

Trends in Pakistan's Defence Spending

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Pakistan's defence spending has always been a matter of concern for the economists and academicians within Pakistan and the financial institutions abroad. Pakistan had maintained defence spending at the rate of 6 per cent of the gross domestic product (GDP) till the late 1990s. In the last six years, the *official* defence spending figures have been kept low owing to the massive international pressures in the past and the strong debate in Pakistan over the defence spending being responsible for the country's economic woes in the 1990s.

Defence requirements and allocations got precedence in the national spending of Pakistan from the time of its inception and by every successive regime, regardless of it being civilian or military. At the very inception of Pakistan, the first Prime Minister, Liaquat Ali Khan (August 1947-October 1951) said, "The defence of the state is our foremost consideration. It dominates all other governmental activities."¹ In a similar strong statement, Prime Minister Muhammad Ali Bogra (April 1953-August 1955) said that he would rather starve Pakistan than allow weakening of its defence.²

Every successive regime, civil or military, has been spending a significant portion of its national resources on defence and military requirements. Thus, in the last two decades, the defence budget of Pakistan has been constantly under pressure from the international monetary organisations and strategic thinkers. In the 1990s, the deplorable state of the Pakistani social sector stood in complete contrast to the grandeur of the military elite. This wide gap between the haves and have-nots in Pakistan has actually resulted in a massive social divide, leading to civil unrest in the society and dismissing all hopes for a democratic rule. Neglect of the social sector in Pakistan over the decades has led to weak human resource development, with low education (and, hence, the growth of *madrassas*) and employment rates. This, in turn, has encouraged the motivation for *jihad* in the Pakistani youth. Despite international pressures, Pakistan maintained military expenditure at 6 per

cent of the GDP and above till the 1990s when debt and debt servicing led to high fiscal deficits and the governments had to borrow money for debt servicing. Pakistan was forced to reduce defence spending from the 1990s under heavy pressures from the lending agencies like the International Monetary Fund (IMF)/World Bank.

The terrorist attacks in the United States on September 11, 2001, and Pakistan's consequent status as a US ally in the fight against terrorism once again provided the military regime with an excuse to fulfill its aspirations for military modernisation, and further increase the defence spending. Although, the official defence expenditure figures were maintained at an average rate of 3.4 per cent of the GDP in the last six years, the estimated defence spending stands much higher in Pakistan.

Table I: Pakistan: Defence Expenditure Statistics

	Defex (bn. Rs.)	GDP (current prices, bn. Rs.)	Federal Govt. Exp (bn. Rs.)	Population (mn)	Defence Forces (‘000)	Defex/ GDP (%)	Defex/ Federal Govt. Exp (%)
1961-62	1.109	19.139	1.986	97.5	250	5.79	55.84
1962-63	0.954	20.489	1.795	101.1	250	4.66	53.15
1963-64	1.157	22.945	2.337	104.7	253	5.04	49.51
1964-65	1.262	26.202	2.734	108.5	253	4.82	46.16
1965-66	2.855	28.969	4.498	112.5	278	9.86	63.47
1966-67	2.794	32.622	3.765	116.7	278	8.56	74.21
1967-68	2.182	35.542	4.077	121.0	351	6.14	53.52
1968-69	2.427	37.985	4.371	124.0	357	6.39	55.53
1969-70	2.749	43.347	5.099	127.0	390	6.34	53.91
1970-71	3.202	46.006	5.751	131.0	390	6.96	55.68
1971-72	3.726	49.784	6.926	135.0	404	7.48	53.80
1972-73	4.440	61.414	8.406	63.34	350	7.23	52.82
1973-74	4.949	81.690	11.954	65.89	466	6.06	41.40
1974-75	6.914	103.557	14.384	69.98	500	6.68	48.07
1975-76	6.103	119.736	17.709	72.12	502	5.10	34.46
1976-77	8.121	135.982	20.609	74.33	604	5.97	39.41
1977-78	9.675	159.840	25.454	76.60	588	6.05	38.01
1978-79	10.302	177.844	29.861	78.94	518	5.79	34.50
1979-80	12.655	210.253	37.948	81.36	544	6.02	33.35
1980-81	15.300	278.196	46.348	83.84	549	5.50	33.01
1981-82	18.631	324.159	51.116	86.44	560	5.75	36.45
1982-83	23.224	364.387	59.076	89.12	588	6.37	39.31
1983-84	26.798	419.802	75.902	91.88	588	6.38	35.31
1984-85	31.794	472.157	90.074	94.73	479	6.73	35.30

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1985-86	34.763	514.532	100.043	97.67	483	6.76	34.75
1986-87	41.325	572.479	111.856	100.70	483	7.22	36.94
1987-88	47.015	675.389	136.151	103.82	481	6.96	34.53
1988-89	51.053	769.745	156.417	107.04	481	6.63	32.64
1989-90	57.926	855.943	173.273	110.36	520	6.77	33.43
1990-91	64.623	1,020.600	183.660	113.78	550	6.33	34.63
1991-92	75.751	1,211.385	199.000	117.31	565	6.25	38.67
1992-93	87.461	1,341.629	235.000	120.83	580	6.52	37.91
1993-94	91.776	1,573.097	258.000	124.48	580	5.83	34.31
1994-95	104.512	1,882.071	295.017	128.01	540	5.55	35.43
1995-96	115.250	2,165.598	334.737	131.63	577	5.32	34.43
1996-97	127.441	2,404.633	398.209	135.28	587	5.30	32.00
1997-98	136.164	2,759.525	461.907	139.02	587	4.85	29.48
1998-99	143.471	2,960.000	606.300	140.00	587	4.32	23.66
1999-2K	150.440	3,562.020	680.410	140.00	587	4.22	22.11
2000-01	133.500	3,876.025	691.700	140.40	587	3.44	19.30
2001-02	151.600	4,095.212	648.600	141.20	587	3.70	23.37
2002-03	159.700	4,481.412	706.300	145.00	600	3.56	22.61
2003-04	180.536	5,250.527	753.300	148.70	616	3.44	23.97
2004-05	216.258	6,203.889	902.800	148.70	616	3.48	23.55
2005-06	*223.501		1,098.500	148.70	616	-	20.35
2006-07	*250.000	-	-	150.00	616	-	-

