



Director of
Central
Intelligence

Micro

~~Secret~~

~~NOFORN-NOCONTRACT
ORCON~~

NEB |-----| SNIE 32-82 |-----|

Pakistan: The Next Years

Special National Intelligence Estimate

APPROVED FOR RELEASE

DATE: 1/17/01

(b)(1)(b)(3)

~~Secret~~

SNIE 32-82
8 November 1982

Copy 457

24

1 2 6 6

~~SECRET~~
~~NOFORN/NOCONTRACT/ORCON~~

SNIE 32-82:

PAKISTAN: THE NEXT YEARS

Information available as of 4 November 1982 was
used in the preparation of this Estimate.

~~SECRET~~

~~SECRET~~
~~NOFORN/NOCONTRACT/ORCON~~

THIS ESTIMATE IS ISSUED BY THE DIRECTOR OF CENTRAL INTELLIGENCE.

THE NATIONAL FOREIGN INTELLIGENCE BOARD CONCURS, EXCEPT AS NOTED IN THE TEXT.

The following intelligence organizations participated in the preparation of the Estimate:

The Central Intelligence Agency, the Defense Intelligence Agency, the National Security Agency, and the intelligence organizations of the Departments of State and the Treasury.

Also Participating:

The Assistant Chief of Staff for Intelligence, Department of the Army
The Director of Naval Intelligence, Department of the Navy
The Assistant Chief of Staff, Intelligence, Department of the Air Force
The Director of Intelligence, Headquarters, Marine Corps

~~SECRET~~

CONTENTS

	<i>Page</i>
SCOPE NOTE	1
KEY JUDGMENTS	1
DISCUSSION	5
Background—The Past as Constraint on Zia	5
The Current Domestic Scene—Zia in Charge, But for How Long?	5
Zia's Supporters	5
Zia's Opponents	6
Zia's Plans for Change	6
Islamic Democracy	6
Ethnic Tensions and the Threat of Terrorism	6
The Economy—Hard Choices Ahead, With No Easy Solutions	7
Present State of the Economy	7
Economic Outlook	7
Impact of the IMF Program	7
The Role of Foreign Aid	8
Relationship of the Economy to Political Stability	9
Pakistan's Foreign Policy	9
Relations With India	10
Relations With the Soviet Union	10
The Talks on Afghanistan	11
Relations With China	12
[REDACTED]	12
Outlook	13
Prospects for Continued Rule by Zia	13
[REDACTED]	A-1

~~SECRET~~
~~NOFORN/NOCONTRACT/ORCON~~

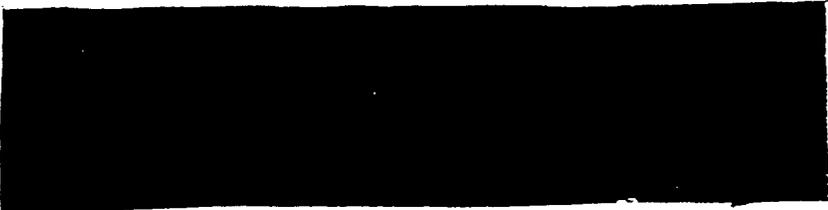
SCOPE NOTE

This Special National Intelligence Estimate was prepared to set the stage for President Zia's forthcoming visit to Washington. It assesses the domestic and foreign policy prospects for Zia's government over the next one to two years.

KEY JUDGMENTS

Pakistan's President Zia-ul-Haq faces growing domestic problems but no immediate threat to his rule. His largely benign authoritarian regime has given Pakistan general political stability and substantial economic growth. Zia lacks an organized constituency outside the Army, however, and he could find his hold on power challenged should a strong opposition emerge.

Zia's visit to Washington will be paralleled by the arrival in Pakistan of the most visible symbol of the new US relationship—the first six of 40 F-16 fighter aircraft. Islamabad is aware that only the United States can offset Soviet pressures and provide Pakistan with the sophisticated weapons it believes it needs. The US-Pakistan deal on economic aid and weapons sales undoubtedly has strengthened Pakistan's international position and restored some of its self-confidence. The relationship faces several difficult hurdles, however:

- 
- The Pakistanis continue to doubt the reliability of US commitments and US steadfastness in times of crisis. These doubts—based on earlier disappointments—color current Pakistani concerns about the funding of the US arms package and the precise equipment to be supplied.

Pakistan's leaders believe that the Soviet invasion of Afghanistan fundamentally altered the balance of power in South Asia, and the Zia government has strongly opposed the Soviet occupation of Afghanistan.

~~SECRET~~



~~SECRET~~
~~NOFORN/NOCONTRACT/ORCON~~

But Pakistan also views the indefinite presence of 2.5 million Afghan refugees on its own territory as unacceptable. Pakistan therefore has pursued the UN-sponsored indirect talks on a settlement on Afghanistan. Islamabad might accept some conditions, such as accepting a new Kabul government closely tied to the Soviet Union—which the United States would not favor—as long as most Soviet troops left and the refugees returned home. Major concessions, such as recognition of the Babrak government and acceptance of a continued Soviet troop presence are unlikely in at least the next year, even if the US relationship should falter, because of concern over the reaction of conservative religious parties and well-armed Afghan insurgents at home and vital friends abroad, such as Saudi Arabia and China.

The primary factor in Pakistan's foreign policy is suspicion of India. Pakistan is aware that it cannot count on US support against India.

Indo-Pakistani relations are unlikely to improve substantially, despite the ongoing talks on a no-war pact.

Zia and his opponents will plan their current actions with an eye to the Washington visit. Zia may announce a date for nonparty elections, while the political parties plan a series of protests. Terrorist groups may attempt spectacular actions, such as the hijacking of a Pakistani airliner.

Zia's hold on power remains firm for now, but his failure to fashion acceptable political institutions and win broad popular backing leave him vulnerable should he blunder, the economy stagnate, or a popular leader emerge to unite the opposition. Although the opposition parties so far remain ineffective, there are signs of increased impatience with martial law and stronger calls for a return to civilian government through elections. When change comes, it is likely to be abrupt and violent.

The most likely event leading to Zia's downfall would be mass public unrest in Pakistan's major cities, probably stimulated by economic problems. The Army would move quickly to remove Zia if strong discontent should develop. His likely successor would be another general, ruling with civilian support based on the promise of future elections. A new regime might change domestic economic policies, but would be less likely to alter basic foreign policies, including relations with the United States.

Ethnic tensions, especially in Baluchistan, will continue to be an irritant, but do not threaten Pakistan's national integrity. Random terrorist actions are unlikely to bring about the downfall of the

~~2~~
~~SECRET~~

7 2

~~SECRET~~
~~NOFORN/NOCONTRACT/ORCON~~

government. Terrorism weakens the Zia government to the extent that it undermines public confidence in the regime's ability to maintain public order.

