral issues, including Jammu and Kashmir, to the satisfaction of both sides.” During 2004, numerous mid-level meetings, normalized diplomatic relations, increased people-to-people contacts, and a cease-fire at the border and LOC brought modest, but still meaningful progress toward normalized relations. Regular dialogue continued in 2005 and a third round of Composite Dialogue talks was held in 2006. Numerous confidence-building measures have been put in place, most notably travel and commerce across the Kashmiri LOC for the first time in decades, and bilateral trade has increased. Yet militarized territorial disputes over Kashmir, the Siachen Glacier, and the Sir Creek remain unresolved, and Pakistani officials regularly express unhappiness that more substantive progress, especially on the “core issue” of Kashmir, is not occurring.

**Afghanistan.** Pakistani leaders have long sought “strategic depth” with regard to India though friendly relations with neighboring Afghanistan. Such policy contributed to President General Zia ul-Haq's support for Afghan mujahideen

“freedom fighters” who were battling Soviet invaders during the 1980s and to Islamabad’s later support for the Afghan Taliban regime from 1996 to 2001. British colonialists had purposely divided the ethnic Pashtun tribes inhabiting the mountainous northwestern reaches of their South Asian empire with the 1893 “Durand Line.” This porous, 1,600-mile border is not accepted by Afghan leaders, who have at times fanned Pashtun nationalism to the dismay of Pakistanis. After Islamabad’s major September 2001 policy shift, President Musharraf consistently has vowed full Pakistani support for the government of Afghan President Karzai, although the two leaders have exchanged public accusations and recriminations about the ongoing movement of Islamic militants in the border region. Moreover, Pakistan is wary of signs that India is pursuing a policy of “strategic encirclement,” taking note of New Delhi’s past support for Afghan Tajik and Uzbek militias and the post-2001 opening of numerous Indian consulates in Afghanistan.

**The China Factor.** Pakistan and China have enjoyed a generally close and mutually beneficial relationship over several 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. After the 1990 imposition of U.S. sanctions on Pakistan, the Islamabad-Beijing arms relationship was further strengthened (see CRS Report RL31555, *China and Proliferation of Weapons of Mass Destruction and Missiles*). Indian officials have called the Islamabad-Beijing nuclear and missile “proliferation nexus” a cause of serious concern in New Delhi, and U.S. officials continue to have serious concerns about this potentially destabilizing dynamic. In April 2005, the Chinese prime minister visited Islamabad, where Pakistan and China signed 22 accords meant to boost bilateral cooperation. In February 2006, President Musharraf paid a five-day visit to Beijing to discuss counterterrorism, trade, and technical assistance with top Chinese leaders. Islamabad may seek future civil nuclear assistance from Beijing, especially in light of Washington’s categorical refusal of Pakistan’s request for a civil nuclear cooperation similar to that being initiated between the United States and India. The Chinese government has assisted Pakistan in constructing a major new port at Gwadar, near the border with Iran; Islamabad and Beijing aspire to make this port a major commercial outlet for Central Asian states. Some analysts are concerned that the port may at some point be used for military purposes and could bolster China’s naval presence in the Indian Ocean region. Pakistan continues to view China as an “all-weather friend” and perhaps its most important strategic ally.

## **Pakistan-U.S. Relations and Key Country Issues**

U.S. policy interests in Pakistan encompass a wide range of issues, including counterterrorism, nuclear weapons and missile proliferation, South Asian and Afghan stability, democratization and human rights, trade and economic reform, and efforts to counter narcotics trafficking. Relations have been affected by several key developments, including proliferation- and democracy-related sanctions; a continuing Pakistan-India nuclear standoff and conflict over Kashmir; and the September 2001 terrorist attacks against the United States. In the wake of those attacks, President

Musharraf — under strong U.S. diplomatic pressure — offered President Bush Pakistan’s “unstinted cooperation in the fight against terrorism.” Pakistan became a vital ally in the U.S.-led anti-terrorism coalition. U.S. sanctions relating to Pakistan’s 1998 nuclear tests and 1999 military coup quickly were waived and, in October 2001, large amounts of U.S. aid began flowing into Pakistan. Direct assistance programs include training and equipment for Pakistani security forces, along with aid for health, education, food, democracy promotion, human rights improvement, counternarcotics, border security and law enforcement, as well as trade preference benefits. The United States also supports grant, loan, and debt rescheduling programs for Pakistan by the various major international financial institutions. In June 2004, President Bush designated Pakistan as a major non-NATO ally of the United States under Section 517 of the Foreign Assistance Act of 1961. Revelations that Pakistan has been a source of nuclear proliferation to North Korea, Iran, and Libya may complicate future Pakistan-U.S. relations.

## Security

**International Terrorism.** After the September 2001 terrorist attacks on the United States, Pakistan pledged and has provided major support for the U.S.-led anti-terrorism 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. Top U.S. officials regularly praise Pakistani anti-terrorism efforts. In a landmark January 2002 speech, President Musharraf vowed to end Pakistan’s use as a base for terrorism of any kind, and he banned numerous militant groups, including Lashkar-e-Taiba and Jaish-e-Muhammad, both blamed for terrorist violence in Kashmir and India and designated as terrorist organizations under U.S. law. In the wake of the speech, thousands of Muslim extremists were detained, though most of these were later released. In the spring of 2002, U.S. military and law enforcement personnel 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. Pakistani authorities have remanded to U.S. custody approximately 500 such fugitives to date.