* Budget Estimates

Source: Jasjit Singh, "Trends in Defence Spending," in Jasjit Singh, ed., *Asian Defence Review 2006* (New Delhi: Knowledge World, 2006), pp.87-88.

Trends in Pakistan's Defence Expenditure

Pakistan's defence budget, unlike India's or even China's is not transparent and no details about the breakdown of defence expenditure are available. Only an overall defence budget figure is provided by the government. Estimated military spending is significantly higher as external military assistance in various forms is not included in the official figures of the defence expenditure. Also, several military related expenditures are covered under civil and public administration.

Table I indicates that Pakistan's defence budget has been approximately 25 per cent of the total expenditure. Amongst the developing countries, Pakistan's defence allocation stands very high. As stated earlier, defence has been prioritised from the inception of the country. After 1961, for 11 years, approximately 50-60 per cent of the government expenditure was absorbed by the defence sector.

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In the mid-1950s and early 1960s, the US military aid helped to keep defence spending low, with a high military capability. America's fear of Soviet expansion into the Middle East persuaded it to keep Pakistan on its side and Pakistan entered into the regional anti-Communist alliance, the Southeast Asia Treaty Organisation (SEATO) in 1955 and the Baghdad Pact [renamed the Central Treaty Organisation (CENTO) after Iraq left the pact in 1956]. In the mid-1950s, when Pakistan first received the American assurance and eventually the military assistance, it considered it to be "a glorious chapter in its history." Prime Minister Bogra said that the "United States military aid will enable Pakistan to achieve adequate defensive strength without the country having to assume an otherwise increasing burden on its economy."³ Ayub Khan too regarded the US assistance as a tremendous boost to Pakistan's security. The bulk of the equipment that Pakistan acquired in this period came in the form of US aid (not sale). Despite this, the defence expenditure figures indicate spending at the rate of around 4.8 per cent till 1964, and Pakistan was spending approximately 50 per cent of its federal governmental expenditure on defence till the mid-1960s. Ayub was generous towards the military and

Pakistan's Defence Budget 2008-09

The Pakistan Army has always maintained financial autonomy and flexibility for itself. The Pakistani defence budget has been a single line budget stating the overall defence budget. In an unprecedented move, defence spending for the year 2008-09 has been announced with a break-up of the defence budget. Defence spending for the year 2008-09 has been allocated Rs 296 billion, an increase by 7.1 per cent over last year. This figure excludes Rs 5 billion for defence development and Rs 1.5 billion for defence production. The break-up of the defence allocation is as follows: Rs 99.59 billion for pay and allowances of armed forces personnel, Rs 82.84 billion for operational expenses, Rs 87.63 billion for physical assets, Rs 25.73 billion for civil work and Rs 11.17 billion for defence arrangements. The allocation for the army has gone up by 4.31 per cent, for the air force by 5.93 per cent and the navy saw the highest increase in allocations, by 14.16 per cent. Although the new policy move would reduce the criticism against Pakistan's defence spending due to non-accountability, the demand for greater transparency remains. Source: *The News*, June 12, 2008.

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the defence expenditure continued to rise during his tenure, 1958-69. Defence expenditure was the biggest item in the national budget. Military spending witnessed a steep rise after the 1965 Indo-Pak War. Defence allocation was doubled in the fiscal year 1965-66 to Rs. 2,855 million from the previous year, when the figure was Rs. 1,262 million. In terms of the percentage of the total expenditure, this rise was 53.67 per cent from 46.07 per cent. The salaries and facilities provided for the military were increased in this period, placing the military above the civilian counterparts financially and providing them a luxurious life style. There was opposition by some political parties in the National Assembly regarding the lavish life style which the military enjoyed, but the opposition was undermined. The Ayub Khan regime viewed the military as a tool for socio-economic development and modernisation of the Pakistani society.⁴ The number of military personnel increased from 253,000 in 1964-65 to 357,000 in 1968-69. The defence budget during 1967-71 was an average 6.5 per cent of the GDP. The American sanctions were imposed due to the launching of "Grand Slam," and, consequently, American weapon supply was suspended. Chinese weapons started to flow in after the 1965 War and intelligence reports also talked about money flowing in from the Arab world to support the defence infrastructure of Pakistan. Pakistan maintained its defence expenditure at the rate of 6.5 per cent in this period, mainly due to three factors:

- Increase in the number of personnel added their pay and allowances to the budget.
- Pakistan had to make up the war losses.
- Spare parts to maintain the force had to be purchased.