Relatively good economic performance has been an important element in the stability of Zia's regime to date. The potential for continued strong growth exists, but it is threatened by serious structural problems, especially government overregulation. Zia will have to walk a narrow line to carry through on necessary reforms without triggering public discontent over rising prices. Failure to make these reforms will eventually heighten economic problems; making them too abruptly could have adverse, perhaps fatal, political consequences.

~~3~~
~~SECRET~~

BLANK PAGE

2 1 4

DISCUSSION

Background—The Past as Constraint on Zia

1. Pakistan has sought in vain throughout its history for political stability. Periods of ineffective civilian government have alternated with martial law. Pakistan never developed a national consensus or general acceptance of a political order. Divisions between ethnic groups led to the secession, with Indian aid, of Bangladesh in 1971—the only successful dismemberment of a national state in the postwar era.

2. The debacle of the Bangladesh war brought to power Zulfikar Ali Bhutto and his Pakistan People's Party (PPP). Determined to stifle all opposition, Bhutto turned increasingly to dictatorial methods that heightened rather than healed Pakistan's political polarization. Large-scale nationalization and a lack of rational planning led to a virtual halt in private investment and to economic chaos. Charges that the 1977 elections were rigged brought about three months of public violence. That sparked an Army takeover, led by General Zia-ul-Haq, who imposed a self-proclaimed "caretaker" regime, and promised elections within 90 days.

3. Revelations of extensive wrongdoing by the PPP administration, coupled with a belief that it would win even a fair election, led Zia to postpone the promised polls and to embark on a "process of accountability" designed to cleanse the body politic. Elections promised for November 1979 were again postponed when it became apparent the PPP would be the probable winner. The relative stability of martial law, coupled with careful economic planning and some cautious reforms, led to renewed economic growth.

4. Pakistan's relations with the United States have had a series of ups and downs. Pakistan signed a military assistance agreement with the United States in 1954 and a security agreement in 1959. The relationship was never smooth, however, and was plagued from an early point by disputes over the type and quantity of US equipment to be supplied. Pakistan lost faith in US reliability when the United States cut off arms supplies to South Asia during the 1965 Indo-

Pakistani war, a feeling heightened by the US failure in Pakistani eyes to keep Pakistan from being dismembered by India in 1971.

US-Pakistan relations warmed after the Soviet invasion of Afghanistan in December 1979. After rejecting a Carter administration economic and military package as insufficient, Pakistan agreed to a Reagan administration package—but with the caveat that this did not affect Pakistan's new nonaligned status.

The Current Domestic Scene—Zia in Charge, But for How Long?

5. President Zia is generally respected, or at least tolerated, in Pakistan, but he arouses no strong enthusiasm. The political parties are in disarray and unable to muster any significant opposition. There is diffuse dissatisfaction, however, with martial law, which has continued uninterrupted for over five years. Zia thus finds himself with no direct challengers, but without any broad-based popular support to protect himself if unrest develops.

Zia's Supporters

6. Zia does have the support of Pakistan's strongest institution, the Army. Zia has adroitly manipulated senior officer appointments to ensure a loyal senior officer corps. The Army's influence now extends into almost all areas of the society, as serving and retired Army officers have been appointed to fill positions in the bureaucracy and state-run industries. That occasions some resentment, particularly among line officers, about the Army's continued martial law responsibilities, and the attendant corruption. But the military realizes that its interests are bound up with Zia's, and chances that a sudden coup will depose Zia are minimal.

7. Zia also appears to have the general support of the urban lower middle classes, the "Islamic middle class"—shopkeepers, clerics, bazaar merchants, and

small-scale industrialists, among others. The support of these groups is crucial to the maintenance of peace in the large cities. Any reversal of their support would spell trouble for Zia. Pakistan's traditional elite groups—agricultural landlords, large industrialists, urban professionals—have seen their influence diminished, but have been largely neutral toward Zia. Some important groups, such as lawyers, are adamantly opposed.

Zia's Opponents

8. Zia's most important opponent remains the PPP, which has joined other opposition parties in the Movement for the Restoration of Democracy (MRD). The MRD calls for an immediate end to martial law followed by open elections. Most observers agree that the PPP would win at least a plurality in a free election, due to its continued popularity among the urban poor and rural peasants. The party's organization has suffered because of its inability to function openly, but it is essentially intact.

9. Governments traditionally have fallen in Pakistan when urban violence becomes so widespread that only the Army can control it. Unwilling to shoot down its own countrymen for very long, the Army then replaces the leader.

Zia's Plans for Change

10. Zia's mission has gradually changed from that of a "caretaker" to that of a builder of new institutions, indeed of a reformer of Pakistani society. He has made it clear that there is to be no going back to Pakistan's previous parliamentary democracy. This is due both to his knowledge that the PPP would regain power in such a setup and to his belief that "Western democracy" is unsuited to Pakistan. Zia's attempts at remodeling Pakistan have taken three main forms:

— *The downgrading of existing institutions.* The power and independence of the judiciary, the civil service, and the press have been severely reduced. Numerous provisions of the constitution have been suspended.

- *The invention of new institutions.* Zia has cautiously brought into existence local government councils, "Islamic" courts, and a nominated Federal Advisory Council in place of a legislature.
- *The strengthening of Pakistan's Islamic character.* This has both restrictive aspects—the banning of alcohol and restrictions on women—and innovative ones—the attempt to create Islamic judicial and financial institutions and, ultimately, to set up "Islamic democracy."

Zia made his intentions specific in an address to the public on Pakistan's Independence Day in August 1982. He proposed a plan for sweeping social reform and promised that he would reveal the outline of an Islamic political system within one year.

Islamic Democracy

11. Zia has never clearly defined his concept of "Islamic democracy." In its most radical form it seems to be a system in which there are no political parties, for there can be no divisions among true Muslims who accept God's word. A ruler will be chosen, seemingly by consensus. The chief, and perhaps only, qualification for his rule is that he be a pious Muslim. He will be advised by a council of pious Muslims.

12. Zia seems to be aware that such a Utopian scheme is not practical in present-day Pakistan, and he has suggested various less radical schemes at times. Prominent among their features is a call for nonparty elections with a requirement that candidates be sincere Muslims. There are two basic flaws with this scheme, however, and with Zia's entire Islamization program. First, the mere imposition of an "Islamic" system will do nothing to fuse the divisive nature of Pakistan's politics or provide a sense of national cohesion. Second, Pakistan's Muslims have never been able to agree on what an Islamic system is. Zia will have difficulty in coming up with a scheme that will satisfy even a majority of the populace.

