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## **TRADE POLICY REFORMS: BANGLADESH'S EXPERIENCE**

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### **Abstract**

Bangladesh deliberately pursued protectionist economic and trade policy in its early years. However, the country changed the direction shortly after the abrupt political changes during the mid-seventies and followed the course of reforms in the subsequent years. Although the icebreaking was quite slow, the reform processes accelerated in the early nineties that resulted in many important policy changes. Since then, Bangladesh put its best efforts to go with the pace of globalisation and moved rapidly to dismantle the earlier protectionist image of the country. The paper mainly focuses on how Bangladesh persistently adopted the reform measures in its trade policy and gradually approached towards the liberalising process through making adjustment to relevant policies and other agendas. It illustrates the changes made to some key trade policy areas, including import and export regimes, exchange rate policy, industrial policy, monetary and fiscal policies, etc.

### **1. Introduction**

Economic theory suggests that the primary impact of trade liberalisation will be on the overall level of trade, with a roughly parallel increase in exports and imports as a percentage of GDP. This is likely to require a modest depreciation of the real exchange rate in order to ensure that exports increase as much as imports, and leave the balance of trade unchanged. The export increase is likely to be concentrated in a relatively narrow range of products, products which use intensively the country's abundant factor of production (unskilled labour in the case of Bangladesh), while the import growth is expected to be much more diversified and more capital intensive. Some import-substituting industries are likely to find themselves squeezed, but others will respond to the competitive challenge by modernisation. The net effect will be increasing growth rate,

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through various channels, including concentration on industries in which the country has a comparative advantage.<sup>1</sup> The degree to which trade reforms have been achieved is often measured by movement toward *neutrality* of incentives between/within exportables and importables, between export and domestic sales, and between non-tradables and tradables; and *liberality*, implying a definite reduction in the level of intervention in external transactions; and *openness*, as measured by the importance of trade in the economy.<sup>2</sup>

During the post-independence nation building process, Bangladesh was highly influenced by the then geo-political polarisations that lured the country to envisage its vision on socialist agendas in operating its national economy. That followed the nationalisation of about 92 per cent of the total fixed assets abandoned by the Pakistani entrepreneurs.<sup>3</sup> Subsequently, Bangladesh economy was extremely protected and inward looking until the end of the 1970s. Imports were highly restricted by high tariff line. In 1978, for example, tariff rates were hovering around 36 per cent ranging from zero to 400 per cent. The reason placed for pursuing such a restrictive trade policy was to protect domestic industries from competition and to raise revenue. This, however, resulted in an expansion of inefficient industries and misallocation of resources with adverse consequences on the export sector and the economy.<sup>4</sup>

The essence of trade liberalisation greatly lies in reducing the level of intervention and increasing reliance on the price mechanism vis-à-vis to remove anti-export biases. In the case of Bangladesh and its progress to date in liberalising trade, the relevant policy changes that are to be considered include lowering the tariff rates, removal of quantitative restrictions and/or export taxes, monetary and fiscal policies, industrial policy, and the exchange rate policy.

The paper has been organised into several sections. The paper starts with illustrating the development philosophy of the country pursued since the independence in 1971 with marking the key shifts that had taken place during the post-independent periods. The next section highlights the reforms undertaken in the import regime so far which is followed by the reforms of the export regime

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<sup>1</sup> J. Williamson, "Evaluating the Success of Trade Liberalisation in Bangladesh", *Peterson Institute for International Economics*, available at: <http://www.iie.com/publications/papers/paper.cfm? Research ID=356>, accessed on: 12 March 2011.

<sup>2</sup> World Bank, Poverty Reduction and Economic Management Division, South Asia Region, *Bangladesh Trade Liberalisation: Its Pace and Impact*, Report No. - 19591-BD, 1999.

<sup>3</sup> S. H. Rahman, "Trade and Industrialization in Bangladesh: An Assessment", in G. K. Helliner (ed.), *Trade and Industrialization in Turbulent Times*, London: Routledge, 1994, pp. 259.

<sup>4</sup> Centre for Policy Dialogue, *Growth or Stagnation? A Review of Bangladesh's Development 1996*, Dhaka: University Press Limited, 1997.

with the illustration of some key features of the latest export policy of 2009-12. In the subsequent sections a number of other key policy issues have been discussed in details which include the exchange rate regimes, industrial policy, monetary policy, and fiscal policy with the latest updates. Recent industrial policy and monetary policy statement of the government of Bangladesh declared in 2010 have also been reviewed and attached with the concerned sections. The paper concludes with noting a few observations and concerns for Bangladesh resulting from the liberalisation measures.

## 2. Development Thoughts

Bangladesh has been one of the fastest reforming countries in the world and adopted very quick reforms in financial sectors at the beginning of the early 1990s. Second Five Year Plan of 1980-85<sup>5</sup> of the Government of Bangladesh looked into the minimisation of the export-import gap and pursued a policy of import substitution in an effort to promote export growth. Later, in the Third Five Year Plan 1985-90,<sup>6</sup> the government of Bangladesh stressed for an adoption of policies aimed at stimulating export through the taking up of various promotional and development measures, i.e., providing concessional credit to exporters and improving direct incentive schemes like Export Performance Benefit (XPB) and the duty draw-back scheme etc. Fourth Five Year Plan 1990-95<sup>7</sup> and Fifth Five Year Plan 1997-02<sup>8</sup> embraced more open policies through a measure like Structural Adjustment Programme (SAP) and an introduction of a trade neutral policy environment for attaining the goal of export-led growth. In the Fourth Five Year Plan, for example, SAP covered the issues of export growth acceleration, competitive import substitution and the restoration of imports of non-essential goods. In the Fifth Five Year Plan, on the other hand, a number of import liberalisation measures have been adopted including tariff rates reduction, rationalisation of the tariff structure, removal of Quantitative Restrictions (QRs), direct export promotion measures and a flexible exchange rate policy. It has also concentrated on the removal of supply-side constraints, such as development of infrastructural facilities, strengthening the institutional framework and developing entrepreneurial capacity.

## 3. Reforming the Import Regime

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<sup>5</sup>Planning Commission, Government of Bangladesh, *The Second Five Year Plan 1980-85*, Dhaka: Planning Commission, 1983.

<sup>6</sup> Planning Commission, Government of Bangladesh, *The Third Five Year Plan 1985-90*, Dhaka: Planning Commission, 1985.

<sup>7</sup> Planning Commission, Government of Bangladesh, *The Fourth Five Year Plan 1990-95*, Dhaka: Planning Commission, 1990.

<sup>8</sup> Planning Commission, Government of Bangladesh, *The Fifth Five Year Plan 1997-2002*, Dhaka: Planning Commission, 1998.

In liberalising and simplifying the import regime, successive governments of Bangladesh took a variety of initiatives based on the stated development philosophy. One such initiative was the Trade and Industrial Policy (TIP) reform programme that was aimed at rationalising and strengthening existing incentives in the industrial sector. It also recommended simplifying of tariff, phasing out of the QRs on imports replaced by import taxes and the levies. Besides, it was also recommended that the dispersion of tariffs should be lowered and that the number and range of Nominal Rates of Protection (NRPs) should be reduced. Besides, TIP emphasised on lowering Real Effective Exchange Rate (REER) for non-traditional. An EPB worth 30 per cent of gross exports should also be granted according to the policy. But considering raising the government revenue, excise tax of 15 per cent should be levied on all final consumer goods except basic necessities.<sup>9</sup>

Government of Bangladesh appointed a standing committee on Tariff Rationalisation and Import Policy Reform in 1989 that corroborated the tenets of the TIP reform programmes and made a few consequential recommendations regarding the policy. Few important recommendations were: the level of effective protection provided to an activity should be in the neighbourhood of 30 per cent; non-tariff, quantitative import control measures, viz., the size of the negative and restrictive import list, should be gradually phased out etc.<sup>10</sup> In the mid-eighties the government initiated a gradual process of phasing out of the QRs on imports with the World Bank support under its Industrial Sector Adjustment Credit (ISAC)-1 programme. The number of items subject to QRs at the 4-digit Harmonized Systems code (HS code) was brought down from 574 in 1985/86 to 124 in 1998/99 and the average nominal rates of protection for all tradable fell from 89 per cent in 1990/91 to 28 per cent in 1998/99.<sup>11</sup> In addition, because of overall tariff rationalisation, the import-weighted average protection rate fell by 22 percentage points. Furthermore, as a result of the dispersion in reduced tariff rates, the number of tariff rates has been down from 8 in 1993 to 5 in 2003, and the maximum tariff rate has been brought down from 350 per cent to 32.5 per cent during the same time.<sup>12</sup>

In 1983-84, import licensing system was abolished and imports were permitted through Letter of Credit (L/C) authorisation form to be accepted by banks. However, prior to 1986 Import Policy Order (IPO) contained a lengthy positive list of importables and in 1985-86 fiscal years positive list in the IPO was replaced by two lists, namely, the negative list (for banned items) and the

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<sup>9</sup> N. Ahmed, *Trade Liberalisation in Bangladesh*. Dhaka: University Press Limited, 2001.

<sup>10</sup> Planning Commission, Government of Bangladesh, *The Fourth Five Year Plan 1990-95*, *op.cit.*

<sup>11</sup> World Bank, Poverty Reduction and Economic Management Division, *op.cit.*

<sup>12</sup> N. Ahmed, *op.cit.*

restricted list (for items importable on fulfillment of certain prescribed conditions). Nevertheless, up to 1988, IPO was issued annually which was relaxed in 1989 from when IPO has been issued biennially. Consequently, a five-year IPO provision has been launched since 1997. In the year of 2007, the interim government of Bangladesh proposed a three-year import policy order (from the year 2006 to 2009). During this time, efforts have been made to reduce the number of restricted items from 60 to 24.<sup>13</sup> The policy has relaxed some raw materials' imports in terms of tariff rate and also kept some items, i.e., polypropylene, coarse sugar, and pork, as banned items on religious ground.

Regarding customs valuation, a voluntary Pre-Shipment Inspection (PSI) scheme was introduced on a voluntary basis in 1993-94 which was previously based on Brussels Definition of Value (BDV) - a system developed by the World Customs Organization. But as Bangladesh is committed under the Uruguay Round Agreement on Customs Valuation to switch to an invoice-based valuation system by 2000, mandatory PSI has been introduced since 15 February 2000.

#### 4. Promoting Exports

One of the key things that the trade policy reforms introduced was a set of generous support and promotional measures for exports. Regarding the importance of the issue, Bangladesh pursued many promotional measures for exports. Despite the fact that the economic and trade policy of Bangladesh had highly anti-export bias in the country's initial years, the Government of Bangladesh introduced the Export Performance Licensing (XPL) Scheme during the early 1970s in order to strengthen incentives for export oriented activities. In 1986, however, the XPL was replaced by the XPB Scheme. Under the scheme, exporters received the proceeds from their banks at the time of negotiation of the export documents; it could also be cashed in the secondary exchange market according to the scheme. However, XPB scheme has become redundant in 1992.

A special bonded warehouse scheme was introduced in 1978 to meet the demand of the emerging Ready Made Garments (RMG) sector. This enabled exporters to avail themselves of a straight authorisation to import duty free into established special bonded warehouse. Exporters can also choose the option of duty drawback system instead. The facility was entitled only to those who were using Back-to-Back L/C to export 100 per cent of their production in the garments sector. But since 1993, the provision became more relaxed and offered the facility to all 100 per cent exporters and "deemed exporters."<sup>14</sup> Along with

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<sup>13</sup> "Export Policy Announced: Agro, light engineering, IT get the thrust", *The Daily Star*, Dhaka, 01 June, 2007.

<sup>14</sup> World Bank, Private Sector Development and Financial Division, Country Department 1, South Asia Region, *Bangladesh: Trade Policy Reform for Improving Incentive Regime*, Report No.- 15900-BD, 1996.

the bonded warehouse scheme, RMG entrepreneurs also received the duty drawback facility since 1982/83 which enabled them to disburse imported goods without paying any duty or sales tax. From 1988 onwards, the scheme was further extended to indirect exporters using the inland L/C system.

Back-to-Back L/C system was introduced in 1987 to import raw materials on a deferred payment basis by the exporters. The provision enhanced export financing facility for a broader range of export industries. In 1986, the Bangladesh Bank introduced a cash compensatory scheme with a view to promoting backward linkage. The scheme allowed exporters a cash assistance of 15 per cent of free on board export value. Later, the rate of compensation was revised upward from 15 per cent to 25 per cent in 1994. Besides, in order to insure loans in respect of export finance, Export Credit Guarantee Scheme (ECGS) was introduced in 1978. This scheme provides exporters with credit at a concessionary rate of up to 90 per cent of confirmed L/C value. Furthermore, government of Bangladesh offered some fiscal incentives for the exporters as: for 100 per cent export oriented industries, duty-free imports of capital machinery is allowed; the entire export earnings from handicraft and cottage industries is rebated from income tax. Noteworthily, industries in Export Processing Zones (EPZ) enjoy tax holiday for 10 years, duty-free import of machinery and spare-parts, and exemption from Value Added Tax (VAT) and other duties.<sup>15</sup>

For enhancing further institutional support, Export Promotion Bureau (EPB) was established in 1977. EPB is more focused on specific issues, i.e., to help the government in formulating and implementing export policy, to train up local exporters and arrange trade fairs locally and internationally.

#### **4.1. Export Policy 2009-12**

Recently, the government of Bangladesh announced a three-year Export Policy for the Fiscal Year 2009-2012 towards setting up multiple targets to enable Bangladesh to keep pace with rapidly changing and competitive world trading system, create employment opportunities and alleviate poverty.<sup>16</sup> It emphasises expanding export and increasing productivity of export oriented industries. It had given more emphasis on production environment of the factories and on meeting the compliance requirements, improving the quality of products, strengthening efforts to diversify products and their markets, low interest loan facilities, infrastructure development, establishment of backward and forward linkage industries. It also encourages developing utility services, establishing modern laboratories for controlling the quality of export products

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<sup>15</sup> N. Ahmed, *op.cit.*

<sup>16</sup> Ministry of Commerce, Government of Bangladesh, *Acts and Policies*, Dhaka: GoB, 2010.

and product-based clusters, ensuring easy access to the raw materials for export products and regular supply of updated information on market and technology to producers, and trying for overall development of the Chittagong and Mongla ports.

It recommended to the government to offer cash incentives for the export of some items, including plastic products, decoration items, environment-friendly herbal products, buttons made from coconut crust, coir products, toys and products made from bamboo and cane.

The policy included ship-building industry in the thrust sector alongside the existing six thrust sectors - agro-products and agro-processing commodities, light engineering goods, shoes and leather products, pharmaceutical products, software and ICT products, and home textiles. The number of special development sectors has been increased to eleven from nine, adding ceramic, melamine and plastic goods. In consistence with the previous export policy's inclusion of cash incentives for the thrust and special development sectors, the new export policy also considered cash incentives for the emerging sectors. Besides, the policy allowed exports of petroleum and petroleum products like naphthalene, furnace oil, lubricant oil, bitumen, condensate, Multi-isotope Trace Tool (MTT) and Molecular Sieving (MS), with a no objection certificate from the energy and mineral resources division. Earlier, these were exportable without any condition.

Moreover, the export policy emphasised setting up of accredited testing laboratories to ensure the high quality of products and to increase exports of pharmaceutical products. The annual ceiling for sending specimens has been increased to US\$30,000 from US\$10,000.

## **5. Reforming Exchange Rate Regime**

Until the early 1980s, Bangladesh maintained an overvalued and fixed exchange rate system in order to facilitate the inward-looking development strategy. The Taka was pegged to the Pound Sterling and the exchange rates with other currencies were determined by the rates between Pound and respective currencies in London. In 1980, the fixed exchange rate regime was replaced by a managed system of floating. The intervention currency was changed from the Pound to the US Dollar and the exchange rate of other currencies was determined on the basis of the US Dollar closing rates in New York vis-à-vis different currencies. Bangladesh had also maintained a dual exchange rate system for quite sometime by administering the Wage Earners Scheme (WES) since 1978 in order to attract remittances of the Bangladeshi workers abroad.

Since 1984, the government has continually expanded the list of items eligible to be imported through secondary market. Between 1983 and 1990, the percentage of total imports financed through this market rose from about 21 per

cent to about 47 per cent.<sup>17</sup> This system produced multiple exchange rates. In January 1992, the official and secondary exchange rates were merged. This helped in eliminating the black market premium, which had emerged due to the multiple exchange rates.

Later, Bangladesh adopted a freely floating regime on 30 May 2003 by abandoning the adjustable pegged system. The transition to the floating regime was smooth and in the initial years the exchange rate remained stable, experiencing a depreciation of less than 1 per cent from June 2003 to April 2004. Exchange rate, however, kept on depreciating gradually from mid-2004 and it reached its peak at Tk. 70/US\$ in 2006 from Tk. 58/US\$, resulting in 20 per cent depreciation. Since 2007, it remained fairly stable and has been fluctuating between Taka 68 and 71.<sup>18</sup>

## 6. Industrial Policy

After the massive-scale nationalisation of the manufacturing sector in 1972, private entrepreneurs were almost restricted except some small, medium and cottage industries.<sup>19</sup> Yet, by 1974, investment limits on private investment from Tk. 2.5 million to Tk. 30 million and providing scope for domestic and foreign private investment.<sup>20</sup> This resulted in heavy financial losses for the whole economy.

After the abrupt regime change in 1975, the then government of Bangladesh gave up the policy of nationalisation and moved forward to the new *Industrial Investment Policy* declared in December 1975. The policy readjusted the private investment ceiling to Tk 100 million and withdrew the bar on private sector participation in large-scale manufacturing. Dhaka Stock Exchange (DSE) was also reactivated. Since 1977, approximately a billion dollars were pledged to private entrepreneurs in Bangladesh to promote investment.<sup>21</sup> For ensuring fair and equitable treatment to private foreign investment, the Foreign Private Investment (promotion and protection) Act was formulated in 1980. In 1982, the New Industrial Policy (NIP) was adopted which was revised in 1986 and named Revised Industrial Policy (RIP). Both of these policies concentrated on quick

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<sup>17</sup> S. H. Rahman, "Trade and Industrialization in Bangladesh: An Assessment", in G. K. Helliner (ed.), *Trade and Industrialization in Turbulent Times*, Chapter 8, 291, London: Routledge, 1994, pp. 259.

<sup>18</sup> M. Hossain and M. Ahmed, "An Assessment of Exchange Rate Policy under Floating Regime in Bangladesh", *The Bangladesh Development Studies*, Vol. 32, No. 4, December 2009.

<sup>19</sup> R. Sobhan, "The Political Economy of South Asian Economic Cooperation", *Bangladesh Journal of Political Economy*, Dhaka, 1990.

<sup>20</sup> N. Ahmed, *op.cit.*

<sup>21</sup> R. Sobhan, *Bangladesh: Problems of Governance*. Dhaka: University Press Limited, 1993.

denationalisation of public enterprises. It also removed some obstacles to local and foreign investments. And to improve flexibility in pricing, capital restructuring and setting up of an improved performance appraisal system of public enterprises, it played a very substantial role.

The major changes occurred in the industrial policy was in 1991. Government of Bangladesh introduced the Industrial Policy, 1991 (which was later revised in 1992) to promote market economy. This policy tends to make the government role 'promotional' rather than 'regulatory'. Almost all the sectors (excluding some sensitive sectors, i.e., production of arms and ammunitions, nuclear energy, security printings etc.) were open for investment according to the policy. Especially, 100 per cent Foreign Direct Investment (FDI) as well as joint venture both with local private sponsor and with the public sector was allowed. However, in the Industrial Policy, 1999, only four sectors were restricted for the investors.<sup>22</sup> Some sectors were encouraged to invest under Build-Operate-Own (BOO) and Build-Operate-Transfer (BOT) system.

### **6.1 New Industrial Policy 2010**

The industrial policy 2010 is an apparent shift from the existing policy direction. The new plan has put stress on strengthening state-owned enterprises to both supplement and compete with the private sector whereas the previous policies laid emphasis on privatisation and denationalisation of State-Owned-Enterprises (SOEs).<sup>23</sup> It strikes that foreign entrepreneurs might be invited to run those loss-making state enterprises, or shares be offloaded to make it sure that those stay competitive, if needed. It has also noted that establishing Public Private Partnership (PPP) and running industries through private management will be given priority. However, it did not rule out the privatisation option but only if it has been assumed that it will bring benefits to official, employees and workers.

The policy also envisages a stimulus package for special economic zones and enhanced FDI benefits. The policy provides that regulated industrial units will require approval from the government, as those are specialised ones. Such regulated industries include fishing in the deep sea, bank and non-bank financial institutions and insurers in the private sector, power generation projects, natural gas exploration industry, extraction of coal and other natural mineral resources, big infrastructure projects like fly-over, elevated expressway, monorail, etc, crude oil refinery, medium and big industries using natural gas, satellite channels and cargo and passenger aircrafts. The policy also identifies industrially-lagged areas besides the advanced ones, in order to give those a benefit of reduced

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<sup>22</sup> N. Ahmed, *op.cit.*

<sup>23</sup> Ministry of Industries, Government of Bangladesh, *Industrial Policy 2010*, Dhaka: GoB, 2010.

tariffs on imported capital machinery and as many as 51 districts will be entitled to such facilities to accelerate industrialisation.

By giving due consideration to environmental concern, the policy noted that industries cannot be set up using agricultural land, cutting hills and hillocks, by filling rivers, canals or any other natural water bodies and relocation of the pollution-prone industries in metropolitan areas to safe zones has also been envisaged in the new policy. There are few other issues that have been incorporated in the new policy which are: (i) industries will not receive permission to set up if they are considered detrimental to national security, culture and economy; (ii) foreigners will be given five-year multiple visas instead of the existing three-year multiple visa system to encourage FDI inflow; and (iii) citizenship might be considered for any foreign national who invests US\$0.5 million or transfer US\$1 million to any recognised financial institution.

## 7. Monetary Policy

According to the Bangladesh Bank Order 1972, the principal objectives of the country's monetary policy are to regulate currency and reserves; to manage the monetary and credit system; to preserve the par value of domestic currency; to promote and maintain a high level of production, employment and real income; and to foster growth and development of the country's productive resources in the best national interest. Although the long term focus of monetary policy in Bangladesh is on growth with stability, the short-term objectives are determined after a careful and realistic appraisal of the current economic situation of the country.<sup>24</sup>

With the shifts of the policy stance of the government in various phases, necessary adjustments were made in the country's monetary policy. In the first years after liberation, the primary target of monetary policy was to regulate not the quantity of money, but the direction of the flow of money and credit in support of the government financial programme. In 1975, Bangladesh entered into a standby-arrangement with IMF and the country's monetary policy got a changed shape, which fixed an explicit target of safe limit of monetary expansion on annual basis. With this change, Bangladesh Bank started setting short-term objectives of monetary policy in close collaboration of the government and tried to achieve the target by using the direct instrument of control. The principal target of monetary control was broad money (M2) i.e., the sum of the currency in circulation and total deposits of money in banks. The targeted growth of M2 depended on a realistic forecast of the growth rate of real GDP, an acceptable rate of inflation and an attainable level of international reserves.

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<sup>24</sup> S. A. Khan and A. S. Sarker, *Monetary Policy of Bangladesh*, Banglapedia, 2006.

Bangladesh Bank took measures to monitor credit and monetary expansion keeping in view the price situation and international reserves position. Efforts were made to achieve the targeted growth of domestic credit and thereby, the money supply, through imposing ceilings on credit to the government, public, and private sectors. The major policy instruments available to Bangladesh Bank were to set credit ceiling on the banks and provide liberal refinance facility at concessional rate for priority lending. According to the national economic policy, the banks were to provide the desired volume of credit at an administered and low rate of interest. In that situation, Bangladesh Bank practically did not have any effective instrument for making adjustments in the growth of money supply or for transmitting market signals to effect changes in money supply. The monetary policy, therefore, could not function in its true sense. As a result, the banking system could not play its role as an effective financial intermediary.

In 1989, the government adopted a comprehensive Financial Sector Reform Programme (FSRP), following which the country's monetary policy assumed a new orientation towards promotion of market economy in a competitive environment. Bangladesh Bank started moving away from direct quantitative monetary control to indirect methods of monetary management since the beginning of 1990s. Although the fixation of target continued to remain as the central piece of exercise, the way to achieve it had been changed. Credit ceilings on individual banks and direct controls of interest rates were withdrawn. At present, the money supply is regulated through indirect manipulation of reserve money instead of credit ceiling. Major instruments of monetary control available with the Bangladesh Bank are the bank rate, open market operations, rediscount policy, and statutory reserve requirement.

Until 1990, the use of Bank rate, as the lending rate of the central bank for borrowings of the commercial banks to meet their temporary needs, was virtually non-existent in Bangladesh. The rate was changed in a few occasions only to align it with the re-fixation of the rates of deposits and advances. Moreover, the existence of refinance facilities at rates lower than the bank rate substantially eroded its significance. However, since 1990, this instrument has been put in use to change the cost of borrowings for banks and thereby to affect the market rate of interest. Bank rate was gradually lowered from 9.75 per cent in January 1990 to 5 per cent in March 1994. It was raised to 5.75 per cent from 10 September 1995 and further to 7.5 per cent and 8 per cent from 19 May 1997 and 20 November 1997, respectively. The rate was lowered to 7 per cent from 29 August 1999.

Open Market Operations (OMO) involve the sale or purchase of securities by the central bank to withdraw liquid funds from the banking system or inject the same into that system. OMO allows flexibility in terms of both the amount and timing of intervention, which did not exist in Bangladesh before 1990. Bangladesh Bank introduced a 91-day Bangladesh Bank Bill, a market-based

tool for monetary intervention, in December 1990. The bank bill was subsequently withdrawn from the market. At present, OMO operations are conducted through participation of banks in monthly or fortnightly/weekly auctions of treasury bills.

After the introduction of FSRP, the refinance facility was replaced by rediscount facility at bank rate to eliminate discrimination in access to central bank funds. Refinance facility is now available for agricultural credit provided by Bangladesh Krishi Bank and for projects of Bangladesh Rural Development Board financed by Sonali Bank. Banks are advised to extend credit considering banker-customer relationship.

Cash Reserve Requirement (CRR) of the deposit money for banks has a significant potential to regulate money supply through affecting money multiplier, while Statutory Liquidity Requirement (SLR) is generally used to affect the lending capability of the bank. Bangladesh Bank used these two instruments very infrequently before 1990 and very often after 1990. The CRR and SLR were 8 per cent and 23 per cent, respectively on 25 April 1991 and were reduced to 7 per cent and 22 per cent, respectively on 5 December 1991. Later, these rates were changed twice and set at 5 per cent and 20 per cent, respectively on 24 May 1992. The CRR was further lowered to 4 per cent from 4 October 1999. The downward revision in CRR and SLR were made to enable the banks to increase their lending capacity.

### **7.1 Monetary Policy Statement (MPS) 2010**

In the recent years of global economic meltdown and the rise of prices of the food commodities around the world, controlling inflation has been one of the major challenges for the Bangladesh Bank while issuing its recent monetary policy statements. Besides, it has also to keep an eye so that too much control does not become disincentive to the steady GDP growth of the country which has been remarkable in the recent years and expected to reach the 7 per cent threshold in the next couple of years. The declaration of the monetary policy statement for the first half (H1) of the fiscal year 2010 made by the Bangladesh Bank has programmed the monetary aggregates to accommodate both the GDP growth concerns as well as to keep the inflations within single digit. The following are the major highlights of the recent monetary policy stances of the government:<sup>25</sup>

- i. Given the current large liquidity overhang in the system, the central bank believes that it can adequately serve demands of both public and private sectors. This is possibly the essence of the declared “accommodative

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<sup>25</sup> D. Bhattacharya and T. I. Khan, *Recent Monetary Policy Statement of Bangladesh Bank (July 2009): An Analytical Commentary*, Centre for Policy Dialogue, Dhaka, July 2009.

- monetary policy”. This is in line with the need for a “moderately expansionary monetary policy” as expressed in the national budget for FY10.
- ii. To keep domestic borrowing conditions easy in a recessionary global environment, the central bank has refrained from Reverse Repo operations since the last quarter of FY09 and has announced to continue it in the first half of the current fiscal year.
  - iii. Emphasis has been given on utilisation of the foreign exchange inflows in growth supportive investments than on accretion of ever higher reserves.
  - iv. The central bank signalled its intention of fostering cultural attitudes which predominantly rely on equity-based rather than debt-based investments. One wonders how this discretionary foreign exchange financing will take place.
  - v. The central bank underscored that it is set to strengthen its oversight on liquidity, capital adequacy and risk management in banks and financial institutions to protect the domestic financial sector from instabilities of the kind now afflicting markets in advanced economies. One does not find any specifics of these intended initiatives. This, however, requires review of the interfaces of the debt and equity market as well as its cautionary development.
  - vi. It was informed that the government along with the central bank has finalised steps for obtaining sovereign credit rating for Bangladesh to lower costs for private sector borrowers and banks. There are, however, no immediate plans for the government borrowing on non-concessional commercial terms from the international market. The central bank possibly wants to create this window to respond appropriately to challenges for future domestic and external developments.

## 8. Fiscal Policy

The fiscal policy of Bangladesh was also wavering at the early years of independence. Immense political pressure compelled the government to increase public sector employment and subsequent wages. Under the pressure, in 1974, the government implemented a Pay Commission Report, which increased the government’s salary bill by around 50 per cent.<sup>26</sup> Government also offered huge subsidies to goods and services, agriculture and industrial inputs. That resulted into huge budget deficit which was in turn financed by printing money.

Besides, in those initial years, the government of Bangladesh had to spend a large amount of its resources in reconstruction and rehabilitation work. It had negative public savings and limited private investment. Despite large inflows of foreign aid, the increasingly large financing gap became the main concern for the government. The situation was further aggravated by frequent internal and

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<sup>26</sup> A. Hossain, *Inflation, Economic Growth and the Balance of Payments in Bangladesh: A Macroeconomic Study*, Delhi: Oxford University Press, 1995.

external shocks. Under the circumstances, government fiscal policies during 1970s and 1980s were largely oriented at rehabilitating the war-torn economy as well as stabilising it from various shocks. This had gradually led to weak fiscal structure and poor fiscal management. The tax structure was such that any increase in taxes due to built-in consequences of economic growth was virtually not possible. This was because of the fact that despite a moderate growth of the economy, income distribution was skewed, and had been pushing more and more people below the poverty line each year. As such, the proportion of population with taxable surplus went down overtime. More than 80 per cent of the total tax revenue came from indirect taxes, amongst which taxes on imports contributed about 60 per cent. Since most imports were in the government sector and basic need-oriented, it was hardly possible to increase import duty. Despite higher production costs, prices of most public goods could not be rationalised due to socio-economic reasons. As such, these were kept lower, which resulted in inadequate cost recovery.<sup>27</sup>

Current expenditure had always been underestimated in the country, while current surplus as well as foreign loans and grants were overestimated. Therefore, the overall fiscal deficit experienced a large variability all the time. The whole scenario may be described as such that the fiscal policies of the past could not be used as an adequate tool for 'fine-tuning' the economy towards achieving macro-economic stability and higher economic growth.

