

Economic Sanctions Imposed on Pakistan and Their Impact (1979 – 2001)

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Abstract. Economic sanctions are used as a tool of foreign policy by many of the developed nations especially United States. They are applied as a part of the overall policy response to the objectionable, illegal or undesirable actions of any other country/foreign governments. But are they successful economic tools, or just a tool of threat and punishment for a while? Are they really serving the purpose? The aim of this paper is to answer these questions taking into account the case of Pakistan. In this case, they did not serve the intended purpose of deterring Pakistan from seeking nuclear weapons, even though the potential cost associated with it was significantly high. The fundamental national security balance vis-à-vis India was at stake which outweighed the possible adverse economic effect of sanctions. However, they not only had a severe impact on the economy of the country but also had worse social effects. Besides the relations between the US and Pakistan were soured for a long time thereafter. The paper encompasses the three episodes of the sanctions imposed i.e. Phase –I (1979 – 1990), Phase-II (1990 – 1998) and Phase – III (1998 – 2001).

Keywords: (Economic Sanctions, Aid, Pakistan, Economic Impact)

1. Economic Sanctions

Economic sanctions as expressed by Gary Hufbauer and Jeffrey Schott are “the deliberate government-inspired withdrawal, or threat of withdrawal, of ‘customary’ trade or financial relations.”[1] Economic leverage may be exercised by levying export controls, tariffs, non-tariff import restrictions, curbs on investment, cuts in aid, or by freezing financial assets. Such sanctions, which bring in their wake great economic hardship, are imposed to effect a change in some noneconomic policy as a "demonstration of resolve"[2].

There is a debate among the researchers and policy makers that many diplomatic governments are using sanctions specifically in the form of economic sanctions; but are they the successful economic tool, or just a tool of threat and punishment for a while. Are they really serving the purpose? It all depends on the aim of the sanctions to be imposed. The purpose of the economic sanctions is usually determined by the sender. Mostly the sender takes support through bilateral consultation with international organizations like the League of Nations, United Nation or the Organization of American States. Along with diplomacy and other measures, sanctions seek to discipline the target country and act as warning for other countries to steer clear of similar behaviour in the future. Many countries use them as a tool of foreign policy in their overall policy response to the questionable, illegal or unwarranted actions of any other country. They do not operate in vacuum rather their effectiveness comes from their being consistent with and embedded in overall policy. Accordingly, sanctions should be designed to fit the specific objectives of each cas[3]. "One size does not fit all".[4]Although, sanctions provide a middle road response between diplomacy and military action but do they serve the purpose specifically in case of Pakistan?

2. Economic Sanctions on Pakistan

South Asia has been a key region in United States global efforts to hedge in the way of WMD proliferation and development of ballistic missile delivery systems. The salience of the region can hardly be overemphasized given recurrent Indo-Pakistani war-irruptions over Kashmir, in the backdrop of their huge nuclear build up and missile race between them.[5] The sanctions episodes imposed on Pakistan span over three phases. Phase –I (1979 – 1990), Phase-II (1990 – 1998) and Phase – III (1998 – 2001) using the following legalities:

- Foreign Assistant Act – 1961
- Glenn Amendments

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2.1. Phase – I (1979 – 1990)

In May 1974, India’s first nuclear detonation (“peaceful nuclear explosion”) resulted in destabilizing the region; which ultimately forced Pakistan to initiate its efforts on the same road considering it a big threat for its existence. The United States was also worried at that time that Pakistan might retaliate but perceived that Islamabad did not yet have the capabilities. Deputy Secretary of State Kenneth Rush reportedly commented: “They [Pakistan] could conceivably decide to launch their own [nuclear] crash program although we estimate that their capabilities for doing this are extremely limited.” Under Bhutto’s leadership in 1972 Pakistan started working aggressively on these grounds and his adoption of a four pillar foreign policy (Relationship with Beijing, US, Middle East Muslim countries and membership in the NAM) rather than previous policies moving around US was one of the major step towards this milestone. US was displeased with Pakistan’s efforts, therefore warned Pakistan many a time and also took several steps in persuading its leadership for signing the nuclear Nonproliferation Treaty (NPT).