Ethnic Tensions and the Threat of Terrorism

13. Zia is a Punjabi, the dominant ethnic group in Pakistan, comprising approximately 60 percent of the

population. The smaller ethnic groups—Sindhis, 20 percent; Pathans, 17 percent; and Baluch, 3 percent—are all disaffected to some extent by what they see as Punjabi rule through the Army and civil service. The Soviet Union has made contact with the dissident groups in Baluchistan, and a small group of rebellious Baluch tribesmen has sheltered in Afghanistan since 1978. The historic Pathan call for an independent or autonomous homeland, egged on by Kabul, lost its appeal when the Soviets moved into Afghanistan. New troubles have arisen, however, because of the presence of 2.5 million Afghan refugees in Pakistan. There has been remarkably little friction between the refugees and the natives, but it has increased recently. Afghan agents probably play some part in fomenting such discontent.

14.

The Economy—Hard Choices Ahead, With No Easy Solutions

Present State of the Economy

15. Pakistan's economy has turned around, with annual GDP growth averaging over 6 percent for the past five years. Agriculture, which remains the foundation of the economy, has benefited from favorable weather conditions and has responded to hefty increases in procurement prices. Pakistan in 1981 reached self-sufficiency in wheat for the first time in its history.

16. Industry still suffers from liabilities inherited from the Bhutto years—notably overregulation and an incoherent labor policy—but still has achieved an average annual growth of 8 percent since 1977. Investment has been particularly strong in the private small-scale industrial sector. Industry represents only about 15 percent of GDP but is of special importance in providing urban jobs and in expanding nontraditional exports.

17. Export performance had been impressive between 1978 and 1981. In 1982 growth leveled off as a

result of the global recession and an increasingly overvalued rupee. Rice, cotton, and cotton textiles remain the mainstays of Pakistani exports, but nontraditional manufactured goods are growing in importance. Expatriate worker remittances have become another major factor in the balance of payments. At over \$2 billion last year, remittances alone covered well over a third of commodity imports.

Economic Outlook

18. Pakistan should be able to sustain recent trends for at least the next year. Assuming reasonable weather conditions for agriculture, overall economic growth will probably exceed the 6-percent trendline for the fiscal year ending June 1983. For the longer term, however, prospects are clouded by the serious structural flaws which remain imbedded in the economy. Some of these problems, such as rapid population growth, are cultural as much as economic in nature and at best can be resolved only over decades. But others, such as low productivity, excessive industrial regulations, inadequate resource mobilization, and consumption/savings patterns, are more directly susceptible to government policy.

19. The most visible symptom of these problems has been chronic pressure on Pakistan's balance of payments. Current account deficits in the range of \$1 billion per year since 1978 were manageable for a time, but the Zia regime has been reluctant to take corrective actions, including a currency devaluation. In Pakistan's fiscal year 1981/82 the deficit jumped to \$1.4 billion. There is no prospect for significant improvement this year.

Impact of the IMF Program

20. The Government of Pakistan (GOP) began to respond to these balance-of-payments pressures in 1980 by undertaking a three-year structural adjustment program agreement with the International Monetary Fund (IMF). In return, it obtained \$1.5 billion in support from the IMF, and an 18-month official debt rescheduling from major bilateral creditors including the United States.

21. Pakistan's performance under the program has been mixed. Progress has been made in budget and monetary restraint and in adjusting administered

Economic Indicators

(Million US \$)

	1976*	1977	1978	1979	1980	1981	1982 (preliminary)	1983 (projected)
Real GDP growth (percent)	3.3	2.5	7.4	4.7	7.0	5.7	6.0	6.1
Trade balance	-975	-1,286	-1,464	-2,170	-2,516	-2,765	-3,194	-3,230
Exports, f.o.b.	1,163	1,132	1,287	1,646	2,341	2,794	2,427	2,790
Imports, f.o.b.	-2,138	-2,418	-2,751	-3,816	-4,857	-5,563	-5,621	-6,020
Net services and transfers (Worker remittances)	3 (339)	205 (578)	834 (1,156)	1,044 (1,395)	1,371 (1,743)	1,774 (2,097)	1,770 (2,215)	1,885 (2,370)
Current account balance	-978	-1,081	-630	-1,126	-1,145	-991	-1,423	-1,345
International reserves and bank assets ^b	586	377	703	459	882	1,200	845	1,150
External debt service payments ^c	248	347	339	496	502	712	747	893
Debt service ratio (percent) ^d	14.1	15.4	11.2	12.3	11.3	10.9	12.7	14.6
Foreign aid disbursements	1,059	961	856	948	1,470	972	1,113	1,220

* Fiscal year ends 30 June of stated year.

^b Excluding 1,846 million oz. of gold worth \$638 million at June 1982 market prices.

^c Excludes repayment of IMF facilities, military debt, and debt with up to one year's maturing. Does not reflect impact of the currency devaluation which could increase debt repayments for 1983 by at least 20 percent.

^d Expressed as a ratio to current account receipts, including remittances and nonfactor services.

prices toward more realistic levels (although producer prices for natural gas and oil remain too low). The GOP has done little, however, in the key areas of tax reform and import liberalization. The abrupt leveling-off in export earnings in late 1981 finally forced a rupee devaluation, but the new rate was considered still too high by the IMF. (Under continued IMF pressure, the exchange rate has been further adjusted in several steps. The aggregate devaluation against the dollar is currently over 20 percent.) Relations with the Fund have been strained at times due to disagreements over such issues, but a continuation of the program as it goes into the third year does not now appear to be in serious jeopardy.

The Role of Foreign Aid

22. Foreign economic aid to Pakistan has increased substantially since the Soviet invasion of Afghanistan. The commitment level for 1982 was \$1.3 billion, excluding large but erratic Arab inputs. This aid has enabled Zia's regime to sustain respectable growth rates and to maintain the momentum of its development program in spite of domestic budget restraints. Aid tied to development projects may help eventually to generate the resources needed to service Pakistan's

long-term debt, which is growing rapidly due to excessive public-sector borrowing in the past and to present military purchases. It does not ease the immediate payments squeeze nor the political complications that arise from the current economic situation. For this reason the GOP has been emphasizing the need for greater proportions of aid in the form of untied balance-of-payments support. A related issue is net resource flows. Growing debt service payments now absorb about 80 percent of gross foreign aid receipts. As a result, the GOP has been pressing for additional debt rescheduling as a means of increasing net foreign aid.

23. The US six-year, \$3.2 billion economic assistance/military sales package for Pakistan was a result of the security threat created by the situation in Afghanistan. The \$1.6 billion in Foreign Military Sales (FMS) credits will be a significant addition to Pakistan's long-term debt burden. Therefore, the economic portion of the package was designed to provide both immediate balance-of-payments support and an eventual stimulus to Pakistan's longer term productive capacity. US assistance is an important but not dominant element in overall foreign aid to Pakistan. It presently constitutes a little over 10 percent of the total and will probably rise to around 20 percent by the mid-1980s.