Military expenditure again increased in 1971-72. This was primarily due to the 1971 War when the military was deployed in East Pakistan and Pakistan's defeat led to a realisation of the need for further enhancing defence capabilities. Pakistan focussed on diversifying its sources of weapon procurements in the 1970s as the Pakistani defence industry suffered a major blow with the US arms embargo after 1965. This was the time when Pakistan came closer to China. Also, Bhutto's policy differed from that of Ayub, and he was strongly in favour of maintaining ties with all the major powers, with vested interests in South and West Asia. China became an important source for weapons owing to the following factors:

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1. Bilateral relations improved after the Sino-Indian War of 1962. Pakistan and China signed three pacts in 1963 which covered trade, civil aviation and borders wherein Pakistan illegally ceded large tracts of land in Shaksgam Valley in Jammu and Kashmir (J&K) to China.
2. China demonstrated open support to Pakistan in the 1965 War and also supplied war material, including T-59 tanks and MiG-19 fighter aircraft.
3. Chinese weapons turned out to be cheaper than the weapons from the West.
4. Credit from China was available on easy repayment terms.
5. Pakistan started to view China as a more reliable partner compared to the US.⁵

Pakistan was the first non-Communist country to have received such lavish assistance from China. Chinese military assistance was not only in the form of arms supply but also for the development of indigenous facilities for defence production. During Bhutto's regime in the 1970s, defence expenditure continued to grow as Bhutto considered the military the ultimate shield against external and internal threats. Bhutto took a leap forward and introduced legislation to check criticism of the military's professional role. His regime further revised the pay, allowances and other facilities for the commissioned ranks as well as for the non-commissioned ranks of all three Services.⁶ Pakistan's military strength increased remarkably in the 1970s. In 1976-77, the figure stood at 604,000 as compared to 351,000 in 1967-68, thus, recording 70 per cent increase in just 10 years. This was a major factor contributing to the high percentage of GDP being spent on defence.

In the late 1970s, during Gen Zia's regime, the defence budget continued to be at a higher end. Being a military man, Zia had a strong bias for the military build-up of Pakistan. According to him, "How can you fight a nuclear submarine or an aircraft carrier with a bamboo stick? We have to match sword with sword, tank with tank, and destroyer with destroyer. The situation demands that national defence be bolstered and Pakistan cannot afford any cut or freeze in defence expenditure, since you cannot freeze the threat to Pakistan's security."⁷

Gen Zia's militarisation plans were boosted by a major strategic development—the *Soviet invasion of Afghanistan*. Pakistan became a US ally and was declared the frontline state in the war against Communism. The suave

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general fully utilised the opportunity to mend bridges with the United States, unlike his predecessor Zulfikar Ali Bhutto who tried to drift away from the West. Gen Zia also emphasised the threat perception in Pakistan from the east and west and focussed on major weapon acquisitions. He received a large supply of arms, ostensibly for the Afghan Mujahideen, but more than 60 per cent was retained by the army. In late 1982, the United States and Pakistan evolved a happy partnership, with the United States, providing Pakistan with \$600 million a year in military and economic aid. Apart from Pakistan, only Israel, Egypt and Turkey received more assistance.⁸ Apart from seeking Pakistan's support in resisting the Soviet military presence in Afghanistan, Washington was also of the view that securing Pakistan would motivate the Pakistani leadership to slow down on their nuclear programme. The military and economic support from the United States helped the economy to recover from Bhutto's flawed policies in the 1970s. The GDP growth averaged 6.5 per cent in the 1980s and matched the growth rate of the 1960s. The defence expenditure in the 1980s, hovering at 6.5 per cent of the GDP, remained at a high level of 25 per cent of the total government expenditure. Pakistan was able to acquire its "badly needed" weaponry from America. US military assistance also provided some major equipment to Pakistan on lease. For example, the six destroyers in the 1980s with the Pakistan Navy were acquired on lease from America. Pakistan was able to modernise its defence equipment at a relatively lower price paid by its people. Despite the military and economic assistance from the US, defence expenditure in the 1980s remained high in order to sustain the high level of militarisation.

The defence budget figure rose to Rs 150.4 billion in 1999-2000 from Rs 18 billion in 1981-82. Compared to the earlier decades, defence expenditure came down as a percentage of total expenditure in the late 1990s. However, this was partly due to the fact that the government's expenditure went up on debt servicing, which was indirectly linked to the rising military spending.

The 1990s witnessed increasing macro-economic imbalances and Pakistan experienced deceleration in both economic growth and investments. GDP growth, which stood at 6.5 per cent in the 1980s, declined to an average of 4.6 per cent in the 1990s. In the second half of the 1990s, GDP growth rate witnessed a steep decline when it fell to 1.9 per cent in 1996-97. Eventually, in the following years, continuing the slow pace, GDP growth rate stood at 2.5 per cent in 2000-01. Public debt went up

within a decade from Rs. 802.1 billion in 1990 to Rs 3,198 billion by the year 2000. As a percentage of GDP, it increased from 93.7 per cent to above 100 per cent during the same period. The defence expenditure, however, remained approximately at 5 per cent of the GDP in the 1990s. High defence spending in the 1990s was due to the suspended US arms supplies (under the US laws) and, secondly, Pakistan's strategy to continue the proxy war in India.

In the late 1990s, Pakistan faced tremendous pressure from the International Monetary Fund to control any further increase in the defence budget and cut the fiscal deficit. It was under these international pressures that the annual budget of the fiscal year 2000-01 separated the pensions of retired military personnel from the defence budget. These allocations were reflected under the head of general administration. Thus, the defence budget in the fiscal year 2000-01 appeared to have gone down from Rs 150.4 billion in the previous year to Rs 133.5 billion. It can be concluded that pensions had a share of approximately 11 per cent in the defence budget, and this continues to be so, although it is not reflected in the official figures.