Regular deficit financing, normally undertaken through borrowings from abroad, from Bangladesh Bank, and from scheduled banks, has become a basic feature of the fiscal policy of the country. Opportunity of borrowing from the public by the government for financing budget deficit is very limited in the country as savings capability of the people is very low. Therefore, the opportunity of non-inflationary financing of budget deficit does not exist here. Availability of foreign borrowing depends on the international liquidity situation and the prevailing circumstances in the international capital market, which is always uncertain and volatile for a country like Bangladesh.

The commercial banks, because of their potential for central bank refinancing, are also not effective sources of non-inflationary finance. Given the circumstances, whatever is the size of the fiscal deficit in any particular year, a part of it cannot be financed by external borrowing and, therefore, must be financed out of central bank borrowing. As a result, the essential element of fiscal deficit in Bangladesh has become such that once a deficit is incurred, government borrowing from Bangladesh Bank became inevitable.

In the early 1990s, the government of Bangladesh undertook some comprehensive steps towards improving the country's fiscal front. The major objective of the fiscal policy was to restrict the growth of current expenditure to

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<sup>27</sup> S. A. Khan and A. S. Sarker, "Fiscal Policy of Bangladesh", *Banglapedia*, 2006.

a level below the growth of the nominal GDP, thereby making more resources available to support Annual Development Programme (ADP) undertaken in each year. In line with the Enhanced Structural Adjustment Facility (ESAF) of the IMF, a number of reforms were initiated, the most important of which was the introduction of VAT in July 1991.

VAT was introduced at a uniform rate of 15 per cent at the manufacturing-cum-import level. Together with protection-neutral supplementary duties, this system largely replaced the earlier structure of differentiated sales tax on import and excise duties on domestic goods. In case of personal income tax, the major reforms involved the inclusion of entertainment allowances in the personal income tax base, deduction of investment in approved assets from the tax base, and an introduction of a withholding tax on dividend with limitation of special expenditure within a reasonable limit. Steps were taken to reduce interest rates on government savings instruments and subsidies for food and jute. A good number of public sector enterprises were denationalised through selling to the private sector.

These reform measures resulted in a remarkable improvement in the fiscal situation of Bangladesh after 1990. The growth of current expenditures was contained below the rate of GDP growth. Tax reform led to an increase in government revenues from much below 10 per cent of GDP in fiscal year 1989-90 to 11 per cent in fiscal year 1991-92. This trend continued and revenue collections reached more than 12.1 per cent of GDP by the FY 2010-11<sup>28</sup>. This trend is continuing, although with minor fluctuations. Moreover, this was accompanied by changes in the tax structure of the country, reflected in the decline of the shares of customs duties and increase in the share of income and profit taxes in the total tax revenues in the subsequent period. As a result, the shortage of local funds that had constrained project implementation capacity of the country and had shrunk the country's absorptive capacity for project aid for a long period was largely removed.

The improvement of the government's fiscal performance was reflected in the budgetary outcome of the country. The overall budget deficit was 8.4 per cent of GDP during the 1980s and came down to 4 per cent in the fiscal year 2010, and thus provided a breathing ground for the government and helping to stabilise the economy to a great extent.<sup>29</sup> Up to 1989-90, foreign aid had financed the lion's share of fiscal deficit of Bangladesh. Since then there has been a considerable shift in the sources of funds for financing budget deficit. Domestic sources could provide only 15 per cent of the total deficit during 1989-

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<sup>28</sup> Centre for Policy Dialogue, *State of Bangladesh Economy: Analysis of the National Budget FY 2011-12*, Dialogue Paper, June 2011.

<sup>29</sup> World Bank, Economic Policy and Poverty Team, South Asia Region, *Bangladesh Economic Update*, April, 2010.

90. In contrast, in FY 2010-11, the comparative figures for domestic and foreign sources in funding the budget deficit were 75 per cent and 25 per cent, respectively.<sup>30</sup> However, an absolute decline in the flow of external funds on concessionary terms is also partly attributable to this situation. Increased dependence on local funds has largely reduced the uncertainties of the implementation of the budgetary programme. But this has also increased the risk of additional burden of higher interest costs from domestic borrowing.

Efforts to generate increased domestic resources are generally based on various tax reforms as well as reforms in the financial sector. On the expenditure side, the government has given increased emphasis on human resource development and poverty alleviation programmes. Top priority has been given to improve the quality and coverage of the education system as well as health and family planning services, and social safety net programmes to serve vulnerable groups. This is demonstrated in the increased budgetary allocation in these heads in recent years.

## 9. Conclusion

Despite pursuing drastic reform programmes, Bangladesh's success was fleeting with the failure to accelerate its domestic growth as expected. It also failed to diversify the economy and significantly stimulate investment and domestic savings. To assess whether failure to accelerating or decelerating the trade reform process has something to do with this trend requires an empirical analysis. However, during this period, there are many achievements that marked the decades of changes i.e., significant increase of food-grain production, tremendous growth of RMG sector, steady GDP growth for decades and the expansion of economy, and significant surge in the volume of trade etc. Nevertheless, the World Bank considers that the pace of trade reform has to be accelerated and there are still a lot of rooms for improvement. It has stressed the need for the country to continue pursuing its liberalisation agenda.<sup>31</sup> The point of concern for Bangladesh at this moment should be the rigorous assessment of the past reform measures in the trade policy and whether or how it actually contributed to the well-being of the people before considering the other viable options. The question of how the fruits of the trade reform process have been distributed and how the common people were benefited should also be taken into consideration to make the process more meaningful.

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<sup>30</sup> Centre for Policy Dialogue, *op.cit.*

<sup>31</sup> World Bank, *Bangladesh: Strategy for Sustained Growth*, Bangladesh Development Series, Paper No. 18, 2007.

*Sufia Khanom*

## **EARTHQUAKE, TSUNAMI AND NUCLEAR DISASTER IN JAPAN: AN ASSESSMENT**

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### **Abstract**

This paper attempts to assess the impacts of the devastating natural disaster - earthquake followed by tsunami, that shook Japan on 11 March 2011, from socio-economic and development point of view. The intensity of the disaster was reflected through a destructive earthquake measuring 8.9 on Richter scale along with a tsunami at a speed of 500 miles/hour. Though, Japan is technologically and economically developed, it described the disaster as the worst crisis in the 65 years of its history since the end of World War II. Huge humanitarian crisis and massive disruption of industrial supply chains negatively affected the economic growth of Japan and put enormous stress on the psyche of Japanese people. The plight of the people had been compounded further by the threat of radiation exposure from the damaged reactors of nuclear power plants at Fukushima. The mishap at nuclear power plants at Fukushima posed some serious questions to the world: how safe nuclear power plants really are? Should the world look for a safer alternative to power problems? The disaster in Japan and its consequences have some serious impacts on Bangladesh from a development perspective. Japan has long been the principal donor and biggest development partner of Bangladesh. But the ongoing crisis in Japan may pose a threat or create some degree of uncertainty to the long term development planning of Bangladesh. Besides, the catastrophic experience of Japan has made Bangladesh rethink about its readiness to encounter similar disasters. As a climate induced vulnerable country, Bangladesh should strengthen its disaster management system by ensuring early warning system, as well as improving rescuing and relief management mechanism to combat such natural calamities.

### **1. Introduction**

At a time when the pro-democracy protesters in Bahrain and Libya were facing stiff opposition from their governments, the attention of the world suddenly turned towards Japan, which was devastated by a severe earthquake accompanied by tsunami on 11 March, 2011. The ferocity of the disaster was reflected in the wake of the devastating earthquake measuring 8.9 on the Richter scale along with the tsunami at a speed of 500 miles/hour.<sup>32</sup> The unprecedented

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© Bangladesh Institute of International and Strategic Studies (BISS), 2011.

<sup>32</sup> "Tsunami sweeps across Pacific", *The Daily Star*, Dhaka, 13 March 2011.

30 to 50 feet high waves from the sea caused destruction in the north-eastern coastal region of Japan.<sup>33</sup> The tsunami rippled across the Pacific Ocean, knocking at Hawaii and some parts of California as well. The earthquake was reportedly the fourth largest in the world since 1900. Around 21,000<sup>34</sup> people were either dead or missing following the earthquake, which made it Japan's worst ever natural disaster since the great Kanto Hanshin earthquake of 1923. While the country was still reeling from the devastation caused by the earthquake and tsunami, the plight of the people had been compounded further by the threat of radiation exposure from the damaged reactors at the Fukushima Daichi Nuclear Power Station of Fukushima Prefecture - 170 miles north of Tokyo. Analysts speculated that the economy could even tip back into recession. Japanese stocks closed down by more than six per cent, the biggest fall since the height of global financial crisis in 2008. Rescue workers combed the tsunami battered region north of Tokyo for survivors and struggled to care for millions of people without power and water. Many countries from all over the world had joined the humanitarian operations in Japan which is economically and technologically one of the most developed countries of the world. It may be mentioned that the quake was much stronger than the 2010 quake which devastated Haiti in Central America. It could be compared with the quake that devastated Indonesia in 2004, followed by a tsunami and killed 200,000 people in more than a dozen countries around the world. Japanese Prime Minister Naoto Kan described it as the worst crisis in the 65 years of Japan since the end of World War II.

Against this background, the paper examines the degrees of loss caused by Japan's disaster and will assess the disaster from geophysical, socio-economic and sustainable development context with special reference to Bangladesh. It is to be noted that the paper has reviewed the information from various secondary sources up to 15 May 2011. The consequences of this disaster (especially the impact of radioactivity) are still ongoing. The time frame of the paper is up to May since the occurrence of the disaster in Japan.

The paper is divided into four sections excluding the introductory section. Section 2 deals with the general information about the disaster such as affected areas across the Pacific, damages and casualties and the like. The overall assessment of Japan's disaster is analysed in section 3. Section 4 focuses on Bangladesh perspective in this regard. The final section draws a conclusion of the paper.

## **2. Earthquake, Tsunami and Nuclear Disaster: An Overview**

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<sup>33</sup> *Ibid.*

<sup>34</sup> "Japan tsunami: lessons for us", *The Daily Star*, Dhaka, 21 March 2011.

Japan's disaster consisted of a set of three events. They were: i) earthquake ii) tsunami, and iii) nuclear disaster.

**Earthquake:** The 8.9 magnitude undersea megathrust earthquake occurred in the western Pacific Ocean with its epicenter approximately 72 km east of the Oshika Peninsula of T huku.<sup>35</sup> The other nearest major cities to the quake were Sendai and Honshu. The main earthquake was preceded by a number of large foreshocks and multiple aftershocks. Marcia McNut, the Director of United States Geological Survey (USGS) explained that aftershocks followed Omori's Law<sup>36</sup> which might continue for years and would taper off in time.<sup>37</sup> The earthquake occurred where the Pacific plate was subducting under the plate beneath northern Honshu. The Pacific plate, which moves 8 to 9 cm per year, dips under Honshu's underlying plate releasing large amount of energy.<sup>38</sup> This motion pulls the upper plate down until the stress builds up enough to cause a seismic event. The break caused the sea floor to rise by several meters. The Japanese Meteorological Agency (JMA) informed that the earthquake might have ruptured the fault zone from Iwate to Ibaraki with a length of 500 km and a width of 200 km.<sup>39</sup> Japan's National Research Institute for Earth Science and Disaster Prevention (NIED) calculated a peak ground acceleration of 29.33 m/sec<sup>2</sup>. The earthquake released a surface energy of  $1.9 \pm 0.5 \times 10^{17}$  joules which dissipated as shaking and tsunamic energy. The total seismic moment was more than 200,000 times of the surface energy and was calculated by the USGS at  $3.9 \times 10^{22}$  joules, slightly less than the 2004 Indian Ocean quake.<sup>40</sup> This is approximately 600 million times more energy than that of Hiroshima bomb. Soil liquefaction was evident in areas of reclaimed land around Tokyo, particularly in

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<sup>35</sup> "Tsunami sweeps across Pacific", *op.cit.*

<sup>36</sup> Aftershocks occur with a pattern that follows Omori's law. Omori's law is an empirical relation for the temporal decay of aftershock rates. According to this law, the rate of aftershocks decreases quickly with time. The rate of aftershocks is proportional to the inverse of time since the main shock. Thus whatever the odds of an aftershock are on the first day, the second day will have 1/2 the odds of the first day and the tenth day will have approximately 1/10 the odds of the first day (when  $p$  is equal to 1). These patterns describe only the mass behavior of aftershocks; the actual times, numbers and locations of the aftershocks are 'random', while tending to follow these patterns. As this is an empirical law, values of the parameters are obtained by fitting to data after a main shock has occurred, and they imply no specific physical mechanism in any given case.

<sup>37</sup> "Japan earthquake: Tsunami hits north-east", *BBC News*, 11 March 2011.

<sup>38</sup> "Regarding the 2011 off the Pacific coast of T hoku Earthquake", available at: <http://www.bosai.go.jp/e/international/110318/110318.html>, accessed on: 25 March 2011.

<sup>39</sup> "The 2011 off the Pacific coast of T hoku Earthquake~fourth report" available at: [http://www.jma.go.jp/jma/en/News/2011\\_Earthquake\\_04.html](http://www.jma.go.jp/jma/en/News/2011_Earthquake_04.html), accessed on: 25 March 2011.

<sup>40</sup> "Regarding the 2011 off the Pacific coast of T hoku Earthquake", *op.cit.*

Urayasu, Chiba, nearby Haneda airport and Odaiba. The liquefaction damaged houses in the town and trapped vehicles.

**Tsunami:** The earthquake caused a major tsunami which wrought destruction along the Pacific coastline of Japan's northern islands. The tsunami propagated across the Pacific and warnings were issued and evacuations carried out in many countries bordering the Pacific (including the entire Pacific coast of North and South America from Alaska to Chile). The tsunami warning issued by the JMA was the most serious on its warning scale. It was rated as a 'major tsunami' being at least three meters high. The tsunami inundated a total area of approximately 470 square km in Japan.<sup>41</sup>

Kuji and Funato have been swept away without any trace. Other cities reportedly destroyed or heavily damaged by the tsunami include Rizuentakata, Kamaishi, Miyako, Tsuchi, Yamada (in Iwate Prefecture); Namie, Soma and Minamisoma (in Fukushima Prefecture), Higashimatsushima, Onagawa, Natori, Ishinomaki and Kesenuma (in Miyagi Prefecture); and Asahi (in Chiba Prefecture). The most severe effects of the tsunami were experienced along a 670 km long stretch of coastline from Erimo in the north to Arai in the south.<sup>42</sup> The following readings were obtained from recording stations maintained by the JMA around the coastline of Japan:

**Table 1: Water Level due to the Tsunami at Different Ports of Japan**

Time (in JST)	Location	Tsunami height (in m)
15.12	Iwate Kamaishi-oki	6.8
15.15	Funato	3.2 or higher
15.20	Ishinomaki-shi Ayukawa	3.3 or higher
15.21	Miyako	4.0 or higher
15.21	Kamaishi	4.1 or higher
15.44	Erimo-cho Shoya	3.5
15.50	Soma	7.3
16.52	Arai	4.2

Source: Compiled by the author from various sources.

The Pacific Tsunami Warning Center (PTWC) issued widespread tsunami warnings covering the entire Pacific Ocean i.e., Kuril Islands, California, Hawaii, Oregon, western part of Alaska, USA, British Columbia or Vancouver Island of Canada, eastern seaboard of Philippines, Wewak, East Sepik of Papua New Guinea, south Pacific countries Tonga and New Zealand, Mexico, Chile and Galapagos Islands.

<sup>41</sup> Maswood Alam Khan, "Earthquake in Japan: A sign foreboding the apocalypse?", *New Age*, Dhaka, 14 March 2011.

<sup>42</sup> *Ibid.*

***Nuclear Explosion:*** The Fukushima I, Fukushima II, Onagawa Nuclear Power Plant, and T kai nuclear power stations consisted of a total eleven reactors which were automatically shut down following the earthquake. Higashid ri was already shut down for a periodic inspection. Cooling was needed to remove decay heat for several days after a plant had been shut down. At Fukushima I and II, tsunami waves overtopped seawalls and destroyed diesel back up power systems, leading to severe problems including two large explosions at Fukushima I and leakage of radiation. Over 80,000 people living within 20 km radius of the plant had been evacuated from their residences.<sup>43</sup> It was reported that favourable winds were carrying radioactive particles from the incidents out to sea, mitigating some of the negative impacts. Helicopters were used to dump water on the Fukushima I plant to further attempt to cool the reactor.

Japan declared a state of emergency following the failure of the cooling system at the Fukushima I Nuclear Power Plant. Officials from the Japanese Nuclear and Industrial Safety Agency (NISA) reported that radiation levels outside the plant were up to 1,000 times more than the normal levels and the radiation levels inside the plant were up to 8 times more than the normal levels.<sup>44</sup> Later, a state of emergency was also declared at the Fukushima II Nuclear Plant about 11 km south. These brought the total number of problematic reactors to six. The local population was advised by the authorities to stay home until the radioactive situation of the environment was totally clarified. Unlike, other five reactor units, reactor 3 runs on mixed Uranium and Plutonium oxide, making it more dangerous due to the neutronic effects of Plutonium on the reactor and the carcinogenic effects in the event of release to the environment. Tokyo Electric Power Company (TEPCO) tried to reduce the pressure within the plants by venting contaminated steam from the reactor vessels into the atmosphere. Residents living within 20 km and 3 km were evacuated from the radius of Fukushima I and II Plants.

It was reported that radioactive Iodine was detected in the tap water in Fukushima, Tshigi, Gunma, Tokyo, Chiba, Saitama, and Nigata. Radioactive Cesium was also found in tap water in Fukushima, Tshigi, and Gunma. Radioactive Iodine and Cesium were also detected in soils in some places in Fukushima. There might be a need to replace the contaminated soil. Food products were also contaminated by radioactive matter in several places in Japan.

A fire occurred in the turbine section of the Onagawa Nuclear Power Plant following the earthquake. On 13 March, the lowest-level state of emergency was declared regarding the Onagawa Plant as radioactivity readings temporarily

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<sup>43</sup> “Japan to review energy policy over nuclear crisis”, *BBC News*, 10 May, 2011.

<sup>44</sup> “Japan nuclear: Fukushima seawater radioactivity rises”, *BBC News*, 30 March 2011, available at: <http://www.bbc.co.uk/news/world-asia-pacific-12903072>, accessed on: 30 March 2011.

exceeded the allowed levels in the area of the plant. But, TEPCO stated that it might have been due to radiation from Fukushima I nuclear accidents but was not from the Onagwa Plant itself.

The number 2 reactor at T kai Nuclear Power Plant was shut down automatically. On 14 March, it was reported that a cooling system pump for that reactor had stopped working. The Japan Atomic Power Company stated that there was a second operational pump sustaining the cooling systems, but that two out of three diesel generators used to power the cooling system were out of order.

Japan had raised the alert level at its quake-damaged nuclear plant from four to five on a seven point international scale of atomic incidents.<sup>45</sup> The crisis at Fukushima Daichi site, previously termed as a 'local problem' is now having 'wider consequences'. The UN mentioned that the battle to stabilise the plant was 'a race against time'.

### **3. Assessment of Japan's Earthquake, Tsunami and Nuclear Disaster 2011**

The overall assessment of Japan's disaster on 11 March 2011 is as follows:

***Worst Crisis in the Japanese History:*** Following the disaster, fuel shortage, icy rain and power outages have constituted Japan's worst humanitarian crisis. There were about 21,000 dead or missing, 3,19,000 people evacuated, 2,131 makeshift shelters, 2.4 million people were left without access to water and 2,21,000 households without power.<sup>46</sup> Japan would take at least five years to reconstruct its earthquake and tsunami afflicted regions as it has to balance the need to rebuild houses, roads and power grids, with planning for disaster-proof infrastructure. It has the resources, skills, and social cohesiveness required to rebuild quickly as the world's third largest construction market, but that the disaster would spur it to think even harder about urban planning and protection.

***Unpredictable Radiation Levels and its Health Risks:*** According to the experts, three things that determine whether a blast of radiation would be harmless, debilitating or lethal are: i) the intensity of exposure, ii) its duration, and iii) access to treatment. They are concerned about two types of radioactive materials (Iodine 131 and Cesium 137) which are generated as byproducts of the nuclear fission process. Radioactive Iodine decayed quickly and would disappear from the environment within weeks or month. Cesium once released into the environment continues to pose a potential risk for many years. Japanese officials

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<sup>45</sup> "Nuke alert level raised: Japan faces second worst atomic disaster in history", *The Daily Star*, Dhaka, 18 March 2011.

<sup>46</sup> "Steam rises from stricken Japan nuclear plant", *The Financial Express*, Dhaka, 23 March 2011.

have informed that the radiation levels were 30 millisieverts (mSv) between the reactor 2 and 3, 400 mSv near reactor 3 and 100 mSv near reactor 4.<sup>47</sup> The main health danger is cancer, especially leukemia, along with lung, thyroid, and colon cancer. The risk is proportional to the dose received. TEPCO had been accused of a lack of transparency and failure to provide information more promptly. It was also heavily criticised for issuing erroneous radiation readings.

***Disruption of Industrial Supply-Chain will hit the World's Biggest Companies:*** Some of the world's biggest companies could face severe supply-chain problems after the earthquake and tsunami in Japan due to the disruption of transportation and power supply. The car making industry would be especially hard hit. North eastern Japan had become a key production center, with Toyota, Honda, Nissan, and others operating large plants making vehicle parts. Besides, Japanese companies which had to contend with rolling blackouts imposed to manage electricity supplies account for about 40 per cent of world's technology components. The country made 30 per cent of world's flash memories, used in Smartphone and digital cameras, and 10-15 per cent of D-Ram memory which was a key component in every personal computer.<sup>48</sup> Asahi, NH Techno and Nippon Electric Glass were three of the world's top suppliers of glass for flat panels.

Among the core parts made in Japan that could be at risk of supply disruption were capacitors and transistors components contained in almost every electronic product. The high-end cells for batteries used in notebook computers and cars might face shortage of supply. Many technology companies such as smartphone maker HTC, flat-panel maker AU Optronics, and IT electronics components supplier Flextronics played down the impact on component supplies. According to Foxconn Technology Group, the world's largest contract electronic manufacturers informed that the quake was expected to affect the global technology value chain.

***Japan's Economic Growth would be Negatively Affected till Mid 2011:*** According to World Bank, the losses caused by the earthquake and tsunami in Japan were estimated at US\$ 235 billion. Japan's economic growth would be affected until mid-2011.<sup>49</sup> However, the reconstruction would encourage further recovery by the end of the year 2011. The massive Japanese earthquake raised the chances of a fiscal crisis in the world's third largest economy and could

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<sup>47</sup> "Japan nuclear: Fukushima seawater radioactivity rises", *BBC News*, 30 March 2011, available at: <http://www.bbc.co.uk/news/world-asia-pacific-12903072>, accessed on: 30 March 2011.

<sup>48</sup> "Japan disaster spooks markets", *The Financial Express*, Dhaka, 16 March 2011.

<sup>49</sup> "Rebuilding northeast Japan to take years, billions", *The Financial Express*, Dhaka, 17 March 2011.

affect countries around the globe. Japan was burdened by the industrialised world's biggest debt, which ran close to 200 per cent of Gross Domestic Product (GDP).<sup>50</sup> However, economists stressed that the earthquake was not of the same impact as the devastating quake which ravaged Kobe. The World Bank estimated that exports from the region could slow by 0.75-1.5 per cent if Japan's GDP shrank by 0.25-0.5 per cent. Reinsurance giant Swiss Re estimated that the earthquake and tsunami had cost it US\$ 1.2 billion but the figure could be revised upwards.<sup>51</sup> However, the US billionaire and investor, Warren Buffet, told that the disaster would not hamper the Japanese economy and could prompt new stock buying.

The Japanese government planned to dedicate up to ¥ 10 trillion in crisis lending to businesses to help them finance day-to-day operations and repair damage from the disaster.<sup>52</sup> Additionally, the Bank of Japan would keep monetary policy exceptionally loose to aid reconstruction and minimise the damage to the economy. It injected an extra ¥ 3.0 trillion into the markets in a bid to shore up confidence and ensure liquidity.<sup>53</sup> The government could provide special financing in the form of low interest loans or interest payments subsidies backed by the public funds when a natural disaster or other events triggered major economic instability. The government was also discussing for creating a recovery fund that would provide medium to long term lending for firms directly hit by the disaster. However, setting up such a fund would require several changes to the law.

***Disaster Crippled the Fishing Industry of Japan:*** Several weeks after the earthquake and tsunami, the Japanese government authorised the dumping of 10,000 tons of low-level radioactive water into the sea near T hoku to increase storage tank capacity at the Fukushima Daichi nuclear plant.<sup>54</sup> Testing confirmed that radioactive Cesium and Iodine levels in sand lance caught off of Ibaraki Prefecture were higher than the allowable standards. As a result, people were refusing to buy fish caught in the T hoku region, even in areas where fishing vessels and infrastructure remained unaffected.<sup>55</sup> That would further drive

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<sup>50</sup> "Nature's fury strikes Japan", *The Economist* cited in *The Daily Star*, Dhaka, 13 March 2011.

<sup>51</sup> "Disaster could cost Japan US\$ 235b: WB", *The Daily Star*, Dhaka, 21 March 2011.

<sup>52</sup> "Japan plans up to US\$ 127b in lending to business", *The Financial Express*, Dhaka, 20 March 2011.

<sup>53</sup> *Ibid.*

<sup>54</sup> "High Radiation in Japanese Fish Raises Concerns", available at: [http://abcnews.go.com/Health/radiation-japans-fish-raise-concerns\\_world/story?id=13302515](http://abcnews.go.com/Health/radiation-japans-fish-raise-concerns_world/story?id=13302515), accessed on: 30 March 2011.

<sup>55</sup> The radioactive materials in seafood have made the Japanese people nervous. The radiation level of Iodine-131 concentrations remained at 140,000 times the government-set limit. Cesium levels are also a concern. The fear of radioactivity is likely to

demand for imported seafood for the foreseeable future. For example, prices for sardines had fallen from US\$ 0.48 per kilogram to US\$ 0.18 per kilogram. Alfonsin (kinmedai) was one of the most delicious types of fish in Japan, and recently prices had fallen regionally from US\$ 26 per kilogram to US\$ 14 per kilogram.<sup>56</sup>

Many fishermen lost not only their vessels, but also the infrastructures to ensure the quality product for market. The Fisheries Agency in Japan confirmed that 19,000 vessels were damaged or destroyed and they estimated that the economic impact on the fishing industry alone would likely equate US\$ 1 trillion. The fact that over 40 per cent of fishermen in Japan were already at retirement age exacerbates the difficulties in determining the next steps for rebuilding coastal communities and the future of the affected areas. Fishing ports such as Minamisanriku, Miyagi, Rikuzentakata, Iwate, Onagawa, Hachinohe, Aomori - all locally famous for a variety of wild-caught and farmed seafood including Flatfish, Salmon, Scallops, Tunas, Oysters, Sardine, and Pacific Saury, were heavily damaged. The present economic situation in Japan presents significant challenges to rebuilding the fishing industry in the affected areas. The government should think about training new entrants, finding innovative ways to reduce costs, and implementing more stringent regulations that would allow coastal fish stocks to rebuild to levels consistent with the biological maximum sustainable yield in the long-term.

***Geophysical Impact of Earthquake on 11 March 2011:*** The quake that struck northern Japan not only violently shook the ground and generated a devastating tsunami but also moved the coastline and changed the balance of the planet. Italy National Institute of Geophysics and Volcanology informed that the earth axis shifted 25 cm as a result of the earthquake and the U.S. Geological Survey estimated that the main land of Japan had shifted eastward up to 13 feet or 2.4 meters.<sup>57</sup> In addition to that, Japan is much wider than it was before. The scientists of National Aeronautics and Space Administration (NASA) calculated

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proliferate because radioactive seafood is a nightmare which comes true for two uniquely reasons to the Japanese people. Japan is the only country that has experienced atomic war and the long-term effects of radiation, leaving the public fearful of nuclear technologies even today, more than 65 years after Hiroshima and Nagasaki. The nation has also the experience of the worst public health disasters of the post-war period, with thousands crippled by mercury poisoning of seafood caused when toxic chemicals were released into the sea in the 1950s and 1960s.

<sup>56</sup> "Seafood radiation hits Japan's sushi", available at:

<http://www.theaustralian.com.au/news/breaking-news/seafood-radiation-hits-japans-sushi/story-fn3dxity-1226035582189>, accessed on: 04 April 2011.

<sup>57</sup> "10,000 missing in port town: death toll rises to 1,300", *The Daily Star*, Dhaka, 13 March 2011.

that the redistribution of mass by the earthquake might have shortened the day by a couple of millionths of a second and tilted the earth axis.<sup>58</sup>

***Huge Humanitarian Responses from all over the World:*** Japan received messages of condolences and offers of assistance from a range of international leaders. According to Japan's foreign ministry, 120 countries and 30 international organisations offered assistance to Japan.<sup>59</sup> The lists of charitable and humanitarian responses to the disaster from governments and non-governmental organisations, corporate sectors, and private donations are given in annex 2, 3, and 4.

***Stress on the Psyche of Common Mass:*** The current crisis in Japan put the Japanese system and way of life of the people under severe strain. The Japanese were usually reticent about accepting foreign assistance. They were, therefore, overwhelmed by offers of aid from all over world. They did not know exactly how they should handle that. But what had in some ways disappointed the Japanese was that many countries were also withdrawing their citizens from Japan in view of possible spread of nuclear radiation. The order of US government to its navy ships to go far away from the Japanese shores to avoid possible radiation contamination was a psychological setback for Japanese people. The fact that the US was also not depending on Japanese data in assessing the impact of the nuclear tragedy was disturbing to them.<sup>60</sup> The Fukushima nuclear plant revealed a series of missteps, bad luck, and last minute improvisations by the Japanese. Another important aspect was that the Japanese always respected the competence and efficiency of their bureaucracy. But this time, the bureaucracy seems unable to cope efficiently with the triple crisis.