Important Al Qaeda-related arrests in Pakistan have included Abu Zubaydah (March 2002), Ramzi bin al-Shibh (September 2002), Khalid Sheik Mohammed (March 2003), several key captures in the summer of 2004, and Abu Faraj al-Libbi (May 2005). Other allegedly senior Al Qaeda figures were killed in gunbattles and missile attacks, including several apparent U.S.-directed attacks on Pakistani territory from aerial drones. Yet Al Qaeda and Taliban fugitives remain active in Pakistan and appear to have regrouped in Pakistani cities, as well as in the mountainous tribal regions along the Afghan border. Al Qaeda founder Osama bin Laden and his lieutenant, Egyptian Islamic radical Ayman al-Zawahiri, are widely believed to be in Pakistan. Meanwhile, numerous banned indigenous groups continue to operate under new names: Lashkar-e-Taiba became Jamaat al-Dawat; Jaish-e-Mohammed was redubbed Khudam-ul Islam (the former was banned under U.S. law in April 2006). President Musharraf repeatedly has vowed to end the activities of religious extremists in Pakistan and to permanently prevent banned groups from resurfacing there. His policies likely spurred two lethal but failed attempts to assassinate him in December

2003. Nonetheless, some analysts call Musharraf's efforts cosmetic, ineffective, and the result of international pressure rather than a genuine recognition of the threat posed. In a February 2006 review of global threats, U.S. Director of Intelligence Negroponte told a Senate panel that Pakistan "remains a major source of extremism that poses a threat to Musharraf, to the United States, and to neighboring India and Afghanistan," a sentiment echoed by the State Department's *Country Reports on Terrorism 2005*. (See also CRS Report RL32259, *Terrorism in South Asia*.)

***Infiltration into Afghanistan.*** U.S. military commanders overseeing Operation Enduring Freedom have since 2003 complained that renegade Al Qaeda and Taliban fighters remain able to attack coalition troops in Afghanistan, then escape across the Pakistani frontier. They have expressed dismay at the slow pace of progress in capturing wanted fugitives in Pakistan and urged Islamabad to do more to secure its rugged western border area. U.S. government officials have voiced similar worries, even expressing concern that elements of Pakistan's intelligence agency might be assisting members of the Taliban. In June 2006, State Department Counterterrorism Coordinator Crumpton told a Senate panel that elements of Pakistan's "local, tribal governments" are believed to be in collusion with the Taliban and Al Qaeda, but that the United States has no "compelling evidence" that Pakistan's major intelligence agency is assisting militants.

Tensions between the Kabul and Islamabad governments — which stretch back many decades — have at times reached alarming levels in recent years, with some top Afghan officials accusing Pakistan of manipulating Islamic militancy in the region to destabilize Afghanistan. During the autumn of 2003, in an unprecedented show of force, President Musharraf moved 25,000 Pakistani troops into the traditionally autonomous tribal areas near the Afghan frontier. The first half of 2004 saw an escalation of Pakistani Army operations, many in coordination with U.S. and Afghan forces just across the international frontier (U.S. forces have no official authorization to cross the border into Pakistan). Combat between Pakistani troops and militants in the two Waziristan agencies has killed several hundred Islamic militants (many of them foreigners), Pakistani soldiers, and civilians. The battles, which continue sporadically to date and again became fierce in the spring of 2006, exacerbate volatile anti-Musharraf and anti-American sentiments held by many Pakistani Pashtuns.

Kabul's October 2004 elections were held without major disturbances, apparently in part due to Musharraf's commitment to reducing infiltrations. Yet concerns sharpened in the spring of 2005, with U.S. military officials in Afghanistan again indicating that insurgents opposed to the Kabul government were making hit-and-run attacks before returning to Pakistan. In summer 2005, Afghan leaders accused Islamabad of actively supporting insurgents and providing their leadership with safe haven. Islamabad adamantly denied the charges and sought to reassure Kabul by dispatching additional troops to border areas, bringing the total to 80,000. Still, with 90 fatalities, 2005 was the deadliest year ever for U.S. troops in Afghanistan and, by year's end, there were indications that Islamabad's efforts to control the tribal areas were meeting with little success. Musharraf's "carrot and stick" approach of offering amnesty to those militant tribals who "surrender," and using force against those who resist, clearly has not rid the region of indigenous Islamic militants or Al Qaeda operatives, even as Islamabad's ability to collect actionable intelligence there may be increasing. Late 2005 and early 2006 missile

attacks on suspected Al Qaeda targets — apparently launched by U.S. aerial drones flying over Pakistani territory — hinted at more aggressive U.S. tactics that could entail use of U.S. military assets in areas where the Pakistanis are either unable or unwilling to strike. Yet the attacks, in particular a January 13, 2006, strike on Damadola in the Bajaur tribal agency that apparently killed numerous women and children along with Al Qaeda suspects, spurred widespread Pakistani resentment at the perception that the country's sovereignty is under threat. No further such attacks are known to have taken place since.

***Infiltration into Kashmir.*** Islamabad has been under continuous U.S. and international pressure to terminate the infiltration of insurgents across the Kashmiri Line of Control (LOC). Such pressure reportedly elicited a January 2002 promise from President Musharraf to then-U.S. Deputy Secretary of State Armitage that all such movements would cease. During a June 2002 visit to Islamabad, Deputy Secretary Armitage reportedly received another pledge from the Pakistani president, this time an assurance that any existing terrorist camps in Pakistani Kashmir would be closed. Musharraf has pledged to India that he will not permit any territory under Pakistan's control to be used to support terrorism, and he insists that his government is doing everything possible to stop infiltration and shut down militant base camps in Pakistani-controlled territory. Critics contend, however, that Islamabad continues to actively support separatist insurgents as a means both to maintain strategically the domestic backing of Islamists who view the Kashmir issue as fundamental to the Pakistani national idea, and to disrupt tactically the state government in Indian Kashmir in seeking to erode New Delhi's legitimacy there. Positive indications growing from the latest Pakistan-India peace initiative include a cease-fire at the LOC that has held since November 2003 and statements from Indian officials indicating that rates of militant infiltration were down significantly. However, in 2005 and early 2006, Indian leaders renewed their complaints that Islamabad has taken insufficient action to eradicate the remaining "infrastructure of terrorism" on Pakistani-controlled territory.