Macro-economic indicators depicted a downfall and the economy was in the doldrums by the end of the 1990s. In a radical move, Pakistan projected a freeze in the defence budget for the year 2001-02. But the actual spending went up from Rs 133.5 billion in the previous year to Rs 151.6 billion in 2001-02 (in a total government expenditure of Rs 752 billion), and defence expenditure increased from 3.44 per cent of the GDP to 3.70 per cent in 2001-02. At this point, the debt servicing and defence outlays, totalling to Rs 4,690 crore, exceeded the revenue receipts of Rs 4,530 crore, indicating that the remaining government expenditure needed to be financed through continued borrowings. The external debt stood at \$ 38 billion, amounting to about 70 per cent of the GDP. A freeze in the defence budget was proposed by the Debt Reduction and Management Committee (of the IMF). The Government of Pakistan agreed that, "Following the over-run relative to the target for defence expenditure control, mechanisms have been put in place to ensure that the defence budget remains within the agreed limits."⁹

It was at this stage that the terrorist attacks in the USA on 9/11 altered the dynamics of government financing in Pakistan as a consequence of its becoming a "frontline state" (against terrorism) for the third time in less than fifty years. The defence expenditure in the last five years has been hovering

at a rate of around 3.5 per cent of the GDP. The lower percentage of defence spending as compared to previous decades can be attributed to the following factors:

1. International pressures in the previous decade laid strict conditions on the defence budget.
2. Since the 1990s, nearly 70-80 per cent of Pakistan's weapons and equipment have been acquired from China at lower cost and friendship prices. This has helped to contain the defence expenditure at a lower level, averaging 5 per cent of the GDP during the 1990s.
3. The defence budget as a percentage of GDP remained low due to significant growth in the GDP figures in the last five years. Pakistan's GDP currently (in the last five years) stands at approximately 7 per cent on an average, compared to 2.5 in the late 1990s.
4. Post 9/11, Pakistan has been receiving major US military assistance as a chief ally in the war against terrorism and as a major non-NATO ally of the US. The inflow of US military assistance has been in the form of supply of modern defence equipment, training of the Pakistan military and also modernisation of Pakistani facilities and bases being used by the US since September 11, 2001. Thus, even though the official figures state the defence expenditure at 3.8 per cent, the actual resources being spent on defence are much more.

Factors Shaping the Military Spending in Pakistan

Threat Perception

Defence planners in Pakistan have constantly justified the high defence allocation by highlighting the perception of threat from India. Threat perceptions in Pakistan, forming the core of the defence policies and military strategy, have remained India-centric. Pakistan perceives India as having hegemonic ambitions. Since the inception of Pakistan, 'fear of India' has been generated in the minds of the masses which helped to justify the maximum share for defence allocations from the national income. Successive regimes in Pakistan, whether political or military, have focussed on issues like Kashmir to gain public support in order to further their respective political goals. Not only on the national front, but also at the international level, the perception of threat has always been used as an argument to convince foreign aid donors for financial and mil-

itary assistance and also to prevent any cut in the defence expenditure.

The invasion of Afghanistan by the former USSR was a major strategic development which Pakistan's defence planners utilised fully to further highlight the threat perception now from the west besides that from India. Various scholars reinforced this perception in the context of the Cold War. Pakistan propagated the conventional wisdom that the Soviet Union had intentions of reaching the 'warm waters' through Pakistan, after establishing its control over Afghanistan.¹⁰ Pakistan became a frontline state for the Americans and managed to acquire major weapons from Washington, fulfilling its aspirations for military modernisation with substantial military and security related economic aid.

While the perceived threat perception from New Delhi has been constant in Islamabad, post 9/11, Pakistan has proclaimed its support to fight the global war against terrorism. The threat from the Islamic militants within the country and abroad placed Pakistan in a position to highlight its defence requirements and seek sophisticated modern defence equipment. Pakistan's military has been involved in massive operations in South Waziristan, using the modern weaponry, including the F-16 and large numbers of military personnel, thus, justifying the need for a well equipped, strong military establishment in the country. These operations, in turn, have agitated the tribal communities in Waziristan who have displayed resentment against the current military regime by extending support in the form of shelter to the Islamist fundamentalists. The rise of Islamic parties, especially in the Northwest Frontier Province (NWFP), added a parallel factor in 2002.

Dominant Military Lobby

Pakistan's national politics and decision-making related to defence and other core areas is largely dominated by the military. Even after sixty years of independence from the British Raj, democracy in Pakistan has not been able to surface. Democratically elected regimes have not survived in Pakistan, and the country has, by and large, been ruled by the military. However, it is difficult to comment on whether it was the weak democratic leadership that led to the military's interference in the national decision-making or the predominant military institution which never allowed democracy to flourish in Pakistan. The military remains the elite in Pakistan, controlling the strings of the civil bureaucracy, judiciary and even major corporate sectors.

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Ayub Khan's regime highlighted the role of the military in the civilian sector in order to build goodwill for the army in the common man's heart. The second Five-Year Plan (1960-65) envisaged the utilisation of skilled and disciplined military manpower for the technical and developmental jobs. Following this, the military was involved in various projects associated with the construction of dams, roads and highways.¹¹

Eventually, Pakistan's military emerged as the most influential institution in the country, taking control of all the national and international policies, besides the defence decision-making. The main reason for the military's dominating position in the defence decision-making lies in its special position in the power politics of Pakistan. The military in Pakistan has assumed the responsibility of guarding the Islamic identity and frontiers of the country. Fear of India has an ideological orientation in Pakistan. "The idea is that India, with its predominantly Hindu population, cannot bear the existence of an Islamic Pakistan; and it is only the defence establishment that can provide the security of this ideological state."¹²