***Japan is a Land of Active Seismic Zone:*** Since long, Japan has had a long history of earthquake and seismic activity (see annex 1). The islands of Japan are primarily the result of several large oceanic movements occurring over hundreds of millions of years from the mid-Silurian to Pleistocene as a result of the subduction of the Philippine Sea Plate beneath the continental Amurian Plate and Okinawa Plate to the south, and subduction of the Pacific Plate under the Okhotsk Plate. Japan was originally attached to the eastern coast of the Eurasian continent. The subducting plates have been going deeper than the Eurasian Plate pulling Japan eastward for 15 million years.<sup>61</sup> Now a days, the Japanese archipelago is considered as a mature island arc and is the result of several generations of subducting plates. Approximately 15,000 km of oceanic floor had

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<sup>58</sup> "Japan widened, moved close to America", *The Daily Star*, Dhaka, 16 March 2011.

<sup>59</sup> David Cutler, "FACTBOX-Aid and rescue offers for Japan quake", available at: <http://www.trust.org/alertnet/news/factbox-aid-and-rescue-offers-for-japan-quake/>, accessed on: 13 April 2011.

<sup>60</sup> Ashfaqur Rahman, "Sunday Pouch: Annus horribilis for Japan", *The Daily Star*, Dhaka, 19 March 2011.

<sup>61</sup> "Quake could ignite Tokyo time bomb", *The Daily Star*, 13 March 2011.

passed under the Japanese area in the last 450 million years.<sup>62</sup> Moreover, Japan is situated in a volcanic zone on the Pacific Ring of Fire. Therefore, frequent low intensity earth tremors and occasional volcanic activity are felt throughout the islands.

***Japan's Early Warning System saved many Lives:*** Japan's early warning system for prediction of earthquake is very strong. JMA is in the charge of sending early warnings. JMA, which includes more than 1,000 seismometers in Japan, sent out warnings of impending strong shaking to millions one minute prior to the effects of earthquake being felt in Tokyo. Television and three major mobile phone carriers had developed the simultaneous broadcast systems to receive the early warning. After receiving a warning, a person might have a few seconds at longest to take action. The earthquake early warning was set up to enable people to mitigate damage from an earthquake so that people may protect themselves at home, at the office, and near cliffs. Railway workers might use that warning to slow down train, and factory worker might use it to stop assembly lines prior to an earthquake. It was also possible before the earthquake on 11 March 2011 because the damaging seismic S-wave travelling at 4 km/second which took about 90 seconds to travel 373 km to Tokyo. The relatively harmless P-waves travelling at twice the speed can be detected earlier.<sup>63</sup> JMA believed that the early warning system had saved many lives from the disaster.

***Human Beings are Still Helpless to Natural Disaster:*** Japan is one of the most technologically advanced nations of the world. It has shown its economic prowess on a global scale and is now facing the worst situation caused by the fury of nature that brought destruction of an unimaginable proportion to both men and materials. Japan's woes from the quakes and then the tsunami are too colossal in every sense and its nuclear radiation issue has added a dangerous element as several reactors have been inflicted by the catastrophe. It is somewhat unthinkable for any human being, more particularly in a country like Japan that has achieved so much of development and also has an enormous economic might. The devastation in Japan has once again brought to fore the harsh reality that unfortunately human beings are still helpless before natural disasters. Notwithstanding the fact that science and technology have achieved wonders including spectacular feats like sending men to the moon, the mankind is undoubtedly helpless in facing the unpredictable fury of the nature. This is an axiomatic truth. Therefore, the lesson for human being is to face such calamities with great courage and fortitude.

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<sup>62</sup> *Ibid.*

<sup>63</sup> "Regarding the 2011 off the Pacific coast of T hoku Earthquake", *op.cit.*

***Is it the End of Use of Nuclear Power in Japan and Rest of the World?*** There are 442 nuclear reactors that supply about 15 per cent of electricity all over the world. More than 35 nuclear power plants are currently under construction around the world, 24 of them are in Asia. In the modern economy, the energy to turn machines is intertwined with national security, foreign policy and warfare (see annex 6 for the nuclear energy policy by country).

The Fukushima Daichi power plant provides a lesson for the rest of the world regarding the nuclear expansion programme. Nuclear power generation is the only form of energy production that can lead to a catastrophic accident as the reactors are inherently vulnerable. High pressure and temperature are maintained for high energy fission chain reaction inside the reactor. Nuclear reactors are systematically complex. A fault in one subsystem is quickly transmitted to others and gets magnified, plunging the whole system into crisis. Nuclear power involves radiation exposure at all stages, from Uranium mining, fuel fabrication, to reactor operation and maintenance, to routine emission, and spent fuel handling, storage and reprocessing. Nuclear reactors leave a toxic trail of high-level radioactive wastes. These remain hazardous for thousand of years. The half-life of Plutonium-239, which is produced by fission, is 24,400 years. Therefore, handling of radioactive chemicals needs advanced expertise and technology. The crisis has triggered anti-nuclear power protests in Europe. Up to 60,000 protesters formed a 45 km human chain in Germany to denounce the government policy of extending the life of nuclear plants.<sup>64</sup>

The Fukushima incident took place when it appeared that the nuclear power industry was on the cusp of a period of growth. Increasingly, states appeared to be turning more to nuclear power in an era of rising fuel prices, concerns about the greenhouse gas effects of fossil fuels, and a slowdown in production of hydrocarbons. Even in our part of the world, crude oil production has declined. The challenge will also lie in reducing the lag between technological breakthroughs and their adoption commercially. In the energy sector, it has taken about 25 years for new technologies to be widely available. For example, natural gas technologies have been widely available since the 1970s but natural gas has only slowly emerged as a competitor for oil-based fuels. High costs of investment and the sunk costs of plant and equipment represented by existing technologies have been a deterrent in the adoption of new technologies. In such circumstances, the question that arises: is the nuclear power safe? This question of nuclear safety had been relegated to back stage over the last ten to fifteen years under the twin barrage of global warming and energy shortage. Nuclear energy is rightly seen as a green energy with little or no green house gas emission. Nuclear energy is envisaged to meet the growing energy demand

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<sup>64</sup> “Japan’s Quake hit areas need emergency supplies”, *The Daily Star*, Dhaka, 14 March 2011.

worldwide when hydrocarbon resources (coal, oil, gases) are being depleted at ever increasing rates. So, why not nuclear energy should solve the twin problem in one swoop?

#### 4. Bangladesh Perspectives

**Disaster Preparedness for Earthquake and Tsunami:** Although earthquake in Bangladesh is yet to be recognised as case of severe natural disaster, a couple of quakes of modest magnitude in recent times created a latent threat. Due to geographical location, Bangladesh is always under a potential threat of earthquake, which might cause catastrophic devastation. A high magnitude tremor has the highest possibility of happening at any time, which might cause the devastations particularly in Dhaka and Chittagong cities. Though Bangladesh has made tremendous improvement to mitigate and manage many of its natural disasters like floods and cyclones, the mitigation strategies regarding earthquake still remains at its infancy. At this stage, the country needs to incorporate the concept of earthquake mitigation and management issues within the existing national disaster management plan/programme. Moreover, motivation programme (regarding Do's and Don'ts during earthquake) and increasing people's awareness can considerably reduce the casualties.

The latest seismic zoning map prepared by Bangladesh University of Engineering and Technology (BUET) found that 43 per cent landmass of Bangladesh has been under high risk zone, 41 per cent under moderate zone and 16 per cent under low risk zone.<sup>65</sup> In geologic terms, this region is quite young as the mountains are still growing and Bangladesh is very close to the Indian-Eurasian tectonic plates which are potential enough to cause any major earthquake. According to Professor Mehedi Ahmed Ansari, Department of Civil Engineering of BUET, if there was an earthquake measuring 7.00 on the Richter Scale in Dhaka, it would cause death of at least 1,50,000 people due to fragile faulty structure of the residential buildings and commercial centers. He also mentioned that about 70,000 to 80,000 houses out of 3,26,825 houses will be completely destroyed.<sup>66</sup> Earthquake vulnerability of any place largely depends on its geology and topography besides population and building density, quality of buildings, etc. Most of the time, it is not the earthquake rather it is the building that kills people. If the collapse of even a single building can be stopped, it could save lives of many inhabitants in that building. It may not be possible to demolish all the old buildings, but all newly constructed buildings can be made earthquake resistant by strictly following the National Building Code (NBC). If an area like old Dhaka with narrow lanes and a huge population

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<sup>65</sup> "Lessons from Japan's cataclysmic quake", *The Financial Express*, Dhaka, 19 March 2011.

<sup>66</sup> "Natural disaster is devastating tremor imminent in Bangladesh?", *The New Nation*, Dhaka, 07 October 2010.

is affected, the situation would be beyond comprehension. Moreover, the existing set up of utilities (gas and water pipes with electric cables) also stands as a hindrance. Rescuing the trapped people is the first job in the event of an earthquake and this needs trained people with appropriate equipments. Even though various departments of the government have contingency plans, they do not have the required equipments. Again equipments entail training to the rescue workers. Side by side, strict application of building codes, enforcement of law and order, and creation of public awareness has no alternatives. A three-year project at one million taka was launched to strengthen disaster preparedness capacity especially earthquakes, but much effort is still needed.<sup>67</sup> Moreover, the case of earthquake should be considered as a top priority before going for any construction like bridge, buildings, and expressway. In doing so, the unplanned expansion and growth of cities especially Dhaka should be stopped.

***Japan's Predicament Provides a Lesson for the Proposed Nuclear Power Plant:*** Electricity generation is demand-led priority sector in Bangladesh. The country has a shortage of 1,500 to 2,000 MW electricity at present. It is estimated that there will be an additional demand for 21,000 MW by the year 2025. Under the existing generation capacity, more than 85 per cent of electricity is produced by natural gas. If no natural gas field is discovered, this power need must be met by coal, imported oil, and nuclear power. In parts of additional demand, coal would supply a maximum of 10,000 MW and imported oil 5,000 MW and 500 MW must be supplied by nuclear power.<sup>68</sup> Bangladesh is a country of 150 million population, the majority of whom have neither gas nor oil based electricity yet. Therefore, this country has no plan to ditch its nuclear power ambition despite a catastrophic tsunami in Japan. Dhaka has signed an initial accord with Moscow to buy two Russian nuclear reactors, each having the capacity to produce 1000 MW power. The government hopes to set up the plants at a cost of about US\$ 3 billion by 2017. A final agreement is expected when Prime Minister Sheikh Hasina visits Moscow in the middle of this year.<sup>69</sup>

The horror of Chernobyl or the latest Fukushima explosion might be taken as a wake-up call for Bangladesh. Nuclear energy generation in a densely populated country like Bangladesh is an alarming prospect. In the event of meltdown, there is hardly any space to evacuate people. Even a vast country like former USSR found it extremely difficult to evacuate its people after Chernobyl disaster because the heavy nuclear fallout covered a very broad area. Moreover, the

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<sup>67</sup> "Earthquake: Preparedness to lessen the casualties is important", *The Financial Express*, Dhaka, 21 March 2011.

<sup>68</sup> Dr. Aminul Islam Akanda, "Enthusiasm and realism with nuclear power plant", *The Financial Express*, Dhaka, 17 March 2011.

<sup>69</sup> M Abul Kalam Azad, "Dhaka seeks to build two 1,000MW plants", *The Daily Star*, Dhaka, 02 April 2011.

nuclear power cannot be stored without the risk of groundwater contamination or environmental degradation. The waste from the nuclear energy is extremely dangerous and it has to be carefully looked after. Another critical issue is the doubt over the domestic capacity of Bangladesh Atomic Energy Commission (BAEC) to handle the safety, and safeguard control over the implementation of the proposed nuclear plant.

Several studies by different countries and expert groups show that the cost of electricity generation from nuclear power has comparative advantage over gas and coal. Farid Uddin Ahmed, the Chairman of BAEC informed that the plants are being set up at a place where there had been no record of massive tremor at least for the last 100 to 150 years. BAEC needs to ensure safety and adhere to the US Nuclear Regulatory Commission (USNRC) or equivalent standards. Bangladesh has the option to take help from the committed cooperation of the International Atomic Energy Agency (IAEA) on the construction process of Rooppur Nuclear Power Plant.

***Japanese Aid and Future Development Projects:*** Japan is the largest bilateral donor for Bangladesh that makes commitment of US\$ 300-500 million every fiscal year. It has deferred the approval of US\$ 600 million new credit proposals till the next fiscal year owing to the devastations it suffered in the recent earthquake and tsunami. The credit proposals include US\$ 400 million for the construction of Padma Bridge and US\$ 200 million for a water treatment plant in Khulna and other projects. A high official of the Economic Relations Division (ERD) informed that not only for Bangladesh, all new Japanese commitments to other countries have been suspended for the current fiscal year.<sup>70</sup> The ERD official mentioned that the credit proposals for Bangladesh were supposed to be approved in Japanese cabinet very soon. Besides these, an agreement on a Japanese grant of ¥ 500 million (around Tk. 42 crore) for primary education sector has been signed on 30 March 2011.<sup>71</sup>

***Impact on Exports to Japan:*** Bangladesh's move to make inroad into the multibillion dollar Japanese clothing market may suffer. The volume of trade between Bangladesh and Japan is worth more than US\$1.4 billion/year and the trade balance is heavily tilted towards Japan.<sup>72</sup> Local traders mainly import vehicles, vessels and transport related equipments, machinery and mechanical appliances, mineral products, textiles and textile articles, optical, photographic measuring, checking, precision, medical and surgical instruments. Local exports make shipments of woven and knit garments, leather and jute goods and raw jute.

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<sup>70</sup> The Japanese fiscal year starts in April and ends in March.

<sup>71</sup> "Japan to donate for development project", *The Daily Star*, Dhaka, 31 March 2011.

<sup>72</sup> "Tsunami won't affect trade with Japan", *The Financial Express*, Dhaka, 17 March 2011.

Bangladesh Knitwear Manufacturers and Exporters Association (BKMEA) informed that it may postpone an apparel fair scheduled to be held in Tokyo in July 2011 as it would not be able to draw much attention from the Japanese retailers.<sup>73</sup> The association which represents the country's 1,300 knitwear manufacturers had hoped that the exposition would catapult Bangladesh as a leading apparel exporter to one of the world's biggest clothing markets. Knitwear market in Japan is alone worth over US\$ 25 billion. The market for woven and synthetic garment is believed to be more than the size of knitwear. According to BKMEA, Bangladesh in 2010 exported knitwear items worth US\$ 70 million to Japan, posting a 60 per cent growth over the previous year. On the contrary, Bangladesh imports more than 30,000 reconditioned cars from Japan worth nearly US\$ 600 million/year.<sup>74</sup>

## 5. Conclusion

Historically, Japan is a global strategy master in disaster management. In retrospect, this is the nation, which has survived world wars, atomic bombings, defeats, and many unprecedented calamities. Each time, it got hit, it has bounced with a greater collective resilience. The past tells that the sense of a foreboding danger and combating it with an unparalleled calmness is in the temperament traits of the Japanese. A Japanese citizen takes every possible precaution to the wrath of faith. The issues raised by the Fukushima disaster are likely to result in a slowdown in current plans for the expansion of nuclear power generation all over the world. The current generation of nuclear power reactors has lowered the costs of power generation, vastly improved safety features and state of the art waste and proliferation management capabilities. With rising electricity prices, these nuclear power plants are economically competitive. Even land scarce Singapore is studying the long term feasibility of nuclear energy. In this context, Bangladesh does not have any options other than establishing nuclear power plant for meeting the growing demand of electricity. The contribution of Japan to develop the infrastructure of Bangladesh is tremendous. Therefore, Japan's quick economic stability, as the biggest development partner, is another major concern for the people of Bangladesh. The environmental changes all over the world are a reminder for all of us regarding the ferocity of the nature and vulnerability of human being. Bangladesh is widely known for its climate induced vulnerabilities. Therefore, it should strengthen its disaster management bureau/system in the context of early warning, rescuing and relief management to combat such natural calamities. One believes that cohesiveness, resilience, compassion, technological expertise, and the extra ordinary competence of the Japanese will help them to overcome the present crisis.

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<sup>73</sup> "Exports to Japan may suffer", *The Financial Express*, Dhaka, 21 March 2011.

<sup>74</sup> *Ibid.*

## ANNEXES

### Annex 1

The following is a list of earthquake in Japan with a magnitude of 7.0 or above which caused significant damages and casualties since 1900:

Year	Magnitude of Earthquake	Location	Death toll
01 September 1923	8.3	Great Kanto	1,00,000 to 1,42000
27 March 1927	7.6	Tango	3,020
02 March 1933	8.4	Sanirku	3,000 or more
10 September 1943	7.2	Tottori	1,083
13 January 1945	6.8	Mikawa	2,306
20 December 1946	8.1	Nankaid	1,362
28 June 1948	7.1	Fukui	3,769
16 June 1964	7.6	Nigata	26
16 May 1968	8.2	Aomori	52
12 June 1978	7.7	Miyagi	28
17 January 1995	6.8	Great Hanshin	6,434
04 May 1998	7.5	Ryukyu Islands	-
23 October 2004	6.9	Ch etsu	40
20 March 2005	7.0	Fukuoka	-
16 August 2005	7.2	Miyagi	-
15 November 2006	8.3	Kuril	-
13 January 2006	8.1	Kuril	-
25 March 2007	6.9	Noto Peninsula	-
16 July 2007	6.6	Ch etsu offshore	-
14 June 2008	6.9	Iwate-Miyagi Nairku	-
09 August 2009	7.1	Izu Islands	-
11 August 2009	6.6	Tokai	-
26 February 2010	7.0	Ry ky Islands	-
21 December 2010	7.4	Bonin Islands	-
09 March 2011	7.2	T huku	-
11 March 2011	8.9	T huku	21,000 (appr.)

Source: Compiled by the author from various sources.

**Annex 2**

The following is a list of responses from all over the world for Japan's disaster on 11 March 2011:

<b>Country</b>	<b>Aid (in dollar)</b>	<b>Materials</b>	<b>Search, Rescue, technical &amp; Medical teams</b>
Afghanistan	50,000		
Albania	100,000		
Armenia			Rescue team of 25
Australia		Food and equipments	Rescue team of 76
Azerbaijan	100,000		
Bangladesh		Blankets, rubber boot & gloves	Rescue and medical team
Bulgaria		Blankets, food, housing materials	
Cambodia	100,000		
Canada	600,000	Thermal wool blankets and masks	Rescue and medical team of 17
China	700,000	Fuel, food and medicine	Rescue and medical team of 15
East Timor			Rescue team of 100
Estonia	200,000		
France		Equipments	Nuclear expert team of 134
Georgia	100,000		
Germany		Equipments	Search and rescue teams
Hungary			Technical rescue team
India		Blankets and cloths	
Indonesia	200,000		Rescue & medical team
Israel		Cloths, blankets, chemicals	Medical and rescue team of 53
Korea	100,000	Boron, power sources	Rescue team of 1047
Laos	10,000		
Macedonian	€100,000		
Malaysia			Search, rescue and medical teams
Maldives		Food	
Mexico			Rescue team
Mongolia	100,000		Rescue teams of 12
Netherlands	1000,000		
New Zealand		Rescue equipments	
North Korea	600,000		
Pakistan		Food	Medical team

Philippines	250,000	Rescue equipments	Rescue team of 41
Russia		-do-	Rescue team of 50
Serbia	860,000		
Singapore	600,000	Food, mattress, blankets	
South Africa			Rescue team
Sri Lanka	100,000		Medical and rescue team
Taiwan	4300,000	Food, blankets, cloths	Rescue & Medical team of 24
Thailand	660,000	Food, medicine	
England		Rescue equipments	Rescue team of 70
United States		Rescue equipments	Rescue teams
Vietnam	250,000		

Source: Compiled by the author from various sources.

**Annex 3**

The following is a list of corporate donations for Japan's disaster on 11 March 2011:

<b>Company</b>	<b>Country</b>	<b>Cash Donations</b>	<b>Goods Donations</b>
Evergreen group	Taiwan	12,350,000	
Samsung group	South Korea	7,700,000	Cloths and communications equipments
NCSOft	South Korea	6,300,000	
Mitsubishi Electric	Japan	6,170,000	Company products and goods
Goldman Sachs	United States	6,100,000	
JP Morgan	United States	5,000,000	
Panasonic	Japan	3,700,000	Radios, flashlights, solar LED lanterns, batteries
Sony	Japan	3,600,000	
Daimler	Germany	2,840,000	
Walt Disney Company	United States	2,500,000	
Barclays	United Kingdom	2,400,000	
Bank of America	United States	1,200,000	
Nomura	Japan	1,200,000	
Square Enix	Japan	1,200,000	
Jefferies & Company	United States	1,000,000	
Nike	United States	1,000,000	US\$ 250,000 worth of footwear and apparels
Air Liquide	France	1,000,000	
HSBC	United Kingdom	500,000	
Russell Investments	United States	125,000	
Spin Master	Canada	100,000	
Fedex	United States	81,000	
Lloyd	United Kingdom	300,000	
Valve Software	United States	3,600,000	
Nintendo	Japan	2,400,000	
Sega	Japan	1,200,000	
Namco	Japan	122,000	
Tecmo Koei	Japan	122,000	
Nexon	South Korea	1,200,000	

Source: Compiled by the author from various sources.

### Annex 4

The following is a list of responses from non-governmental organisations and private sectors for Japan:

Responses	Organisations/Private	Amount of Donations (in millions)
Non-government Organization	300 Taiwanese singers, United Methodist of Christ, Unitarian Universalist Service Committee, Disciples of Christ, NC Baptist, Samaritan's Purse, Canadian Red Cross, Philippines National Red Cross, Korean Community Chest, UNICEF, Korean Disaster Relief Association, Hong Kong Red Cross, The Salvation Army, Tzu Chi Foundation, JP Morgan Chase, AT&T, Bangkok hospitals, Shelter Box, World Vision, Delta Airlines, Singapore Soka Association, Four largest music companies (EMI, Sony, Universal and Warner) collaborated to make songs for Japan.	
Private	Lady Gaga	US\$ 1.5
	Shakira	Unknown
	Sandra Bullock	US\$ 01
	Clint Eastwood	Donate the film 'Hereafter'
	Queen Elizabeth	Undisclosed
	Hideki Matsui	¥50
	Ichiro Suzuki	¥100
	The Eyed Peas	Newly released song 'Just can't get enough'
	Gwen Stefani	US\$ 01
	Daisuke Matsuzaka	US\$ 01

Source: Compiled by the author from various sources.

### Annex 5

The following shows a list of damages and casualties in Japan due to the disaster on 11 March 2011:

Infrastructures and Services	Locations/Names	Description
Ports	Hachinohe, Sendai, Ishinomaki, Onahama, Hitachinka, Hitachi, Chiba, Soma, Shiogama, Kesenunuma, Of nato, Kamashi and Miyako, port of Tokyo, port at Kashima	All ports were briefly closed after the earthquake as they were located in the disaster zone and re-opened to limited ship traffic by 29 March 2011.
Dams	Fujinuma Irrigation Dam	Ruptured and caused severe flooding
	Six were affected out of 252	Found shallow crack in their crests and gravity dams suffered a non-serious slope failure.
	Four dams within the quake area	Remained unreachable
Water		The number fell to 1.04 by 21 March 2011
Electricity	TEPCO, TEP, KEPCO	Rolling blackouts of three hours are expected to last until the end of April and will affect the Tokyo, Kanagwa, Estern Shizuika, Yamanashi, Chiba, Ibaraki, Saitama, Tochigi and Gunma prefectures.
Oil, Gas and Coal	Cosmo Oil Company	Set on fire by the quake and halted production due to safety check
	JX Nippon Oil and Energy	Set ablaze by the quake. An analyst estimated that consumption of various types of oil might increase by as much as 300,000 barrels per day, as back-up power plants burning fossil fuels try to compensate for the loss of 11 GW of Japan's

		nuclear power capacity. The city owned plant for importing liquefied natural gas in Sendai was severely damaged and supplies were halted for at least a month.
Transport	T hoku Expressway	The expressway did not re-open to general public use until 24 March 2011.
	Sendai Airport	Severely damaged by tsunami
	Narita and Haneda Airport	Re-opened within 24 hours
	JR East Train service	Canceled all the services for the rest of day
	T kaido Shinkansen, J etsu and Nagano shinkansen, T hoku shinkansen, Tokyo and Nasu-shibora, Akita Shinkansen, Yamagata Shinkansen	There were no derailments of Shinkansen bullet train services in out of Tokyo but their services were also suspended.
Telecommunications	Cellular and landline phones, internet services	Suffered major disruptions in the affected areas.

Sources: Compiled by the authors from various sources.

**Annex 6**

The following is a list of nuclear energy policy by country:

Country	Installation	Under Construction	Plans to Build	Plans to Phase Out	Nuclear restriction policy
Australia	no	no	no	no	yes
Albania	no	no	yes	no	no
Algeria	research only		yes		
Argentina	yes				
Armenia	yes				
Austria	no	no	no	no	1978, prolonged in 1997
Bangladesh	no				no
Belarus	no	no	yes	no	no
Belgium	yes			yes	no
Brazil	yes				
Bulgaria	yes	yes			no
Burma	no				
Chile	no	no	research is done	no	no
Croatia	no, but shared plant in Slovenia				
Denmark	no	no	no	no	1985 law prohibits production
Egypt	no	no			
Ghana	research reactor		yes		
Germany	yes	no	no	yes	no
Greece	no	no	no	no	yes
Hong Kong	no, but shared plant	no	no, but usage is planned to increase	n/a	Hong Kong has planned to increase the share of nuclear power in electricity consumption from 23 per cent in 2009 progressively to 50 per cent.
Hungary	yes			no	no
Ireland	no	no	yes		yes
Israel	no				
Italy	no (old plants are inactive)	no	yes	no	
Libya					
Lithuania	yes	no	yes	no	no

Luxembourg	no	no	no	no	no
Malta	no	no	no	no	no
Morocco	no	research	yes	no	no
Netherlands	yes	no		no	no
Nigeria	research	no	no	no	no
New Zealand	no	no	no	no	yes
Norway	no	no	no	no	yes
Portugal	no, research only	no	no	no	yes
Poland	yes	no	yes	no	no
Slovakia	yes				no
Slovenia	yes	no			no
South Africa	yes		yes		
Spain	yes				no
Syria	no				
Tunisia	no	no	yes, but not very specific		
Turkey	no	no	yes	no	no
Uruguay	no				
Venezuela	no	no	stopped after 2011 Fukushima	no	no
Vietnam			yes	no	no

Source: Compiled by the author from various sources.

*Razia Sultana*

## **POLITICAL TURMOIL IN THE MIDDLE EAST: AN OVERVIEW**

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### **Abstract**

Over the last couple of months, the Middle East has been the epicentre of turmoil. The protests for changing the long authoritarian regimes by the civilians have gradually become the flash point of crises throughout the region. After the political unrests in Tunisia and Egypt, conflicts have been spreading in different parts of the region such as Syria, Bahrain, Jordan, Morocco and more precisely in Libya. By now, the involvement of NATO including the USA and other external powers in Libya has been a food for thought for the whole world as to what is going on in this region. The overall situation raises a lot of questions regarding whether the protests would pave the way for democracy or intensify more turbulence and instability. In this backdrop, the main intention of the paper is to highlight the existing situation of the region coupled with the root causes of the conflicts as well as the implications of the crises. Given that, the paper tries to assess the future prospects of democracy in the region. Along with this discussion, the paper has also looked into the role of external powers in the crises.

### **1. Introduction**

At present, the situation in the Middle East<sup>75</sup> (ME) is very fluid and volatile. Conflicts and agitations are spreading from the ME to North Africa as the

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<sup>75</sup> There are varied opinions regarding what countries make up the ME region. According to modern definition, the ME region incorporates the countries of both Western Asia and North Africa like Egypt, Turkey, Iran, Sudan, Algeria, Morocco, Iraq, Iran, Saudi

civilians are demanding for social and political reforms, withdrawal of authoritarian rules as well as establishing democratic governments. The spark of mass protest that exploded into fire first in Tunisia has very intense and wide spread ramifications throughout the ME. Thereafter, Egypt, the biggest country in the Arab world, faced a massive demonstration commenced from 25 January 2011.<sup>76</sup> President Hosni Mubarak, in his three decades of rules, faced the stiffest challenges ever and was compelled to resign after 18 days of public protests. Following the political unrests in Egypt and Tunisia, the wave of mass demonstration is gripping across the other Arab countries including Yemen, Syria, Algeria, Iraq, Iran, Jordan, Morocco, Oman, Saudi Arabia, Bahrain and Libya.

The situations in these countries are unstable and rapidly turning into a new dimension with every passing day. What are the repercussions and post-crises scenario of the nationwide anti-government protests in the volatile countries? What explains the departure of Hosni Mubarak and Ben Ali after their long autocratic rules? What is the role of external powers, predominantly the US in the Libyan crises? What is the future of democracy especially in Egypt and other ME countries in general? These are the pertinent questions that the paper has attempted to answer. The paper argues that the sequential crises in the ME might pave the way for democracy in the region although it is rather difficult to establish and attain democracy owing to several obvious complexities.

The paper is organised in the following order. After introduction, Section 2 highlights the recent crises in the ME. Section 3 sheds light on the political regimes of the ME countries. Section 4 tries to identify the root causes of the current turmoil while Section 5 discusses its repercussions. In Section 6, the role of the USA as well as other external powers is analysed focusing on Libya. Finally, before conclusion in Section 8, Section 7 tries to foresee the prospect of democracy in the ME countries. Egypt, in particular, is focused more in the paper as it is the largest nation with 83 million population, centre of civilisation and growing economy in the region. Besides, Tunisia, Libya, Syria, Yemen, Algeria as well as other countries are also touched upon depending on the magnitude of the crises.

## 2. The Recent Crises

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Arabia, Yemen, Syria, Israel, Jordan, United Arab Emirates, Lebanon, Palestine, Kuwait, Oman, Qatar and Bahrain. The Maghreb, the western part of North Africa, encompasses five modern countries including Morocco, Algeria, Tunisia, Libya, and Mauritania as most of them are Islamic Republic. Only, Egypt is taken into account both in North Africa and the ME. See, "What countries make up the Middle East?", available at: [http://wiki.answers.com/Q/What\\_countries\\_make\\_up\\_the\\_Middle\\_East#ixzz1Jy6MOyu](http://wiki.answers.com/Q/What_countries_make_up_the_Middle_East#ixzz1Jy6MOyu), accessed on: 19 April 2011.

<sup>76</sup> *The Daily Star*, Dhaka, 26 January 2011.