Relationship of the Economy to Political Stability

24. Growth of real per capita income has benefited most elements of Pakistan's complex socioeconomic structure in varying degrees. The lack of economic "gut issues" has been a major factor in the inability of the political opposition to generate popular dissatisfaction with military rule.

25. However, given the serious structural problems that remain, the economy's prospects for sustained vigorous growth are dependent on the government's success in carrying through an agenda of reforms such as prescribed by IMF and the World Bank. The greatest obstacle to these reforms is GOP reluctance to risk serious discontent among the urban masses.

26. To date, the public has accepted gradual reductions in food subsidies and increases in energy prices with little evident complaint. On balance, most elements of society probably have experienced real income growth. Employment abroad has been an important safety valve by easing domestic unemployment and supplementing income levels. But substantial additional price adjustments are necessary. Rapid further price increases, by eroding real income levels for urban dwellers, could provide potent ammunition for the political opposition. Yet failure to make these changes will assure an eventual balance-of-payments crisis that would force even more drastic adjustments.

27. On balance, the Zia government has fair prospects for finding a pace of economic adjustment consistent with political stability for the near term. Pakistan's long-term stability, however, will continue to be threatened by fundamental social problems—dangerously high population growth (currently 3 percent), an inadequate and misdirected educational system, and deep-seated regional and class rivalries.

Pakistan's Foreign Policy

28. Islamabad's foreign policy aims at maintaining Pakistan's national security in the face of the Soviet invasion of Afghanistan, the growing military power of India, and the aftermath of the revolution in Iran. Pakistan is concerned that a weakened Iran will come under Soviet influence, but its worst fear is of future Soviet and Indian collaboration to dismember Pakistan, or turn it into a weak buffer state under Indian hegemony. Islamabad does not see this as an immedi-

ate threat, but it feels vulnerable to direct Indian or Soviet military pressure and to outside meddling in its potentially unstable domestic politics.

29. Pakistan views China as its most reliable ally and has depended on Beijing for most of its arms. Islamabad knows that in any major showdown with India, China probably would be able to offer only limited help since Beijing would be constrained by Soviet support for India and by enormous logistical difficulties in bringing its military power to bear. Pakistan has strengthened its ties with the Muslim world, particularly Saudi Arabia, and continues to emphasize its nonaligned status—moves which serve Pakistan's security by reducing its exposure and giving it access to the financial resources needed to purchase modern weapons.

Pakistan: Narcotics and the Golden Crescent

Since 1979, Pakistan—along with Iran and Afghanistan—has supplied more than half the opium for the Western heroin market. More recently, illicit laboratories in Pakistan have begun producing significant amounts of highly pure opium for the Western market. Health and law enforcement authorities are becoming concerned about expanding heroin abuse in Pakistan and senior officials, including President Zia, are beginning to regard it more seriously. International assistance to help Pakistan cope with narcotics is limited. Local authorities are reluctant to enforce the ban on poppies without substantial income substitution programs or to move against heroin laboratories that may be operating in politically sensitive tribal areas.

Once current opium stocks are depleted, prices will rise, setting off a new round of production. We doubt that the government has the resources to keep production at its present levels or successfully interrupt the flow of opium originating in eastern Afghanistan and Pakistan's own tribal areas. Impoverished Afghan refugees or insurgent leaders needing money for weapons may in time become involved in the lucrative trade. For these reasons, we expect Pakistan to remain an important source of supply for the Western heroin market, and an issue in US-Pakistan relations.

30. Islamabad is aware that only the United States can offset Soviet pressures and provide Pakistan with the kind of sophisticated weapons it believes it needs. The new US-Pakistan deal on economic aid and

weapons sales undoubtedly has strengthened Pakistan's international position and restored some of its self-confidence. Nevertheless, the Pakistanis continue to question the durability of US commitments and US steadfastness in times of crisis. The Pakistanis worry about the long-term impact of several irritants, including the narcotics issue (see inset). Most importantly Islamabad believes it cannot count on US support in the event of a conflict with India, an adversary whose conventional military power Pakistan cannot hope to match.

Relations With India

31. Relations between Islamabad and New Delhi remain marred by deep mutual suspicions. The Pakistanis continue to believe that India intends to secure its regional dominance by breaking Pakistan's ability to conduct an independent foreign policy. Islamabad is concerned that India's conventional military power has grown beyond its need for self-defense. Pakistan's leaders believe their country will be vulnerable to Indian military and political pressure as long as they lack a credible nuclear deterrent.

32. One of Pakistan's responses to these perceived threats has been to engage New Delhi in talks on a no-war pact. These talks, begun at Pakistan's behest, are scheduled to resume early next year, but their scope has been broadened by India's counteroffer of a treaty of friendship and the establishment of a joint commission. According to Pakistani Foreign Ministry officials, the Indian draft Treaty of Friendship contains clauses that aim at circumscribing Pakistan's foreign policy and compelling it to accept India's predominance. The Indian draft would require that Pakistan and India settle all unresolved issues—including Kashmir—bilaterally and that each would renounce the right to permit outside powers access to bases on its soil. India attaches importance to its draft for a joint commission, which it believes would provide the framework for expansion of trade and cultural relations, improved communications, and greater movement of people between the two countries.

33. Islamabad, we believe, would like to draw out its diplomatic dialogue with India at least in part to

distract New Delhi from Pakistan's nuclear weapons program. Pakistan recognizes that it cannot give up its claim to Indian-held Kashmir for domestic political reasons, but would agree to put the matter aside and concentrate on other problems. If, as expected, the talks remain on track, the Pakistanis do not expect more than modest, incremental progress.

34. The stopover by President Zia in New Delhi on 1 November reflects the improvement in the tone of the relations following the two meetings between the Foreign Secretaries this year and holds hope for further progress toward normalization. Pakistan is moderately encouraged by New Delhi's recent effort to assert its nonaligned status, perhaps from a reassessment of Indian-Soviet ties in the aftermath of the Soviet invasion of Afghanistan. New Delhi's decision to diversify its arms suppliers, to undertake a dialogue with China on their disputed border, and to seek improved relations with the United States are seen by Pakistan as welcome steps that reduce Soviet influence in South Asia. Islamabad realizes the Soviets have important economic and military leverage on India and that New Delhi will seek Moscow's support in any major confrontation in the region, but it believes it has no better option now than cautiously to pursue better relations with India.