***Domestic Terrorism.*** Pakistan is known to be a base for numerous indigenous terrorist organizations, and the country continues to suffer from terrorism at home, especially that targeting the country's Shia minority. Until a March 2006 car bombing at the U.S. consulate in Karachi that left one American diplomat dead, recent attacks on Western targets had been rare, but 2002 saw several acts of lethal anti-Western terrorism, including the kidnaping and murder of reporter Daniel Pearl, a grenade attack on a Protestant church that killed a U.S. Embassy employee, and two car bomb attacks on targets, including one on the same U.S. consulate, which killed a total of 29 people. These attacks, widely viewed as expressions of militants' anger with the Musharraf regime for its cooperation with the United States, were linked to Al Qaeda, as well as to indigenous militant groups. During 2003-present, the worst domestic terrorism has been directed against Pakistan's Shia minority and included suicide bomb attacks that killed a total of some 60 people in May 2005 and February 2006 (moreover, some 57 Sunnis were killed in an April 2006 suicide bombing in Karachi). Indications are that the indigenous Lashkar-e-Jhangvi (LJ) Sunni terrorist group is responsible for the most deadly anti-Shia violence. Two attempts to kill Musharraf in December 2003 and failed efforts to assassinate other top Pakistani officials in mid-2004 were said to be linked to LJ and other Al Qaeda-allied groups, and illuminated the grave and continuing danger presented by religious extremists.

**Pakistan-U.S. Security Cooperation.** In June 2004, President Bush designated Pakistan as a major non-NATO ally of the United States. The close U.S.-Pakistan security ties of the cold war era — which came to a near halt after the 1990 aid cutoff — have been in the process of restoration as a result of Pakistan's role in U.S.-led anti-terrorism campaign. In 2002, the United States began allowing commercial sales that enabled Pakistan to refurbish at least part of its fleet of American-made F-16 fighter aircraft. In March 2005, the United States announced that it would resume sales of F-16 fighters to Pakistan after a 16-year hiatus. Reports indicate that up to 80 new and used F-16s may be offered in 2006. Major government-to-government arms sales and grants in recent years have included 6 C-130 military transport aircraft; 6 Aerostat and 6 AN/TPS-77 surveillance radars; air traffic control systems; military radio systems; and 60 Harpoon anti-ship missiles (in May 2006, Congress was notified of the possible sale of another 130 Harpoons). Sales underway include 6 Phalanx guns (with upgrades on another 6) and 2,014 TOW anti-armor missiles. In 2004, 8 excess P-3C Orion maritime patrol aircraft were granted and plans for their major refurbishment and service could be worth up to \$970 million in coming years. Other pending sales include 300 Sidewinder air-to-air missiles and 115 self-propelled howitzers. Major Excess Defense Article grants have included 40 AH-1F Cobra attack helicopters in 2004 and 2 F-16A fighters in 2005. The Pentagon reports Foreign Military Sales agreements with Pakistan worth \$343 million in FY2003-FY2004 and an estimated \$492 million in FY2005.

The United States has undertaken to train and equip new Pakistan Army Air Assault units that can move quickly to find and target terrorist elements. There has also been a direct U.S. role in training the security detail of the Pakistani president, help to fund a 650-officer Diplomatic Security Unit, and assistance with numerous programs designed to improve the quality of Pakistan's internal police forces through the provision of equipment and training. A revived high-level U.S.-Pakistan Defense Consultative Group (DCG) — moribund since 1997 — sits for high-level discussions on military cooperation, security assistance, and anti-terrorism; its most recent session came in May 2006. In addition, a U.S.-Pakistan-Afghanistan Tripartite Commission meets regularly to discuss cooperation on issues related to Afghan stability. The 17<sup>th</sup> session was held in Rawalpindi in June 2006. (See also CRS Report RL32259, *Terrorism in South Asia*, and CRS Report RS22148, *Combat Aircraft Sales to South Asia: Potential Implications*.)

**Nuclear Weapons and Missile Proliferation.** Many 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 by states. In May 1998, India conducted unannounced nuclear tests, breaking a 24-year, self-imposed moratorium on such testing. Despite U.S. and world efforts to dissuade it, Pakistan quickly followed. The tests created a global storm of criticism, and represented a serious setback to two decades of U.S. nuclear nonproliferation efforts in South Asia. Pakistan currently is believed to have enough fissile material, mainly enriched uranium, for 55-90 nuclear weapons; India, with a program focused on plutonium, may be capable of building a similar number. Both countries have aircraft capable of delivering nuclear bombs. Pakistan's military has inducted short- and medium-range ballistic missiles (allegedly acquired from China and North Korea), while India possesses short- and intermediate-range missiles. All are assumed to be capable of delivering nuclear warheads over significant distances. In 2000, Pakistan placed its

nuclear forces under the control of a National Command Authority led by the president.

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 rejected such reports as "baseless," and Secretary of State Powell was assured that no such transfers were 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 early 2003, the Administration determined that the relevant facts "do not warrant imposition of sanctions under applicable U.S. laws." Press reports during 2003 suggested that both Iran and Libya benefitted from Pakistani nuclear assistance. Islamabad denied any nuclear cooperation with Tehran or Tripoli, although it conceded in December 2003 that certain senior scientists were under investigation for possible independent proliferation activities.

