

PAKISTAN'S DEFENCE SPENDING: SOME TRENDS

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Pakistan's defence spending has always been a matter of concern for the economists and academic experts in Pakistan and the financial institutions abroad. Pakistan maintained defence spending at above 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 blaming defence spending for the country's economic woes in the 1990s. On the other hand, other factors have been in evidence to enhance Pakistan's military capability in spite of ostensibly lower defence expenditure than in the earlier period.

Defence requirements and allocations received precedence in the national expenditure of Pakistan from the beginning 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 By the 1990s, Pakistan had a deplorable state of the social sector which stood in complete contrast to the grandeur of the military elites in Pakistan. This wide gap between the haves and

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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, *Ibid.*, p. 62.

have-nots in Pakistan has actually resulted in a massive social divide, leading to civil unrest in the society and dismissing hopes for a democratic rule in Pakistan. 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 *jihād* in the Pakistani youth.

The terrorist attacks in the United States on September 11, 2001, and Pakistan's consequent status as a US ally in the war against terrorism once again provided the military regime with an opportunity to fulfil its aspirations for military modernisation and build-up. Although, the official defence spending figures were maintained at an average rate of 3.4 per cent of the GDP in the last six years, the actual spending in building military capability and maintaining it stands much higher in Pakistan.

TRENDS IN PAKISTAN'S DEFENCE EXPENDITURE

Pakistan's defence budget, unlike that of India or even of China, has no transparency and no details about the breakdown of defence expenditure are

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available even informally. 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 the civil and public administration. Table 1 indicates Pakistan's defence spending for the past five decades.

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 their side and Pakistan entered into regional anti-Communist alliances, 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 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

Table 1: 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

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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
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, *Asian Defence Review 2006* (New Delhi: Knowledge World, 2006), pp.87-88.

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 Pakistan acquired in this period came in the form of US aid (not sale). Despite this, 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.

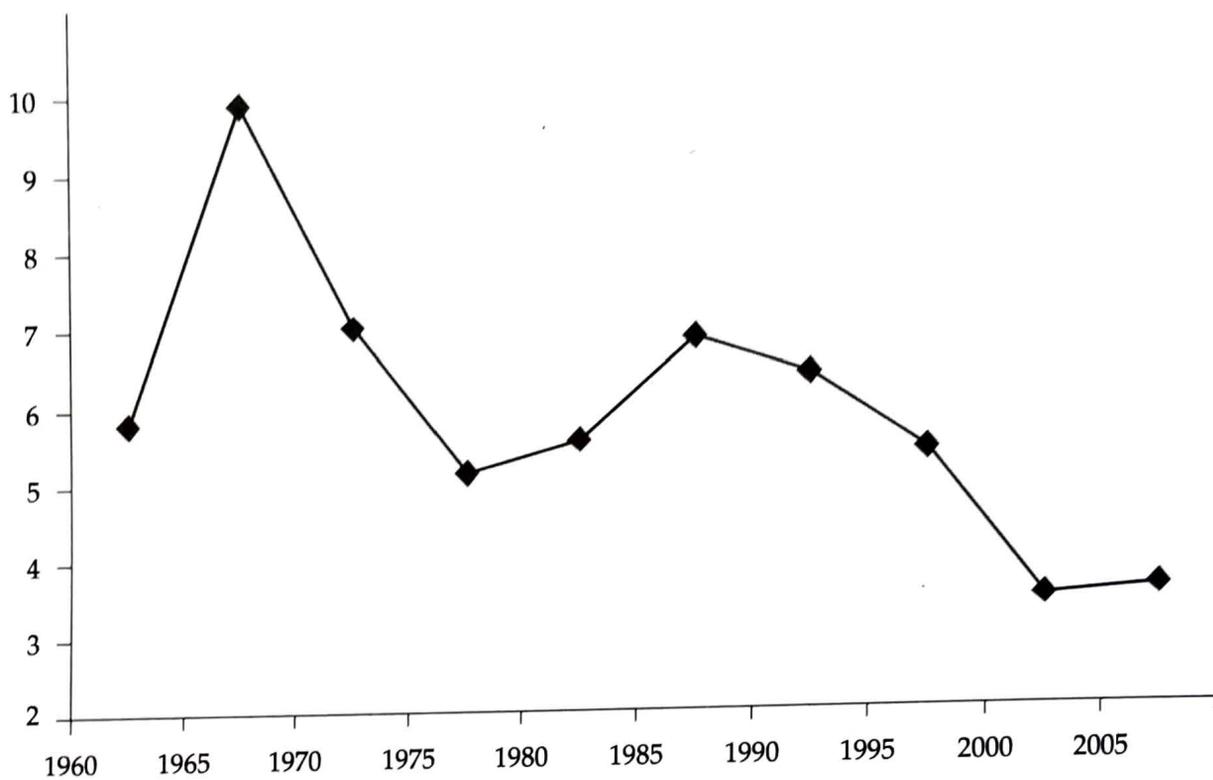
Military spending witnessed a steep rise after the 1965 Indo-Pak War. Defence allocation doubled in the fiscal year 1965-66 to Rs. 2,855 million from the previous year, when the figure was Rs. 1,262 million. In terms of the percentage of the total expenditure, this rise was 53.67 per cent from 46.07 per cent. The salaries and facilities provided for the military were also 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-styles which the military enjoyed, but the opposition was undermined. Ayub Khan's regime viewed the military as a tool for socio-economic development and modernisation of the Pakistani society.⁴ The number of military personnel was increased from 253,000 in the 1964-65 to 357,000 in 1968-69. The defence budget during 1967-71 was an average 6.5 per cent of the GDP. American sanctions, consequent to Pakistan's launching the war against India in 1965, stopped the arms pipeline. On the other hand, Chinese weapons started to flow in after the 1965 War and reports also talked about money flowing in from the Arab world to support the defence infrastructure of Pakistan.