Relations With the Soviet Union

35. Since the Soviet invasion of Afghanistan, relations between Islamabad and the Soviet Union have remained strained. Pakistani leaders believe that the advent of Soviet power along Pakistan's border with Afghanistan fundamentally altered the balance of power in South Asia, making Pakistan a frontline state. They view the Soviets as actively hindering better relations between India and Pakistan. Zia and his senior generals fear the Soviets will not leave Afghanistan and believe Moscow intends to eventually reach the Indian Ocean by creating further client states in Southwest Asia. Although they see no immediate threat of a Soviet invasion of Pakistan, they believe Pakistan needs time to strengthen itself. They support the Afghan insurgents in order to make it more difficult for the Soviets to consolidate their hold on Afghanistan. In addition, it burnishes their Islamic credentials.

36. Islamabad would, however, like to reduce the strain that has characterized its relations with Moscow

since the Soviet invasion of Afghanistan. Given the power and proximity of the Soviet Union, Islamabad realizes that it can neither ignore the Soviets nor unnecessarily provoke them. Pakistan accepts that Moscow will always choose India as a partner over Pakistan in South Asia. Islamabad may calculate that the Soviets will moderate their pressure to accommodate to Soviet aims in Afghanistan for fear of driving Islamabad more firmly into the US embrace.

37. Pakistan keeps its channels open to Moscow, welcomes Soviet economic assistance, and emphasizes areas of common agreement. These efforts are aimed at reassuring Moscow that Pakistan has not closed off all its options in dealing with them. Islamabad will attempt to avoid a break with Moscow because it worries that the West will in time forget about Afghanistan or may reach an agreement on Afghanistan over Pakistan's head as part of a larger international settlement. Of more immediate concern in Zia's inner councils, we judge, is the possibility of a cutoff of US aid.

38. Moscow has pursued a carrot-and-stick diplomatic approach to Pakistan, but also has tried to exploit Islamabad's fear of internal disorder by developing contacts with political and ethnic opposition groups in Pakistan.

[REDACTED] The Soviets also have old links to Pushtun and Baluch separatists and may be funneling funds to the left wing of the Pakistan People's Party inside Pakistan. These groups are too weak at present to threaten Zia's tenure, but their potential for dramatic acts of terrorism and for subversion—particularly that engendered by growing tensions between Pakistanis and the large population of Afghan refugees—deeply worries Islamabad.

The Talks on Afghanistan

39. The Afghanistan problem will remain the central issue in Pakistan-Soviet relations. Although the Soviets are no closer to solving their problems in Afghanistan, the refugee problem in Pakistan has become a major concern to the government in Islamabad. Local resentments and concern in the Army that the Afghan refugees will become a permanent problem for Pakistan much like the Palestinians in the

Middle East have added a note of urgency to Pakistan's search for a political settlement on Afghanistan.

[REDACTED]

40. Zia and his advisers will have to balance these pressures with the strong support their Afghanistan policy draws from conservative religious parties and well-armed Afghan insurgents at home and vital friends abroad, such as Saudi Arabia, China, and the United States. While they doubt that the Soviets are ready for a political settlement acceptable to Pakistan, Pakistan's leaders believe they have no choice but to probe for any flexibility in the Soviet position. Islamabad's primary aim in Afghanistan is the creation of conditions there that would permit the refugees to return, but the Pakistanis know that the refugees will not return as long as large numbers of Soviet troops occupy the country.

41. Some senior Pakistani officials believe major progress on Afghanistan is possible in the coming months. They aver that Afghanistan, largely because of Soviet prompting, had shown considerable flexibility at the UN-sponsored indirect talks in Geneva last June. They regard as major concessions Kabul's agreement to permit Soviet withdrawals and the views of Afghan refugee leaders to be included in a settlement. They also are encouraged by public Soviet support for the UN-sponsored talks and the distinct impression gained in Moscow by both UN Secretary General de Cuellar and Cordovez, his personal representative on Afghanistan, that the Soviets are looking for a political solution to their Afghanistan adventure. They believe that economic problems at home and continuing unrest in Poland have put the Soviet leadership under growing pressure to find a political solution to the mess in Afghanistan.

42. Zia and his senior advisers probably view signs of Soviet flexibility more cautiously. They seem to fear that signs of Soviet flexibility may be ploys to persuade Pakistan to engage in direct talks with the Babrak regime in Kabul and to slacken in its efforts to gain a strong resolution on Afghanistan in the UN General Assembly this fall.

[REDACTED] Islamabad

Knows that recognition of the government in Kabul is one of its trump cards. It is doubtful that Zia would play it until a pullout of Soviet troops is largely completed, most of the refugees have returned to Afghanistan, and Kabul has accepted Pakistan's version of the long-disputed border between the two countries.

Relations With China

43. The close relations between Islamabad and Beijing are rooted in a common perception of Soviet strategy and Indian policy in South Asia. Pakistan sees China as a deterrent to Indian—and more recently, Soviet—aggression and believes China would be the most likely state to act if India moved to break up Pakistan. Islamabad regards China as its most reliable ally, having given Pakistan strong diplomatic support in the last two wars with India. Islamabad appreciates the fact that Beijing supports Pakistan in order to frustrate Soviet designs to encircle China and to gain for China an outlet to the Middle East.

44. Although China cannot provide Pakistan with the most up-to-date weapons systems, Chinese-supplied tanks and aircraft constitute the bulk of Pakistan's armaments. Pakistan has been a source of modern Western arms and technology for China and there are indications the two countries have joint defense production programs based on Western technologies.

45. Pakistan's close military relations with China suggest that Islamabad may at some point give Beijing access to new US weapons it receives, despite having signed a General Security of Military Information Agreement. For the near term, however, we believe, Pakistan probably will safeguard the new US arms it receives to protect the arms supply relationship. But major strains in relations with the United States—reinforcing Islamabad's doubts about US reliability—could cause the Pakistanis to show US arms to China. China has obtained French weapons—and possibly US air-to-air missiles—from Pakistan and has negotiated agreements on joint weapons development based on

Western arms technologies acquired by Pakistan. Pakistan is aware of US concern about unauthorized transfers of US weapons technology to China, but considers its security relations with China more durable than those with the United States.

53. Nevertheless, recently there have been signs of increased impatience within key pro-Zia constituencies over the continuation of martial law and stronger calls in the country for a return to civilian government through elections. [REDACTED] the major opposition leaders are convinced the time is ripe to move against Zia. Some senior security officials believe the tide of public opinion is running against Zia and are increasingly skeptical about the regime's ability to contain possible internal disorders. Should the economy falter and affect the interests of the urban middle classes and their clerical allies opposition to Zia could coalesce rapidly.