The investigation led to the February 2004 "public humiliation" of metallurgist Abdul Qadeer Khan, known as the founder of Pakistan's nuclear weapons program and a national hero, when he confessed to involvement in an illicit nuclear smuggling network. Khan and at least seven associates are said to have sold crucial nuclear weapons technology and uranium-enrichment materials to North Korea, Iran, and Libya. President Musharraf, citing Khan's contributions to his nation, issued a pardon that was later called conditional. The United States has been assured that the Islamabad government had no knowledge of such activities and indicated that the decision to pardon is an internal Pakistani matter. While Musharraf has promised President Bush that he will share all information learned about Khan's proliferation network, Pakistan refuses to allow any direct access to Khan by U.S. or international investigators. In May 2006, the Islamabad government declared the investigation "is closed," but some in Congress remain skeptical, and a House panel subsequently held a hearing to further discuss the issue. (See CRS Report RL32115, *Missile Proliferation and the Strategic Balance in South Asia*; CRS Report RL32745, *Pakistan's Nuclear Proliferation Activities and the Recommendations of the 9/11 Commission*; and CRS Report RS21237, *India and Pakistan Nuclear Weapons*.)

**U.S. Nonproliferation Efforts.** In May 1998, following the South Asian nuclear tests, President Clinton imposed full restrictions on all non-humanitarian aid to both Pakistan and India as mandated under Section 102 of the Arms Export Control Act. However, Congress and the President acted almost immediately to lift certain aid restrictions and, after October 2001, all remaining nuclear-related sanctions on Pakistan (and India) were removed. The United States continues to urge Pakistan and India to join the Nuclear Nonproliferation Treaty (NPT) as non-nuclear weapon states and it provides no official recognition of their nuclear weapons capabilities. During the latter years of the Clinton administration, the United States set forth nonproliferation "benchmarks" for Pakistan and India, including halting further nuclear testing and signing and ratifying the Comprehensive Test Ban Treaty (CTBT); halting fissile material production and pursuing Fissile Material Control Treaty negotiations; refraining from deploying nuclear weapons and testing ballistic missiles; and restricting any and all exportation of nuclear materials or technologies.

The results of U.S. efforts were mixed, at best, and neither Pakistan nor India are signatories to the CTBT or NPT. The Bush Administration set aside the benchmark framework. Concerns about onward proliferation, fears that Pakistan could become destabilized by the U.S.-led counterterrorism efforts in Afghanistan, and confusion over the issue of political succession in Islamabad have heightened U.S. attention to weapons proliferation in the region. Section 1601 of P.L. 107-228 outlined U.S. nonproliferation objectives for South Asia. Some Members of Congress identify “contradictions” in U.S. nonproliferation policy toward South Asia, particularly as related to the Senate’s rejection of the CTBT.

**Pakistan-India Tensions and the Kashmir Issue.** Relations between Pakistan and India remain deadlocked on the issue of Kashmiri sovereignty, and a separatist rebellion has been underway in the region since 1989. Tensions were extremely high in the wake of the Kargil conflict of 1999, when an incursion by Pakistani soldiers led to a bloody six-week-long battle. Throughout 2000 and 2001, cross-border firing and shelling caused scores of both military and civilian deaths. A 2001 Pakistan-India summit meeting failed to produce a joint statement, reportedly due to 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.” Secretary of State Powell visited South Asia in an effort to ease escalating tensions over Kashmir, but an October 2001 bombing at the Jammu and Kashmir state assembly building was followed by a December assault on the Indian Parliament in New Delhi (both incidents were blamed on Pakistan-based terrorist groups). The Indian government mobilized some 700,000 troops along the Pakistan-India frontier and threatened war unless Islamabad ended all “cross-border infiltration” of Islamic militants. Under significant international diplomatic pressure and the threat of India’s use of force, President Musharraf in January 2002 vowed to end the presence of terrorist entities on Pakistani soil, and he outlawed five militant groups, including those most often named in attacks in India: Lashkar-e-Taiba and Jaish-e-Mohammed.

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 patrol operations along the Pakistan-Afghanistan border. Intensive international diplomatic missions to South Asia reduced tensions during the summer of 2002 and appear to have prevented the outbreak of war. Numerous top U.S. officials were involved in this effort and continued to strenuously urge the two countries to renew bilateral dialogue. A “hand of friendship” offer to Pakistan by the Indian prime minister in April 2003 led to the restoration of full diplomatic relations, but surging separatist violence that summer contributed to an exchange of sharp rhetoric between Pakistani and Indian leaders at the United Nations, casting doubt on the peace effort. However, a new confidence-building initiative got Pakistan and India back on a positive track, and a November 2003 cease-fire was initiated after a proposal by then-Pakistani Prime Minister Jamali. President Musharraf also has suggested that Pakistan might be willing to “set aside” its long-standing demand for a plebiscite in Kashmir, a proposal welcomed by the United States, but called a “disastrous shift” in policy by Pakistani opposition parties.

Although militant infiltration did not end, New Delhi acknowledged that it was significantly decreased and, combined with other confidence-building measures, relations were sufficiently improved that the Indian prime minister attended a January 2004 summit meeting of the South Asian Association for Regional Cooperation in Islamabad. There Pakistan and India issued a joint “Islamabad Declaration” calling for a renewed “composite dialogue” to bring about “peaceful settlement of all bilateral issues, including Jammu and Kashmir, to the satisfaction of both sides.” A major confidence-building development came in April 2005, when a new bus service was launched linking Muzaffarabad in Pakistani Kashmir and Srinagar in Indian Kashmir, and a summit meeting produced an agreement to address the Kashmir issue “in a forward looking manner for a final settlement.” Still, many Kashmiris reject any settlement process that excludes them. Pakistan-based and Kashmiri militant groups express determination to continue fighting in Kashmir despite the Pakistan-India dialogue. Deadly attacks by separatist militants are ongoing and demonstrate that the issue remains dangerous and unresolved.