The unprecedented protests actually erupted from the Tunisian uprising in December 2010 through the self-immolation of Mohamed Bouazizi. The countrywide revolt, popularly known as the “Jasmine Revolution” turned out to be the biggest uprising within three decades in Tunisia. Zine El Abidine Ben Ali, the despotic ruler of Tunisia, who dictated the country for nearly two decades since 1988, was finally forced to resign against the backdrop of massive revolutionary wave of protests. The overthrow of Ben Ali, nevertheless, was a blow which worked as an eye opener for the entire region and inspired others who wanted to oust their authoritarian regimes. Following the event, there had been an unprecedented movement of solidarity coined as ‘Lotus Revolution’/ ‘Revolution 2.0’ taking place in Egypt since the last week of January 2011. Millions of people demonstrated in the historic Tahrir (Liberation) Square, the epicentre of the revolution in Cairo, including other parts of the country viz. Alexandria, Ismailia and Suez demanding the resignation of President Mubarak. During the 18 days of blood-spattered upheaval between the pro-democracy protesters and Pro-Mubarak supporters, nearly 846 demonstrators lost their lives.<sup>77</sup> Egypt's political unrest was actively supported by Mohamed ElBaradei, former Director General of International Atomic Energy Agency (IAEA), and a pro-democracy advocate in the country. Muslim Brotherhood, the largest opposition party, also involved with the general people who unified themselves using different mediums of social network such as mobile, face book, twitter, and other electronic media. To keep his hold on power, President Mubarak reformed the cabinet wherein Mr. Omar Suleiman, the former Chief of Intelligence, was appointed as Vice President and Ahmed Shafik, the erstwhile Aviation Minister as the Prime Minister. Mr. Suleiman was highly criticised by the media as people were against this appointment.

Apart from Tunisia and Egypt, a series of demonstrations are witnessed in Algeria, Bahrain, Morocco, Yemen, Syria, and Libya while some minor and sporadic incidents took place in Iraq, Iran, Kuwait, Oman, Jordan, Saudi Arabia and other North African countries viz. Somalia and Sudan (see details in Annex 1).<sup>78</sup> Among these countries, Syria and Libya are experiencing massive anti-government demonstrations at present. In Syria, there has been an incessant state of emergency situation since 1963. Despite this, Syrian President, Bashar Al-Assad has been facing the most challenging time due to current political turmoil by the protesters. On the other hand, the spark of revolt is ignited in Libya where the current humanitarian situation is extremely dreadful. The protest is

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<sup>77</sup> Maggie Michael, “True figure for Egypt’s death toll put at 846”, available at: <http://news.scotsman.com/world/True-figure-for-Egypt39s-death.6755378.jp>, accessed on: 02 May 2011.

<sup>78</sup> Lyn Thomas, “Middle East in Revolt”, available at: <http://www.tropicpost.com/middle-east-in-revolt/>, accessed on: 23 February 2011.

unprecedented that has been expected to cause the death toll of around 10,000 to 30,000.<sup>79</sup> Notwithstanding the unsteady situation, President Colonel Muammar al-Gaddafi has announced to stay in office, leading the procession and encouraging the pro-government supporters to protest against the mass upheaval. The gradual exacerbating crisis situation brought the country in the brink of civil war. In the midst, the sending of warships from the US including the involvement of other powers and North Atlantic Treaty Organization (NATO) have created a stalemate situation.

### 3. Political Regimes in the ME Countries

It can be noted that nowhere in the world except the ME and few other countries of South East Asia (viz. Myanmar, Thailand, Indonesia, and Malaysia) endure long dictatorship even in the twenty-first century. The question remains - how the countries in this region have endured this long dictatorship? It may be pointed out that since the 1950s, the political system in Arab world is either controlled by the paternalist iron men or kings (*Emirs*) and there is no democratic practice at all. This monarchic system, however, has been gradually threatened with the change of modern world due to absence of parliamentary system which generally addresses the grievances of the greater mass. Even, there is no existence of organised political parties, and army has a strong role in Arab politics. Beginning with Tunisia, it is agreed that President Ben Ali's regime is the most tyrannical one among the Arab countries.<sup>80</sup> As shown in Annex 2, it is seen that this former General of Armed Forces, ruled the country for more than 23 years and was elected as President for 5 times with 89-99 per cent of votes every time.<sup>81</sup> Ben Ali himself amended the Constitution in 2002 to be re-elected as President with provision for holding the power for unlimited times. The rigged elections always helped him to win and he never allowed Al-Nadha, the opposition party, to come into power despite getting a majority vote.

Another worse example is Algeria where the victory of opposition party is never accepted by the ruling party despite introducing the multi-party politics in 1989. Abdelaziz Bouteflika, the ninth President of Algeria, has been ruling the country for more than a decade since 1999. His third term as President with almost 90 per cent votes in 2009 was highly criticised by the opposition party known as Socialist Forces Front (SFF) that boycotted the election alleging that it

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<sup>79</sup>Bill Corcoran, "Gaddafi vows to stay as death toll climbs in Libya", available at: <http://www.sbpost.ie/news/world/gaddafi-vows-to-stay-as-death-toll-climbs-in-libya-56017.html>, accessed on: 04 May 2011.

<sup>80</sup>*The Guardian*, UK, 15 January 2011.

<sup>81</sup>Rahnuma Ahmed, "Go, Mubarak go! USA's tottering user-friendly tyrants...", available at: <http://www.shahidulnews.com/2011/02/go-mubarak-go-usas-tottering-user-friendly-tyran>, accessed on: 25 February 2011.

was fraudulent and full of corruption. Similar event took place earlier when Algerian government hold a free and fair election in 1991. Despite the triumph of SFF, the military-political elites postponed the election staging a coup backed by the West and declared a state of emergency in 1992 which has been continuing till to date. The event, however, led to a prolonged civil war for ten years that caused the death of nearly 200,000 innocent civilians.<sup>82</sup> Likewise in Syria, after the death of Hafez al-Assad who dictated the country for long 29 years, his son Bashar al-Assad has been ruling the country for 11 years and nominated himself as the leader of Baath Party and the Army. The age for being selected as President of Syria is 40 years. Notwithstanding that, the candidate's age had been lowered to 34 for Bashar, and he was the sole candidate who had been selected as President for another 7 years in 2007.

In line with Tunisia, Algeria, and Syria, political system in Egypt is not promising, rather it has been stagnated. In 1981, after the assassination of Anwar Sadat who was the advocate of Israel-Egypt Peace Treaty, Mubarak, the Vice President of Sadat, came into power. Since 1981, President Mubarak has been extending the duration of emergency rule every three years. Like his predecessor, President Mubarak formed his own party known as National Democratic Party (NDP) and maintained an untainted monarchic political system that there was no vice president during his three decades of rule. Surprisingly, for the last 30 years, Mubarak, who was the former Head of Air Force, had clutched on to the power and won the election every time with 98 per cent votes downsizing other political parties.<sup>83</sup> During his regime, he never allowed the formation of any opposition party. Also, it is very appalling that President Mubarak preserved only 3 per cent of seats for the opposition party in the last parliamentary election in November 2010.<sup>84</sup>

Similar is the case in Yemen where President Ali Abdullah Saleh was re-elected through the first direct presidential election in September 1999. Recently, he announced to remain in power until 2013 though he was being pressurised to resign through continuous massive demonstration. During his regime, the country had been ruled by one party usually known as the General People's Congress (GPC) since 1990 when North and South Yemen were merged together. Although there remained other opposition parties, they were never allowed to come in power. In Bahrain too, the scenario is similar. 70 per cent of its demography is Shia who has been discriminated for long by the Sunni rulers.<sup>85</sup> King Sheikh Hamad bin Isa Al Khalifa nominated from the Sunni

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<sup>82</sup> Anwar Islam, "Beginning of the End of US Hegemony in Middle East", *The New Age*, Dhaka, 24 February 2011.

<sup>83</sup> *The Daily Star*, Dhaka, 30 January 2011.

<sup>84</sup> "Manifesto for change in Egypt", *The Daily Star*, 01 February 2011.

<sup>85</sup> Muslehuddin Ahmed, "The Middle east is now a volatile region", *The Independent*, Dhaka, 24 February 2011.

minority group has the legal authority to directly appoint the Executives (like Prime Minister and Cabinet members) and the members of Shura Council. The constitutional monarchy of King Khalifa, however, was highly criticised by the Shia as well as by the Sunni Islamic parties.

Libya is another example where the ruling party is all in all initially backed by the army. Till very recently, Libyan President Colonel Gaddafi has been one of the longest autocrat rulers in the world. Since the overthrow of monarchy in 1969, Gaddafi came into power through a military coup and has been dictating the country for the last 42 years. During his regime, he formed an atypical ruling system in which all the political parties and trade unions were banned by the 1972 Prohibition of Party Politics Act. Army is his main source of power and he started ruling the country with the formation of People's Congress where his word is considered as 'law'.<sup>86</sup>

Thus, it can be argued on the whole that the rulers in the ME have exercised despotic power which backed them to stay in power for long time. In these countries, the acts of parliaments are a mockery where the rulers have the rights to amend constitutions, dissolve legislation, and dictate judiciary according to their own will when necessary. Although the leaders of opposite political parties of these countries are eager to participate in the elections through participatory process, they were always excluded by the ruling parties considering them as state's perpetual enemies.

#### **4. Root Causes of Current Turmoil**

It may well be said that the autocratic rules, absence of democracy, nepotism as well as discrimination provided grounds for the break out of massive riots in the ME countries. Besides, the outburst of general mass in the ME is not for a particular reason, rather, it is the result of their past grievances and sufferings. In Algeria, for instance, the periodic events of demonstrations that took place in 2010 made it the most 'unhappy' country.<sup>87</sup> In each demonstration of the ME countries, the protesters have been demanding the end of autocratic rules due to their rampant corruption in a systematic manner. As shown in Table 1, among the protesting countries, corruption is widespread mostly in Libya and Yemen according to 2010 Transparency International's Corruption Perceptions Index. Tunisia, Libya and Egypt are not far behind in this regard. President Mubarak has around US\$70 billion of wealth which makes him one of the richest persons in the world.<sup>88</sup> Like President Mubarak, as is reported, President Gaddafi also

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<sup>86</sup> *The Daily Ittefaq*, (Bangla), Dhaka, 05 March 2011.

<sup>87</sup> Saïd Sadi, "The Leader of the [Rally for Culture and Democracy](http://en.wikipedia.org/wiki/2010%E2%80%932011_Algerian_protests)", available at: [http://en.wikipedia.org/wiki/2010%E2%80%932011\\_Algerian\\_protests](http://en.wikipedia.org/wiki/2010%E2%80%932011_Algerian_protests) 5/6 ref, accessed on: 18 February 2011.

<sup>88</sup> *The Guardian*, UK, 04 February 2011.

illegally consolidated several billions of resources at home and abroad depriving the citizens of his own country.

**Table1. Overall Performance of the Arab Countries**

Country	2010 Estimates		Unemployed People (1996-2005),Thousands	GDP Per Person (2008), US\$.000 Purchasing Power Parity	2010 Ranking For	
	Total Population (Million)	Percentage of Youth (under 25)			Corruption*	Freedom of Press+
Tunisia	10.4	42.1	486	8.6	59	186
Algeria	35.9	47.5	14,75	8.2	105	141
Libya	6.5	47.4	-	18.7	146	193
Yemen	24.3	65.4	469	2.9	146	173
Egypt	84.6	52.3	22,41	5.9	98	130
Syria	22.5	55.3	638	4.7	127	178
Bahrain	1.2	43.9	16	24.0	48	153

Source: “Briefing the Upheaval in Egypt: An End or Beginning?”, *The Economist*, UK, 05 February 2011; Arab Human Development Report 2009.

\*out of 178 countries, +out of 196 countries.

Apart from anarchy with rampant corruption, rising food prices, oppression, absence of freedom and existence of inequality are the other significant sources of anxieties among the general mass. Although the average Arab people are well-off, there is a huge gap between the rich and the poor, and wealth is concentrated in certain segment of the population. In Egypt for example, 40 per cent of civilian earn less than US\$ 2 a day.<sup>89</sup> In Bahrain, the widespread discrepancy between the haves and have-nots and discrimination by the Sunni rulers for years ignited the Shia uprising. The frustration regarding unemployment in these countries was so extreme that people chose self-immolation attempts as a means of protest. The glaring examples are Algerian Mohamed Aouichia and Tunisian Mohamed Bouazizi who set themselves on fire during the protests.

Moreover, the recent uprising is more of a resentment of the youth. Of the total population of each demonstrating country, around half of the population is less than 25 years old (Table1). High level of youth unemployment and their dissatisfaction is conceivably another factor that fuels the antipathy in many of these countries. In Egypt, the riot had a new dimension as the youth, in

<sup>89</sup> *The Economist*, UK, 2010, *op.cit.*

particular, led the demonstration considering that the current autocratic regime has failed to address their long standing sufferings. The fearless leadership of the youth against the rulers is indeed a psychologically crucial factor to exhilarate the revolts.

Another concomitant issue that needs to be considered behind the unprecedented uprising is “people’s power”. This can be explained from the power concepts of international relations. Joseph Nye, one of the prominent International Relations scholars, explained the change of society with two distinct power concepts popularly known as “soft power” and “hard power”.<sup>90</sup> He added another term called “smart power” where the new generation recreates themselves breaking the traditional control. In smart power, access to information is an important constituent in today’s information age. This is fully perceived throughout the ME followed by Tunisian movement where the new generation creates a political space using face book, twitter, internet and satellites what is called ‘Twitter Revolution’ or ‘Face Book Revolution’. The impacts of new technology and rise of social movement are so sturdy that these help to break the information monopolies of the autocratic rulers in the region.

## **5. Implications of Arab Uprising**

Undoubtedly, the shaking of middle class, educated class, and the digital and westernised youth have remarkably paved the way for democratic process and democratic culture. Despite the positive outcome, the unprecedented demonstrations might bring adverse social, economic and security implications in the region and beyond.

### **5.1. Social and Humanitarian**

The wave of protests has already pushed the people from one place to another. Many people from Libya, Syria, Yemen and other unstable countries have been trying to cross the border to take shelter in the neighbouring countries. Due to ongoing unrest in Libya, around 75 thousand people fled the country and more than 40 thousand people are waiting in Libya-Tunisian border.<sup>91</sup> This is increasing the refugee problem throughout the ME countries especially in Tunisia, Niger and Egypt. Due to flow of innumerable people in Libyan border areas, tension is mounting along with shortage of food, water, fuel and medicine. It is imperative to note that currently, unemployment rate and people below the poverty line in the region ranged from 8.3 to 13.4 per cent and 3.8 to 45.2 per

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<sup>90</sup> “Soft Power” denotes the non traditional forces of an actor such as culture, values, institution etc. while “hard power” refers to the military and economic forces which are used in war, coercion, deterrence and protection. For details, see, Joseph .S. Nye, *The Soft Power: The Means to Success in World Politics*, New York, Public Affairs, 2004.

<sup>91</sup> *The Daily Ittefaq*, (Bangla), Dhaka, 03 March 2011.

cent respectively.<sup>92</sup> Quite obviously, it might further increase poverty and job insecurity due to damage of infrastructure and shutdown of industries, mills and factories.

### **5.2. Security**

The internal security system has come under threat due to looting, mugging and assaulting in the conflict ridden countries. The raids on petrol stations, banks and houses are collapsing the security systems in such countries. Furthermore, it has escalated the wave of violence. In Syria, for example, the black market of arms has been enormously booming as people have been rushing to purchase light weapons from the neighbouring countries such as Lebanon to bring down the government since January 2011.<sup>93</sup> Furthermore, it has not only destabilised the internal security system but also increased regional political instability. Security analysts in this regard believe that the Middle East peace process might be under strain due to the uncertainty of acting upon the peace treaties of Israelis and the Palestinians.<sup>94</sup> As Egypt is the mediator and administrator of many negotiations between Israel and the Palestine, the peace process might be very sluggish for unlimited time. More precisely, Omar Suleiman, the former Chief of Egyptian Military Intelligence, generally persuaded the peace deal between Israel and Palestine. Therefore, absence of Mubarak regime might change the political scenario in the region and bring the ME peace process at a prolonged stalemate.

### **5.3. Economic**

The demonstrations in the ME have not only increased the unrest of domestic economy but also have an adverse impact on the world's economy. Many security experts opined that the oil price might increase faster if the passage of oil flow through the Suez Canal to the West is obstructed.<sup>95</sup> Egypt has been suffering heavily as it has to close different tourist spots. On the other hand, Libya is the fourth largest oil producing country which exports 1.2 million barrel of oil of the 1.6 million barrel of oil production each day.<sup>96</sup> Due to current political turmoil in this country, different oil companies have shut down and staffs have been evacuated, thereby impacting negatively on oil supply. Because of the destruction of oil fields in Libya and other oil producing countries, per barrel oil price went up to US\$ 117.36 which was recorded significantly higher

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<sup>92</sup> A.B.M.S. Zahur, "Exit of Hosni Mubarak", *The Daily Star*, Dhaka, 24 February 2011.

<sup>93</sup> Al Jazeera, "As Arab Spring continues, black markets boom", 14 May 2011.

<sup>94</sup> *The Daily Star*, Dhaka, 17 January 2011.

<sup>95</sup> *Ibid*, 01 February 2011.

<sup>96</sup> *Ibid*, 24 February 2011.

since the beginning of this year.<sup>97</sup> Conceivably, this oil supply disruption might swell inflation through out the world.

The blow of protests has brought huge repercussions not only on oil industry but also on manpower export sector. Indeed, the manpower exporting countries like Vietnam, India, China, as well as Bangladesh are suffering the most. For Bangladesh, the 22 Arab countries are the largest overseas employment markets of skilled and semi-skilled labours. Among these countries, Libya, Egypt, Bahrain and other nine Arab speaking countries make up almost 82 per cent of the total Bangladeshi overseas employment.<sup>98</sup> Only in Libya, around 95 thousand labourers used to work and many of them are now waiting in Tunisian border to come back home and some have already returned to Bangladesh. The fear is that the sudden return of this large number of workers might increase unemployment problem in the country and reduce remittance flow in the years to come.

## 6. Role of External Forces

The humanitarian crisis and security circumstances, as discussed above, got aggravated due to attacks and counter attacks and the harsh responses of the governments against the protesters. In Tunisia or Egypt, there is no direct foreign intervention what is somewhat perceived in Libya. While the international organisation, like the United Nations (UN) has to respect sovereignty and independence of each member country, it is the most striking thing that the external powers have got involved in Libyan crises despite having several UN authorised humanitarian and military interventions. The significant points here are: does it mean the failure of the UN to halt the humanitarian tragedy? Or, does the intervention of external power violate the sovereignty of a state? How far has the attack been justified from ethical, legal, and political points of view or from the contexts of international law and state's sovereignty?

However, on 26 February 2011, the UN Security Council (UNSC) collectively adopted resolution against Libyan President Gaddafi to impose arms embargo, call for an investigation of attacks against the civilians as well as freeze the assets of Gaddafi's family.<sup>99</sup> Notwithstanding these efforts to protect the helpless people, the involvement of the USA and its alliances in the NATO-led operation was highly debated. Though the joint operation commenced in

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<sup>97</sup> "Crude oil prices rise to new peak as Libyan crisis worsens", available at: <http://www.daybreakingnews.com/post/Crude-oil-prices-rise-Libyan-crisis-worsens.aspx>, accessed on: 04 May 2011.

<sup>98</sup> Mashiur Rahman, "Drop in ME jobs feared", *The Independent*, Dhaka, 24 February 2011.

<sup>99</sup> Iftekhhar Ahmed Chowdhury and Yang Razali Kassim, "Libya and the UN: Whose Responsibility to Protect?", Rajaratnam School of International Studies (RSIS), Nanyang Technological University, Singapore, 04 March 2011.

March 2011 by the British and French forces, the US had deliberately helped by providing the tactical supports. On the other side, Russia and China strongly opposed this intervention arguing that this sort of venture is the clear violation of the UNSC Resolution No. 1973. Considering the existing political situation, the intervention of coalition air forces in the form of enforcing no-fly zone to protect the innocent people in Libya has become a dilemma. There is a great debate whether no-fly zone initiative is a US-led venture raising the question of legitimacy. Nevertheless, it is important to ponder that the US has already involved in a number of wars in the region. Looking back to Afghanistan and Iraq, it is perceived that thousands of US troops have already been involved in these countries to conduct the operations. Many, including the Arab League opine that the intervention has been a severe attack against a Muslim country by the Western powers that might increase extremism further.<sup>100</sup>

Either in Egypt or Tunisia, the role of external power was at a very limited scale. Therefore, the response by the US in Libyan case increasingly gives birth to a question as to why did the US involve in Libya? Why not Egypt, Syria or other conflicting countries? In this regard, there might have been several strategic implications/equations for the USA to get involved in Libya. In this regard, the US President Barak Obama expressed his opinion that the main purpose is not to oust the Libyan President Gaddafi but to protect the innocent Libyan people.<sup>101</sup> Also, he justified the attack stating that his country has the moral responsibility to halt the atrocities committed by Gaddafi.

Despite the humanitarian issue, there seems to be other motivational factors for the US to get involved in Libya. President Obama has already declared that the US interest will be given utmost priority in Libya and the ME. It is important to highlight that Libya has a geo-strategic importance as it is situated in the Greater Middle East convergent with Asia, Europe and Africa. Also, it is adjacent to greater Mediterranean Sea. The country is undoubtedly very rich in oil as its contribution in world market is three times more than that of Yemen, Jordan and Sudan combined.<sup>102</sup> Perhaps, this is the most important motive for the US to intervene in the country. Whatever the motives of the USA, it is perceived that the role of this superpower is distinct and diverse in each country and the prime goal is to preserve its own interest. Against this existing setting, it is pertinent to foresee the future prospects of democracy in the entire region.

## **7. Future of Democracy in the ME**

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<sup>100</sup> Zulkifli Bin Mohamed Sultan and Muhammad Haniff Hassan, "Solving the Libyan Quagmire: Exile Option for Gaddafi?", Rajaratnam School of International Studies (RSIS), Nanyang Technological University, Singapore, 09 March 2011.

<sup>101</sup> Babjee Pothuraju, "US Role in Libya: Declining Hegemony?", Institute of Defence Studies and Analyses (IDSA), *IDSA Comment*, 10 May 2011.

<sup>102</sup> *Ibid.*

Despite the volatile situations and the intervention of external powers, the question of democracy is gaining momentum in all the protesting countries. The political turmoil in Tunisia and Egypt is almost over but democracy is yet to usher in. Therefore, the departure of President Ben Ali and Mubarak and the ending of their authoritarian rules and single party domination generated numerous questions and queries as to whether the events would really open up a new horizon of democracy in these countries? Needless to say that the future of democracy in these countries depends on various equations and preconditions as discussed below.

Firstly, the efficiency of political actors/political representatives from top to bottom is very crucial to achieve transition from authoritarianism to democracy. The responsible political actors can create a positive environment for an effective electoral democracy in which people could get sufficient control of the government policies and strategies, reflecting their needs and interests. The ME countries, however, lacked the preconditions. It cannot be denied that army is the vanguard of all the political activities in almost all these countries which are less likely to establish a conducive environment for democracy in the ME. For instance, Egypt has the world's 10<sup>th</sup> largest military force that had ruled the country since 1952. The army has always been powerful in Egypt and involved in all types of administrative and commercial activities. There was no people's participation at all. Besides, other elite groups, former cabinet members as well as bureaucrats are comprised of former army and security staffs who worked closely with the ruling cliques.<sup>103</sup> Mubarak's NDP has been recently banned. Under this circumstance, it is very difficult to project how democracy will prevail in the country where people are totally inexperienced about democratic practice?

Secondly, public trust in the political institutions is fundamental for smooth functioning of democracy. In Egypt and Tunisia, people have trust deficit in army/interim government regarding their paradoxical roles in the protests. It is doubtful whether army would arrange a free and fair election through participatory process. History shows that army did not leave power quite easily once they came in office and this was perceived earlier in Syria and Iraq. Hence, there is a concern whether history would repeat itself. Like Egypt, the role of interim government in Tunisia is very crucial to organise a fair election in July 2011 or later, elect a new government and understand the overall future direction of the country. Till now, people are sceptic of the interim government whether they might put forward their own candidates despite the pledge of Prime Minister Ghannouchi to hold new election according to Tunisian Constitution.

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<sup>103</sup> Mushahid Ali, "After the Face book Revolution, Whither Egypt?", *RSIS Commentaries*, available at: <http://www.rsis.edu.sg/publications/Perspective/RSIS0222011.pdf>, accessed on: 04 March 2011.

Thirdly, David Beetham, a political scientist, put stress on two preconditions of an electoral democracy, (i) a ‘functioning state’ which has the capacity to enforce law; and (ii) ‘agreement on nationhood’ that denotes the subjects and agents of that rule.<sup>104</sup> It goes without saying that democracy in the ME is still in a nascent stage and there is no organised democratic party either in Egypt, Libya or in Tunisia. Although the ruling parties formed different political parties from time to time, they formed those parties to preserve their own interests. Therefore, the parties do not have any particular ideology. In Egypt, President Mubarak and his predecessors viz Gamal Abdel Naser and Anwar Saadat never allowed any political party that resulted in a political vacuum in the country. Despite that, Muslim Brotherhood, the banned Islamic ideologist and non-violent group (since 1950s) has been trying to become more organised and has played a greater role in the recent turmoil in order to attain peace and democracy in the country. The concern is, they also do not have any distinct political ideology or political vision. Even, they announced that they might not give any candidate for the next election giving the impression that they did not protest for occupying power. On the other hand, ElBaradei cannot be considered the representative of general people as he has been staying outside the country for long. Also, he is not involved in any political process and believes in some form of Western ideology. On the other hand, the situation of Libya, for instance, has demolished the status of a functioning state, created a social division and destroyed the sense of nationhood. These gave birth to a lot of uncertainties about who would serve on behalf of the country after Gaddafi and whether there would be any organised political party with strong leadership that could lead the country in future.

Fourthly, it is acknowledged that the external actors are very crucial as they could influence various events and decision making process. Also, the implementation of strategies depends on how far the international organisation and external powers can get involved in the respective states.<sup>105</sup> As an international actor, the role of the US coupled with its regional strategy is pivotal to predict the future of democracy in the region. Egypt is the cornerstone of the US policy in the ME while Tunisia is strongly backed by this super power. Therefore, real change of regime in these countries might depend on the interests of the US. President Mubarak, for example, has been a trusted partner of anti-terrorist campaign of the US for a decade. Hence, the US is calculating how to accommodate with the change of Arab world. The key question here is power. In addition, the US is the largest donor of the Egyptian economy that contributes \$1.3 billion in aid each year. It is also the largest supplier of weapons in the oil

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<sup>104</sup> David Beetham, “Structural and Cultural Preconditions of Democracy”, Society for International Development (SID), Netherlands Chapter, 2008.

<sup>105</sup> Robert, *op.cit.* Also see, Norma Osterberg-Kaufmann, “Preconditions of Democracy: The Impact of Social Capital and Communist Legacies”, Ph.D Project on *Success and Failure of Democratization Process: Two Case Studies, Albania and Croatia*, Berlin Graduate School of Social Science, Humboldt University, Berlin, Germany, (Undated).

rich ME countries.<sup>106</sup> Although President Obama requested President Mubarak for an orderly transition, the dilemma of USA in the ME might have a deep implication. The US is concerned about post Mubarak government and the future role of Muslim Brotherhood. If Muslim Brotherhood comes in power, they might hamper the US interest in the region as Hezbollah and Hamas, the non-state actors in Lebanon and Palestine, are inspired by the ideology of Muslim Brotherhood and they might regroup.<sup>107</sup> Same is also evident in Tunisia that Islamist Front led by Rashid al-Ghannushi might emerge as a strong entity that might reduce the US influence in the country.

Fifthly, Israel is the largest stakeholder in the ME region and an important factor for Egypt, Libya and Tunisia. Therefore, Israel might have intended or unintended influence in various ways and channels. Egypt shares a long border with Israel while Tunisia is its distant neighbour. On the contrary, Libya- Israel relations are cold as the former never recognised Israel as a state. Though like Libya, most of the Arab countries have bitter relations with Israel, Egypt is the first Arab nation which established diplomatic ties with this country. In 1979, Egypt signed a peace treaty<sup>108</sup> with Israel that worked smoothly during President Mubarak's regime. In the post Mubarak phase, Israel apparently wants a government which would not pose a threat to its security. This could also be the view of the US. Therefore, it is important to see how the Arab countries respond to the western demands. There has always been an apprehension that the US and Israel's desire to have such type of Egyptian government might hamper/damage the democratic process.

Finally, political consolidation such as creating democratic culture, ensuring equal participation and establishing political institutions (eg. parliament and political party) are the right paths to achieve democracy.<sup>109</sup> Also, during the transition period, the role of civil society is very pertinent as the elite groups can work as a bridge between the government party and the opposition. However, in the ME, it goes without saying that these prerequisites are completely absent. Rather, mass communication sets an example to express people's new waves of freedom and their march for democracy. Not surely, it would always be conducive and bring positive outcome in the long run. The reason is, people who became unified and expressed their solidarity via internet generated the fear that they had distinct perceptions and ideologies in absence of any strong leadership with guidelines. In case of Egypt, it is seen that the demonstrators tried to

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<sup>106</sup> Harun ur Rashid, "Tunisia and domino effect", *The Daily Star*, Dhaka, 02 February 2011. Also see, Anwar Islam, *op.cit.*

<sup>107</sup> A.B.M.S. Zahur, *op.cit.*

<sup>108</sup> According to the peace treaty, Israel returned Sinai Peninsula to Egypt and in return, Egypt agreed to demilitarise the peninsula.

<sup>109</sup> Robert Pinkney, *Democracy in the Third World* (2<sup>nd</sup> edition), Boulder, Lynne Rienner, 2004.

mobilise power and organise a social movement rather than forming a political party. Some demanded the rights of freedom of speech while others wanted to promote human and labour rights. However, without any authorisation of political party, it is very difficult to mobilise the people. Therefore, there remains a question - how the people including the youthful reformists through social networks would be organised to contribute in future democratic process and produce substitute leaders to lead the post Mubarak and Ben Ali phases.

## **8. Conclusion**

The protests from Tahrir square in Egypt to Pearl Square in Bahrain indicate that change has already started in Arab traditional politics. Undoubtedly, the stepping down of President Ben Ali or President Mubarak was a great victory for the common people though the departures of the Presidents in Egypt and Tunisia do not necessarily mean that these countries have already become democratic in true sense. Rather, it is just the beginning of the democratic process and the countries have to go a long way. In addition to that, the future of democracy will depend on the interests of the big powers, and most importantly, on the army/the interim government. If they could ensure the political and economic emancipation of the people, it is not surprising that democracy will prevail in the ME countries and people in the region will live with freedom and dignity.