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 of defence capabilities. Pakistan focussed on diversifying its sources of weapon procurements in the 1970s as its access to US arms suffered a major blow with the US arms embargo. This was the time when Pakistan moved even closer to China which became an important source for weapons owing to the following factors:

3. Dennis Kux, *The United States and Pakistan 1947-2000: Disenchanted Allies* (Karachi: Oxford University Press, 2002), p. 63.

4. Rizvi, n.2, pp. 105-106.

Fig. 1: Defence Expenditure Trend



1. Bilateral relations improved after the Sino-India 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 launched by Pakistan and also supplied war material, including T-59 tanks and MiG-19 fighter aircraft.

Chinese military assistance was not only in the form of arms supply but also for the development of indigenous facilities in defence production.

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

5. Pervez Iqbal Cheema, *The Armed Forces of Pakistan* (Oxford: Oxford University Press, 2002), p.164.

from China. Chinese military assistance was not only in the form of arms supply but also for the development of indigenous facilities in defence production. Bhutto's regime further revised the pay, allowances and other facilities for the commissioned ranks as well as for the non-commissioned ranks of all the three Services.⁶ Pakistan's military strength increased remarkably in the 1970s, and by 1976-77, it stood at 604,000 as compared to 351,000 in 1967-68, recording 70 per cent increase in just 10 years.

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During Gen. Zia ul-Haq's regime, the defence budget continued to remain at a higher level. According to him, "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. Gen. Zia emphasised the threat perception in Pakistan from the east as well as from the west and focussed on major weapon acquisitions. He also received a large supply of arms, ostensibly for the Afghan Mujahideen, but more than 60 per cent was retained by the army. By 1982, the United States was 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 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

6. Rizvi, n.1, 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, n.3, p. 266.

GDP growth averaged 6.5 per cent in the 1980s and matched the growth rate of the 1960s. 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. The US military assistance also provided some major equipment to Pakistan on lease.⁹ Pakistan was able to acquire high technology arms at a relatively lower price paid by its people. Despite the military and economic assistance from the US, the defence expenditure in the 1980s remained high in order to sustain a high level of militarisation.

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

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1990s. In the second half of the 1990s, GDP growth rate witnessed a steep decline when it dropped down 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 at approximately 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 (IMF) 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 pensions of the retired military men 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

9. For example, the 6 destroyers in the 1980s with the Pakistan Navy were acquired on lease from America.

have gone down from Rs 150.4 billion in the previous year to Rs 133.5 billion. It can be concluded that pensions had approximately 11 per cent share in the defence budget and it continues to be so although not reflected in the official figures.

Macroeconomic indicators depicted a downfall and the economy was in the doldrums by the end of the 1990s. Pakistan, in a radical move, 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). At this point, the debt servicing and the defence outlays totalling Rs 4,690 crore, exceeded its 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."¹⁰

It was at this stage that the terrorist attacks in the 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 50 years. Defence expenditure in the last five years has been hovering at a rate of around 3.5 per cent of the GDP – a remarkably lower figure than the earlier figures. But this does not automatically imply a lower military capability. 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 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.

10. 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.

3. The defence budget as a percentage of the GDP has come down 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, as 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 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.

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, all 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.

ESTIMATED DEFENCE EXPENDITURE

The defence budget data 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.¹¹ The major weapon acquisition in Pakistan has largely taken place with military and economic assistance provided by the United States,

11. 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.

the Arab world and other nations. For example, the initial payment of the \$1.4 billion of the first 40 F-16 aircraft in 1980-81 was reportedly funded by the Saudi money.¹² Pakistan separated the military pensions which amount to approximately 11 per cent of the budget in the year 2000 from the defence budget and placed them under the civil administration expenditure, 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. For example, Pakistan has been receiving US military assistance (besides the arms supplies) since 2001 under four heads as outlined in Table 2.