**Narcotics.** Pakistan is a major transit country for opiates that are grown and processed in Afghanistan then distributed worldwide by Pakistan-based traffickers. The State Department indicates that U.S.-Pakistan’s cooperation on drug control “remains strong,” and the Islamabad government has made impressive strides in eradicating indigenous opium poppy cultivation. However, opium production spiked in post-Taliban Afghanistan, which is now said to supply up to 90% of the world’s heroin. Elements of Pakistan’s major intelligence agency are suspected of past involvement in drug trafficking; in March 2003, a former U.S. Ambassador to Pakistan told a House panel that their role in the heroin trade from 1997-2003 was “substantial.” Some reports indicate that profits from drug sales are financing the activities of Islamic extremists in Pakistan, Afghanistan, and Kashmir.

U.S. counternarcotics programs aim to reduce the flow of opiates through Pakistan, eliminate Pakistan as a source of such opiates, and reduce the demand for illegal drugs within Pakistan. Islamabad’s own counternarcotics efforts are hampered by lack of full government commitment, scarcity of funds, poor infrastructure, and likely corruption. Since 2002, the State Department’s Bureau of International Narcotics and Law Enforcement Affairs has supported Pakistan’s Border Security Project by training border forces, providing vehicles and surveillance and communications equipment, transferring helicopters and fixed-wing aircraft to the Interior Ministry’s Air Wing, and road-building in western tribal areas. Congress funded such programs with more than \$54 million for FY2006.

## **Islamization and Anti-American Sentiment**

An unexpected outcome of Pakistan’s 2002 elections saw the Muttahida Majlis-e-Amal (MMA or United Action Front), a coalition of six Islamic parties, win 68 seats in the National Assembly — about 20% of the total. It also controls the provincial assembly in the North West Frontier Province (NWFP) and leads a coalition in the Baluchistan assembly. These Pashtun-majority western provinces border Afghanistan, where U.S.-led counterterrorism operations are ongoing. In June 2003, the NWFP assembly passed a Shariat (Islamic law) bill in the provincial assembly. Two years later, the same assembly passed a Hasba (accountability) bill that many fear could create a parallel Islamic legal body. Such developments alarm

Pakistan's moderates and President Musharraf has decried any attempts to "Talibanize" regions of Pakistan (Pakistan's Supreme Court found the Hasba bill unconstitutional). Islamists are notable for expressions of anti-American sentiment, at times calling for "jihad" against the existential threat to Pakistani sovereignty they believe alliance with Washington entails. Most analysts contend that two December 2003 attempts to assassinate President Musharraf were carried out by Islamic militants angered by Pakistan's post-September 2001 policy shift. Some observers identify a causal link between the poor state of Pakistan's primary education system and the persistence of xenophobia and religious extremism in that country (see CRS Report RS22009, *Education Reform in Pakistan*).

Anti-American sentiment is not limited to Islamist groups, however. In January 2004 testimony before a Senate panel, a senior U.S. expert opined: "Pakistan is probably the most anti-American country in the world right now, ranging from the radical Islamists on one side to the liberals and Westernized elites on the other side." A July 2005 Pew Center opinion poll found 51% of Pakistanis expressing confidence in Al Qaeda founder Osama bin Laden to "do the right thing in world affairs" and, in an October 2005 *Time* magazine interview, President Musharraf conceded that "the man on the street [in Pakistan] does not have a good opinion of the United States." A Pew poll taken months before the catastrophic October 2005 earthquake found only 23% of Pakistanis expressing a favorable view of the United States, the lowest percentage for any country surveyed. That percentage doubled to 46% in an ACNielsen poll taken after major U.S. disaster relief efforts in earthquake-affected areas, with the great majority of Pakistanis indicating that their perceptions had been influenced by witnessing such efforts. However, a January 2006 missile attack on Pakistani homes near the Afghan border killed numerous civilians and was blamed on U.S. forces, renewing animosity toward the United States among some segments of the Pakistani populace. Also in early 2006, Pakistani cities saw major public demonstrations against the publication in European newspapers of cartoons deemed offensive to Muslims. These protests, which were violent at times, included strong anti-U.S. and anti-Musharraf components, suggesting that Islamist organizers used the issue to forward their own political ends. A June 2006 Pew Center poll found only 27% of Pakistanis holding a favorable opinion of the United States, suggesting that gains following the 2005 earthquake may have receded.

## **Democratization and Human Rights**

**Democracy and Governance.** There had been hopes that the October 2002 national elections would reverse Pakistan's historic trend toward unstable governance and military interference in democratic institutions. Such hopes have been eroded by ensuing developments, including President Musharraf's imposition of major constitutional changes and his retention of the position of army chief. International and Pakistani human rights groups continue to issue reports critical of Islamabad's military-dominated government. In 2006, and for the seventh straight year, the often-cited Freedom House rated Pakistan as "not free" in the areas of political rights and civil liberties. While praising Pakistan's electoral exercises as moves in the right direction, the United States expresses concern that seemingly nondemocratic developments may make the realization of true democracy in Pakistan more elusive, and U.S. officials continue to press Pakistani leaders on this issue.

General Musharraf's assumption of the presidency ostensibly was legitimized by a controversial April 2002 referendum marked by evidence of fraud. In August 2002, Musharraf announced sweeping constitutional changes to bolster the president's powers, including provisions for presidential dissolution of the National Assembly. The United States expressed concerns that the changes could make it more difficult to build democratic institutions in Pakistan. The 2002 elections nominally fulfilled Musharraf's promise to restore the National Assembly that was dissolved in the wake of his extra-constitutional seizure of power. The pro-military Pakistan Muslim League-Quaid-e-Azam (PML-Q) won a plurality of seats, while a coalition of Islamist parties made a surprisingly strong showing. The civilian government was hamstrung for more than a year by fractious debate over the legitimacy of constitutional changes and by Musharraf's continued status as army chief *and* president. A surprise December 2003 agreement between Musharraf and the Islamist opposition ended the deadlock by bringing the constitutional changes before Parliament and by eliciting a promise from Musharraf to resign his military commission before 2005. Non-Islamist opposition parties unified under the Alliance for the Restoration of Democracy (ARD) accused the MMA of betrayal and insisted that the new arrangement merely institutionalized military rule in Pakistan.