**Annex 1. Overall Scenario of Major and Significant Protests in the Arab World**

Country	Protest Started/Ended	Pioneer/s of the Protest	Magnitude/Forms of the Protest	Number of Death Toll	End Result/ Outcome
<b>Tunisia</b>	18 December 2010/ 14 January 2011	Mohamed Bouazizi	Strike, riots, attack of ruling party, etc.	More than 200 People	Withdrawal of President Ben Ali, formation of new government under Prime Minister Ghannouchi
<b>Algeria</b>	28 December 2010/on going	Mohamed Aouichia, Mohsen Bouterfif	Road blocking, riots, clashes with protesters and security forces	8 People	Lifting the 19 years long State of Emergency based on the Constitution
<b>Libya</b>	13 January 2011/on going	-	Protests in Benghazi, Tripoli & other cities, attacks of administrative building	10,000 to 30,000 People	Liberation of Benghazi and other few cities, occupation of Misurata by the general mass.
<b>Yemen</b>	18 January 2011	-	Riots and conflicts between protesters and government party	More than 1400 people	President Ali Abdullah Saleh's announcement of withdrawal from power in 2013 and resignation of MPs from ruling party.
<b>Egypt</b>	25 January /12 February	Youth, April 6 Movement	Strike, riots, civil resistance	846 People	Mubarak's stepping down from power
<b>Syria</b>	26 January/Ongoing	Youths of Syria	Conflicts between Syrian police and civilians	2700 people or more	Release of Communist Labour Party Leaders, withdrawal of emergency law and resign of the government
<b>Bahrain</b>	14 February/on going	Shia leader Ibrahim Matta	Protest in Manama city and occupation of significant public places	36 people	Release of political prisoners, King Hamad's declaration of giving incentives (1,000 <i>dinars</i> ) to each family, national dialogue between general public and Crown Prince Salman and withdrawal of army from Pearl Square

Source: Compiled from different sources by the author.

**Annex 2: Overall View of Political Regimes in the Arab World**

<b>Country</b>	<b>Ruler</b>	<b>Accession Date</b>	<b>Tenure</b>	<b>Political Parties / Groups</b>	<b>2010 World Ranking for Democracy*</b>
Tunisia	Zine al-Abidine Ben Ali/ (Mohamed Ghannouchi at present)	1988	23	Al-Nahda	144
Algeria	Abdelaziz Bouteflika	1999	12	Left-wing opposition parties like The Socialist Forces Front, Salvation Front, Algerian League for the Defense of Human Rights (LADDH), Rally for Culture and Democracy (RCD), Party of Liberty and Justice (PLJ), Socialist Vanguard Party (SVP) etc.	125
Libya	Muammar Gaddafi	1969	42	Arab Socialist Union Democratic Party, Libyan National Movement, The National Front for the Salvation of Libya etc.	158
Yemen	Ali Abdullah Saleh	1978	33	General People's Congress, Al-Islah, The Yemeni Socialist Party, Arab Socialist Rebirth Party, Hizb ut-Tahrir etc.	146
Egypt	Hosni Mubarak	1981	30	Muslim Brotherhood, April-6 Movement	138
Syria	Bashar Al-Assad	2000	11	Arab Socialist Baath Party, Arab	

				Socialist Movement, Arab Socialist Union, Communist Party of Syria, Syrian Social Nationalist Party etc.	
Bahrain	Sheikh Hamad Bin Isa Al Khalifa	1999	12	Islamist Parties (Al Asalah, Al Menbar, Al Wafaq etc.); Secular Parties (Al Meethaq, Economists Bloc, National Justice Movement, etc.); Opposition Parties (Al Wafa Islamic Party, Haq Movement, Khalas Movement, etc).	122

Source: Compiled from different sources by the author, \*out of 167 countries.

*Benuka Ferdousi*

## **IMPACT OF THE GLOBAL FINANCIAL CRISIS 2007-08 ON THE US AND CHINA: IMPLICATIONS FOR GLOBAL POLITICS**

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### **Abstract**

The Global Financial Crisis 2007-08, originated from the sub-prime mortgage crisis in the US, dipped the world economy to a level worst since World War II. Both the developed and developing economies were hit by the crisis although in varying magnitudes. The present article makes an attempt to compare impact of the crisis on the US and China. It shows that China was less affected by the crisis although structural flaws have made both countries exposed to such crisis. It concludes that although the crisis will diminish the power of the US, it will neither replace the US with China as the next super-power nor lead to a bi-polar world led by the US and China; rather it will lead to a fragmented, multi-polar world.

### **1. Introduction**

The Global Financial Crisis of 2007-08, triggered by the sub-prime mortgage crisis in the US, soon spilled over other developed countries. The crisis in turn hit the real economy of the developed world as well as the developing ones depended on them. Eventually in 2009, the world economy faced recession with the lowest growth rate since World War II.<sup>110</sup> The crisis shook the foundations of the US economy, the single superpower of the present day world and the place of origin of the crisis itself. On the other hand, China, which would

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© Bangladesh Institute of International and Strategic Studies (BISS), 2011.

<sup>110</sup> International Monetary Fund, *World Economic Outlook Update*, 28 January 2009, available at: <http://www.imf.org/external/pubs/ft/weo/2009/update/01/pdf/0109.pdf>, accessed on: 12 May 2011.

<sup>2</sup> According to the forecast of Goldman Sachs.

be world's largest economy by 2050<sup>111</sup>, could not remain unscathed even though it could avoid the immediate shocks. Examining the impact of the crisis on the US and China is of great significance since they are considered to be the two most important countries in shaping the global economy as well as global politics in the foreseeable future.

Against this background, the present article makes an effort to assess the impact of the crisis on the US and China and find out its implications. The paper tries to respond to the following important questions: What was the impact of the Global Financial Crisis 2007-08 on the US and China? Is there any structural weakness in the US economy which has given rise to such a crisis? Is Chinese model of development immune from such crisis? Do the crisis give rise to any new development regarding economic and political strength/weakness of the US and China? What will be the implications of the crisis on global politics including the US and China? The article accordingly, has been divided into seven sections. After this introductory section, section 2 and 3 assess the impact of the Global Financial Crisis 2007-08 on the US and Chinese economy respectively while section 4 and 5 examine whether there is any structural flaw in the US and Chinese economy respectively which can cause the results seen during the Global Financial Crisis 2007-08. Section 6 analyses the interdependence of the two economies. Based on these analyses, section 7 attempts to analyse some implications of the financial crisis on global politics with focus on US and China. Finally, the discussion ends with some concluding remarks.

## **2. Impact of the Crisis on the US Economy**

The US economy had been growing sluggishly for a long time. Particularly, after the crash of 'dot-com' bubble, the declining trend has become more noticeable. The recession, termed as Great Recession by many, made the situation worst in six decades. In 2009, the US real GDP fell most sharply since the World War II.<sup>112</sup>

In recent years, personal consumption expenditure and private residential investment have become the two driving forces of US economic growth while private non-residential investment and exports remained undersized. During this downturn, both personal consumption expenditure and residential investment faced the deepest contraction since World War II. Non-residential investment and export also scored a record fall.<sup>113</sup> All these resulted in the record contraction of the US economy.

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<sup>112</sup> Bureau of Economic Analysis, Department of Commerce, United States, available at: <http://www.bea.gov/national/index.htm#gdp>, accessed on: 08 April 2011.

<sup>113</sup> *Ibid.*

Since the Global Financial Crisis 2007-08 was caused by the crash of housing bubble in the US, residential investment is expected to witness a boom in recent years followed by the crash. And, this is what happened in the US. Since the crash of dot-com bubble, residential investment had been growing at a much higher rate compared to non-residential investment which indicates the creation of the housing bubble. It then started falling in 2006 marking the crash of the new bubble that led to a record contraction in this sector in both 2008 and 2009.

A striking feature of the US economy was that Personal Consumption Expenditure (PCE) had been a driving force of economic growth despite the fact that US median household income is stagnant or falling over the years. A major fact behind this contradictory scenario was that the US households were maintaining their consumption by taking loans. The crash of the housing bubble reduced the US households' capacity to maintain debt-financed consumption since in recent years mortgaging house had become a significant source of loan for them. This led to the record decline of PCE during the Global Financial Crisis 2007-08.

Record fall also in the non-residential investment reflects significant loss of confidence among the US investors on the one hand and credit freeze on the other. These two factors led to halt in setting up of new firms/units, shut down of existing firms/units and reduction in production level. The significant downturn in private domestic investment had naturally reduced domestic production. Production of private goods producing industries, which accounts for about 20 per cent of GDP, reduced by 6.4 per cent (the second highest reduction since World War II) while that of private service producing industries, which is about 70 per cent of GDP, contracted by 2.1 per cent (highest contraction since World War II).<sup>114</sup>

In the US, finance sector is becoming dominant day by day and its contribution to GDP is increasing. And it is this finance sector that created the Global Financial Crisis 2007-08. It is interesting to note that finance sector registered positive growth rate in 2009 although financial institutions faced a large scale collapse during the Financial Crisis 2007-08. Several major institutions either failed, or were acquired under duress, or were subject to government takeover. These included Lehman Brothers, Merrill Lynch, Fannie Mae, Freddie Mac, Washington Mutual, Wachovia, and American International Group (AIG). However, especially after the bankruptcy of Lehman Brothers, faced with fear of credit freeze and collapse of the whole financial system, US government embarked on aggressive intervention in financial markets. As a result, finance scored well despite the collapse.

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<sup>114</sup> Bureau of Economic Analysis, available at: [http://www.bea.gov/industry/gpotables/gpo\\_action.cfm](http://www.bea.gov/industry/gpotables/gpo_action.cfm), accessed on: 08 April 2011.

Many look for the root of the Global Financial Crisis 2007-08 in the weaknesses of financial regulatory structure of the US. As the Economic Report of the President 2010 says, “the Nation’s financial regulatory structure...failed to keep up with the evolution of financial market. The current system provided too little protection for the economy from actions that could threaten financial stability and too little protection for ordinary Americans in their dealings with sophisticated and powerful financial institutions and other providers of credit.” However, it is argued here that the root of such crises lies in the structure of a developed capitalist economy.

If slump in investment and production is one important aspect of recession, another important aspect is the rise in unemployment and fall in household income. As was said before, this recession has taken a great toll on the US labour market. Unemployment rate rose to a high level (9.3 per cent in 2009) comparable only to the recession of early 1980s, taking the Great Depression as an exception.<sup>115</sup> Among the 15.4 million workers, who lost their jobs between January 2007 and December 2009, only 49 per cent were reemployed in January 2010.<sup>116</sup> What is worse, the deterioration in labour market continued even after the recession was officially over. In 2010, the unemployment rate further rose to 9.6 per cent although all other indicators showed improvement in that year. Reemploying this huge number of displaced workers and at the same time creating employment for the new entrants in labour market still remains a great challenge for the US. As in the case in output, manufacturing sector suffered most in terms of job loss too. According to a survey of the US Department of Labor, manufacturing accounted for the largest number of displaced workers and reemployment rate was also lowest for this sector.<sup>117</sup>

The recession has taken a great toll on the US household income which had been already falling since 2000. The housing bubble raised the real median family income to some extent in 2006 and 2007 but the following burst brought it down to a level lowest in the last 12 years. However, the root of the stagnant or falling household income does not lie in the recent recessions. It is rather rooted in the structure of the US economy.

Thus, the Global Financial Crisis, which almost collapsed the finance sector of the US economy, in turn hit the real economy severely in terms of output, wage and employment and caused great sufferings for the households.

### **3. Impact of the Crisis on the Chinese Economy**

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<sup>115</sup> Bureau of Labor Statistics, United States Department of Labor, available at: [http://www.bls.gov/cps/prev\\_yrs.htm](http://www.bls.gov/cps/prev_yrs.htm), accessed on: 19 April 2011.

<sup>116</sup> Bureau of Labor Statistics, United States Department of Labor, News Release, 26 August 2010, p. 3, available at: <http://www.bls.gov/news.release/pdf/disp.pdf>, accessed on: 19 April 2011.

<sup>117</sup> *Ibid.*

It was well before the Global Financial Crisis 2007-08 that many analysts predicted that by 2050 China would become the largest economy of the world surpassing the US. Growth dynamics of the two countries before and during the crisis supports the prediction. However, it should be mentioned that comparative strength of Chinese economy becomes more visible if one focuses on purchasing power instead of nominal value. Purchasing Power Parity (PPP) measurement nearly doubles the size of the Chinese economy as prices for many goods and services are significantly lower in China than in the United States and other developed countries.<sup>118</sup>

Unlike the G-8 countries including the US, instead of recession, the Global Financial Crisis cost China a drop in its double-digit growth. Nevertheless, the growth rate was close to double digit (9.2 per cent). Furthermore, in 2010, just after the crisis, China managed to achieve double-digit growth (10.3 per cent) again, and elevated its position from the third to the second largest economy of the world beating Japan. According to IMF, during the current global downturn, China will account for about 60 per cent of global growth.<sup>119</sup>

In contrast with the US, personal consumption plays a smaller role in China's economy and its share in GDP has been declining over years.<sup>120</sup> The share of investment and export in GDP are increasing at the cost of personal consumption where much of the investment is undertaken to facilitate export. In fact, three decades of reform has made China an export-led economy. Another important feature of China's economy is the dominance of Foreign Direct Investment (FDI). In China, Foreign Invested Enterprises (FIE) account for over 30 per cent of China's industrial output and over 50 per cent of her total export. Whalley and Xin estimated that these FIEs account for over 40 per cent of China's recent economic growth.<sup>121</sup> Hence, it is imperative to see the impact of the Global Financial Crisis on China's FDI and export to assess the impact of the Global Financial Crisis on her economy.

Growth rate of total investment in China dropped to some extent in 2008, but just in the next year it rebounded to a high level. But the figure of total investment does not give a clear picture of the impact of the Global Financial Crisis on China's investment, as it also includes government investment. During

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<sup>118</sup> Wayne M Morrison, "China's Economic Conditions", *CRS Report for Congress*, United States, 11 December 2009, p. 7.

<sup>119</sup> Evan S Medeiros, "Is Beijing Ready for Global Leadership?", *Current History*, Vol. 108, No. 179, September 2009, p. 254.

<sup>120</sup> Future of US-China Trade.Com, available at: <http://www.futureofuschinatrade.com/fact/us-china-trade-data-household-consumption-share-of-GDP>, accessed on: 27 April 2011.

<sup>121</sup> John Whalley and Xian Xin, "China's FDI and Non-FDI Economies and Sustainability of Future High Chinese Growth", *NBER Working Paper*, No. 12249, May 2006, p. 18.

the crisis the most prominent part of Chinese government's stimulus effort was the central government's official investment initiative.<sup>122</sup> China's investment scenario becomes different if FDI remains in focus. With a surge in global FDI flow,<sup>123</sup> China saw a record growth in FDI inflow in 2007. This record growth of China continued in 2008 despite a 16 per cent decline in global FDI flow caused by the Global Financial Crisis. But the lagged impact of diminishing global FDI on China became clear in 2009 when global FDI flow declined by another 37 per cent<sup>124</sup> while China's FDI inflow fell to the previous level of 2006.<sup>125</sup> As the global economy started to recover in 2010, global FDI flow also recovered slowly and consequently China's FDI inflow rebounded to a level much higher than 2009.<sup>126</sup>

In 2008, although China's FDI inflow kept growing, economic downturn in major destination countries cut the demand of her export drastically. As a result, Chinese export growth dropped significantly from 19.8 per cent in 2007 to 8.4 per cent in 2008. But in 2009 not only China's FDI inflow fell drastically, the major destination countries of her export also faced recession. Consequently, China witnessed a record fall in her export with a negative growth rate (-10.3 per cent).

The Global Financial Crisis 2007-08 had taken a great toll on Chinese workers, especially the more discriminated rural migrant workers. The number of export orders dropped precipitously for several months after August 2008. As a result, thousands of factories in the coastal region, especially in the Pearl River Delta were closed.<sup>127</sup> Urban registered unemployment data shows that effect of the Global Financial Crisis 2007-08 on urban workers was modest, amounted to 0.6 million jobless, while a study of China National Bureau of Statistics suggests that 23 million or 16 per cent of rural migrant workers had lost their jobs due to the Global Financial Crisis 2007-08.<sup>128</sup> The Crisis had also taken its toll on the wage of Chinese workers. It caused about 10 per cent fall in monthly

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<sup>122</sup> Barry Naughton, "In China's Economy, the State's Hand Grows Heavier", *Current History*, Vol. 108, No. 179, September 2009, p. 278.

<sup>123</sup> UNCTAD Statistics, available at: <http://unctadstat.unctad.org/TableViewer/tableView.aspx?ReportId=88>, accessed on: 05 May 2011.

<sup>124</sup> UNCTAD Press Release, 22 July 2010, available at: [http://www.unctad.org/Templates/Webflyer.asp?docID=13643&intItemID=2068 & lang=1](http://www.unctad.org/Templates/Webflyer.asp?docID=13643&intItemID=2068&lang=1), accessed on: 05 May 2011.

<sup>125</sup> World Bank.

<sup>126</sup> "Foreign investment in China hits record in 2010", *The Daily Star*, Dhaka, 19 January 2011.

<sup>127</sup> Fang Cai and Kam Wing Chan, "The Global Economic Crisis and Unemployment in China", *Eurasian Geography and Economics*, Vol. 50, No 5, 2009, p. 518.

<sup>128</sup> *Ibid.*, p. 520.

wage of a typical unskilled rural off-farm worker.<sup>129</sup> In summary, impact of the Global Financial Crisis on the Chinese economy was moderate compared to the US. But the crisis did affect the driving forces of the former which suggests that if such crises prolong, China cannot remain untouched.

#### **4. Structure of the US Economy: Is it Prone to Crises like the Global Financial Crisis 2007-08?**

##### **a. US Economy after the “Golden Age of Capitalism”**

After the golden age of capitalism in 1950s and 1960s, sluggish growth and financialisation have become the two major characteristics of the US economy, the most matured centre of capitalism. To many, this was of no surprise. Decades back, Keynes developed his theory of potential volatility of investment and of the potential instability of the capitalist growth process. For Keynes, any factor that “affect the expected rate of profit on investment and the degree of confidence with which the expectation is held”, affects the level of investment.<sup>130</sup> Hence, building up of overcapacity in plants, decline in relative purchasing power of the working class and the subsequent expectation of fall in aggregate demand, limited expansion of foreign market — all these can slow down the real investment in an advanced capitalist economy.

Based on the works of Keynes, Alvin Hansen developed his ‘Stagnation Thesis’ and Hymen Minsky developed ‘Financial Instability Hypothesis’. Stagnation thesis provides an explanation of the sluggish growth of the US and Financial Instability Hypothesis tries to explain financialisation of the US economy and its impacts.

For the US economy, the real investment obstructing factors, identified by Keynes, were evident since 1970s which were reflected by declining rate of utilisation of industrial capacity, falling share of wage and salary in GDP and tough competition among the advanced capitalist economies for foreign markets to sell their products.

Due to these obstructing factors, real sector investment fell on the one hand, and profit in manufacturing sector fell on the other. A number of studies suggest that this crisis of profitability in manufacturing sector led the US economy to financialisation.<sup>131</sup>

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<sup>129</sup> Jikun Huang et al, “The Impact of Global Financial Crisis on Off-farm Employment and Earning in Rural China”, *Policy Research Working Paper*, No 5439, World Bank, October 2010, p. 14.

<sup>130</sup> James R Crotty, “Marx, Keynes, and Minsky on the Instability of the Capitalist Growth Process and the Nature of Government Economic Policy”, 1986.

<sup>131</sup> Greta R Kruppner, “The Financialization of the American Economy”, *Socio Economic Review*, No 3, 2005, p.182.

### **b. Evidence of Financialisation**

Although there is not much debate about the financialisation phenomenon of the US economy, the definition of the term itself lacks a common agreement. Krippner, in “What is financialization” discusses the history of the term and pros and cons of various definitions. She defines financialisation as “a pattern of accumulation in which profit making occurs increasingly through financial channels rather than through trade and commodity production.”<sup>132</sup> In her extensive work on evidence of financialisation in the US economy, citing the works of Block, she argues that although the usual approach of identifying long term shifts in the structure of an economy is to rely on evidence on changes in employment or in the mix of goods and services produced, this approach is not appropriate to look for the rise of finance. Because “the financial sector is not employment-intensive and its ‘products’ do not show up in transparent ways in national economic statistics.”<sup>133</sup> Hence, to see the evidence of financialisation of the US economy, instead of examining the share of finance sector in GDP or employment, Krippner suggests examining “where profits are generated in the US economy?”<sup>134</sup> Supporting the argument of Krippner, Figure 1 shows the decoupling of profit from real investment in the US economy. Net private non-residential investment is falling while profit is rising. Increasing share of domestic profit of the US is, however, coming from financial sector (see Figure 2) which indicates financialisation of the US economy.

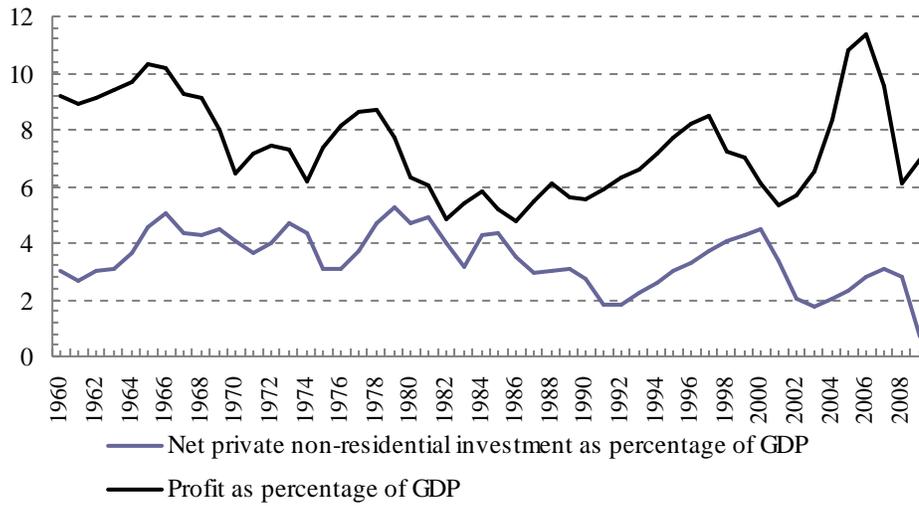
**Figure 1: Net Private Non-Residential Investment and Profit in the US, 1960-2009**

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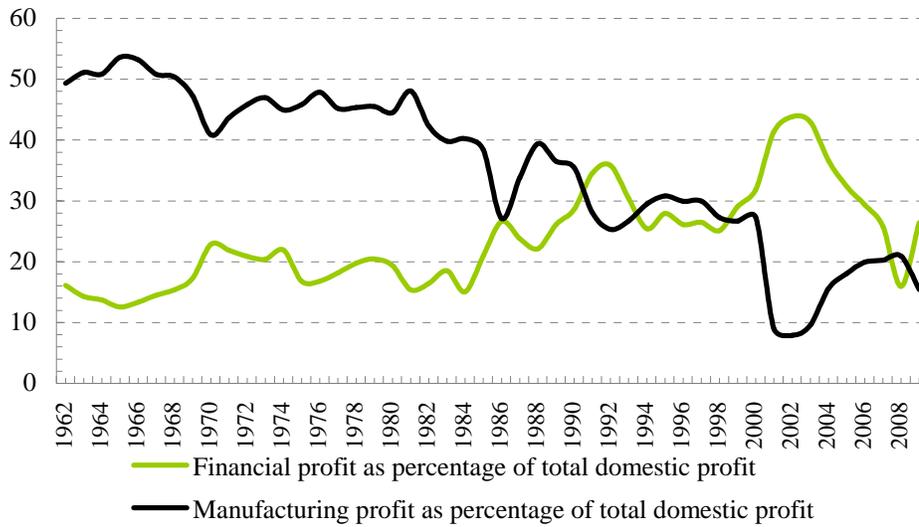
<sup>132</sup> Gerald A. Epstein, (ed.), “Introduction”, *Financialization and the World Economy*, Northampton, MA: Edward Elgar, 2005.

<sup>133</sup> Greta R Krippner, (2005), *op. cit.*, p. 175.

<sup>134</sup> *Ibid.*



**Figure 2: Financial and Manufacturing Profit in the US, 1962-2009**



**c. Impacts of Financialisation**

Thomas I Palley summarises the impacts of financialisation as follows: “(i) elevate the significance of the financial sector relative to the real sector, (ii) transfer income from the real sector to the financial sector, and (iii) increase income inequality and contribute to wage stagnation. Additionally, there are reasons to believe that financialisation may put the economy at risk of debt deflation and prolonged recession.”<sup>135</sup> Each of these issues is dealt with in subsequent paragraphs.

### ***Impact on Real Economy***

A striking feature of the financialisation process of the US economy, as noted by Krippner, Stockhammer, Crotty and others, is that Non-Financial Corporations (NFC) are increasing their financial investment relative to real investment. A number of studies suggest that increased financial investment and increased financial profit opportunities are crowding out real investment.<sup>136</sup>

Stockhammer observes that higher financial profits together with the changes in corporate governance, led to a change in the priorities of NFC management. NFC management are giving more preference to financial investment and focusing more on short-term returns rather than long-term growth.<sup>137</sup> Crotty argues that such a view of the NFC management together with hostile product market conditions that held the profit rate of real investment down, has slowed down the rate of capital accumulation in the US compared with earlier periods.<sup>138</sup> Thus, financialisation is contributing in retarding the growth of the US real economy through crowding out real investment.

### ***Speculation, Bubbles and Crises***

Keynes, Minsky and others pointed to the inherent nature of the financial market that leads to speculation, and instability.<sup>139</sup> Keynes noted that the structure of finance periodically decouples the asset market from production

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<sup>135</sup> Thomas I. Palley, “Financialization: What it is and Why it Matters”, *Working Paper*, No. 525, The Levy Economics Institute and Economics for Democratic and Open Societies, Washington, D.C., December 2007, p. 2.

<sup>136</sup> For a detailed account of such studies, see Ozgur Orhangazi, “Financialisation and Capital Accumulation in the Non-financial Corporate Sector: A Theoretical and Empirical Investigation on the US Economy: 1973-2003”, *Cambridge Journal of Economics*, Vol. 32, No. 6, November 2008, pp. 863-886.

<sup>137</sup> Engelbert Stockhammer, “Financialisation and the Slowdown of Accumulation”, *Cambridge Journal of Economics*, Vol. 28, No. 5, September 2004, p. 727.

<sup>138</sup> James Crotty, “The Neoliberal Paradox: The Impact of Destructive Product Market Competition and ‘Modern’ Financial Markets on Nonfinancial Corporation Performance in the Neoliberal Era”, cited in Gerald A. Epstein, (ed.), *Financialization and the World Economy*, quoted in Orhangazi, *op. cit.*, p. 868.

<sup>139</sup> Gerald A. Epstein, (ed.), Introduction, *Financialization and the World Economy*, *Ibid*, 2005, p. 7.

which in turn leads to speculative bubbles followed by their inevitable bust and thus destabilise the whole economic system. The situation becomes worse when banking system also gets involve in this speculative process. He cautioned, “Speculators may do not harm as bubbles on a steady stream of enterprise. But the position is serious when enterprise becomes the bubble on a whirlpool of speculation.”

Arguing in a somewhat similar way, Paul Sweezy distinguishes modern finance from old day finance. He argues that the old day finance was a modest helper of production which generated speculative excesses in the late stages of the business cycle expansion and had no lasting effects on the structure and functioning of the economy. In contrast, the present day finance has been growing relatively independently, not in a period of expansion but in period of high level stagnation in which private industry is profitable but lacks incentives to expand. In his words, “the old structure of the economy, consisting of a production system sound by a modest financial adjunct, had given way to a new structure in which a greatly expanded financial sector had achieved a high degree of independence and sat on top of the underlying production system.”<sup>140</sup>

Data on the US economy supports this line of argument. Financial profit is increasing at a period when not only real economy is growing sluggishly but also the manufacturing sector is relatively declining. In such a situation of detachment from real economy, modern finance is increasingly depending on debts. It is in this background that debt explosion took place in the US at the same time financial profit is increased. As expected, this debt financed growth of finance periodically gave rise to speculative bubbles which eventually busted and destabilised the whole economy. Examples of such bubbles and subsequent crisis abound – savings and loan crisis in 1990s, dot-com bubble crash in 2000 and sub prime mortgage crisis in recent years.

### ***Impact on Wage and Employment***

As mentioned before, manufacturing sector in the US is facing crisis of profitability while financialisation process is crowding out real investment. All these imply less employment opportunity provided by the real sector of the economy. On the other hand, finance sector provides fewer employment as it is less employment-intensive by nature. Some analysts contend that financialisation leads to retarded wage and employment growth and increased inequality. Data on the US wage and employment growth proves this claim to be true. It is mentioned earlier that the US wage and salary as percentage of GDP is declining. Except for a small rise in the late 1990s, real wage has been sluggish for decades. In a study it was found that to compensate this stagnant income,

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<sup>140</sup> John Bellamy Foster and Fred Magdoff, *The Great Financial Crisis: Causes and Consequences* (Indian Edition), Kharagpur: India, Cornerstone Books, , 2009, p. 105.

typical (median income) household has increased its number of jobs as well as working hours. Nevertheless, the real (inflation adjusted) income of typical household fell for five years in a row through 2004.<sup>141</sup> It is interesting to note that among these five years, three years (2002-2004) were years of expansion. Moreover, this decline in real income took place at a time when the productivity of the workforce measured as output per hour went up by 15 per cent.<sup>142</sup> All these statistics indicate that the structure of the US economy is retarding the wage and employment of its workforce.

Naturally the question arises: with this stagnant or falling income, how could the US households increase consumption in such a pace that it became the driving force of the US economic growth? Is it the financial assets held by the households that helped them increase consumption despite stagnant income? The answer is: No. Data shows that in the US the richest 5 per cent population holds about 70 per cent of all financial wealth.<sup>143</sup> It means that the lion's share of financial profit fails to reach the average households. Hence, the only option left for the households is debt. The US household debt is increasing significantly since 1980s and exploded in the recent decade. Why the US households are borrowing so much? The main reason is mainly to maintain their living standard. However, part of the household debt explosion can be explained by easy access to credit and inducement of financial speculators, especially in the period after dot-com bubble crash. Another contributor to this rise of consumption is the rising income of the richest part of the population. The crises, wage cut and layoffs do not hit this richest portion. Rather, it was found that income of top 5 per cent has increased while that of all the rest quintiles have declined in 2003-04.<sup>144</sup>

Hence, it is not the over consumption of the US households which has increased the vulnerability of the economy as well as the households. Rather the structure of the US economy has pushed them into such vulnerability. The financialisation process has just aggravated the situation. Thus the economic structure of the US has made the economy prone to crises like the Global Financial Crisis 2007-08 and has left the households in a vulnerable situation.