Pakistan's state institutions, and specifically the security institutions, have played a major role in building Pakistan's national identity on the basis of religion. Islam has been the rallying point against the perceived Indian threat. The state machinery in Pakistan has sponsored and supported Islamist groups over the decades to influence domestic politics and to support the military's political dominance. Pakistan's political commitment to an ideological state evolved into a strategic commitment to export *jehadist* ideology for regional influence. During the Bangladesh crisis in 1971, the military in Pakistan used Islamist rhetoric and strengthened the Islamic forces in order to rule out the secular leaders elected by the Bengali speaking majority in East Pakistan. In the late 1980s, Pakistan supported the Mujahideen forces operating from Pakistan and the assured success of this experiment against the Soviets encouraged Pakistan's military to expand the *jehad* to India, Afghanistan and post-Soviet Central Asia. The Islamists have been allies in the Pakistan military's effort to seek strategic depth in Afghanistan and to pressurise India to negotiate on the Kashmir issue. The Pakistan Army has included *jehad* in its motto since 1976. Apart from the massive numbers of defence personnel, the military in Pakistan sponsors the Islamist groups to support its desire to emerge as the centre of a global Islamic resurgence. This, in turn, has contributed towards supporting the military's demand for a large portion of

national resources in the defence sector.

The military in Pakistan has also been actively involved in identifying and managing internal threats within Pakistan. The military's role in Pakistan extends to various forms of nation-building activities and, thus, justifies the military being allocated a large defence budget. Successive regimes have relied on the military, since the very inception of the country, to handle the domestic unrest and insurgencies, despite the displeasure of the people. All the Constitutions in Pakistan have allowed, and been liberal towards, the use of armed forces within the country. Under the present Constitution, Article 245 allows the armed forces to "act in the aid of civil power" whenever required.¹³ Pakistan has often been confronted with domestic violence, resulting from religious and ideological conflicts, insurgency on the frontier borders, guerrilla warfare and other illegal criminal activities like killings, kidnappings, extortion and large scale violent demonstrations. The military handled the internal disturbances in 1958 in Lahore, in Baluchistan, in the 1970s and in Sindh in 1992. In 1998, the Pakistan Army took up the provincial leadership when Sindh was placed under governor's rule and the governor happened to be an army general.¹⁴ The military in Pakistan has been involved deeply with the civilian administration in order to control not only the insurgencies but also other forms of nation-building, thus, making itself the kingpin for the nation's security. The military made sure that enough national resources were allocated to cater to their interests. The president in Pakistan has anyway, always accorded top priority to the interests of the military, and any interference from the prime minister has never been allowed by the military.¹⁵

Currently, the military comprises 616,000 personnel and this large number itself demands a major part of the national resources for its maintenance. Even when the military is not directly in power, it has played a significant role in the national decision-making process. However, the three forces, the army, the navy and the air force, do not enjoy equal privileges in terms of dominating the national policies related to defence. It is the Pakistan Army which is the most influential in defence decision-making. It also receives the largest chunk of the defence budget, which is around 60 per cent of the total budget. The air force holds a share of approximately 16-20 per cent, and the navy, around 10-15 per cent, and the remaining 5 per cent goes to the inter-Services organisations.

External Support

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The external support which Pakistan has received for its military modernisation from the United States and China has kept the defence budget on a steady rise. Washington always had a deep interest in Pakistan and its strategically important location turned it into a launching pad for Cold War strategies. Fear of Soviet expansion in the Middle East also kept the US involved in Pakistan. Pakistan had entered into military alliances with the United States in the 1950s and this brought it easy access to the US equipment. Pakistan's military spending has been, to an extent, shaped by its association with the United States.

Pakistan developed close affiliation with China due to mainly two reasons: first, China's strategic interest in Pakistan to counter America's growing military alliance and also to balance India's growing superiority. Second, the suspended US supplies of weapons due to the arms embargo, initially in 1965 and later in the 1990s, which motivated Pakistan for diversification of weapon resources. Pakistan provided an easy market for Chinese weapons. It viewed China as a much more reliable partner than the US. The weapons from China were not only cheap but also credit was available on easy repayment terms. Chinese assistance came not only in the form of cheap defence equipment but also for the development of indigenous facilities for defence production in Pakistan. China assisted Pakistan to develop its nuclear capabilities and also supplied the missile technologies. The constant supplies from China have contributed towards the high military spending in Pakistan.

Estimated Defence Expenditure

The defence budget provided by the Government of Pakistan is just the total figure, without indicating any details regarding the distribution of funds under various heads. It is a normal practice to get the defence budget passed by Parliament as a one line item on the agenda. According to reliable Pakistani sources, the defence expenditure figures do not include the costs of acquisitions of major weapon systems.¹⁶ The major weapon acquisitions in Pakistan take place from the military and economic assistance provided by the United States, the Arab world and other nations. For example, the initial payment of \$1.4 billion for the first 40 F-16 aircraft in 1980-81 was reportedly funded by Saudi money.¹⁷ Pakistan is believed to partly finance its defence expenditure out of the budget sources obtained through secret

allocations by the Gulf countries or army controlled private organisations such as the Fauji Foundation or Inter-Services Intelligence (ISI) procured drug money. These are reported facts which would be difficult to prove or disprove but revenues from these clandestine sources can be assumed to be a regular source of funding for the Pakistani defence budget.

In 2000, Pakistan did separate the military pensions, which amount to approximately 11 per cent of the budget, from the defence budget, and placed them under the civil administration expenditure in order to project a decline in the defence budget. The money spent on providing various perks and facilities to serving as well as retired defence personnel is also absorbed under various other heads. The estimated military spending, including the entire military power, is much higher than projected in the official defence budget of Pakistan.

Since 2001, Pakistan has been receiving US military assistance under four heads (besides the arms supplies), as outlined in Table 2.