In April 1979 President Carter imposed unilateral military and economic sanctions against Pakistan after discovering that Islamabad was secretly constructing a facility to enrich uranium and was therefore in violation of the Symington amendment. These sanctions did not stop grants and loans from international financial institutions and also had the exception of food assistance, as required by the 1977 Symington Amendment to the U.S. Foreign Assistance Act of 1961). However, the Soviet Military invasion in Afghanistan changed US attitude towards Pakistan overnight moving from the lowest point of 1979 to close political, economic and security including strong ties with U.S. Central Command (Centcom) and the U.S. Central Intelligence Agency (CIA).

All the imposed sanctions were lifted in a shorter period in December 1979. Therefore, the calculated economic impact of this episode of sanctions was negligible on Pakistan’s economy and zero as measured by Peterson Institute of International Economics.

During Reagan’s presidency considering the Pakistan need in support of Soviet Afghan, it was in US own interest to announce the first six-year assistance package (1981-87) worth US \$ 3.2 billion, equally divided between economic assistance and military sales. Pakistan had received following aid during this period: [6]

Year	Economic Assistance, Total	Economic Assistance (through USAID)	Military Assistance, Total
1979	128.81	23.31	1.20
1980	137.53	0.00	0.00
1981	164.16	0.00	0.00
1982	400.60	200.07	1.20
1983	534.18	383.29	499.77
1984	568.05	415.84	555.90
1985	607.26	447.53	583.53
1986	623.56	460.91	545.82
1987	599.07	469.53	534.54
1988	769.14	635.00	430.69
1989	559.72	421.27	367.06

Despite the resumption of U.S. aid and close security ties, many in Congress remained troubled by Pakistan’s nuclear-weapons program. Finally these worries shaped in the form of The Pressler Amendments which was then 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. U.S. aids to Pakistan continued flowing, administrations of Ronald Reagan and George H.W. Bush being the certifiers of Pakistan each year until 1990.

2.2. Phase – II (1990 – 1998)

In October 1990, US as usual turned its eyes from Pakistan as its main interest of defeating the Russians was fulfilled. U.S. President George Bush (senior) refused to certify that Pakistan did not possess a nuclear explosive device, precipitating the imposition of sanctions on Pakistan under the Pressler Amendment (1985) in the Foreign Assistance Act. This checked the second assistance package offered in 1987 and aborted economic assistance and military sales to Pakistan with the only exception of the economic assistance. Military sales and training program were abruptly disrupted and some of the Pakistani military officers under training in the U.S. were asked to return home. Whereas, Pakistan had paid heavy political, economic and

social cost of Soviet Russian war in the form of Soviet air attacks and terrorist activities, the legitimization of Zia's rule, corruption in the distribution of US weapons, the drugs trade, smuggling, a *kalashnikov* (rifles) culture, a *galemjum* (prostitute) culture, sectarianism and economic deficiencies[7].

US aid had totalled about \$650 million annually. But in January, 1991 US decided that even if Pakistan gave up its nuclear-weapons program, it would only receive about \$200 million.[8] In 1996 Pakistan received \$6.4 million in aid and \$2.5 million in 1997 under the counternarcotics and food aid programs.[9] It had paid \$658 million for 28 F-16s, which were stored at a US air force base in Arizona after Pressler amendment barred transfer and never transferred to Pakistan. On the other hand Pakistan's military spending accounted for almost half of Pakistan's \$13 billion annual budget in 1996. [10]

In 1995, Congress passed the Brown Amendment, which provided \$368 million of military equipment purchased but not received by Pakistan before the imposition of Pressler amendment sanctions in 1990. Till 1998 this was the only tangible benefit that Pakistan had received [from the Brown amendment]. The amendment also exempted many forms of assistance from the embargo against Pakistan, including for antinarcotics purposes; military-to-military contact, training, humanitarian, and civic assistance projects; peacekeeping and other multilateral obligations; and anti-terrorism assistance. However, the Symington Amendment[11], which prohibits the provision of most U.S. economic assistance to countries determined by the President as having transferred or received nuclear enrichment equipment, materials, or technology, remained in effect with respect to Pakistan. Following is the brief of the US aid provided to Pakistan during this time period:

Year	Economic Assistance, Total	Economic Assistance (through USAID)	Military Assistance, Total
1990	548.07	422.37	283.44
1991	149.59	141.78	0.00
1992	27.14	0.57	7.20
1993	74.19	7.98	0.00
1994	68.43	0.00	0.00
1995	23.13	10.10	0.00
1996	22.79	0.00	0.00
1997	57.17	0.00	0.00

The calculated economic impact of this episode of sanctions was much on Pakistan's economy and as measured by Peterson Institute of International Economics:

Phase II: 1991-98	
Reduction in economic and military aid after application of Pressler amendment; welfare loss calculated as 50 percent of average annual aid flows, 1988-90 (this assumes that a substantial reduction of aid flows was inevitable with collapse of USSR)	\$316 million
Military equipment paid for but withheld under Pressler amendment, including F-16s; welfare loss calculated as 10 percent of value of equipment withheld.	\$115 million
Total, Phase II	\$431 million

2.3. Phase – III (1998 – 2001)

In March 1998, when Atal Behari Vajpayee took power in India, whose party's election manifesto was to "exercise the option to induct nuclear weapons", therefore, on May 11, 1998 India conducted a series of nuclear tests. In retaliation, Pakistan also conducted its own rounds of nuclear explosions on May 28, 1998. United States immediately placed both the nations under economic sanctions. According to Undersecretary of State Strobe Talbott, "The sanctions imposed on India and Pakistan were necessary for several reasons. First, it's the law. Second, sanctions create a disincentive for other states to exercise the nuclear option if they are contemplating it. And third, sanctions are part of our effort to keep faith with the much larger number of nations that have renounced nuclear weapons despite their capacity to develop them."

As a result of these sanctions aid under the Foreign Assistance Act, including economic development assistance, was terminated; foreign military sales under the Arms Export Control Act were suspended; credits and credit guarantees by the U.S. government were suspended; U.S. banks withheld all loan tranches to the governments of India and Pakistan; loans from international financial institutions, such as the IMF and World Bank, were suspended; and exports of dual-use nuclear or missile items were prohibited. However, several important components of the Glenn Amendment sanctions were waived during 1998 through Brownback- I Amendment also referred as India-Pakistan Relief Act of 1998. There were fourteen countries

that along with US followed the sanction exercise during this period like Japan, Germany, Australia, Canada, Denmark, and Sweden against India and Pakistan. However, in case of Pakistan Japan's sanctions had adverse effects. During this period there were following was the situation in terms of aid:

Year	Economic Assistance (Total)	Economic Assistance (through USAID)	Military Assistance (Total)
1998	36.32	0.00	0.00
1999	102.14	6.72	0.22
2000	45.72	0.00	0.00
2001	228.02	0.54	0.00

Already being under US sanctions under Pressler Amendment since 1985, there were no such bilateral aid flows that could be cut by the Glenn Amendment. These sanctions also had little effect on some of the lending institutions in which their association with Pakistan was quite young or was still in the initial formative process. For e.g. The Ex-Im Bank had opened for short- and medium-term programs for the public and private sectors in Pakistan in February 1998, and OPIC had only reopened in March 1998. Therefore only a few projects were postponed.[12] As already mentioned that fourteen other countries had also followed US in imposing sanctions, among them Japan's sanction had adverse effects on Pakistan as it was the trading partner and aid donor. It suspended its total loans to Pakistan worth \$231 million in 1997-98, and also cancelled grant-in-aid of approximately \$55 million.[13]