## **5. Is China Immune from Such Crises?**

### **a. Privatisation of Chinese Economy**

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<sup>141</sup> Lawrence Mishel, *Economy Up People Down*, Economic Policy Institute, 31 August 2005, available at: [http://www.epi.org/publications/entry/webfeatures\\_econindicators\\_income20050831/](http://www.epi.org/publications/entry/webfeatures_econindicators_income20050831/), accessed on: 15 April 2011.

<sup>142</sup> *Ibid.*

<sup>143</sup> Edward N. Wolff, "Changes in Household Wealth in the 1980s and 1990s in the U.S.," in Edward N. Wolff (ed.), *International Perspectives on Household Wealth*, Elgar Publishing Ltd., 27 April 2004, p. 30, available at: <http://www.econ.nyu.edu/user/wolffe/WolffWealthTrendsApril2004.pdf>, accessed on: 16 April 2011.

<sup>144</sup> Lawrence Mishel, *Economy Up People Down*, *op. cit.*

After three decades of reform, Chinese economy now resembles more a capitalist economy than a socialist one, where almost all economic activities are now market-oriented. In 1999, China's Ministry of Finance announced a two-step reform programme to reduce the proportion of state owned shares in total capital from 62 per cent to 30 per cent.<sup>145</sup> As a result, the great majority of value added in all the important manufacturing sector is now produced by private firms while some strategic sectors like finance, energy and transportation remains to be dominated by the state.<sup>146</sup>

In contrast with the US economy, Chinese economy is characterised by low consumption and high saving which is a consequence of low income and high inequality among the households. China's household disposable income as a share of GDP fell by 5 percentage points between 1992 and 2003 and another 4 points in 2004.<sup>147</sup> On the other hand, among the East Asian countries, China recorded the second highest increase in inequality over the period from 1990s to early 2000s.<sup>148</sup> This low income coupled with insufficient government spending leads to low consumption and high saving among the Chinese households. Hence, to achieve growth, China has no alternative but to depend on foreign markets. This is a major fact behind China's adoption of export led growth model.<sup>149</sup> In China, the ratio of export to GDP increased from 16 per cent in 1990 to over 40 per cent in 2006. Even investment, the second driver of Chinese economy, is largely driven by exports as much of the Chinese investment is undertaken to facilitate export activity. According to one estimate, external demand directly and indirectly drives about 65 per cent of all domestic investment in China.<sup>150</sup>

#### **b. A Model of Dependence?**

A key feature of China's export led growth model is that it is highly dependent on foreign Trans-National Corporations (TNC). These TNCs account for 20 per cent of GDP, 57 per cent of total export, 60 per cent of total import

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<sup>145</sup> Shu Y. Ma, "China's Privatization: From Gradualism to Shock Therapy?", *Asian Survey*, Vol. 48, No. 2, March-April 2008, p. 202.

<sup>146</sup> Martin Hart-Landsberg, "The U.S. Economy and China: Capitalism, Class, and Crisis", *Monthly Review*, Vol. 61, No. 9, February 2010, available at: <http://www.monthlyreview.org/100201hart-landsberg.php>, accessed on: 12 April 2011.

<sup>147</sup> Richard Katz, "Does China Face a 'Lost Decade'?", *Current History*, Vol. 107, No. 710, September 2008, p. 271.

<sup>148</sup> Asian Development Bank, *Key Indicators 2007*, p. 4., available at: [http://www.adb.org/documents/books/key\\_indicators/2007/pdf/Key-Indicators-2007.pdf](http://www.adb.org/documents/books/key_indicators/2007/pdf/Key-Indicators-2007.pdf), accessed on: 08 April 2011.

<sup>149</sup> Richard Katz, "Does China Face a 'Lost Decade'?", *op. cit.*, p. 271-272.

<sup>150</sup> Jephraim P. Gundzik, "What a US Recession Means for China", *Asia Times Online*, 27 September 2006, available at: [http://www.atimes.com/atimes/Global\\_Economy/HI27Dj01.html](http://www.atimes.com/atimes/Global_Economy/HI27Dj01.html), accessed on: 07 May 2011.

and 66 per cent of FDI.<sup>151</sup> A number of studies suggest that TNCs have played a significant role in China's fast growth.<sup>152</sup>

Although striking, the above statistics do not give a full picture of China's dependence on TNCs. Initially, China exported mainly labour intensive low technology products such as textile and shoes. But from mid 1990s, China apparently became a major exporter of higher value added high technology products such as consumer electronics, office equipment and communication equipments. And, in the process, China became enmeshed in 'East Asian Transnational Production Network'.

TNCs operating in East Asia led China and other East Asian economies to be linked and collectively reshaped through the establishment and intensification of their cross-border production network. The cross-border production network of the TNCs led East Asian countries other than China to redirect their overall export activity away from the US and EU to China. At the same time, it led China to shift its export destination away from East Asia towards the US and EU.

In the transformation process, China has turned to the region's final production platform while other East Asian countries play the role as supplier of parts and components. To put it simply, instead of exporting final goods to the US and EU, other East Asian countries export parts and components to China. China assembles the parts with its cheap labour and export the final goods to the US and EU. Branstetter and Lardy noted that China's value addition was only 15 per cent of the value of exported electronics and information technology products.<sup>153</sup>

This transformation of export activity of China and other East Asian countries and China's role as the region's assembly platform is proved by the following two facts. First, China's increased share of the US deficit is matched by a decline in the share of the rest of East Asia.<sup>154</sup> Second, in East Asia, China is the only country that runs a regional trade deficit in parts and components.<sup>155</sup>

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<sup>151</sup> John Whalley and Xian Xin, "China's FDI and Non-FDI Economies and Sustainability of Future High Chinese Growth", *op. cit.*, p. 5, 18 & 19.

<sup>152</sup> See for details, *Ibid.*

<sup>153</sup> Lee Branstetter and Nicholas Lardy, "China's Embrace of Globalization", *NBER Working Paper* No. 12373, July 2006, p. 38, available at: <http://courses.nus.edu.sg/course/ecshua/eca5374/China%27s%20embrace%20of%20globalization.pdf>, accessed on: 10 May 2011.

<sup>154</sup> Martin Hart-Landsberg, "The U.S. Economy and China: Capitalism, Class, and Crisis", *op. cit.*

<sup>155</sup> Martin Hart-Landsberg and Paul Burkett, "China, Capitalist Accumulation, and Labor", *Monthly Review*, available at: <http://www.monthlyreview.org/0507mhlpb.htm>, accessed on: 12 April 2011.

Thus, behind the robust growth scenario, Chinese economy has become dependent on foreign countries in three ways. First, it has to depend on demand in foreign markets, especially in the US and EU, to maintain exports and overall economic growth. Ligang Liu found that a 1 per cent decline in economic growth in the US, the EU and Japan is likely to decline the growth of China by 0.73 per cent.<sup>156</sup> Second, it has to depend on foreign TNCs to run its export oriented manufacturing activity. Third, it has been stuck in TNCs' cross-border production network.

In sum, China's present growth policy has made its economy increasingly dependent on foreign capital, foreign companies and foreign markets. And this dependency has made it impossible for China to keep herself immune from crises like Global Financial Crisis 2007-08.

## 6. US-China Economic Interdependence

It is not surprising that in the globalised world, the two competitors, the US and China are economically interdependent in many ways. China is United State's second largest trading partner, its third largest export market and its largest source of import. Similarly, the US is China's second largest trading partner and second largest export destination.<sup>157</sup> US import from China provides US consumers with a variety of low-cost goods.<sup>158</sup> On the other hand, China considers US economic growth critical as economic downturn in the US is likely to reduce Chinese exports to US and thus retard China's economic growth.<sup>159</sup>

However, interdependence of these two countries goes far beyond bilateral trade relations. China has been the largest annual purchaser of the US treasury securities in recent years<sup>160</sup> which are used to finance the US federal budget deficit. China's share of total foreign holding of the US treasury securities rose to 24.3 per cent.<sup>161</sup> Such purchase of China helps the US government to finance budget deficit without increasing interest rate and thus without hampering economic activities. With continued budget deficit, the US wants China continue purchasing US securities. Even the US\$70 billion bail-out programme was built

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<sup>156</sup> Ligang Liu, "Impact of the Global Financial Crisis on China: Empirical Evidence and Policy Implications", *China and World Economy*, Vol. 17, No. 6, 2009, p.1.

<sup>157</sup> Wayne M Morrison, *China's Economic Conditions*, *op. cit.*, p. 1 & 14.

<sup>158</sup> *Ibid.*, p. 1

<sup>159</sup> Kenneth Liberthal, "The China-US Relationship Goes Global", *Current History*, Vol. 108, No. 719, September 2009, p. 245.

<sup>160</sup> Wayne M. Morrison and Mark Labonte, "China's Holdings of U.S. Securities: Implications for the U.S. Economy", *CRS Report for Congress*, 30 July 2009, p.8, available at: [http://assets.opencrs.com/rpts/RL34314\\_20090730.pdf](http://assets.opencrs.com/rpts/RL34314_20090730.pdf), accessed on: 12 April 2011.

<sup>161</sup> *Ibid.*

on the assumption that China would purchase a part of the government debt.<sup>162</sup> Hillary Rodham Clinton, the US Secretary of State stated during her visit to China in February 2009 that she appreciated greatly “the Chinese government’s continuing confidence in the United States Treasuries.” She also urged the government to continue buying the US debt.<sup>163</sup> This reflects how badly the US needs China to purchase government debt. China, however, is not purchasing the US government debt out of benevolence. It is doing so to increase its foreign exchange reserve which helps in keeping low value of RMB. Moreover, China is gaining political leverage over US through this purchase.<sup>164</sup> The US is also concerned about this fact but the country seems to have no other option, at least in present economic structure.

China is the world’s largest holder of foreign exchange reserve. It holds one third of world’s total reserve.<sup>165</sup> US’s large trade deficit with China as well as government borrowing has helped the latter to accumulate this huge reserve. Although the Chinese government does not make public the dollar composition of its reserve, many analysts estimate that the level to be around 70 per cent.<sup>166</sup> This huge dollar reserve of China has become a concern for the US. Because once China decides to change its reserve composition, huge sale of dollar would depreciate its value which will shock the US economy to a great extent. The effect on the US economy, however, will be moderate if it is done through gradual sale instead of sudden sale. Nevertheless, it remains a matter of great concern for US. However, the probability of such sudden sale is low. Because, China’s reserve has become so huge that depreciation of dollar would cause a great loss of value for China as well. Moreover, it will appreciate RMB’s value which is still very undesirable for export-dependent China.

Ironically, in recent days, huge US treasury security or dollar reserve seems to have become a headache for China itself. After the Global Financial Crisis 2007-08 has exposed the inherent instability of the US financial sector, China has become worried to some extent about the future of its huge dollar reserve.<sup>167</sup> Loss of confidence over dollar has led China to seek an alternative reserve currency. On 24 March 2009, the governor of the People’s Bank of China

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<sup>162</sup> Kenneth Liberthal, “The China-US Relationship Goes Global”, *op. cit.*, p. 246.

<sup>163</sup> Wayne M. Morrison, “China and the Global Financial Crisis: Implications for the United States”, *CRS Report for Congress*, 17 August 2009, p. 8.

<sup>164</sup> *Ibid.*, p. 9.

<sup>165</sup> *Ibid.*

<sup>166</sup> Wayne M. Morrison and Mark Labonte, *China’s Holdings of U.S. Securities: Implications for the U.S. Economy*, *op. cit.*, p. 5.

<sup>167</sup> China’s worry has got expression in the words of Chinese Premier Wen Jiabao in a news conference on 13 March 2009 – “We lent huge fund to the United States and of course we are concerned about the security of our assets and, to speak truthfully, I am a little bit worried.” Wayne M. Morrison and Mark Labonte, *China’s Holdings of U.S. Securities: Implications for the U.S. Economy*, *op. cit.*, p. 9.

published a paper where he called for replacement of US dollar as the international reserve currency with a new global system controlled by the IMF.<sup>168</sup>

## 7. Implications for Global Politics

### *Neo-liberalism is in Retreat*

During last three decades, neo-liberal policies have swept the world. “States after state... have embraced, sometimes voluntarily and in other instances in response to coercive pressure, some version of neo-liberal theory and adjusted at least some of their policies and practices accordingly.”<sup>169</sup> Neo-liberal policies is characterised by privatisation, free trade, export-led growth, financial capital mobility, cut in government expenditure, and cut in top tax rates etc. Financialisation of the US economy is one aspect of neo-liberalism while Chinese export-led growth model represents another. The US experience shows that financialisation created economic instability while China’s experience reminds about unsustainability of export dependent growth. Other developed and developing countries also had similar experience. This has raised serious criticism about neoliberalism. Many, who are not blaming capitalism itself for creating crises like the Global Financial Crisis 2007-08, are blaming neo-liberal policies for the crisis and all the human devastation it created. As Joseph Stiglitz observes, “For a quarter-century, there has been a contest among developing countries, and the losers are clear: countries that pursued neo-liberal policies not only lost the growth sweepstakes; when they did grow, the benefits accrued disproportionately to those at the top.”<sup>170</sup> Experiences of countries during the Global Financial Crisis 2007-08 are, however, neither new nor unique. Developed capitalist countries periodically face recession. For its inherent weakness, export led growth model has been proved to be unsustainable path of development.<sup>171</sup> Evidence is available in history – Germany in 1960s, Japan in 1970s, and East Asia in 1990s.<sup>172</sup> What is new this time, at least for the past few decades, is the spread and depth of the crisis. Observing all these, many believe that neo-liberalism is in retreat.<sup>173</sup> If it really happens, it might end the

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<sup>168</sup> *Ibid.*

<sup>169</sup> David Harvey, “Neo-liberalism as Creative Destruction”, *InterfacEHS*, 2006, available at: [http://www.interfacehs.sp.senac.br/images/artigos/79\\_pdf.pdf](http://www.interfacehs.sp.senac.br/images/artigos/79_pdf.pdf), accessed on: 10 May 2011.

<sup>170</sup> Joseph E. Stiglitz, “The End of Neo-liberalism?”, available at: <http://www.project-syndicate.org/commentary/stiglitz101/English>, accessed on: 10 May 2011.

<sup>171</sup> See, for details, Brian P. Klein and Kenneth Neil Cukier, “Tamed Tigers, Distressed Dragon”, *Foreign Affairs*, Vol. 88, No. 4, July-August 2009.

<sup>172</sup> Mathew J. Burrows and Jennifer Harris, “Revisiting the Future: Geopolitical Effects of the Financial Crisis”, *The Washington Quarterly*, Vol. 32, No. 2, April 2009, p. 27.

<sup>173</sup> Roger C. Altman, “Globalization in Retreat”, *Foreign Affairs*, Vol. 88, No. 4, July-August 2009, p. 5.

ideological superiority of the West, including the US. Search for a new economic structure might also bring change in global geopolitics.

### ***Further Decline in the US Hegemony***

Years before the Global Financial Crisis 2007-08, United State's hegemonic power started declining.<sup>174</sup> The Global Financial Crisis 2007-08 has accelerated the process in various ways. First, it has damaged the United States' ideological superiority by challenging the economic model it has been advocating all over the world. This has been expressed metaphorically by a Chinese leader's comment –“The teachers have some problems.”<sup>175</sup> Second, the Global Financial Crisis 2007-08 has damaged US' already weakening economic power. The US has been losing its economic primacy for years which is reflected in various economic indicators. The United States' share of global GDP and global trade has declined from 30 per cent and 16 per cent respectively in 1999 to 23 per cent and 11 per cent in 2008.<sup>176</sup> The Global Financial Crisis 2007-08 has aggravated the situation. It has injured the US economy to such an extent that it will take years to repair. This has further declined the United States' economic power which in turn has weakened her capacity to maintain her present hegemonic status. Third, the Global Financial Crisis 2007-08 has preoccupied the US with domestic economic problems like unemployment, government and household debt etc<sup>177</sup> which has limited her political scope to play the role of a global hegemon. Such was the case during recent Libya crisis where the US took a passive role although it was a matter of great interest for her. However, all these implications do not mean that the world is going to see the end of the US hegemony in near future. As Roger Altman observes, “Although the United States' capacity to lead is now diminished and will continue to be so over the medium term, none of these rising powers is capable of full leadership.”<sup>178</sup> The report *Global Trends 2025: A Transformed World*, published by the National Intelligence Council (NIC) of US also projects that by 2025, US will remain the preminent single power but its gap with others will narrow.<sup>179</sup> It also indicates further decline but not the end of US hegemonic power.

### ***China neither Capable nor Willing to Lead***

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<sup>174</sup> *Ibid.*, p. 6.

<sup>175</sup> “Capitalism at Bay”, *The Economist*, UK, 16 October 2008.

<sup>176</sup> Rosemary Foot, “China and the United States: Between Cold and Warm Peace”, *Survival*, Vol. 51, No. 6, December 2009-January 2010, p. 132.

<sup>177</sup> Roger C. Altman, “Globalization in Retreat”, *op. cit.*, p. 6.

<sup>178</sup> *Ibid.*

<sup>179</sup> Mathew J. Burrows and Jennifer Harris, “Revisiting the Future: Geopolitical Effects of the Financial Crisis”, *op. cit.*, p. 33.

There is a perception that China is going to be the next super power supplanting the US and the Global Financial Crisis 2007-08 has just accelerated the process. But various facts suggest that its probability is low, at least in near future. China is still a developing country although the most rapidly developing one. Living standard of Chinese people is far away from that of OECD countries. Although China's two digit growth rate looks lucrative, 8 per cent growth is necessary for the country only to avoid massive unemployment and resulting social unrest.<sup>180</sup> It indicates that China needs to grow far rapidly than at present to reach the level of development of the US and other OECD countries. Moreover, economic power, although a major factor, is not the only determining factor in distribution of power among countries. Other factors like ideological and intellectual superiority, military power, etc. play a vital role in attributing hegemonic power to a country. But neither China challenging the ideological superiority of the US, nor its military power is comparable with the US. Although China has increased its military budget in recent days and its military budget has become the second largest in the world, still it is one eighth of that of the US.<sup>181</sup> Hence, the prediction that China is going to be the largest economy within 2050 and the fact that the Global Financial Crisis 2007-08 has hit the US more than China do not necessarily imply transition of power from the US to China.

For decades, the primary objective of Chinese foreign policy has been to ensure peaceful development. The country does not want to challenge the current global rules, norms and institutions. Rather, it tries to master them in order to advance its interest.<sup>182</sup> While being conscious about other country's intention to contain, constrain or otherwise hinder China's development, China wants to assure international community that its growing capability will not be an obstacle to other country's economic and social development. Nevertheless, China is dissatisfied with some attributes of current status quo. But, in these cases too, Chinese response has been to leverage the current system to address the concern instead of radically challenging it.

China's worldview mentioned above along with its consciousness about its level of development has made it reluctant to act as a global leader at least for the time being.<sup>183</sup> The country is concerned that at its present stage, such proactive role would divert its economic and political resources. Example of China's reluctance to lead abound. At the Washington G-20 summit in November 2008, when the whole world was waiting to see what China would do to mitigate the devastation caused by the Global Financial Crisis 2007-08,

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<sup>180</sup> Rosemary Foot, *op.cit.*, p. 126.

<sup>181</sup> *Ibid.*, p. 133, 135.

<sup>182</sup> Evan S. Medeiros, "Is Beijing Ready for Global Leadership?", *Current History*, Vol. 108, No. 719, September 2009, p. 252.

<sup>183</sup> *Ibid.*

China's initial response was in essence "we will help the world by helping ourselves" and its 'contribution' was a 4 trillion RMB domestic stimulus package.<sup>184</sup>

### ***Is the World heading towards Multi-Polarity?***

If the US hegemony ends while China is neither capable nor willing to lead, then what shape the global politics is going to take after the Global Financial Crisis 2007-08? Based on the interdependence between the US and China, some analysts contend that there is a possibility of formation of G-2 involving the US and China. Pointing to the fact that the Global Financial Crisis 2007-08 has hit US more than China and thus brought these two countries to almost same level, they perceive that the Global Financial Crisis 2007-08 has made the formation of G-2 more plausible. But both the US and China have rejected the notion, although on different ground. Because of their economic interdependence stated above, it is unlikely for any party to challenge the other. But it is also true that they have deep rooted mistrust around various issues.

Then, the only option left is multipolarity. Most analysts predict that the future world is going to be a multipolar world. But what is the prospect of such a multipolar world? NIC's above mentioned report apprehends that "the multiplicity of actors on the international scene could either strengthen the international system, by filling gaps left by aging post-World War II institutions, or could further fragment it and incapacitate international cooperation. The diversity in both type and kind of actor raises the likelihood of fragmentation occurring over the next two decades, particularly given the wide array of transnational challenges facing the international community."<sup>185</sup> With the inherent nature of capitalism, where in most cases one can be better off at the cost of others, the second scenario, although undesirable, seems to be more likely.

### **8. Conclusion**

The article shows that the Global Financial Crisis 2007-08 has hit hard the real economy of the US, while China being dependent on foreign markets could not keep itself untouched. The analysis of the structure of these two countries suggests that vulnerabilities of these two economies, although different, lie in their present economic structures. Hence, to avoid crises like the Global Financial Crisis 2007-08 and the resulting devastations, both countries need to reconsider their present development policies. The analysis of the structure of the two economies also suggests that the Global Financial Crisis 2007-08 did not

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<sup>184</sup> *Ibid.*, p. 250.

<sup>185</sup> Mathew J. Burrows and Jennifer Harris, "Revisiting the Future: Geopolitical Effects of the Financial Crisis", *op. cit.*, p. 37.

give rise to any new trends regarding comparative strength of the US and China. It just has accelerated the past trends caused by their own economic structure. Finally, despite apparent initiatives of the international community to take concerted effort to face crises like the Global Financial Crisis 2007-08, the crisis is probably going to lead to a multi-polar and fragmented world in the future.

*Mohammad Ashique Rahman*

**UNITED STATES-PAKISTAN RELATIONS DURING  
THE MUSHARRAF REGIME: US POLICIES,  
STRATEGIES, AND THE OUTCOMES**

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## Abstract

United States-Pakistan relations and devising appropriate policy responses surfaced as one of the most critical foreign policy challenges for the United States since late 2007. The heightened US concern followed the simmering growth of suicide terrorism and extremism in Pakistan as well as the unprecedented increase in al Qaeda and the Taliban attack on the US allied forces in Afghanistan staged from the “safe haven” of Afghanistan-Pakistan border areas. Scholars, analysts and the policymakers started to venture what is wrong with US-Pakistan relations. After the tragic event of 11 September 2001, the United States renewed its relationship with Pakistan, and declared it as an “indispensable ally” against the “global war on terror”. It has also been incorporated as a “frontline state” in fighting the US-led war against terrorism in Afghanistan. Ironically, this post-11 September deep alliance between the US and Pakistan also coincided with the latest round of military dictatorship of General Pervez Musharraf in Pakistan. Therefore, a comprehensive analysis of US-Pakistan relations during the Musharraf regime might help us in explaining the problems that their bilateral relations are currently facing and may shed light in formulating future policies for Pakistan afresh. The present paper therefore, focuses on three aspects of the US-Pakistan relations during the Musharraf regime. First, it intends to assess United States’ policy objectives during the Musharraf era. Obviously, fighting and eradicating terrorism and extremism was a dominant objective, but there were other objectives as well viz., Pakistan’s and global security, nuclear non-proliferation, US’s economic and strategic opportunities in South Asia, and democracy promotion in the Muslim world. Second, an attempt is made to analyse the strategies that were followed to pursue the objectives? Economic and security assistances are well-known strategies, but, was implicit support to Musharraf’s military regime also a part of US strategy? If yes, what explains such strategy especially since it is contradictory to US’s grand strategy of democracy promotion? And finally, what results were achieved by pursuing those policies in such particular way? Therefore, the paper would seek answers to such questions: Were the policies pursued by the US appropriate? Were the ways in which they were pursued the most effective way? Is the present situation in Pakistan an outcome of wrong policies or the wrong strategies? And what explains the lack of US’ success?

### 1. Introduction

Since late 2007, foreign relations with Pakistan and devising appropriate policy responses are perhaps, the most critical foreign policy challenges faced by the United States, the sole superpower in the post Cold War era that has recently been rattled both by the act and the continuing threat of transnational terrorism. With the latest shift in the locus of transnational terrorism from Afghanistan to Afghanistan-Pakistan border, the importance of Pakistan in the ambit of US foreign relations has never been so critical. Jessica Mathews, President of the Carnegie Endowment for International Peace remarked, “Now more than ever, the fates of the United States and Pakistan are tightly intertwined. From counterterrorism to nuclear non-proliferation, effective cooperation with

Pakistan is a *sine qua non* for the success of critical US foreign policy goals.”<sup>186</sup> A more recent statement by Malou Innocent, a foreign policy analyst at the Cato Institute indicates, “For better and for worse, Pakistan will remain the fulcrum of US policy in the region –.”<sup>187</sup> On the other hand, Devin T Hagerty<sup>188</sup> in retrospect defines US-Pakistan relations as a “marriage of convenience between two incompatible states whose strategic interests suddenly converge from time to time”, and he defines the post 9/11 US-Pakistan alliance as the “third time entente”.<sup>189</sup> After the catastrophic event of 11 September 2001, Pakistan was declared as an “indispensable ally” in the war on terrorism,<sup>190</sup> during a period when the country was experiencing its fourth round of military dictatorship following a depressing decade of trial and error with democratic experiment.

The contemporary situation in Pakistan is one of the worst in its short history. Religious extremism is on the rise and can be termed as all time high, suicide terrorism - once a very rare phenomena - now becoming a daily life event for the Pakistani people, and more alarmingly the Taliban and the al Qaeda remnants having secured a safe refuge in its tribal areas popularly known as FATA (Federally Administered Tribal Areas), mounting serious offensive both against the state of Pakistan and against the Allied Forces in Afghanistan. Question can be raised as to what is wrong with Pakistan. Despite having a close relationship with a superpower throughout its history (excluding the periods of discord and antipathy), and receiving considerable aid from the same, what explains Pakistan’s current situation of a failing state? Is it because of Pakistan’s staggering failure in consolidating democracy throughout its history? Is it because the military maintained a close relationship with the Islamists to enlist their support in securing its position in the society thereby remaining in power? Or is it the relationship with the superpower itself, particularly the post 9/11 entente - to pursue the ‘war against terror’ – that is responsible for Pakistan’s disappointing demise into a very weak state?

Some analysts maintain that US policies towards Pakistan since 11 September 2001 were partially responsible in producing the current drift of the Pakistani

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<sup>186</sup> Jessica T Mathews, “Forward”, in Husain Haqqani, *Pakistan: Between Mosque and Military*, Washington, DC: Carnegie Endowment for International Peace, 2005, p.viii.

<sup>187</sup> Malou Innocent, “Pakistan and the Future of US Policy”, *Cato Institute Policy Analysis*, No. 636, April 2009, p.1.

<sup>188</sup> Devin T Hagerty, “The United States-Pakistan Entente: Third Time’s a Charm?”, in Craig Baxter (ed.), *Pakistan on the Brink: Politics, Economics, and Society*. Maryland: Lexington Books, 2004, p.1.

<sup>189</sup> *Ibid.*

<sup>190</sup> “Deepening US Engagement in Asia”, Remarks by Christina B Rocca, Assistant Secretary for South Asian Affairs, US State Department, to the American Enterprise Institute, Washington, DC, 10 October, 2002, quoted in Devin T Hagerty, *op.cit.*, p.1.

nation toward religious extremism<sup>191</sup> to such an extent that the very foundation of the country is in ruins. Since this period coincided with the military regime of General Pervez Musharraf, an analysis of US-Pakistan relations during the regime might help us in explaining some of the present predicament faced by both the USA and Pakistan. When Musharraf came to power in October 1999 through a bloodless coup d'état, the US imposed "Democracy Sanctions" on Pakistan prohibiting all US economic and military aid to Pakistan. After 9/11, 2001 all these sanctions were waived. The US also waived or rescheduled all outstanding debt of Pakistan through the World Bank and the International Monetary Fund and other debtors viz., European Union, the Asian Development Bank and Japan, followed suit. A striking fact is that the United States while formulating its policies to pursue democracy promotion all over the world, especially in the Middle East, formed a deep alliance with a military authoritarian regime in South Asia. The immediate necessity of fighting the war on terrorism in Afghanistan may warrant such alliance but again questions can be raised as to US's continued support toward the Musharraf regime even in the face of severe mass protest against the regime in late 2007. And yet the present situation in Pakistan does not indicate United States' success in pursuing its objectives. Therefore, an in-depth analysis of the US-Pakistan relations during the Musharraf regime is crucial to understanding the current challenges of their relations as well as formulating future foreign policy options for both the countries.

The present paper focuses on three aspects of the US-Pakistan relations during the Musharraf regime. First, it intends to assess United States' policy objectives during the Musharraf era. Obviously, fighting and eradicating terrorism and extremism was the dominant one, but there were other objectives viz., Pakistan's and global security, nuclear non-proliferation, US's economic and strategic opportunities in South Asia, and democracy promotion in the Muslim world.<sup>192</sup> Second, an attempt would be made to analyse the strategies that were followed to pursue the objectives? Economic and security assistances were well-known strategies, but, was implicit support to Musharraf's military regime also a part of US strategy? If yes, what explains such strategy especially since it is essentially contradictory to US's grand strategy of democracy promotion? And finally, what results were achieved by pursuing those policies in such particular way? Therefore, the paper would seek answers to the following questions: Were the policies pursued by the US appropriate? Were the ways in which they were pursued the most effective way? Is the present situation in Pakistan an outcome

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<sup>191</sup> Hassan Abbas, *Pakistan's Drift into Extremism: Allah, the Army, and America's War on Terror*, New York: M. E. Sharpe, Inc., 2005.

<sup>192</sup> See Touqir Hussain, "US-Pakistan Engagement: The War on Terrorism and Beyond", *USIP Special Report No. 145*, Washington DC: United States Institute of Peace, 2005.

of wrong policies or the wrong strategies? And what explains the lack of US' success?

To discuss these issues, the paper is divided into four sections where introduction constitutes section 1 of the paper. Section 2 discusses US-Pakistan relations from Musharraf's assumption of power till the event of 11 September 2001. Section 3 on the other hand, deliberates on their bilateral relations in the post-11 September 2001 period up to the end of General Musharraf's regime. However, section 3, commensurate with the focus of the paper – analysing the three aspects i.e., US policies and strategies towards Pakistan, and the outcomes thereof - is further divided into three sub-sections.<sup>193</sup> Sub-section 1 discusses the major US policy objectives pursued by the Bush Administration whereas sub-section 2 intends to identify the strategies that were followed by the same. In sub-section 3, an effort has been made to show the outcomes of the US policies and strategies in relation to the contemporary situation in Pakistan. This section ends with further discussion on the reasons of the outcomes i.e., reasons for the apparent failings of the United States in realising its desired objectives in Pakistan although there exist considerable disagreements among the scholars about the causes that are responsible for Pakistan's contemporary demise into a failing state.