54. It is highly unlikely that Zia's leadership would survive prolonged disturbances, particularly if the Army is called out to put down violent disorders in Punjab's cities. Unwilling to fire on its own people, or to allow radical leaders to seize control of a movement, the Army probably would quickly remove Zia from office and install another general. It is not possible to predict when such an outbreak might occur, but if a broad decline in the economy should occur there probably would be serious unrest. Politically difficult structural adjustments in the economy, particularly those required by the IMF, could set off urban unrest over increases in food prices. We do not know when political change will come, but when change does come it is likely to be both violent and abrupt. As a result, we would probably have little warning of an impending upheaval.

55. The continued presence of Al-Zulfikar and other terrorist groups makes assassination for Zia and other leaders an ever-present threat. An attempt on Zia's life reportedly was made last spring when a missile was fired at his aircraft. Pakistani authorities are alert to the threat, but Al-Zulfikar is difficult to eradicate.

56. Terrorist violence, such as the hijacking of a Pakistan airliner in 1981, has so far helped rather than hurt Zia. He claims that it is foolish to talk of elections when Pakistan is under assault internally. Dramatic acts of terrorism are widely condemned in Pakistan's conservative society. But a continued upsurge of terrorism could contribute to a willingness to confront Zia. One of the chief claims of the martial law regime has been that it has protected life and property, in contrast to the Bhutto years. A continued inability to

Outlook

Prospects for Continued Rule by Zia

51. Barring an assassin's bullet, President Zia probably will maintain his hold on power over the next year. We believe, however, that increasingly open public dissatisfaction with martial law and an uncertain economic climate could—over the next one to three years—confront Zia with the choice of facing serious unrest or opting for a civilian regime under Army tutelage. Although such a regime would lack a popular consensus, it might attract enough of the moderate opposition to give Zia more time.

52. The opposition remains ineffective and lacks public respect. Its divisions have only been papered over by the Movement for the Restoration of Democracy and it has yet to find either a major issue or a leader to galvanize the broad dissatisfaction with Zia into active opposition. Most educated Pakistanis are still reluctant to confront the Army in the streets for fear that the Soviets or Indians will exploit internal unrest or that separatist leaders will use an opposition movement to make major gains.

root out terrorism may lead to a demand for a new government that can do so.

57. Ethnic unrest in an area such as Baluchistan, if it seriously threatened the dismemberment of Pakistan, also could lead to Zia's downfall. This possibility seems unlikely, however. The Baluch simply do not have the numbers to defeat the Pakistani armed forces. The Soviet Union has been in contact with dissident Baluch groups, and with other opposition groups throughout Pakistan. Its financial assistance to these groups appears aimed more at pressuring Islamabad and perhaps winning a change of regime, than at promoting the breakup of the country.

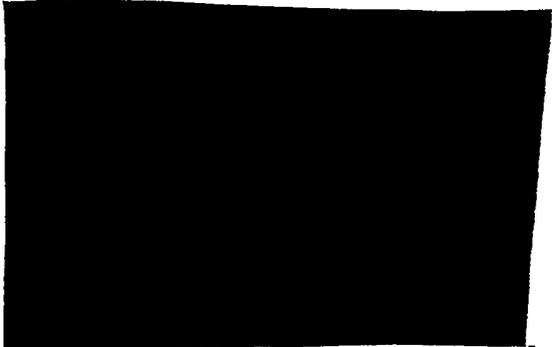
58. All of the players in Pakistan's political scene are casting their current actions with an eye on Zia's December visit to the United States. Zia himself may announce some new move—perhaps a date for non-party elections—before he comes. The legitimate opposition hoped to orchestrate a series of demonstrations that would force Zia to arrest thousands, thus damaging his image on the eve of his departure. This plan seems to have been dealt a serious blow by the recent terrorist events, however. The opposition fears that demonstrations now will cause it to be associated in the public view with the terrorists. Al Zulfikar itself would no doubt like to increase the incidence of terrorism, or perhaps pull off a major event, to coincide with Zia's trip. Dutch authorities recently arrested a group of Pakistanis planning to hijack a Pakistani airliner.

59. If Zia should fall through public unrest, the most likely outcome would be a brokered solution involving the Army and the opposition groups. Another general would probably take over, at least on an interim basis, with the promise of elections in the future. Most of those generals close to the top at present seem to be less intent than General Zia on a strict Islamic program and some are less enthusiastic about strong opposition to the Soviet Union in Afghanistan.

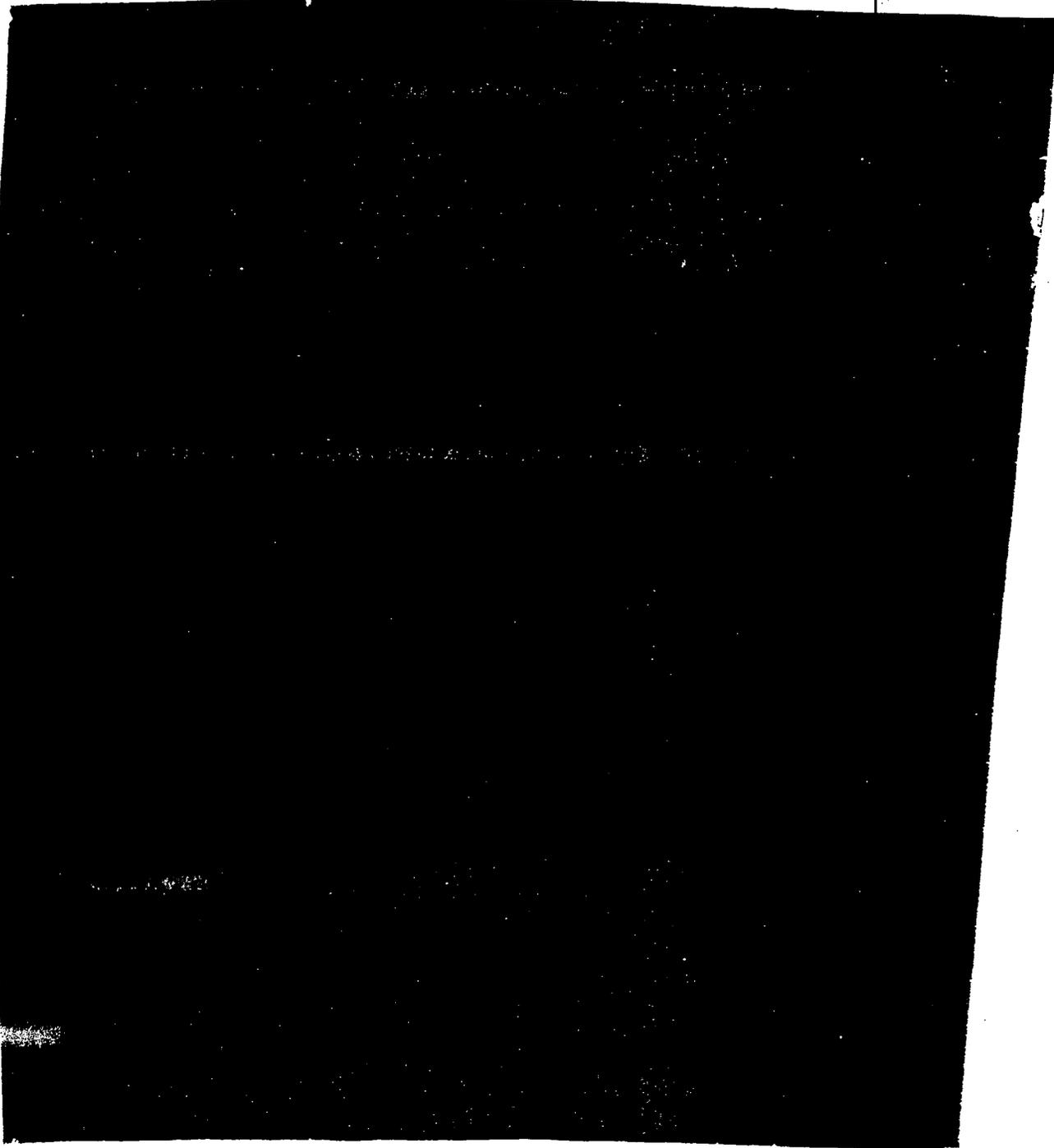
60. A successor regime will have little room to maneuver on foreign policy, however. All political factions except the small radical wing of the PPP agree that Pakistan must have some type of US connection. This, plus the necessity of support from China and