Across Pakistan, the economic affairs suddenly started deteriorating. Since the nuclear tests in May, the prices of basic goods like food and gasoline had shot up by as much as 25 percent. The Karachi Stock Exchange had lost 40 percent of its value before Thursday-and it dropped again after the missile strikes. The rupee, Pakistan's currency, had lost 30 percent of its value against the dollar.[14] G-8 countries (the G-7 plus Russia) at the G-8 summit in London on June 12, 1998 opposed new non-humanitarian lending by the IMF, the World Bank, and the Asian Development Bank to India and Pakistan. Henceforth, Pakistan's downturn started as its economy was heavily dependent on the IMF loans. IMF stopped one tranche of a phased, three-year, \$1.56 billion loan package and as a result it created a balance of payments crisis and a huge decline in economic activities.

In October 1997, Nawaz government reached at an agreement with the IMF on an economic reform program supported by an IMF credit of \$1.56 billion, to be disbursed in three tranches, and by a World Bank adjustment loan. As of April 1998, \$1.2 billion of the IMF funds remained undisbursed. At that time Pakistan's foreign exchange reserves of \$1.4 billion equalled only about 90 days of imports, and it needed about \$2 billion in net inflows in 1998 to avoid loss of reserves and/or reduced imports. Following the nuclear tests, the United States and other shareholders in IMF formed a coalition to block disbursement of the IMF credit and the parallel adjustment loan from the World Bank. The expectation that the sanctions would block this ongoing IMF support caused a collapse of market confidence, which affected the capital flows, the exchange rate, and aggregate GDP growth. New private inflows virtually stopped.[15] In early November, Pakistan's foreign exchange reserves stood at \$458 million, it was the time just before President Clinton waived a number of sanctions on Pakistan and India.[16] The open market (kerb) rate for the Pakistani rupee depreciated from Rs. 45 to the dollar in early May to Rs. 63 in mid-July; a 28 percent depreciation. By the end of 1998, when most of the sanctions had been lifted, it remained 16 percent below its pre-test value.[17]

The calculated economic impact of this episode of sanctions was much on Pakistan's economy and as measured by Peterson Institute of International Economics following is the detail:

Phase III: 1998	
Reduction in reserves and increase in debt arrears due in part to suspension of IMF lending for 6 months; welfare loss calculated as 10 percent of value of drop in reserves and increase in arrears	\$200 million
Total average annual cost, 1991-98	\$456 million
Gross indicators of Pakistani economy	
Pakistan GNP (1990)	\$ 41.1 billion
Pakistan Population (1990)	112.4 million
Annual effect of sanctions related to gross indicators	
Percentage of GNP	1.0
Per capita	\$4.06
Pakistan trade with US as percentage of total trade	
Exports (1990)	12
Imports (1990)	13
Ratio of US GNP (1990: \$5,524.6 billion) to Pakistani GNP	134

3. Conclusion

The sanctions imposed by US alone although had impacted Pakistan's economy specifically during the second and third phase of the sanctions i.e. 1990 – 2001. Their impact amplified when followed by subsequent sanctions by International agencies and banks like IMF & World Bank. It was almost quadrupled when fourteen other countries and G-7 joined the league in sanctioning India and Pakistan in 1998. When Japan joined hands in sanctioning Pakistan by stopping all the aid it created worst effects on Pakistan's economy. US aid was tagged as "carrots" and the approach towards sanction was termed as "sticks" by Gary Clyde Hufbauer. In terms of achieving the basic objective of imposing sanctions specifically the 2nd Phase 1990s sanctioned were not successful. The U.S. threat to discontinue aid probably delayed the completion of Pakistan's nuclear explosive device, perhaps by a couple of years, at best, but could not deter Pakistan from pursuing its nuclear security goals. Conversely, its impact was detrimental to the erstwhile good rapport and perception of the US among masses in Pakistan. Moreover, it divested the US of its special leverage over Pakistan as the latter became more and more self-reliant especially in meeting its security needs. This leaves us with a safe assumption that the 'nuisance value' of the economic sanctions lies in their deterrence and not in their actual imposition.

4. References

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