## **2. US-Pakistan Relations from Musharraf's Accession to Power till 11 September 2001**

Pervez Musharraf was appointed Chief of Army Staff (COAS), by the Prime Minister Nawaz Sharif in October 1998. Two generals senior to General Musharraf were passed over by Nawaz Sharif on the expectation that being a Mohajir<sup>194</sup> and therefore, one with no constituency in the army – an entirely baseless myth<sup>195</sup> – Musharraf would be pliable and not be able to stage a coup in case of friction between the government and the army.

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<sup>193</sup> It is important to note that, section 2 of the paper is not divided into sub-sections in line with the three aspects of the US-Pakistan relations mainly for two reasons. First, the period covered in the section i.e., from October 1999 to 10 September 2001 is not long-enough to divide it into sub-sections corresponding the policies, strategies, and the outcomes. And secondly, the US policy towards Pakistan before 9/11 is more of a continuation of the policies pursued by the US throughout the 1990s except some new sanctions (democracy sanctions) were imposed when Musharraf came to power. However, interesting changes in US policies towards Pakistan during the Musharraf period preceding 11 September 2001 are discussed in this section of the paper.

<sup>194</sup> The term "Mohajirs" is used in Pakistan to identify the community who migrated to Pakistan during or after the Partition of India in 1947. Musharraf was born in New Delhi in August 1943, and his family moved to Pakistan on the very day of 15 August 1947. See for details, Pervez Musharraf, *In the Line of Fire: A Memoir*, New York: Free Press, 2006, pp. 11-12.

<sup>195</sup> Hassan Abbas, *op.cit.*, p.180.

The discord between Musharraf and Nawaz Sharif however, started with the 'blame game' in the aftermath of the Kargil War between India and Pakistan in May-July 1999. After occupying the Kargil heights, Pakistan could not retain it for long. The Pakistani move was matched by massive Indian military deployment backed by the Indian Air Force that created a sort of panic among the Nawaz government. Nawaz Sharif decided to withdraw and ordered the evacuation of Kargil. This withdrawal caused huge resentment all over Pakistan. Musharraf being the Army Chief could not give any excuse in public but privately blamed Nawaz Sharif for spoiling a brilliant operation. Conversely, Nawaz Sharif blamed the army, claiming that he was not even aware of the plan. This inevitably put the army and the Nawaz government on a collision course, "fuelling a spiral of mutual suspicion and distrust."<sup>196</sup>

On 12 October 1999, while General Musharraf was flying back from a trip to Sri Lanka, Nawaz Sharif sacked him and appointed General Zia-ud-din, then director general of the ISI as the new army chief. Nawaz instructed the aviation authorities not to allow the plane carrying Musharraf to land at Karachi airport. However, the army moved in, and took control of the airport. The landing of the plane in the Karachi airport ended the Sharif–Musharraf tussle and, Musharraf being the winner became the man-in-charge of Pakistan. He suspended the Parliament, the Constitution (although partially) and, pronounced himself Pakistan's new "chief executive" instead of Chief Martial Law Administrator (CMLA)<sup>197</sup>. However, the responses of the international community in general and the US in particular were not welcoming enough.

The Musharraf coup was disliked by the Clinton administration. Some Pakistani political analysts believe that Nawaz Sharif tried to dislodge Musharraf with US support and that Musharraf takeover was "the first time the army seized power without the approval of Washington."<sup>198</sup> A few weeks before the coup, the US State Department had warned that the United States would "strongly oppose" any attempt by "political and military actors" in Pakistan to take power unconstitutionally.<sup>199</sup> State Department spokesman Jamie Rubin in a briefing on 12 October 1999 confirmed this stance by saying that "we were concerned about

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<sup>196</sup> *Ibid*, p.175.

<sup>197</sup> When asked by a Journalist why he decided to call himself chief executive – an odd title for a military dictator – Musharraf answered, "for your (the media's) consumption – it's a very palatable name instead of chief martial law administrator, which is draconian in concept and name. I want to give it a civilian façade." – Ahmed Rashid, *Descent into Chaos: The US and the Disaster in Pakistan, Afghanistan, and Central Asia*, New York: Penguin Books, 2009, p.44.

<sup>198</sup> Tariq Ali, *The Clash of Fundamentalism: Crusades, Jihadis, and Modernity*, London: Verso, 2002, p.200, quoted in Hassan Abbas, *op.cit.*, p.181.

<sup>199</sup> Hassan Abbas *op.cit.* p. 180.

the extraconstitutional measures” and that “Pakistan’s constitution must be respected not only in its letter but in its spirit.”<sup>200</sup>

Consequently, the Clinton administration responded with “democracy sanctions”, invoking section 508 of the Foreign Assistance Act that prohibits all US economic and military aid toward Pakistan. Some argue that these democracy sanctions had little “immediate impact” because of the pre-existing nuclear sanctions. Hagerty nevertheless, remarked that “Pakistan felt the sting of Washington’s ire when President Clinton waived nuclear-related economic sanctions on India only two weeks after the Musharraf coup.”<sup>201</sup>

After the October 1999 coup until 10 September 2001, US policy towards Pakistan can be defined as a continuity of the 1990s. Despite Pakistan’s violation of nuclear non-proliferation related provisions and nuclear tests, for which the United States had imposed sanctions, the United States still needed Pakistan to counter the Taliban government in Afghanistan and to capture al Qaeda leader Osama bin Laden. After the August 1998 bombings of the US embassies in Kenya and Tanzania, for which Osama bin Laden was held responsible, the US increased its diplomatic pressure on the Taliban, and asked for full cooperation from Pakistan in this regard. “The Taliban were promised everything (by the US), including at times formal US recognition, if they handed over bin Laden.”<sup>202</sup>

However, in the post 1999 coup period, the Clinton administration was trying to do some damage-control in its relations to Pakistan - resulting from the nuclear-related sanctions and the recently imposed democracy sanctions - as is evident from President Clinton’s visit to Pakistan in March 2000. He met Musharraf although avoided being seen in pictures shaking hands with him. The major issues discussed were Pakistan’s foreign policy vis-à-vis the Kashmir insurgency and the Taliban policy of allowing Osama bin Laden to use Afghanistan as his base camp. It should be noted here, a month earlier, on 16 February 2000 the US distributed photos of bin Laden and offered US\$ 5 million reward for his arrest.<sup>203</sup> Musharraf was much more forthcoming on the Osama issue, although on Kashmir he was not willing to de-escalate unilaterally.

US policy towards Pakistan during the Clinton-Musharraf era, especially with regard to countering terrorism can further be explained by the US State Department’s report entitled, “Patterns of Global Terrorism – 1999”, released in

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<sup>200</sup> Quoted in *ibid*, p. 180.

<sup>201</sup> Devin T Hagerty, *op.cit.*, p. 4.

<sup>202</sup> Ahmed Rashid, *op.cit.*, p.16.

<sup>203</sup> Scott Kofmehl, “Chronology of Important Events in Pakistan”, in Craig Baxter (ed.), *Pakistan on the Brink*, *op.cit.*, p.223.

April 2000.<sup>204</sup> This report, for the first time designated South Asia as a major centre of international terrorism. The report noted that Pakistan “has tolerated terrorists living and moving freely within its territory” besides supporting “groups that engage in violence in Kashmir.”<sup>205</sup> In the report, the United States urged Musharraf regime to close certain *Madrasas* “that actually serve as conduits for terrorism.” Afghanistan was cited for helping and providing safe haven for known terrorists and for refusing to turn over Osama bin Laden.

When George W Bush came to power in January 2001, he basically followed President Clinton’s policy towards Pakistan. Moreover, Bush’s new national security team was intent on expanding the regional policy it inherited.<sup>206</sup> India’s fast-growing economy, its expanding information-technology sector, and its political stability persuaded the United States to deepen their bilateral ties with India. For its part, Pakistan was charged with not taking enough action against religious extremism. All of this came to a head just a week before 11 September 2001, when the US imposed another round of missile sanctions against Pakistan. That was the state of relationship between the United States and Pakistan till 10 September 2001. The next day, 11 September changed the course of their relationships.

Immediately after the 9/11 attacks, on 13 September 2001, Richard Armitage, US Deputy Secretary of State, handed over General Mehmood,<sup>207</sup> (who happened to be in Washington DC at the time), a one-page list of seven US demands. It categorically asked Pakistan to do the following things:

1. Stop al Qaeda operatives at its border and end all logistical support for bin Laden;
2. Give the United States blanket over flight and landing rights for all necessary military and intelligence operations;
3. Provide territorial access to US and allied military intelligence and other personnel to conduct operations against al Qaeda;
4. Provide the United States with intelligence information;
5. Continue to publicly condemn the terrorist attacks;

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<sup>204</sup>The Report is available at: [http://www.state.gov/www/global/terrorism/1999\\_report/intro.html](http://www.state.gov/www/global/terrorism/1999_report/intro.html), accessed on: August 15, 2010.

<sup>205</sup> Quoted in Hassan Abbas, *op.cit.*, p.193.

<sup>206</sup> Devin T Hagerty, *op.cit.*, p.6.

<sup>207</sup> General Mehmood Ahmad was appointed as ISI director general by Musharraf after the 1999 coup.

6. Cut off all shipments of fuel to the Taliban and stop recruits from going to Afghanistan;
7. If the evidence implicated bin Laden and al Qaeda, and the Taliban continued to harbour them, to break relations with the Taliban government.<sup>208</sup>

There was also a secret demand for US access to Pakistan's nuclear facility as noted by Tariq Ali.<sup>209</sup>

On 14 September, Musharraf convened a meeting of his nine corps commanders based around the country to discuss the US demands and the ultimatum. According to Ahmed Rashid, there was considerable disagreement in the meeting ... raising serious objections to the US demands, pointing out that Pakistan was getting nothing in return and that there would be dangerous domestic fallout.<sup>210</sup> However, Musharraf convinced his generals by saying the same words that he later said publicly, "we were on the borderline of being or not being declared a terrorist state."<sup>211</sup> This was a real possibility since India had spent years trying to persuade the US administration to declare Pakistan a state sponsor of terrorism because of its support to militants in Kashmir. On the same day, late at night, Musharraf called the then US ambassador to Pakistan Wendy Chamberlain and let her know his acceptance of all the demands. Getting Pakistan on board so swiftly was an enormous success for Powell and Armitage. Bush later said it was the most important thing Powell did after 9/11. "He single-handedly got Musharraf on board."<sup>212</sup>

Musharraf's acceptance of US demands led to the renewal of US-Pakistan relationship. Pakistan was declared "an indispensable ally" and granted some quick compensation. The United States withdrew all nuclear-related sanctions in September/October 2001. The congress passed P.L. 107-57, which waived the 'democracy sanctions' on Pakistan for FY 2002 and granted presidential authority for another waiver through FY 2003. President Bush exercised this waiver six times up until 2008, and after the 2008 elections when the "Bush administration issued an April 2008 determination that a democratically elected government had been restored in Islamabad after a 101-month hiatus"<sup>213</sup>, the

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<sup>208</sup> Tariq Ali, *The Duel: Pakistan on the Flight Path of American Power*, New York: Scribner, 2008, p.146. These demands are also included in the 9/11 Commission Report.

<sup>209</sup> *Ibid*, p.147.

<sup>210</sup> Ahmed Rashid, *op.cit.*, p.29.

<sup>211</sup> Quoted in *ibid*, p.29.

<sup>212</sup> Bob Woodward, *Bush at War*, New York: Simon & Schuster, 2002, quoted in Ahmed Rashid, *op.cit.*, p.12.

<sup>213</sup> K Alan Kronstadt, "Pakistan-US Relations", *CRS Report*, Washington DC: Congressional Research Service, 10 November 2008, p.90.

'democracy sanctions' became void. The United States also wrote off US\$ 3 billion debt that Pakistan owed, and later in 2003, President Bush pledged US\$ 3 billion aid package to Pakistan to be disbursed over five years. Apart from these immediate benefits, Pakistan since 2001 also received large amount of military and security aid that will be discussed later in the paper.

Now, a closer look at the seven-points US demands indicate that they were immediate requirements of the United States to take punitive actions against the perpetrators of the 11 September attacks, or to go for a war if the demand for handing over bin Laden was not met by the Taliban. In 2001, when the US attacked Afghanistan, the Taliban regime fell down in few weeks. It was not conceived at the time that al Qaeda could rebound and the Taliban would instigate a deadly insurgency against allied forces. Therefore, the specific demands made by the US on the eve of 11 September, were not long-term policies. But now after almost a decade-long War in Afghanistan we can make an effort to identify and analyse the policies pursued by the United States to counter the transnational terrorist threat emanating from Afghanistan and the increasing religious extremism in Pakistan.

### **3. US-Pakistan Relations in the Post-11 September 2001 period to the End of Musharraf Regime**

The United States had has numerous interests and varied foreign policy objectives for its relations with Pakistan in the post-11 September 2001 period. These have ranged from regional and global terrorism, Afghan stability, nuclear non-proliferation, democratisation and human rights protection, the Pakistan-India conflicts over Kashmir, and, social and economic development in Pakistan. However, during the Musharraf regime, three objectives viz., fighting the war against terrorism in Afghanistan, countering terrorism and religious extremism in Pakistan, and securing Pakistan's nuclear weapons emerged prominent over other objectives. These are discussed below in more detail.

#### **3.1 US Policy Objectives**

The unprecedented<sup>214</sup> attack of 11 September 2001 redefined United States foreign policy and strategic objectives. The statement, "every nation, in every

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<sup>214</sup> The September 11 attack was unprecedented only for the American people, but it should not be considered as inconceivable especially by the administration and the intelligence agencies as there were a number of intelligence reports that al Qaeda was preparing for attack on the United States. The FBI issued 216 internal threat warnings about the possibility of an attack by al Qaeda between January and September 2001, while the National Security Agency (NSA) reported 33 intercepts indicating possible al

region has a decision to make, you are either with us or you are with the terrorists”<sup>215</sup>, made the ‘global war on terror’ the United States’ defining element of bilateral relationship. Similar redefinition of foreign policy and strategic objectives occurred with regard to Pakistan.

### 3.1.1 *Fighting the War against Terrorism in Afghanistan*

After arriving at the decision that al Qaeda was responsible for the 11 September attack, the Bush administration was in disarray about how to respond. The US military was reluctant to invade Afghanistan, given the fate of the British and Soviet armies in that country during the past two centuries.<sup>216</sup> Moreover, the US Central Command or CENTCOM, which had responsibility for the Middle East region, had no ready-made plan to invade Afghanistan, and it would take weeks before it could prepare one.<sup>217</sup> On the contrary, there was this enormous urge for the “need to move swiftly. Near term target needs – go massive – sweep it all up, things related or not”.<sup>218</sup>

At this moment, the CIA planners came up with an audacious plan,<sup>219</sup> a package that involves teaming up of CIA and US Special Operations Forces with the Northern Alliance’s<sup>220</sup> ground troops. It would also combine US air power using sophisticated technology. On 15 September 2001, the CIA Director George Tenet and his aides presented the plan at a meeting at Camp David. With no other options on the table and the Pentagon having no plans to mount a full-scale invasion, Tenet’s idea was readily accepted. Bush signed an order on 17 September, giving enormous power to CIA, allowing it to conduct the war in Afghanistan. Up to US\$ 900 million was allocated to the CIA for covert operations.<sup>221</sup>

Within twenty-four hours of 11 September, the US also secured full support from its NATO allies. NATO invoked Article 5 of its constitution and declared the attack on the US as an attack on NATO. The US also received the UN

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Qaeda attacks. On July 10, the CIA prepared a briefing paper for President Bush, emphatically saying, “We believe that [bin Laden] will launch a significant terrorist attack against US and/or Israeli interests in the coming weeks...attack preparations have been made...and will occur with little or no warning.” Even on August 6, the CIA’s daily brief to the president was headlined, “Bin Laden Determined to Strike in US”. Ahmed Rashid, *op.cit.*, pp. 58-60.

<sup>215</sup> President Bush’s address to the Joint Session of the Congress on 20 September, 2001.

<sup>216</sup> Ahmed Rashid, *op.cit.*, p.61.

<sup>217</sup> *Ibid*, p.61.

<sup>218</sup> Donald Rumsfeld made the statement to his aide Stephen Cambone, quoted in *ibid*, p.64.

<sup>219</sup> Ahmed Rashid described the Plan in his book, *Descent into Chaos*, *op.cit.*, p.62.

<sup>220</sup> Northern Alliance was a group of mostly non-Pashtun tribal leaders opposed to the Taliban regime.

<sup>221</sup> Ahmed Rashid, *op.cit.*, p.62.

Security Council mandate on 28 September through the Resolution 1373, authorising the use of force against terrorists. Defence Secretary Rumsfeld received the first draft of a battle plan from General Tommy Franks, Commander of CENTCOM, on 21 September. On 2 October, President Bush approved the four-phase plan. The United States would deploy four aircraft carrier battle groups comprising thirty-two naval vessels, forty thousand soldiers and four hundred aircrafts.<sup>222</sup> Britain would deploy some eighteen ships, fifty aircrafts, and twenty thousand troops. But the real work would be done by the one hundred and fifteen CIA officers and three hundred US Special Operations Forces personnel inside Afghanistan working with the Northern Alliance's leader.<sup>223</sup> Finally, on 7 October 2001, the US initiated the Operation Enduring Freedom (OEF) in Afghanistan by launching "fifty cruise missiles and dozens of laser-guided bombs on thirty-one military targets, hitting airports, anti-aircraft defences, and radar installations around all the major cities."<sup>224</sup>

Pakistan's geographical location and its long-standing relationship with the Taliban, made it a "necessary ally" of the US in its war effort in Afghanistan. Therefore, securing Pakistan's support to fight the war against al Qaeda and its Taliban cohorts became the predominant objective of the United States. Pakistan was also one of the three countries that recognised the Taliban government in Afghanistan (the two others were Saudi Arabia and the United Arab Emirates).

However, Pakistan provided the United States significant logistical support in its war against the Taliban regime in Afghanistan. Approximately 75 per cent of US supplies in Afghanistan, including 40 per cent of the vehicle fuel, passed through or over Pakistan.<sup>225</sup> As demanded by the US, Pakistan made three air force bases, two naval bases and its airspace available to the US military, and sealed off its western border.<sup>226</sup> All these services were instrumental in staging and winning the war against the Taliban regime. Pakistan also shared intelligence with the United States – a significant contribution, since no one knew better about the Taliban than Pakistan – and helped capture and hand over al Qaeda terrorists. As Christine Fair in her monograph, *The Counterterror Coalitions: Cooperation with Pakistan and India*, noted, US officials acknowledge that "Pakistan has provided more support, captured more terrorists, and committed more troops than any other nation in the GCTF (Global Counter-terrorism Force)". Moreover, as Touqir Hussain noted, "all of the top al-Qaeda leaders captured to

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<sup>222</sup> *Ibid.*, p.74.

<sup>223</sup> *Ibid.*

<sup>224</sup> *Ibid.*, p.80.

<sup>225</sup> Jay Solomon and Yochi J Dreazen, "US Maps Scenarios for Pakistan", *The Wall Street Journal*, 16 November 2007. Quoted in Owen Bennett-Jones, "US Policy Options toward Pakistan: A Principled and Realistic Approach", The Stanley Foundation, *Policy Analysis Brief*, February 2008, p.6.

<sup>226</sup> Tauqir Hussain, *op.cit.*, p.6.

date have been apprehended in Pakistan with the government's help, while Pakistan itself has arrested more than seven hundred terror suspects",<sup>227</sup> who were alleged al Qaeda operatives.

### 3.1.2 Countering Terrorism in Pakistan

Pakistan is a home to fifty-eight religious political parties and twenty-four armed religious militias, the latter category also popularly known as jihadi groups.<sup>228</sup> The mushrooming of extreme right-wing militant organisation in Pakistan began with groups such as Harkat-ul-Jihad-i-Islami and Harkat-ul-Mujahideen in the early 1980s, which were focused on the Afghan jihad. In 1993 these groups merged to form Harkat-ul-Ansar (HUA), for directing its resources and energies supporting militancy or freedom fighters in Indian-controlled Kashmir. As these groups were ideologically associated with the Deobandi religious party, Jamiat-Ulema-i-Islam (JUI), its competitor Jamaat-i-Islami also launched its militant wing Hizb-ul-Mujahideen, to operate in Kashmir. Many other minor jihadi groups involved in the Afghan war also sprang up to establish new outfits to penetrate in Kashmir, attracting Saudi donors and ISI funding. After the Taliban ascendancy in Afghanistan, many of these militant groups, for instance, HUA although originally dedicated to the Kashmir cause, developed close ties with the Taliban and in turn with the al Qaeda. In the post-11 September period, these groups continued to support al Qaeda and the Taliban remnants, and perpetrated terrorist activities against the Pakistani state. Therefore, countering these groups and preventing them from supporting the Taliban and al Qaeda remnants have become an important foreign policy objective of the United States. Moreover, various sectarian religious groups also active in Pakistan. These groups over time developed relationship with the militant jihadi groups as well. The US has rendered considerable pressure as well as support to the Pakistani government to engage in countering these religious extremist groups and consequently end their support to the Taliban.

To counter terrorism inside Pakistan and in recognition of Pakistan's inability to respond adequately to the rising internal security threats, the United States provided considerable support to improve Pakistan's civil security infrastructure. Most of this support came in the form of law enforcement assistance and reform programmes enacted through the Department of State (DoS) and Department of Justice (DoJ). The majority of organisations operating under the DoS in providing "internal security assistance" to Pakistan, were within the purview of the Bureau of International Narcotics and Law Enforcement (INL), though several other agencies like the Office of Counterterrorism (S/CT), the Bureau of Diplomatic Security, Office of Antiterrorism Assistance (DS/ATA), and the US

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<sup>227</sup> *Ibid.*

<sup>228</sup> Hassan Abbas, *op.cit.*, p.201.

Agency for International Development (USAID) were also involved at varying levels.<sup>229</sup>

The INL initiated assistance programmes designed to strengthen control of and access to the Pakistan-Afghanistan border; to improve Pakistan's law enforcement capacity and interagency cooperation; and to bolster the country's counter-narcotics capabilities.<sup>230</sup> To attain these objectives, the INL programmes included the introduction of a computerised Personal Identification Security, Comparison and Evaluation System (PISCES), establishment of an air wing in the Ministry of Interior (MoI) in Quetta, Baluchistan, to facilitate counter-terror and counter-narcotics operations, the paving of border security roads in FATA, and basic police training and introduction of an Automated Fingerprint Identification System (AFIS).

The S/CT programmes were aimed at providing Pakistan means to decisively confront domestic extremist threats and therefore, most of the funding under these programmes were directed towards augmenting Pakistan's basic investigative capabilities. The most significant endeavour in this regard was the establishment of a dedicated Counter-terrorism Special Investigation Group (SIG) at the National Police Academy in Rawalpindi. On the other hand, the security assistance from the DoJ was provided under the International Criminal Investigative Training Assistance Program (ICITAP) and the Drug Enforcement Agency (DEA). The basic objectives of the ICITAP included enhancing border security, law enforcement reform and training, creating a national criminal database, and assistance with forensics. Training under these programmes took place in Quetta and Peshawar with emphasis on institution building within the Frontier Corps (the main security detachment in FATA), the Anti-Narcotics Force (ANF), customs intelligence agencies, and the Federal Investigative Agency (FIA).

However, in response to US objectives of countering terrorism inside Pakistan, the Musharraf government also acted upon. Five extremist groups viz., Lashkar-e-Tayyaba (guerrilla groups fighting for secession in Indian Kashmir), Jaish-e-Mohammed (Kashmiri secessionist, with close ties with the Taliban), Sipah-e-Sahaba (the most violent Sunni Muslim group), Tehrik-e-Fiqah Jafria (hardline Shia group), and Tehrik Nifaz Shariat-e-Mohammedi (TNSM) (Sunni group operating in northwest Pakistan aiming to impose Taliban-like system in

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<sup>229</sup> Shanthie D'Souza, "US-Pakistan Counter-Terrorism Cooperation: Dynamics and Challenges", *Strategic Analysis*, Vol. 30, No. 3, July 2006, p.531.

<sup>230</sup> *Ibid.*

Pakistan) were banned.<sup>231</sup> His government also stopped funding 115 *Madrasas* for their involvement in extremism and militancy.<sup>232</sup>

### 3.1.3 Securing Pakistan's Nuclear Weapons

Nuclear proliferation in South Asia has been a dominant reason for US engagement in the region since 1970s. During the period of covert nuclearisation up until 1998, the Pakistan-India nuclear arms race was the focus of US non-proliferation efforts in South Asia. In the aftermath of 11 September 2001, securing Pakistan's nuclear capability became a principal concern for United States in the region as well as for its bilateral relations with Pakistan.

However, the US administration's fear of security threats to Pakistan's nuclear arsenals was grounded mainly on two possibilities: the religious extremists' access to Pakistan's nuclear weapons and technology, and illicit proliferation from insiders. A radical Islamist take-over of the government in Pakistan has been a major concern for the United States especially after the 2002 general elections. The Muttahida Majlish-e-Amal (MMA), a coalition of six religious parties, scored victory in the western provinces of Pakistan, and formed governments in the Provinces of North West Frontier Province (NWFP) and in Baluchistan. This rise of religious parties to power raised US fear that such governments might be susceptible to their extremist sympathisers and hand over to them the state's nuclear arsenals. However, the likelihood of such scenario is remote. The MMA's victory was a temporal phenomenon, probably caused by the frustration of the people with both the politicians and the military, and therefore, an effort for giving a chance to the Islamists. Consequently, in the 2008 elections, the Islamist parties failed to make any headway and Pakistanis voted for "populist-socialist, left-of-centre political parties i.e., the Pakistan People's Party."<sup>233</sup>

Moreover, after the US offensive against the Taliban, the fear of religious extremists seeking nuclear weapons was heightened. This fear peaked during the political instabilities in Pakistan in late 2007. Faced with such political uncertainties, the US administration even feared a militant coup by the extremists and complete takeover of political power and thus of the nuclear arsenals. Moreover, as Michael Krepon, a renowned American expert on South Asian nuclearisation remarked, "a prolonged period of turbulence and infighting among the country's President, Prime Minister, and Army Chief could jeopardise the army's unity of command, which is essential for nuclear

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<sup>231</sup> Available at: <http://www.pakdef.info/forum/showthread.php?746-Data-On-Banned-Extremist-Groups&s=223a2f84344f6628e1ea3490fa01b280> accessed on: 22 August 2010.

<sup>232</sup> *Asian Age*, India, 03 June 2002.

<sup>233</sup> Malou Innocent, *op.cit.*, p.19.

security.”<sup>234</sup> The US administration also feared that the militants could manage to get their hands on a small amount of nuclear material that could then be used to make a dirty bomb.<sup>235</sup>

Fears of illicit proliferation also loomed large during the Musharraf period. The 2004 revelations about the renowned Pakistani Scientist A Q Khan running a clandestine nuclear proliferation network heightened United States’ fear about illicit proliferation from Pakistan. The US administration believed that the A Q Khan network had supplied nuclear material and technology to Libya, North Korea and Iran. Director of National Intelligence John D Negroponte in a 11 January 2007 statement to the Senate Select Committee on Intelligence remarked, “Pakistan had been a major source of nuclear proliferation until the disruption of the A Q Khan network.”<sup>236</sup> The possibility of illicit proliferation appeared especially dangerous when the US administration found intelligence that al Qaeda had also sought assistance from the Khan network. According to George Tenet, former Director of Central Intelligence Agency (CIA), the United States, “received fragmentary information from an intelligence service” that in 1998 bin Laden had “sent emissaries to establish contact” with the network.<sup>237</sup> According to a 2005 report, al Qaeda had also established “contact with Pakistani scientists who discussed development of nuclear devices that would require hard-to-obtain materials like uranium to create a nuclear explosion.”<sup>238</sup>

However, security of the nuclear assets involves mainly integrity of the command and control structure and ensuring weapon’s physical security. The Musharraf regime continued its effort to ensure the physical security of the nuclear arsenal and maintained the integrity of the command and control mechanism. To ensure physical security Pakistani authority employed the method of keeping their weapons separate from delivery systems and nuclear cores separate from their detonators. Therefore, the warheads, detonators and missiles are kept scattered across the country’s 6-10 high-security military bases with standard safeguards, such as iris scanners, code-locked doors etc. Some 10,000 military guards headed by a two-star general secure Pakistan’s nuclear facilities. To ensure the security of the command of nuclear weapon deployment the Pakistan authority employed Permissive Action Links (PALs) in 2003, which requires a code to be entered before a weapon can be detonated. And reportedly,

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<sup>234</sup> Quoted in Paul K Kerr and Mary Beth Nikitin, “Pakistan’s Nuclear Weapons: Proliferation and Security Issues”, *CRS Report*, Washington DC: Congressional Research Service, 2009 p.11.

<sup>235</sup> Owen Bennet-Jones, *op.cit.*, p.8.

<sup>236</sup> Quoted in Paul K Kerr and Mary Beth Nikitin, *op.cit.*, p.15.

<sup>237</sup> George Tenet and Bill Harlow, *At the Center of the Storm: My Years at the CIA*, New York: Harper Collins, 2007, p.261. Quoted in Paul K Kerr and Mary Beth Nikitin, *op.cit.*, p.15.

<sup>238</sup> Paul K Kerr and Mary Beth Nikitin, *op.cit.*, p.15.

Islamabad employs a system requiring that at least two, and perhaps three, people to authenticate launch codes for nuclear weapons.<sup>239</sup>

All the fears of Pakistan's nuclear arsenal falling into the hands of the extremists led the United States to extend assistance to Pakistan to ensure their security especially after 11 September 2001. Most of these assistances, whether in cash, training or technology were covert in nature. However, according to a report, Washington had spent almost US\$ 100 million in secret programmes to train Pakistani officers to secure their nuclear arsenals.<sup>240</sup> The US assistance reportedly also included the sharing of best practices and technical measures to prevent unauthorised or accidental use of nuclear weapons as well as contribute to physical security of storage facilities and personal reliability.<sup>241</sup> The PALs employed by Pakistan were also reportedly provided by the US.