Saudi Arabia, and the difficult domestic consequences, will militate against a dramatic shift in Pakistan's Afghan policy, such as recognition of the Babrak regime and acquiescence in a continued Soviet troop presence.

61. A dramatic change would be more likely in domestic policy. An interim military regime ruling with the support of the PPP could well turn to a type of leftist populism involving new nationalizations of industry and a turning away from the structural reforms promised—although not yet achieved—by the Zia regime. The result would likely be economic stagnation and the eventual weakening of Pakistan internationally by diminishing its political and economic strength. No Pakistani government is likely to drop its plans for the development of a nuclear explosive capability—and a weakened Pakistan would probably feel a greater need to go ahead.

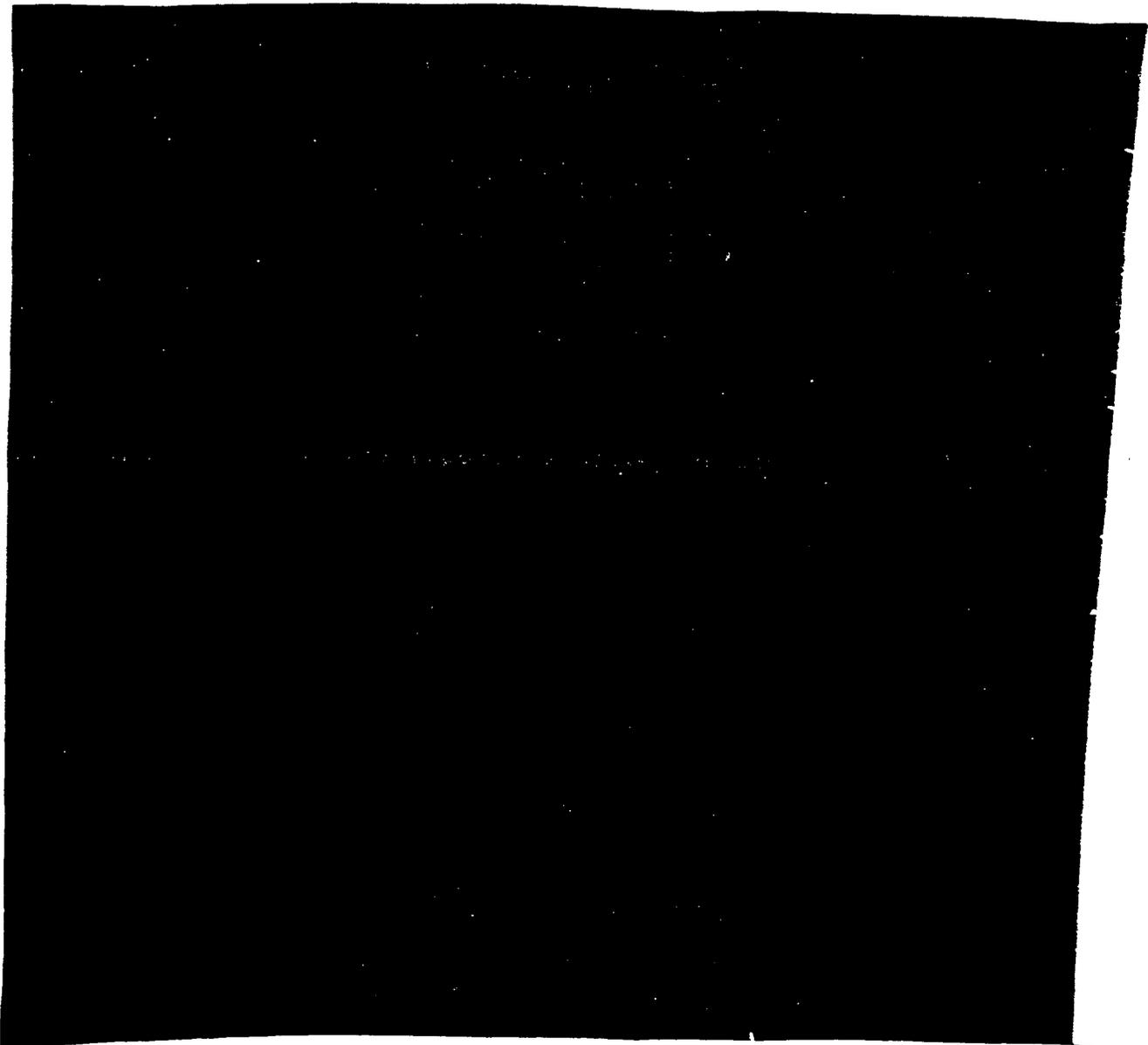


63. The prospect facing Pakistan, therefore, is one of longer term instability. No leader is likely to be able to heal the divisive and fragile nature of Pakistani politics. At the same time, Pakistan will continue to lose its facade of Western values. The Westernized elite which has played a powerful role since Pakistan came into existence will become less and less powerful. Pakistan's future rulers will have a different world view and share fewer assumptions with us. They will place more emphasis, and have more extreme views, on issues such as the Arab-Israeli dispute. US-Pakistan relations will probably be more contentious, even if basic agreement on issues such as Afghanistan continues.