Program or Account	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Estimate	FY 2007 Request
FMF	-	75.0	224.5	74.6	298.8	297.0	300.0
IMET	-	0.9	1.0	1.4	1.9	2.0	2.1
INCLE	3.5	90.5 ^a	31.0	31.5	32.1	56.3	25.5
NADR	-	10.1	-	4.9	8.0	7.8	10.3
Subtotal	3.5	176.5	256.5	112.4	340.8	363.1	337.9

Table 2: US Military Assistance to Pakistan (in millions of dollars)

FMF - Foreign Military Financing.

IMET - International Military Education and Training.

INCLE - International Narcotics Control and Law Enforcement.

NADR - Non-Proliferation, Anti-Terrorism, Demining and Related.^b

a includes \$ 73 million for border security projects that continued in FY2003.

b The great majority of NADR funds allocated for Pakistan are for anti-terrorism assistance.

Source: K. Alan Kronstadt, *Pakistan-US Relations*, CRS Report for Congress, updated October 26, 2006.

Excess Defence Articles (EDA) Sales

Pakistan has also started to acquire weapons and equipment from the United States which are declared as surplus by the Pentagon. These are normally made available to US allies, hence, Pakistan was declared one within the

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framework of old agreements (of the 1950s) and the more recent declaration making Pakistan a major non-NATO ally. Weapons sold to Pakistan under this dispensation are well below even their depreciated value. The current market value would obviously be much higher. A summary of EDA sales to Pakistan is placed at Table 3.

Fiscal Year	Original US acquisition value of the defence articles (US dollars)	Pakistan acquisition value (US dollars)	Remarks
2003	1,629,968	1,629,968	
2004	88,902,447.5	86,400,000	Pakistan in this period paid only for the P-3 aircraft, the rest of the equipment which included F-16, external fuel tanks and motor life boats was delivered free of cost.
2005	38,322,594.1	32,446,966	Pakistan paid for the 2 F-16s acquired in this period at one-fourth of the market price for the aircraft.
2006	41,500,000	0	The P-3(H) aircraft was delivered free of cost to Pakistan
Total	170,355,009.6	120,476,934	Pakistan paid 30 per cent less than what was originally paid by the US

Table 3: Excess Defence Articles Sold to Pakistan by the United States

Sources: Table 3 is based on the figures provided by the Defence Security and Cooperation Agency, Department of Defence, United States of America.

As may be seen, the US assistance to Pakistan has grown rapidly post 9/11. The FMF for Pakistan, which stood at \$ 75.0 million, went up to \$ 297 million in fiscal year 2006 and is estimated at \$ 300 million in fiscal year 2007. The figure for IMET funding for Pakistan was \$ 0.9 million in fiscal year 2002, which doubled and amounted to \$ 2.0 million in the year 2006 and is estimated to cross \$ 2 million in fiscal year 2007.

Taking into account the figures for the last six years from FY 2002 - FY 2007, the total US assistance under the FMF, IMET, NADR, INCLE amounts

to an average figure of \$ 266.5 million annually. The total EDA for the FY 2002-06 five-year period, amounts to \$120.5 million. Pakistan's officially stated defence budget for the same period stands at \$ 12,785 million. Thus, the US assistance and the excess defence articles alone amount to 11.49 per cent of the Pakistani defence budget.

Other Arms Sales

The United States has provided/ assured to provide/sell a significant number of major weapon systems in the last five years (2002-05). Based on the Congressional notifications in the last five years, which may be subject to some minor modifications, Pakistan has received/will be receiving the following defence articles from the US (weapons from China and France are in addition).

2002: C130 E cargo aircraft and associated equipment and services—estimated value \$75 million.

2003: AN/TPS-77 air surveillance radars and associated equipment and services—deal estimated at \$100 million.

2003: Air traffic control radars and associated equipment and services—deal estimated at \$110 million.

2003: Bell 407 helicopters and associated equipment and services—deal estimated at \$97 million.

2004: HF/VHF radio systems and associated equipment and services—deal estimated at \$ 478 million.

2004: Bell helicopter began delivering 26 412EP medium twin engine helicopters and associated equipment—deal estimated at \$230 million.

2004: Six PHALANX Close-In weapon systems (CIWS), upgrade of six PHALANX CIWS Block 0 to Block 1B as well as associated equipment and services—deal estimated at \$155 million.

2004: 2,000 TOW-2A missiles, 14TOW-2A fly to buy missiles as well as associated equipment and services—deal estimated at \$ 82 million.

2004: 8 P-3C aircraft with T-56 engines as well as associated equipment and services—deal estimated at \$ 970 million.

2005: 40 AGM-84L (air launched) and 20 RGM-84L (surface launched) Grade B Canister Harpoon Block II missiles as well as associated equipment and services—deal estimated at \$ 180 million.

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2005: 300 AIM-9M-1/2 Sidewinder air-to-air missiles—deal estimated at \$ 46 million.

2005: 115 M 109A5 155 mm self-propelled howitzers as well as associated equipment and services—deal estimated at \$ 56 million.

2006: Harris high frequency/very high frequency radio systems—deal estimated at \$160 million.

2006: Harpoon Block II anti-ship missiles as well as associated equipment and services—deal estimated at \$370 million.

2006: Refurbishment and modification of three excess P-3 aircraft with the E-2C Hawkeye 2000 airborne early warning (AEW) suite, as well as associated equipment and services—deal estimated at \$ 855 million.

2006: \$ 5 billion sale to Pakistan involving F 16 C/D block 50/52 aircraft, weapons for the F-16 C/D Block 50/52 aircraft and F-16 A/B mid-life update modification kits.