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

Programme 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

Notes: 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 - Included \$ 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, Washington DC, Updated October 26, 2006.

12. Jasjit Singh, *Ibid.*, p.75. Jordan had provided at least one squadron of F-104 Starfighter for Pakistan to fight the war against India.

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 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.

As may be seen, the US assistance to Pakistan has grown rapidly post 9/11.

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

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 lifeboats 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

Sources: Based on data from the Defence Security and Cooperation Agency, Department of Defence, United States of America.

The FMF for Pakistan which stood at \$ 75.0 million, went up to \$ 297 million in the fiscal year 2006 and is estimated at \$ 300 million in the fiscal year 2007. The figure for IMET funding for Pakistan which was \$ 0.9 million in the fiscal year 2002, has doubled and amounted to \$ 2.0 million in the year 2006 and is estimated to cross \$ 2 million in the 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 Pakistan's defence budget.

OTHER ARMS SALES

The United States has provided/ assured to provide/sell significant numbers of major weapon systems in the last five years (2002-05) years. 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 arms 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.

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2004 – HF/VHF radio systems and associated equipment and services – \$ 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

2005 – 300 AIM-9M-1/2 Sidewinder air-to-air missiles- \$ 46 million

2005 – 115 M 109A5 155 mm self-propelled howitzers as well 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. Estimated deal \$ 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 2002-06 was worth approximately \$ 8,964 million (Rs 55,577 crore.)

Pakistan's total official stated defence budget during the same period was approximately \$ 12,785 million (Rs 78,000 crore). In other words, Pakistan's officially stated average defence expenditure for the last five years amounts to Rs

205.99 billion per annum. In terms of percentage of GDP, this is 3.5 per cent. However, adding the weapons from the US in this period, Pakistan acquired military capability at an average 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 actual contracts, still it 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.

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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 troubles. 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 allotted 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."¹³ The study which covered a period of over 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."¹⁴

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 the Pakistani people. As a percentage of GDP, the public debt increased from 93.7 per cent in the mid-1990s to over 100 per cent in mid-2000.¹⁵ 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 the 1997-98, an average increase of 8.5 per cent per annum.¹⁶ 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

13. 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.

14. Looney and Winterford, *Ibid.*, p.109.

15. Government of Pakistan, *Pakistan Economic Survey 2000-2001*.

16. *Ibid.*

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."

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 downslide, 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 1999-2000.¹⁷ The 1990s were marked by a constant rise in the poverty head counts, accompanied by a declining growth rate. Given the existing feudal structures of society, increasing poverty has also led to increasing distortion of income distribution and a 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 measures to ethno-sectarian conflict since the early 1980s, besides reinforcing feudalism by increasing the dependence of the poor on the affluent.

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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, *jihad* and societal violence. Due to lack of investment and employment opportunities, there is a mismatch in Pakistan in

17. *Human Development Report in South Asia 2001* (Karachi: Oxford University Press, 2002), p.82.

the supply and demand for skills. The high rate of unemployment and poverty linked to the inefficient education system in Pakistan has led more and more Pakistanis into *madrassas*.¹⁸

Table 4 gives us a picture of spending priorities in Pakistan. Military spending (only the official figures), when compared to the spending on health and education, two most important social sectors, is much higher. Even after 9/11, with foreign

Year	Education (% of GNP)	Health (% of GNP)	Defence (% of GDP)
1999-2K	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)	-

funding flowing into the economy, the social sector remains the same. In fact, UNICEF in a report in 2005 blamed Pakistan's heavy military spending, directly, for the diversion of resources from public and specifically child health.¹⁹

Military Implications

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

- Pakistan's actual military spending is significantly higher than what the official budget indicates.

18. Shalini Chawla, "Jobs or Jihad, that's the Question," *The Indian Express*, July 19, 2002.

19. "Pakistan: Military Spending at the Expense of Children's Health", UNICEF, at <http://acr.hrschool.org/mainfile.php/0211/410/>

- 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.

Pakistan's actual military spending is significantly higher than what the official budget indicates.

The trend in defence spending and building military capabilities indicates two important elements. One, Pakistan has been able to maintain a high level of military capability due to external assistance, both from the US and China though in different forms and in different ways. The US arms supplies have been erratic and fluctuate over time. Chinese supplies and, hence, China's influence has been more steady and seen as reliable in Pakistan. Second, a large quantum of military expenditure is embedded in extra-budgetary sources of military acquisitions and possibly manpower-related expenditures. Taking the current phase of US arms-support to Pakistan through diverse ways, it can be concluded that Pakistan's military capability represents a level of expenditure closer to 4.6 per cent of the GDP rather than the official figure of 3.5 per cent as recorded in recent years – that is, a level around 35-70 per cent higher than the official figures.

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