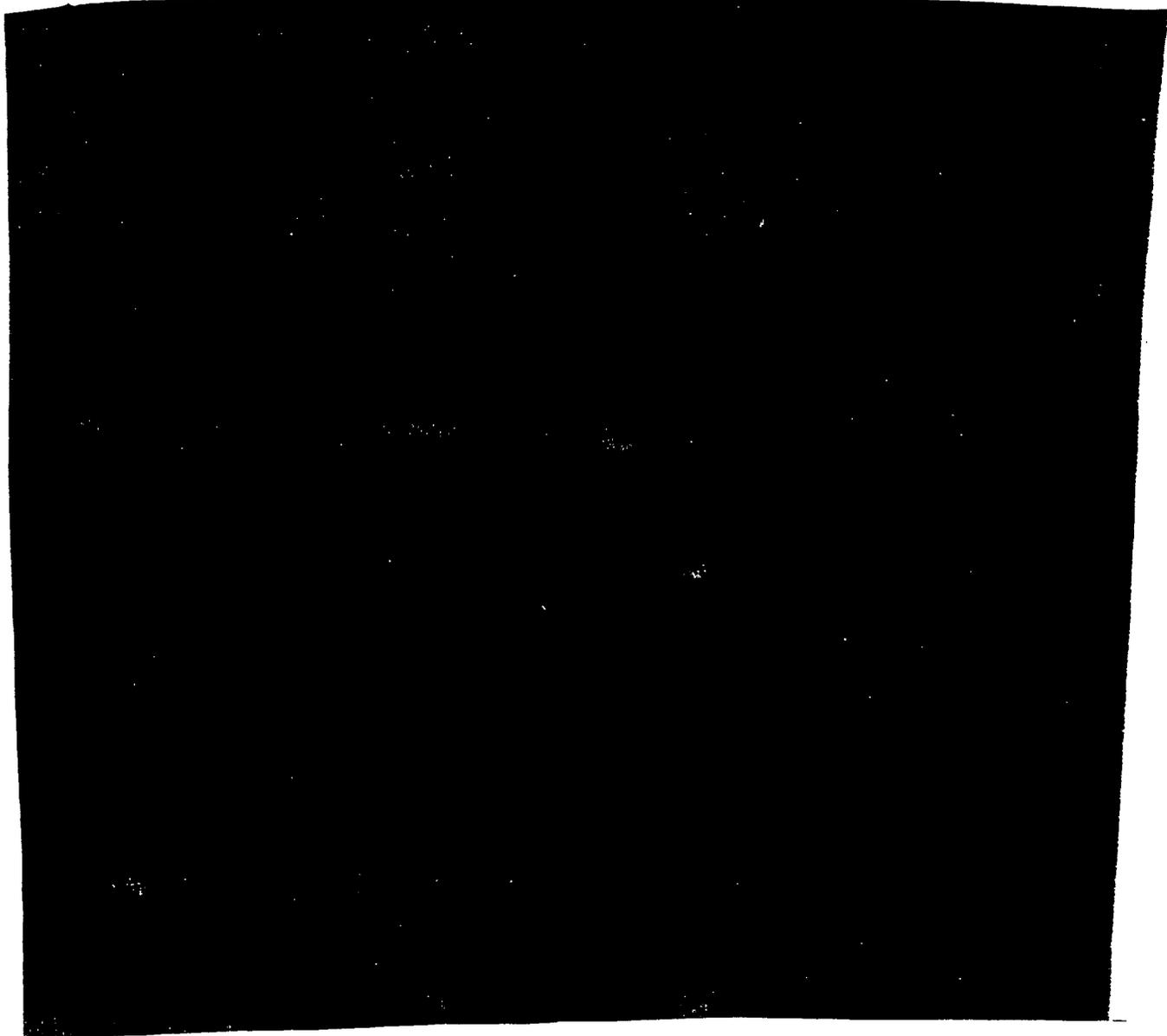
~~A-1~~
SECRET

1 2 8 5



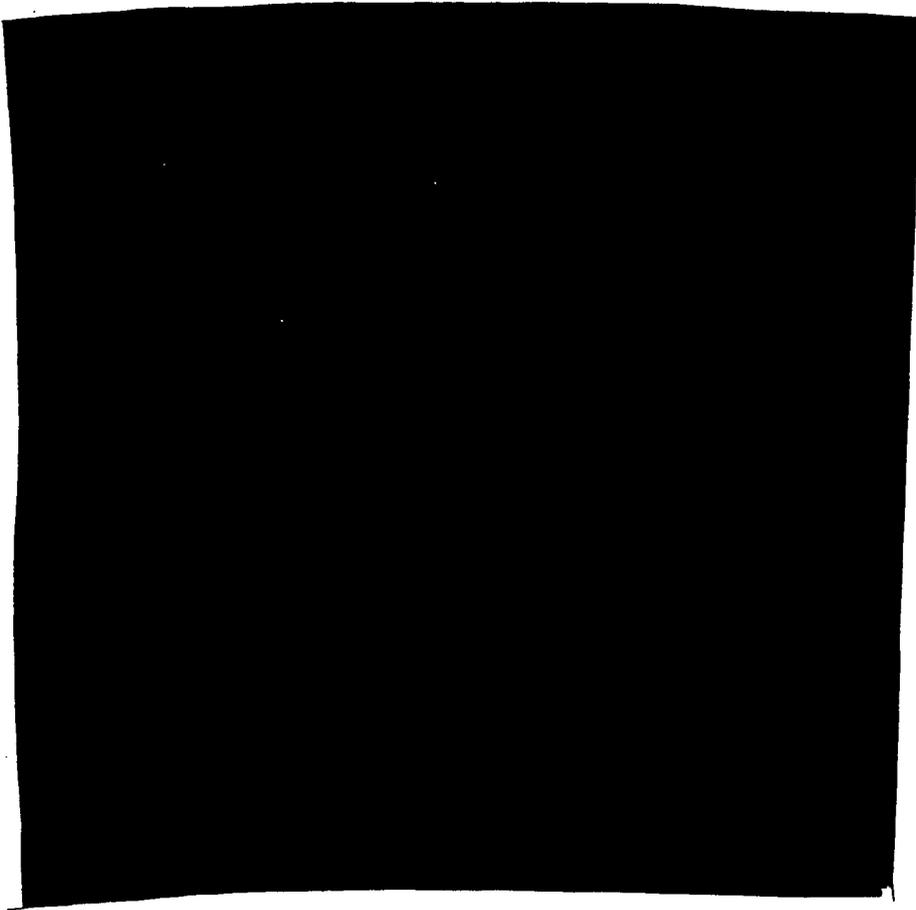
A-2
~~SECRET~~

1 2 8 6



A-3
~~SECRET~~

1. 2. 8. 7



A-4
~~SECRET~~

2 8 8