Total US equipment supplied to Pakistan in the period 2002-2006: approximately \$ 8,964 million (Rs 55,577 crore).

Pakistan's total official stated defence budget for 2002-2006: approximately \$ 12,785 million (Rs 78,000 crore).

Pakistan's officially stated average defence expenditure for the last five years is Rs 205.99 billion per annum. In terms of percentage of the GDP, this is 3.5 per cent. However, adding the weapons from the US in this period, Pakistan acquired military capability at an average total value of Rs 269.69 billion per annum. This would be notionally equivalent to 4.6 per cent of the GDP as compared to the officially stated 3.5 per cent.

In other words, the approximate value of only the US equipment supplied in the last five years is about 70 per cent of Pakistan's defence budget in the same period. Even if we presume that 50 per cent of the notifications materialise into the actual contracts, it still stands at 35 per cent of the defence budget for the period of the last five years. Obviously the major weapons have been funded from extra-budgetary sources. The number will go up if the equipment from China and France is also added to this figure.

This aspect of Pakistan's defence spending has been ignored by experts and scholars so far. However, given the extent of extra-budgetary, extra-

national support to Pakistan's defence budget, we need to further explore this crucial area and arrive at objective conclusions.

Implications of the Military Spending

Socio-Economic Implications

For the purpose of analysing the socio-economic implications of defence spending, we have taken only the official data of money spent on defence from Pakistan's government budget.

The consistent high budgetary spending on defence over the decades led Pakistan into serious economic trouble. Although it was the economic mismanagement by various regimes in Pakistan and persistent large fiscal deficit that led to the economic imbalance in the 1990s, it is acknowledged that the major share to the defence budget contributed directly and indirectly to the increasing debt burden in the country. According to one study, "Defence expenditure in Pakistan has a negative impact on GDP when it increases to over 6.5 per cent of the GDP for a decade and more. During the 1978-88 decade, this threshold had already been crossed with defence expenditures averaging 6.8 per cent."¹⁸ The study, which covered a period of over a quarter of a century since 1960, concluded, "An examination of a budgetary trade-off in Pakistan found that economic services as a whole were adversely affected by military expenditures."¹⁹

In the 1950s, and 1960s, Pakistan was spending approximately 50-55 per cent of the total expenditure on defence. The impact of these high numbers on defence, accompanied by Bhutto's nationalisation plan and weak macro-economic management, led to high revenue deficits in the 1970s. Gen Zia's period projected growth in the GDP figures but in the early 1980s itself, the growing gap between revenue and expenditure, due to the defence burden and debt servicing, started pressurising the economy.

The increasing non-development budget entailed huge cuts in the development budget of Pakistan. Initially, the declining development budget was financed through borrowing. As a result, debt repayment and debt servicing also added to the non-development budget which was eventually financed through debt. In the 1990s, Pakistan reached a stage where new loans were being acquired to repay the old ones. Thus, high defence spending added to the miseries of Pakistan in a spiralling manner. As a percentage of GDP, public debt increased from 93.7 per cent in the mid-

1990s to over 100 per cent in mid-2000.²⁰ The increasing debt obviously resulted in an increase in the debt servicing and its liability recorded a rising trend in the 1990s—increasing from \$1,316 million in 1990-91 to \$2,353 million in 1997-98, an average increase of 8.5 per cent per annum.²¹ By 1999-2000, debt servicing stood at 11.8 per cent of the GDP. Added together, debt servicing and defence expenditure exceeded the total national revenue of Pakistan by the late 1990s. *The Pakistan Economic Survey 2000-2001*, stated, “The persistence of large fiscal deficit and the associated build-up of public debt has been the major source of macro-economic imbalances in Pakistan during the 1990s. Failures in enhancing revenues consistent with growing expenditure requirements by broadening the tax base and strengthening the tax administration, on the one hand, and inability to maintain a balance between the productive and non-productive expenditures, on the other, for a long period of time, have exacerbated fiscal imbalances in Pakistan. In addition, poor governance has not only contributed to inadequate control of government expenditure but also failed to ensure that expenditures were allocated efficiently and equitably.”

As noted above, a large quantum of arms acquisitions and military assistance is embedded in extra-budgetary and extra-national funding support. Some resources are diverted from the organisations created for the welfare of the retired military personnel. These four organisations—the Fauji Foundation (established 1960), Army Welfare Trust (AWT) (established 1979), Shaheen Foundation (established 1977) and Bahria Foundation (established 1981)—were created with the objective of contributing to the pension fund and the welfare of retired military personnel.²² These organisations run various corporate projects like fertilisers, gas, power, airlines, etc. Over the years, these organisations have added to the defence burden as some of the overhead costs are met by the annual defence allocation. These organisations have a major role to play in maintaining the military’s dominance in the economy and also providing good opportunities to the retired military personnel. Apart from getting huge grants from the government, they also enjoy tax exemption as they have been registered under the name of welfare trusts. AWT is the largest group of companies in Pakistan, with assets worth billions of dollars.

The consistent cuts in the development expenditure resulted in a deplorable state of the social sector. By the mid-1980s, when the economy

started its major downside, the proportion of people below the poverty line started to increase from 17.32 per cent in 1987-88 to 33.50 per cent in 1999-2000.²³ The 1990s were marked by constant rise in the poverty head counts, accompanied by declining growth rate. Given the existing feudal structures of society, increasing poverty has also led to increasing distortion of income distribution and the widening gap between the rich and the poor. Former Finance Minister Mahbub-ul-Haq was reported to have stated that by the late 1960s, only 22 families controlled the financial fortunes of Pakistan. Increasing disparities in the social sector, in turn, have contributed in no small measure to ethno-sectarian conflict since the early 1980s, besides reinforcing feudalism by increasing the dependence of the poor on the affluent.