Other apparent reversals for Pakistani democratization came in 2004, including the sentencing of ARD leader Javed Hashmi to 23 years in prison for sedition, mutiny, and forgery, and the "forced" resignation of Prime Minister Jamali for what numerous analysts called his insufficient deference to President Musharraf. Musharraf "shuffled" prime ministers to seat his close ally, Finance Minister Shaukat Aziz. Aziz is seen to be an able financial manager and technocrat favored by the military, but he has no political base in Pakistan. Moreover, in the final month of 2004 Musharraf chose to continue his role as army chief beyond the stated deadline. The United States indicates that it expects Pakistan's scheduled 2007 general elections to be free and fair throughout the entire process. In July 2005, the Senate Appropriations Committee expressed concern with "the slow pace of the democratic development of Pakistan" (S.Rept. 109-96). Pakistan's nominally non-party August-October 2005 municipal elections saw major gains for candidates favored by the PML-Q and notable reversals for Islamists, but were also marked by widespread accusations of rigging. (See CRS Report RL32615, *Pakistan's Domestic Political Developments*.)

**Human Rights Problems.** The U.S. State Department's *Country Report on Human Rights Practices 2005* determined that the Pakistan government's record on human rights again "was poor and serious problems remained." Along with concerns about anti-democratic practices, the report lists extrajudicial killings, torture, and rape; "rampant" police corruption; lack of judicial independence; political violence; terrorism; and "extremely poor" prison conditions among the serious problems. Improvement was noted, however, with government efforts to crack down on human trafficking. The Human Rights Commission of Pakistan and international human rights groups have issued reports critical of Pakistan's lack of political freedoms, lawlessness in many areas (especially the western tribal agencies), and of the country's perceived abuses of the rights of minorities. Discrimination against women is widespread and traditional constraints — cultural, legal, and spousal — keep women in a subordinate position in society. In 2005, Pakistani gang rape victim Mukhtaran Mai — and Islamabad's (mis)handling of her case — became emblematic

of gender discrimination problems in Pakistan. The most recent State Department report on trafficking in persons again said, "Pakistan does not fully comply with the minimum standards for the elimination of trafficking; however, it is making significant efforts to do so." The State Department's *International Religious Freedom Report 2005* found that in practice the Islamabad government imposes limits on the freedom of religion in Pakistan. The report noted "some steps to improve the treatment of religious minorities," but indicated that "serious problems remained." Yet the State Department has rejected repeated U.S. Commission on International Religious Freedom recommendations that Pakistan be designated a "country of particular concern." The 2006 annual report from that Commission claims that, "Sectarian and religiously motivated violence persists in Pakistan, and the government's response to this problem, though improved, continues to be insufficient and not fully effective."

## Economic Issues

**Overview.** Pakistan is a poor country with great extremes in the distribution of wealth, but the national economy has gathered significant positive momentum in recent years, helped in large part by the government's pro-growth policies. Per capita GDP is \$708 (about \$2,410 when accounting for purchasing power parity). Severe human losses and property damage from an October 2005 earthquake in northern Pakistan have had limited economic impact, given a large influx of foreign aid and the stimulus provided by reconstruction efforts. The long-term economic outlook for Pakistan is much improved since 2001, but remains clouded in a country highly dependent on foreign lending and the importation of basic commodities. Substantial fiscal deficits and continued dependency on external aid counterbalance a major overhaul of the tax collection system and what have been notable gains in the Karachi Stock Exchange, which nearly doubled in value as the world's best performer in 2002 and was up 52% in 2005.

Output from both the industrial and service sectors has grown substantially since 2002, but the agricultural sector has lagged (in part due to droughts), slowing overall growth. Agricultural labor accounts for nearly half of the country's work force. Pakistan's real GDP for the fiscal year ending June 2006 grew by 6.6%, driven by a booming manufacturing sector and greater than expected agricultural expansion. However, overall growth was down from 8.4% the previous year and fell well short of Islamabad's target of 7%. Expanding textile production and the government's pro-growth measures have most analysts foreseeing solid growth ahead, with predictions near 6% for the next two years.

Pakistan stabilized its external debt at about \$33 billion by mid-2003, but this rose to nearly \$38 billion in 2005. Still, such debt is less than one-third of GDP today, down from more than one-half in 2000. The country's total liquid reserves reached a record \$13 billion by mid-2005, an all-time high and an increase of more than 400% since October 1999. Foreign remittances have exceeded \$4 billion annually since 2003, nearly quadrupling the amount in 2001. High oil prices have driven inflationary pressures, resulting in a year-on-year wholesale rate of 8.1% in April 2006. While inflation is expected to ease in the latter half of 2006, many analysts call it the most important obstacle to future growth. Defense spending and interest on public debt together consume two-thirds of total revenues, thus squeezing

out development expenditure. 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 further 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.

Attempts at economic reform historically have floundered due to political instability. The Musharraf government has had notable successes in effecting macroeconomic reform, although efforts to reduce poverty have made little headway. Rewards for participation in the post-September 2001 anti-terror coalition eased somewhat Pakistan'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 April 2005 Asian Development Bank report noted improvement in the Pakistani economy, but identified rising inflation, a large trade deficit, and a balance of payments deficit as major areas of concern. In October 2005, the World Bank's country director for Pakistan said there are plenty of risks for pessimists to worry about with regard to Pakistani growth and poverty reduction, but claimed "today the optimists have the upper-hand."

**Trade and Investment.** The United States is by far Pakistan's leading export market, accounting for about one-fifth of the total. Pakistan's primary exports are cotton, textiles and apparel, rice, and leather products. During 2005, total U.S. imports from Pakistan were worth \$3.25 billion (up 13% over 2004). About two-thirds of this value came from the purchase of cotton apparel and textiles. U.S. exports to Pakistan during 2005 were worth \$1.25 billion (down 31% from 2004), led by fertilizers and cotton fiber (the decline is a result of completed delivery of civilian aircraft). According to the 2006 report of the U.S. Trade Representative (USTR), Pakistan has made substantial progress in reducing import tariff schedules, though a number of trade barriers remain. Progress also has come in the area of intellectual property rights protection: estimated trade losses due to copyright piracy in Pakistan were notably lower in 2005. Book piracy accounted for about half of the 2005 losses, however, and remains a serious concern. Pakistan also has been a world leader in the pirating of music CDs and has appeared on the USTR's "Special 301" Watch List for 16 consecutive years (in 2004, continuing violations caused the USTR to move Pakistan to the Priority Watch List).

According to Pakistan's Ministry of Finance, total foreign direct investment in Pakistan exceeded \$3 billion for the year ending June 2006 — an unprecedented amount that more than doubled over the previous year — but investors remain wary of the country's uncertain security circumstances. Islamabad is eager to finalize a pending Bilateral Investment Treaty and reach a Free Trade Agreement with the United States, believing that its vital textile sector will be bolstered by duty-free access to the U.S. market. The Heritage Foundation's *2006 Index of Economic Freedom* — which may overemphasize the value of absolute growth and downplay broader quality-of-life measurements — noted significant improvements, but again rated Pakistan's economy as being "mostly unfree," identifying restrictive trade policies, a heavy fiscal burden, weak property ownership protections, and a high level of "black market" activity. Corruption is a serious problem: in 2005, Berlin-based

Transparency International placed Pakistan 144<sup>th</sup> out of 158 countries in its annual ranking of world corruption levels.

## U.S. Aid and Congressional Action

**U.S. Assistance.** A total of more than \$15 billion in U.S. economic and military assistance went to Pakistan from 1947 through 2005. In June 2003, President Bush vowed to work with Congress on establishing a five-year, \$3 billion aid package for Pakistan. Annual installments of \$600 million each, split evenly between military and economic aid, began in FY2005. The Foreign Operations FY2005 Appropriations bill (P.L. 108-447) established a new base program of \$300 million for military assistance for Pakistan. When additional funds for development assistance, law enforcement, and other programs are included, the aid allocation for FY2005 was about \$688 million (see **Table 1**). Significant increases in economic support, along with earthquake relief funding, may bring the FY2006 total to around \$874 million. The Bush Administration's FY2007 request calls for another \$739 million in aid to Pakistan although, in H.Rept. 109-486, the House Appropriations Committee recommended reducing that amount by \$150 million (ostensibly for domestic budgetary reasons unrelated to Pakistan-U.S. relations).

Congress also has appropriated billions of dollars to reimburse Pakistan for its support of U.S.-led counterterrorism operations. As of June 2006, a total of \$5.74 billion had been appropriated for supplemental FY2002-FY2006 Defense Department spending for coalition support payments to Pakistan and other cooperating nations (with the FY2006 emergency supplemental appropriations bill, P.L. 109-234, a conference committee authorized that up to \$740 million be made available for further payments). Pentagon documents indicate that Islamabad receives the great majority of these funds: about \$3.6 billion for operations from January 2002 through August 2005, an amount roughly equal to one-quarter of Pakistan's total military expenditures during that period. Moreover, the FY2007 defense appropriations bill passed by the House (**H.R. 5631**) would allow that another \$300 million in Pentagon funds be used for future reimbursements.

**Proliferation-Related Legislation.** Through a series of legislative measures, Congress incrementally lifted sanctions on Pakistan resulting from its nuclear weapons proliferation activities.<sup>1</sup> After the September 2001 terrorist attacks on the United States, policymakers searched for new means of providing assistance to Pakistan. President Bush's issuance of a final determination that month removed remaining sanctions on Pakistan (and India) resulting from the 1998 nuclear tests, finding that restrictions were not in U.S. national security interests. Some Members

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<sup>1</sup> The Agricultural Export Relief Act of 1998 (P.L. 105-194) allowed U.S. wheat sales to Pakistan after July 1998. The India-Pakistan Relief Act of 1998 (in P.L. 105-277) authorized a one-year sanctions waiver exercised by President Clinton in November 1998. The Department of Defense Appropriations Act, 2000 (P.L. 106-79) gave the President permanent authority to waive nuclear-test-related sanctions applied against Pakistan and India after October 1999, when President Clinton waived economic sanctions on India (Pakistan remained under sanctions as a result of the October 1999 coup). (See CRS Report RS20995, *India and Pakistan: Current U.S. Economic Sanctions*.)

of the 108<sup>th</sup> Congress urged reinstatement of proliferation-related sanctions in response to evidence of Pakistani assistance to third-party nuclear weapons programs. However, the Nuclear Black-Market Elimination Act (H.R. 4965) did not see floor action. Pending legislation in the 109<sup>th</sup> Congress includes **H.R. 1553**, which would prohibit the provision of military equipment to Pakistan unless the President can certify that Pakistan has verifiably halted all proliferation activities and is fully sharing with the United States all information relevant to the A.Q. Khan proliferation network.