The economic decline in the 1990s also witnessed a deteriorating employment situation in Pakistan. In the 1990s, unemployment was at a high rate of 5.9 per cent per annum as compared to 1.35 per cent in the 1980s. This, in turn, has added to social ills, ethno-sectarian conflicts, *jihadism* and societal violence. Due to lack of investment and employment opportunities, there is a mismatch in Pakistan in the supply and demand for skills. The high rate of unemployment and poverty linked to the inefficient education system

Year	Education (% of GNP)	Health (% of GNP)	Defence (% of GDP)
1999-2000	2.1	0.7	4.2
2000-01	1.6	0.7	3.4
2001-02	1.9	0.7	3.7
2002-03	1.7	0.7	3.6
2003-04	2.1	0.6	3.4
2004-05	2.1	0.6	3.4
2005-06	-	0.5 (P)	-

in Pakistan has led more and more Pakistanis into *madrassas*.²⁴

Table 4: Expenditure on Health and Education vs Defence

Table 4 gives us a picture of the spending priorities in Pakistan. Military spending (only the official figures) when compared to the spending on health and education, the two most important social sectors, is much higher. Even after 9/11, with foreign funding flowing into the economy, the social sector remains the same. In fact, the United Nations International Children's Education Fund (UNICEF) in a report in 2005 blamed Pakistan's heavy military spending for the diversion of resources from public, and specifically,

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child, health.²⁵

The negligence of the human capital in Pakistan and diversion of resources towards non-development expenditure like defence has indirectly been a factor for the slow economic growth and disturbance in the civil society.

Military Implications

The prioritisation of defence obviously accelerated the modernisation of the defence equipment in Pakistan. Although the major weapon systems have been bought outside the defence budget, the high defence spending has sustained the weaponry and kept up the supply of spare parts. The military implications may be summarised as follows:

- Pakistan's actual military spending is significantly higher than what the official budget indicates.
- Pakistan is in the process of massive military modernisation.
- The number of military personnel was increased significantly and the high defence spending supported the increased numbers and vice versa.
- Defence spending has been centred on modernising and expanding the Pakistan Air Force (PAF) and the maritime strike capabilities.
- Surveillance capability is being significantly enhanced.
- Substantive modernisation of air defence.

Notes

1. *News Chronicle*, October 9, 1948, as cited by Hasan Askari Rizvi, *Military, State and Society in Pakistan* (London: Macmillan Press, 2000), p. 62.
2. *Dawn*, August 17, 1953, as cited by Rizvi, *Military, State and Society in Pakistan*, p. 62.
3. Dennis Kux, *The United States and Pakistan 1947-2000: Disenchanted Allies* (Karachi: Oxford University Press, 2002), p. 63.
4. Rizvi, *Military, State and Society in Pakistan*, pp.105-106.
5. Pervez Iqbal Cheema, *The Armed Forces of Pakistan* (Oxford: Oxford University Press, 2002), p.164.
6. Rizvi, *Military, State and Society in Pakistan*, pp.146-147.
7. Mushahid Hussain, "Pressures Put on Pakistani Spending", *Jane's Defence Weekly*, Vol. 10, No.2, July 16, 1988, p. 70
8. Kux, *The United States and Pakistan*, p. 266.
9. This came in the aftermath of an IMF Standby Arrangement for an amount of US\$ 465

- million. As cited in Nadeem Malik, "A Freeze on Defence," *Newsline*, March 2001, p.67.
10. Interview with Lt Gen (Retd) Hameed Gul and Lt Gen (Retd) Kamal Mitinudin (Rawalpindi: 15/05/94 and 23/02/94), as cited by Ayesha Siddiqua-Agha, *Pakistan's Arms Procurement and Military Buildup, 1979-99: In Search of a Policy* (New York: Palgrave, 2001) p. 13.
 11. After the 1965 War, September 16 and 7 were declared as Armed Forces Day and the Air Force Day respectively. Rizvi, *Military, State and Society in Pakistan*, p. 106.
 12. Interview with Lt Gen (Retd) Hameed Gul and Lt Gen (Retd) Kamal Mitinudin, p. 56.
 13. *The Constitution of Islamic Republic of Pakistan*, at <http://www.pakistani.org/pakistan/constitution/>
 14. Cheema, *The Armed Force of Pakistan*, p. 133.
 15. Nawaz Sharif tried to threaten the interests of the military and he lost his position.
 16. Air Marshal A. Rashid Shaikh, PAF (Retd), "Security and Development: Hobson's Choice," *Defence Journal*, Vol.XXI, May-June 1996,p.13, as cited in, Jasjit Singh, "Trends in Defence Expenditure," *Asian Strategic Review 1998-99* (New Delhi: Knowledge World, 1999), p.75.
 17. Ibid., p.75.
 18. Robert Looney and David Winterford, *Economic Causes and Consequences of Defence Expenditures in the Middle East and South Asia* (Boulder: West View Press, 1995), p 216.
 19. Ibid., p.109.
 20. Government of Pakistan, *Pakistan Economic Survey 2000-2001*.
 21. Ibid.
 22. Siddiqua Agha, *Pakistan's Arms Procurement*, p.84
 23. *Human Development Report in South Asia 2001* (Karachi: Oxford University Press, 2002) p.82.
 24. Shalini Chawla, "Jobs or Jihad, that's the Question," *The Indian Express*, July 19, 2002.
 25. "Pakistan: Military Spending at the Expense of Children's Health," UNICEF, at <http://acr.hrschool.org/mainfile.php/0211/410/>