**Coup-Related Legislation.** Pakistan's October 1999 military coup triggered U.S. aid restrictions under Section 508 of the annual Foreign Assistance appropriations act. Post-September 2001 circumstances saw Congress take action on such restrictions. P.L. 107-57 (October 2001) waived coup-related sanctions on Pakistan through FY2002 and granted presidential authority to waive them through FY2003. A November 2003 emergency supplemental appropriations act (P.L. 108-106) extended the President's waiver authority through FY2004. The Foreign Operations FY2006 appropriations bill (P.L. 109-102) extended it through FY2006. President Bush has exercised this waiver authority annually.

**Other Legislation.** In the 108<sup>th</sup> Congress, conference managers making foreign operations appropriations directed the Secretary of State to report to Congress on Pakistan's education reform strategy and the U.S. strategy to provide relevant assistance (H.Rept. 108-792; see CRS Report RS22009, *Education Reform in Pakistan*). Also in the 108<sup>th</sup> Congress, the House-passed Foreign Relations Authorization Act, FY2004-2005 would have required the President to report to Congress on Pakistani actions related to terrorism and WMD proliferation. The Senate did not take action on this bill. The House-passed version of the Intelligence Authorization Act, FY2005 contained similar reporting requirements; this section was removed in the Senate. In the 109<sup>th</sup> Congress, the pending Targeting Terrorists More Effectively Act of 2005 (**S. 12**) includes Pakistan-specific language.

**9/11 Commission Recommendations.** *The 9/11 Commission Report* (July 2004) identified the government of President Musharraf as the best hope for stability in Pakistan and Afghanistan, and it recommended that the United States make a long-term commitment to provide comprehensive support for Islamabad so long as Pakistan itself is committed to combating extremism and to a policy of "enlightened moderation." In the Intelligence Reform and Terrorism Prevention Act of 2004 (P.L. 108-458), Congress broadly endorsed this recommendation by calling for U.S. aid to Pakistan to be sustained at a minimum of FY2005 levels and requiring the President to report to Congress a description of long-term U.S. strategy to engage with and support Pakistan. A November 2005 follow-on report by Commissioners gave a "C" grade to U.S. efforts to support Pakistan's anti-extremism policies and warned that the country "remains a sanctuary and training ground for terrorists." In March 2006, **H.R. 5017**, to insure the implementation of the recommendations of the 9/11 Commission, was introduced in the House. A Senate version (**S. 2456**) was introduced three months later. The bills contains Pakistan-related provisions.

**Table 1. U.S. Assistance to Pakistan, FY2001-FY2007**  
(in millions of dollars)

Program or Account	FY2001 Actual	FY2002 Actual	FY2003 Actual	FY2004 Actual	FY2005 Actual	FY2006 Estimate	FY2007 Request
CSH	—	5.0	15.6	25.6	21.0	32.2	21.7
DA	—	10.0	34.5	49.4	29.0	40.6	29.0
ERMA	—	25.0	—	—	—	—	—
ESF	—	624.5	188.0 <sup>c</sup>	200.0 <sup>c</sup>	297.6	377.6	350.0
FMF	—	75.0	224.5	74.6	298.8	297.0	300.0
IDFA	—	—	—	—	—	70.0 <sup>e</sup>	—
IMET	—	0.9	1.0	1.4	1.9	2.0	2.1
INCLE	3.5	90.5 <sup>b</sup>	31.0	31.5	32.1	56.3	25.5
NADR	—	10.1	—	4.9	8.0	7.8	10.3
PKO	—	220.0	—	—	—	—	—
<b>Subtotal</b>	<b>\$3.5</b>	<b>\$1,061.0</b>	<b>\$494.6</b>	<b>\$387.4</b>	<b>\$688.4<sup>d</sup></b>	<b>\$873.5<sup>f</sup></b>	<b>\$738.6</b>
Food Aid <sup>a</sup>	87.5	90.8	18.7	24.0	18.0	26.7	—
<b>Total</b>	<b>\$91.0</b>	<b>\$1,151.8</b>	<b>\$513.3</b>	<b>\$411.4</b>	<b>\$706.4<sup>d</sup></b>	<b>\$900.2<sup>f</sup></b>	<b>\$738.6</b>

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

**Abbreviations:**

CSH:	Child Survival and Health	IMET:	International Military Education and Training
DA:	Development Assistance	INCLE:	International Narcotics Control and Law Enforcement (includes border security)
ERMA:	Emergency Refugee and Migration Assistance	NADR:	Nonproliferation, Anti-Terrorism, Demining, and Related <sup>g</sup>
ESF:	Economic Support Fund	PKO:	Peacekeeping Operations
FMF:	Foreign Military Financing		
IDFA:	International Disaster and Famine Assistance		

**Notes:**

- a. P.L.480 Title I (loans), P.L.480 Title II (grants), and Section 416(b) of the Agricultural Act of 1949, as amended (surplus agricultural commodity donations). Food aid totals do not include freight costs.
- b. Included \$73 million for border security projects that continued in FY2003.
- c. Congress authorized Pakistan to use the FY2003 ESF allocation to cancel \$988 million and the FY2004 allocation to cancel \$495 million in concessional debt to the U.S. government.
- d. Included Emergency Supplemental Appropriations Act, 2005 (P.L. 109-13) funding of \$150 million in FMF and \$4 million in counterdrug funding for Pakistan.
- e. The Emergency Supplemental Appropriations Act, 2006 (P.L. 109-234) did not earmark IDFA funds for Pakistani earthquake relief but allocated sufficient funds to meet the Administration request.
- f. The FY2006 estimate includes Emergency Supplemental Appropriations Act, 2006 (P.L. 109-234) funding of \$40.5 million in ESF and \$18.7 million in counterdrug funding for Pakistan.
- g. The great majority of NADR funds allocated for Pakistan are for anti-terrorism assistance.

Figure 1. Map of Pakistan



Source: Map Resources. Adapted by CRS. (K.Yancey 2/28/06)