### **3.2 US Strategies**

To pursue the above discussed objectives, the strategies pursued by the United States in the post-11 September 2001 period can be analysed under three headings: coercive diplomacy in the immediate aftermath of 11 September to get Pakistan on board, aid, both economic and military, to counter terrorism both in Afghanistan and Pakistan, and above all uncritical support for Musharraf's military regime. It should be noted here, the counter-terrorism strategy followed by the US with regard to Pakistan involves mostly security assistance – training, military hardware, reimbursement of security related expenses – therefore, they are discussed under the general heading of aid to Pakistan.

#### **3.2.1 Coercive Diplomacy**

Pakistan's reason for supporting the US War against terrorism in Afghanistan is substantially different than its participation in the war against Soviets in the 1980s. Pakistan's support for the United States proxy war in Afghanistan in 1980s was partly motivated by the convergence of interests of both Pakistan and the US. As Marvin Weinbaum stated, "Pakistan's determination to oppose communist domination of Afghanistan and willingness to block any Soviet military adventures represented strategic objectives convergent with those of the United States."<sup>242</sup>

On the contrary, in the immediate aftermath of the 11 September attack, the United States followed the strategy of coercive diplomacy to get Pakistan on

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<sup>239</sup> *Ibid*, p.14.

<sup>240</sup> David E Sanger and William J Broad, "US Secretly Aids Pakistan in Guarding Nuclear Arms", *The New York Times*, USA, 18 November 2007.

<sup>241</sup> Paul K Kerr and Mary Beth Nikitin, *op.cit.*, p.13.

<sup>242</sup> Marvin G Weinbaum, "Pakistan and Afghanistan: The Strategic Relationship", in *Asian Survey*, Vol. XXXI, No. 6, June 1991, p.497.

board to pursue the war against terrorism. Of all the reasons behind Musharraf's prompt consent to the seven-point US demands, the pressure and the threat of military intervention were the leading ones. If we look at the statements made by the US officials and by Musharraf himself, it becomes evident that the pressure and the threats were real.

Deputy Secretary of State, Richard Armitage, while meeting with General Mehmood and Pakistani Ambassador Maleeha Lodhi on 12 September 2001, communicated to General Mehmood that President Bush was about to make a TV address where he would say, "Either you are with us or you are with the terrorists", and Armitage asked, "Where would Pakistan Stand?". Next day, on 13 September 2001, a cabinet meeting in Washington concluded that if Pakistan did not help the United States, "it would be at risk of attack."<sup>243</sup> Moreover, Collin Powell, in the National Security Council (NSC) meeting at the White House made the statement, "We have to make it clear to Pakistan and Afghanistan, this is show time".<sup>244</sup>

The statements made by Musharraf also show the kind of pressure and threat that he had experienced during those hours. On 18 September, Musharraf argued that the decision to extend "unstinting support" to the United States was taken under tremendous pressure and in the face of fears, that in case of refusal, a direct military action by a coalition of the United States, India, and Israel against Pakistan was a real possibility.<sup>245</sup> Later in his memoir, Musharraf describes receiving a message from General Mehmood about his conversation with Deputy Secretary of State Richard Armitage, in "most undiplomatic terms....Armitage told him not only did we have to decide whether we were with America or with the terrorists, but that if we chose the terrorists, then we should be prepared to be bombed back to the Stone age".<sup>246</sup> Ashley J Tellis therefore, commented, "there is no doubt that General Musharraf initially cast his lot with the United States mainly as a result of deep fears about what U.S. enmity might imply for Pakistan's longstanding rivalry with India, its efforts at economic revival, its nuclear weapons program, and its equities in the conflict over Kashmir".<sup>247</sup>

Alexander George describes coercive diplomacy as diplomacy that "attempts to reverse actions that are already occurring or have been undertaken by an adversary."<sup>248</sup> He distinguishes this from deterrence "which attempts to dissuade

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<sup>243</sup> The 9/11 Commission Report, quoted in Ahmed Rashid, *op.cit.*, p.28.

<sup>244</sup> Bob Woodward, *op.cit.*, p.32, quoted in Hassan Abbas, *op.cit.*, p.217.

<sup>245</sup> Hassan Abbas, *op.cit.*, p.221.

<sup>246</sup> Pervez Musharraf, *In the Line of Fire*, *op.cit.*, p. 201.

<sup>247</sup> Ashley J Tellis, *Pakistan and the War on Terror: Conflicted Goals, Compromised Performance*, Washington, DC: Carnegie Endowment for International Peace, 2008, p. 3.

<sup>248</sup> Alexander George et al., *Force and Statecraft*, (4<sup>th</sup> ed.), New York: Oxford University Press, 2007, p.200.

an opponent from undertaking action that has yet been initiated.”<sup>249</sup> George further describes coercive diplomacy as “essentially a diplomatic strategy backed by the threat of force.” As our above discussion shows there were enough threats for the use of force in case of Musharraf’s non compliance and as the seven-point demands show, the US was clearly asking Pakistan to change its policy of supporting the Taliban. “In Musharraf’s own words, ‘9/11 came as a thunderbolt’ to his regime, forcing him to transform the previous policies of the state to align with US national security interests.”<sup>250</sup> Moreover, as Hassan Abbas stated, “Pakistan had taken a historical U-turn in its policy toward the Taliban by fully supporting the US military campaign.”<sup>251</sup>

All these imply Pakistan’s ‘unstinting support’ for the US-led war on terrorism in Afghanistan. Although there were some expectations of compensations in the form of grant, aid, removal of Sanctions (which the US did) and also perhaps Musharraf had a plan for himself (securing his position as a military dictator for the next six years), the existence of real threat that compelled him to acquiesce to the US demands adequately fit with the modalities of coercive diplomacy.

### 3.2.2 Aid: Economic and Security Assistances

Foreign aid has always been a widely used strategy to achieve the ends of the foreign policy of a state. David Jordon in his book *World Politics in Our Time* observes, “...to gain the objectives of the State....the more useful and the widely employed ones to attain the aims of foreign policy are the economic ones which have traditionally been used by donor or creditor countries.” However, the United States employed both economic and military aid to Pakistan to achieve its foreign policy objectives. Immediately after 11 September, the United States extended US\$ 1 billion to Pakistan. Subsequently, the removal of all sanctions enabled the Bush administration to resume its discontinued military assistance to Pakistan as well as providing aid under new programmes.

Since 2001, Pakistan has received large US assistance packages and reimbursements for militarised counterterrorism efforts. By the end of FY 2008, Pakistan had received about US\$ 12 billion, the majority of this in the form of coalition support reimbursements, with another US\$ 3.1 billion for economic purposes and nearly US\$ 2.2 billion for security-related programmes (see Table 1 in Appendix 1).<sup>252</sup> However, the most detailed and comprehensive study of US aid programmes to Pakistan since 9/11 found that the official overt aid to Pakistan “has likely been matched, if not exceeded, by classified funds that have

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<sup>249</sup> *Ibid.*

<sup>250</sup> Quoted in Farhana Ali, “US-Pakistan Cooperation: The War on Terrorism and Beyond”, *Strategic Insights*, Vol. VI, No. 4, June 2007, p.1.

<sup>251</sup> Hassan Abbas, *op.cit.*, p.222.

<sup>252</sup> Kronstadt, *op.cit.*, p.90.

gone toward intelligence and covert military action.”<sup>253</sup> Programmes in the covert funding streams include support to the Inter-Services Intelligence (ISI), training Pakistani officers in nuclear safety, and cash payments to tribal leaders hired to fight al Qaeda elements in their areas.<sup>254</sup> Therefore, the real figure for US aid to Pakistan since 9/11 is closer to US\$ 20 billion.<sup>255</sup> However, the overt US assistance to Pakistan is made up of four funding streams: Coalition Support Funds, Budget Support, Security Assistance, and Development Aid. The enormous amounts of resources provided to Pakistan during the Musharraf period under these four funding streams are discussed below.<sup>256</sup>

#### *Coalition Support Funds (CSF)*

Coalition Support Funds (CSF) were established by the Congress in the post-11 September 2001 period to appropriate reimbursements to Pakistan and other nations for their operational and logistical support to the US-led counterterrorism operations. As of November 2008, more than US\$ 9 billion had been appropriated or authorised for FY2002-2008 Pentagon spending for CSF for “key cooperating nations.” Although the CSF is officially not designated as assistance<sup>257</sup>, since 2001, it accounts for the bulk of US financial assistance to Pakistan. According to Pentagon documents, CSF reimbursement to Islamabad account for some US\$ 6.7 billion or an average of US\$ 79 million per month, which is also about four-fifths of the total Pentagon reimbursement for all cooperating nations.<sup>258</sup>

#### *Economic Support Funds (ESF)*

The United States provided significant amounts of assistance to Pakistan under the Economic Support Funds (ESF) programme established by the Foreign Assistance Act in the post-2001 period. Immediately following the 11 September attacks, the 2001 Emergency Supplemental Appropriations Act for Recovery from and Response to Terrorist Attacks on the United States (PL 107-38) appropriated US\$ 600 million in cash transfers for Pakistan under ESF. Upon Congress’s approval, Pakistan in the subsequent years of FY 2003 and FY 2004, used the ESF allocations to pay off about US\$ 1.5 billion of concessional debt to the US government.

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<sup>253</sup> Quoted in Owen Bennett-Jones, *op.cit.*, p.2.

<sup>254</sup> Greg Miller, “US Military Aid to Pakistan Misses Its Al Qaeda Target”, *Los Angeles Times*, USA, 5 November 2007, quoted in Owen Bennet-Jones, *op.cit.*, p.2.

<sup>255</sup> Craig Cohen, “A Perilous Course: US Strategy and Assistance to Pakistan”, *CSIS Report*, August 2007, pp. 32-33.

<sup>256</sup> Discussion on US aid to Pakistan is drawn from Kronstadt, *op.cit.*, pp. 91-94, and pp. 60-63.

<sup>257</sup> Some analysts consider CSF as security assistance.

<sup>258</sup> Kronstadt, *op.cit.*, p.93.

The US government's FY2005-FY2009 assistance plan for Pakistan included US\$ 200 million of ESF each year (two-thirds of the programme total) as "budget support" to the country to enable Islamabad "to spend additional resources on education, improving macroeconomic performance, and the quality of and access to healthcare and education."<sup>259</sup> These funds were used for goals set out by Pakistan in accordance to its Poverty Reduction Strategy Paper (PRSP). However, there were criticisms of this type of funds on the grounds that poor oversight and its inherent fungibility could allow Pakistan's military-dominated government to use them for purposes other than those intended.

### *Security Assistance*

US-Pakistan security cooperation accelerated rapidly after 2001. In 2002, the United States resumed its commercial sale of military equipment that enabled Pakistan to "refurbish at least part of its fleet of American-made F-16 fighter aircraft."<sup>260</sup> In 2004, President Bush designated Pakistan as a major non-NATO US ally in the region. In 2005, Washington announced, it was resuming sales of new F-16 fighters to Pakistan after a 16-year long interval. A high-level US-Pakistan Defence Consultative Group (DCG) – moribund from 1997 to 2001 was also revived in the post-2001 period, to discuss the modalities of US-Pakistan military cooperation, security assistance, and support for anti-terrorism activities.

Security assistance to Pakistan also included major government-to-government arms sales and grants that included items useful for counterterrorism operations as well as some heavy military hardware more suited to conventional warfare. Arms sales were made under Foreign Military Sales (FMS) account and according to Pentagon total FMS agreements with Pakistan for FY2002-FY2007 worth US\$ 4.55 billion. About three-quarters of this account consisted of in-process sales of F-16 combat aircraft and related equipment.

Since 2001, the United States has also provided US\$ 1.6 billion to Pakistan in Foreign Military Financing (FMF) to purchase US military equipment. Major purchases made by Pakistan with FMF funds include eight P-3c Orion maritime patrol aircraft (valued at US\$ 474 million), about 5,250 TOW anti-armour missiles (worth US\$ 186 million, 2007 delivered), more than 5,600 military radio sets (worth US\$ 163 million), six AN/TPS-77 surveillance radars (US\$ 100 million), and six C-130E transport aircraft (US\$ 76 million).<sup>261</sup> The FMF also included a "base programme" of US\$ 300 million per year beginning in FY2005.

Moreover, the US military grants to Pakistan have been provided under the Excess Defence Articles (EDA) programme. Major EDA grants since 2001

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<sup>259</sup> *Ibid*, p.93

<sup>260</sup> *Ibid*, p.60.

<sup>261</sup> *Ibid*, p.61.

included 14 F-16A/B combat aircraft and 16 T-37 military trainer jets.<sup>262</sup> Pakistan has also been granted 20 AH-1F Cobra attack helicopters worth US\$ 48 million (12 delivered, 8 pending refurbishment). Other security-related assistance for Pakistan included US-funded road-building projects in the North West Frontier Provinces (NWFP) and FATA region aimed at bolstering Islamabad's counterterrorism and border security efforts. Border security assistance programmes also included the supply of night-vision equipment, communication gear, protective vests, and transport helicopters and aircrafts. The United States has undertaken training programmes for Pakistan Army Air Assault units, and provided military education and training programmes to enhance professionalism of Pakistan's senior-level military officers.

### *Development Aid*

Apart from the budget support intended to provide funding for education, developmental and health-related programmes, the United States has also provided US\$ 286 million as development aid to Pakistan since 2001 (see Table 1). Other economic aid since 2001 included funding for Child Survival and Health (CSH) programme (US\$ 157 million), Human Rights and Democracy Funds (HRDF) (US\$ 17 million), and Migration and Refugee Assistance (MRA) programme (US\$ 42 million). The US also provided separate development assistance for the FATA, beginning in 2003, to improve the quality of education, develop healthcare services, and increase opportunities for economic growth. Later in FY 2007, the Bush Administration devised a new plan to devote US\$ 750 million in development aid to Pakistan's tribal areas over a five-year period. The Bush administration also pushed for establishing a Reconstruction Opportunity Zones (ROZs) in the FATA and neighbouring Afghanistan, which would provide duty-free access into the US market for certain goods produced in those areas. But the related bill failed to emerge from House Subcommittee.

It is evident from the above-mentioned aid figures that the US developmental aid to Pakistan is scanty compared to its military assistance. An analyst noted that only about one-tenth of US aid to Pakistan was being directed toward development, governance and humanitarian programmes.<sup>263</sup> Therefore, it can be argued that US aid to Pakistan in the post-2001 period had been intended to fight the war against terrorism in Afghanistan as well as assisting Pakistan in its own counterterror efforts rather than facilitating economic development in the country.

### *3.2.3 Support for General Musharraf*

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<sup>262</sup> *Ibid.*

<sup>263</sup> Craig Cohen, *op.cit.*

As discussed earlier in the paper, after the October 1999 coup the US condemned unconstitutional takeover of power by Musharraf. As a response, the Clinton administration also imposed the 'democracy sanctions'. President Clinton's visit in Pakistan for very short period of time compared to five-day stay in India, and Clinton's avoidance of not being seen as shaking hands with Musharraf are symbolic indications of the US's disapproval of Pakistan's military government. Moreover, as Ahmed Rashid pointed out, the United States did not even like Musharraf that much. "Since 1999, when Musharraf as army chief had ordered Pakistani troops into Indian Kashmir, nearly provoking a nuclear conflict, he was viewed in the West as rash, unpredictable, and easily manipulated by extremist generals."<sup>264</sup>

All these reproach and rebuke of the Musharraf regime turned into an "Our Man" approach to General Pervez Musharraf in the aftermath of the 11 September attack. Following Musharraf's acceptance of all the US demands, the Bush administration immediately waived all the nuclear-related sanctions. The Congress waived the democracy sanctions and gave the US president authority to waive these sanctions further. The removal of all these sanctions cleared the way for economic and military aid, and security assistance to Pakistan paving the inflow of billions of dollars from Washington to Islamabad after 2001.

The appeal of Musharraf to the US administration was best explained by the statement of Colin Powell, "General Musharraf is the right man in the right place at the right time".<sup>265</sup> In a similar fashion, the "9/11 Commission Report identified the government of President Musharraf as the best hope for stability in Pakistan and Afghanistan, and it recommended that the US make a long-term commitment to provide support for Islamabad".<sup>266</sup> However, a closer look reveals that support for Musharraf was dictated by many US interests.

US acceptance of the military dictatorship in Pakistan might have been dictated by its objective of maintaining the status quo. With destabilised Afghanistan, an unfriendly regime in Pakistan would be a nightmare for the US administration. Since Musharraf already showed his full allegiance to the US demands and US objectives, and the uncertainty involved in the event of a regime change especially after the 2002 elections, the US policy makers turned a blind eye to the military dictatorship of Pakistan.

The Bush administration might also had considered Musharraf more manageable than a democratically elected president who might have to pay attention to the opinion and demands of his electorate, which given the persisting anti-American

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<sup>264</sup> Ahmed Rashid, *op.cit.*, p.32.

<sup>265</sup> Sunanda Datta, "On the Slow Road to End Kashmir's Trauma", *The Straits Times* (Singapore), 24 February 2004., quoted in Abid Ullah Jan, *The Musharraf Factor: Leading Pakistan to Inevitable Demise*, Ottawa: Pragmatic Publishing, 2005, p.21.

<sup>266</sup> Kronstadt, *op.cit.*

sentiment in Pakistani society would not have coincided with the US interests. Moreover, as Malou Innocent stated, “as a matter of political expediency, coordinating issues of military intelligence and operational and tactical level planning is much simpler when done through a single authoritarian leader than with the warring factions of a dysfunctional parliament.”<sup>267</sup>

Musharraf regime was also considered as preventing *Jihadis* from getting their finger onto the trigger of the nuclear weapon. Some analysis maintains that Musharraf used his good relations with the Islamist parties as a bargaining chip with the United States. “By tolerating the MMA and keeping them politically alive as a possible alternative for Pakistan, Musharraf is adroitly passing a message to the US, that the non-military option would be much worse.”<sup>268</sup> In essence Musharraf built up the strength of the religious parties to validate the need for a military state.

However, the most disappointing factor is that throughout the Musharraf regime there was no visible and meaningful pressure from the US to revert back to democracy. The US administration adopted a long-term approach to democratic consolidation rather than designing an immediate road map for democracy in Pakistan. As stated by Assistant Secretary of State Richard Boucher in a December 2007 statement before a Senate panel:

The United States wants to see Pakistan succeed in its transition to an elected civilian-led democracy, to become a moderate, democratic, Muslim nation committed to human rights and the rule of law. All of our assistance programs are directed toward helping Pakistan achieve these goals. This is a long-term undertaking that will require years to accomplish.<sup>269</sup>

Probably this long-term approach of the Bush administration also led President Bush to waive the Democracy Sanctions every year, which sent a positive signal to the autocratic regime of General Musharraf whilst a negative signal to the people of Pakistan, who were becoming frustrated with the Musharraf dictatorship. Yet the US administration continued all the economic and military aid, which by some observers could have been used as a leverage compelling the military regime to pave the way for democracy.

The US support for Musharraf was at its worst during the Lawyer’s movement in Pakistan in June 2007 that ultimately turned into a mass uprising. There was no visible pressure from the US government on the Musharraf regime to comply with the public opinion. An article appearing in *The Washington Post* on 7 June 2007, claimed:

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<sup>267</sup> Malou Innocent, *op.cit.*, p.16.

<sup>268</sup> Ashutosh Misra, “Rise of Religious Parties in Pakistan: Causes and Prospects”, *Strategic Analysis*, Vol. 27, No. 2, April 2003, p.14.

<sup>269</sup> Quoted in Kronstadt, *op.cit.*, p.81.

The Bush administration is continuing to back [Musharraf] as he faces the most serious challenge to his eight-year dictatorship. The United States is supporting him to the hilt. The message to the Pakistani public is clear: To the Bush White House, the war on terrorism tops everything, and that includes democracy.

The US administration even remained silent and let Musharraf impose the 'emergency' in November 2007. All this support for Musharraf reflected his cooperation in fighting the war on terrorism in Afghanistan and along the Afghanistan-Pakistan border. To what extent both the US and Musharraf were successful in their objectives will be evident when we discuss the contemporary situation in Pakistan. And this discussion will also unpack the consequences or outcomes of the US policies toward Pakistan during the reign of Musharraf.

### 3.3 The Outcomes

K Alan Kronstadt, a specialist in South Asian Affairs at Congressional Research Service remarked ".....the outcomes of US policies toward Pakistan since 9/11, while not devoid of meaningful successes, have seen a failure to neutralise anti-Western militants and reduce religious extremism in that country, and a failure to contribute sufficiently to the stabilisation of neighbouring Afghanistan."<sup>270</sup> However, it might be difficult to show the exact cause and effect of the policies, strategies and the outcomes but the recent scenarios in Pakistan may be linked with the policies and strategies pursued by the US.

#### 3.3.1 Shift of centre of gravity from Afghanistan to Afghanistan-Pakistan border

The central goal of Operation Enduring Freedom (OEF), according to an Indian scholar, was "the destruction of terrorist training camps and infrastructure within Afghanistan, the neutralisation of the al Qaeda and Taliban combine, dismantling the Taliban regime, and the cessation of terrorist activities in Afghanistan."<sup>271</sup> Therefore, the operational objectives of the OEF left out a very important question, 'where would the Taliban and the al Qaeda members go (if not killed or apprehended)?' As a consequence, after the initial success of the OEF that dismantled the Taliban regime in Afghanistan, a large number of Taliban forces and al Qaeda operatives crossed the Afghanistan-Pakistan border into the FATA region of Pakistan. In fact, a large number of Taliban fighters were originated from this region of Pakistan, and their return to these ancestral lands was not surprising.<sup>272</sup> Over the next few years they regrouped, gained in strength and since 2007 have mounted an insurgency against the US and NATO allied forces in Afghanistan.

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<sup>270</sup> *Ibid.*

<sup>271</sup> Shanthie D'Souza, *op.cit.*, p.526.

<sup>272</sup> Ashley J Tellis, *op.cit.*, p.5.

The leadership of the Taliban movement even went further inside Pakistan. Although the exact location of the supreme leadership cannot be established, Afghan military and civilian intelligence officials as well as NATO commanders today believe that the *rahbari shura* (leadership council) centred on Mullah Mohammed Omar and his close associates eventually found refuge in Quetta, the largest city and capital of Pakistan's Baluchistan Province. According to Col. Chris Vernon, NATO's chief of staff for southern Afghanistan, "the thinking piece of the Taliban (operates) out of Quetta in Pakistan. It's the major headquarters – they use it to run a series of networks in Afghanistan."<sup>273</sup> These Afghanistan networks are believed to be directed by "four subsidiary *shuras* based in Quetta, Miran Shah, Peshawar, and Karachi: the first three actually control or coordinate most of the ongoing terrorist operations occurring, respectively, along the southern, central, and northern "fronts" in Afghanistan (see Figure in the Appendix 2), whereas the fourth is believed to connect the Taliban with the logistics, financial, and technical assistance conduits emanating from the wider Islamic world."<sup>274</sup>

More importantly al Qaeda had also taken up sanctuary in the FATA, particularly in South Waziristan initially. The July 2007 National Intelligence Estimate, "The Terrorist Threat to the US Homeland" concluded that al Qaeda "has protected or regenerated key elements of its homeland attack capability, including a safe haven in the Pakistan FATA, operational lieutenants, and its top leadership."<sup>275</sup>

Another group emerged as a coherent extremist grouping in late 2007 located mainly in the FATA region namely the Tehrik-i-Taliban Pakistan (TTP) under the leadership of Beitullah Mehsud. This "Pakistani Taliban" is said to have representatives from each of Pakistan's seven tribal agencies, as well as from many of the "settled" districts abutting the FATA. Its principal aims are threefold: (1) to unite disparate pro-Taliban groups active in the FATA and NWFP; (2) to assist the Afghan Taliban in its conflict across the Durand Line; and (3) to establish a Taliban-style Islamic state in Pakistan and perhaps beyond.<sup>276</sup>

The functioning of al Qaeda and the Taliban from the FATA region fairly indicates that the epicentre of transnational terrorism has essentially shifted from Afghanistan to Afghanistan-Pakistan border around the FATA region.

### 3.3.2 Rise in Religious Extremism in Pakistan

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<sup>273</sup> Quoted in *ibid.*, p.6.

<sup>274</sup> *Ibid.*

<sup>275</sup> Quoted in Alan Kronstadt, *op.cit.*, p.8.

<sup>276</sup> *Ibid.*

Religious extremism is nothing new in Pakistan. Throughout the 1990s numerous *jihadi* groups emerged in Pakistan to fight in the Kashmir insurgency against India.<sup>277</sup> A number of sectarian groups also emerged during this period, and since then have engaged in violence very often. But what is new in the post-11 September 2001 period and especially since 2007, is an unprecedented rise in suicide terrorism in Pakistan. This phenomenon was almost non-existent before 2001. Only two suicide bombings were reported in Pakistan in all of 2002; that number grew to at least 57 in 2007. Moreover, the US National Counterterrorism Center's annual report found the incidence of terrorism in Pakistan in 2007 up by 137 per cent over the previous year, with 1,335 terrorism-related deaths placing the country at third in the world, after Iraq and Afghanistan.<sup>278</sup>

This rise in the incidence of terrorism in Pakistan can directly be attributed to the shift in the 'centre of gravity' of transnational terrorism from Afghanistan to Afghanistan-Pakistan border. There is a strong connection between the increasing US-Pakistan offensive against the al Qaeda and the Taliban remnants inside Pakistan, and the rise in terrorism in Pakistan. As Teresita Schaffer commented, "the Pakistani government's actions against the militants, however, came at the price of a sharp increase in domestic violence in Pakistan."<sup>279</sup> Al Qaeda and Taliban remnants adopted a strategy of establishing operational relations with the local Jihadi groups and together they carry out terrorist activities in Pakistan. The Tehrik-i-Taliban Pakistan (TTP) is a good example of such collusion, which emerged only in 2007, borrowing the ideologies and the objectives of the Afghan Taliban. And to pursue those objectives they are following the same terrorist strategy of al Qaeda and the Taliban, wrecking havoc in Pakistan.

The trends in the Swat region of Pakistan were another example of increasing extremism in Pakistan. Since late 2007, a "neo-Taliban" insurgency in the scenic Swat Valley just 100 miles northwest of the capital posing serious challenges for the Pakistani security forces. A radical pro-Taliban cleric, Maulana Fazlullah was leading the banned Movement for the Enforcement of Islamic Laws (TNSM) to establish a parallel government in the region. He used an unlicensed FM radio broadcast to propagate his hard-line views and inspire militants to bomb girls' schools, preventing children from getting polio vaccines (considered a Western plot to sterilise young Muslims), and blowing up video and CD shops. The government deployed 2,500 Frontier Corps soldiers to the Swat Valley and later the army took charge of the counterinsurgency effort massing about 15,000 regular troops. Instability in the Swat Valley and the military option pursued by

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<sup>277</sup> Ashley J Tellis, *op.cit.*, p.5.

<sup>278</sup> *Ibid*

<sup>279</sup> Teresita Schaffer, "US Influence on Pakistan: Can Partners Have Divergent Priorities?", *The Washington Quarterly*, Vol. 26, No. 1, Winter 2002-03, p.174.

the Musharraf regime also contributed to the increase in terrorist activities in Pakistan.

Sectarian violence has also increased in the post 2001 period. Although the Musharraf regime had banned Sipah-e-Sahaba and Tehrik-e-Fiqah Jafria the two most violent Sunni and Shia groups, their offshoots Lashkar-e-Jhangvi and Sipah-e-Muhammad have remained active since 2003 and engaged in violent bouts of bloodletting within the country. Christine Fair remarked, "The scale of sectarian violence in Pakistan is staggering, with hundreds of people killed or injured in such attacks each year."<sup>280</sup> According to a New Delhi-based Institute for Conflict Management, sectarian violence alone claimed close to 5,000 lives in Pakistan since 1989, with "incidents involving everything from targeted killings of high-profile civilians, to bombings of mosques and drive-by shootings of innocents, to pitched gun battles in major population centers."<sup>281</sup> From 2003-2006, terrorism directed against the Shia minority including suicide bombings killed scores of people and comprised the most serious domestic terrorism in Pakistan. Therefore, there is no denying of the fact that terrorism is on rise in Pakistan.

### 3.3.3 Democratisation Faltered

The track-record of democracy in Pakistan is upsetting. Since its independence, the country had tasted the bitter experience of four military dictatorships. None of the elected civilian governments have ever been able to complete its full term.<sup>282</sup> The latest military rule of General Pervez Musharraf lasted for eight years.

Like his predecessors, Musharraf usurped the political power of Pakistan with high promise to advance true democracy in the Pakistani society. In a televised speech to the nation five days after the coup, Musharraf announced that the military had "no intention to stay in charge any longer than is absolutely necessary to pave the way for true democracy to flourish in Pakistan."<sup>283</sup> Then again like his predecessors, he could not live up to his commitment of establishing sustainable democracy in Pakistan. On the contrary, throughout his rule he made repeated move to strengthen and consolidate his own power undermining people's aspirations for democracy in Pakistan.

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<sup>280</sup> Christine Fair, *The Madrassah Challenge: Militancy and Religious Education in Pakistan*, Washington DC: United States Institute of Peace, 2007, p.2, quoted in Ashley Tellis, *op.cit.*, p.4

<sup>281</sup> Ashley Tellis, *ibid*, p.4

<sup>282</sup> Mohamed A El-Khawas, "Musharraf and Pakistan: Democracy Postponed", *Mediterranean Quarterly*, Vol. 20, No. 1, Winter 2009, p.94.

<sup>283</sup> Pamela Constable, "Pakistan's Predicament," *Journal of Democracy*, Vol. 12, No. 1, 2001, p.20.

As a first step to consolidate his power, Musharraf decided to create “a new cadre of independent politicians who would support the government’s agenda at the grassroots level.”<sup>284</sup> Therefore, between December 2000 and mid-2001, local elections were held in five stages on a non-party basis in administrative and electoral districts. Since political parties were kept out of the contest, local tribes and religious groups got actively involved, and played a major role in choosing candidates for the election. This strategy of electing local government representatives on non-partisan basis, who would be pliable to the regime to get local patronage and services, resulted in “increasing the central government’s administrative control of politics and weakening the provincial governments.”<sup>285</sup>

Next, in April 2002, Musharraf decided to hold a referendum asking people if they wanted him as the President of Pakistan for the next five years. He stated, it was necessary to complete his plans for establishing democracy and ending sectarianism and extremism. The referendum was held on 30 April 2002, and the government reported that the participation rate was 70 per cent (the opposition claimed that the turnout was between 5 and 15 per cent) of which 98 per cent voted for Musharraf.

However, the biggest move was made by Musharraf to consolidate his regime when he secretly formed a political party, the Pakistan Muslim League-Quaid (PML-Q), and just before the 2002 general elections, issued the Legal Framework Order, giving president the power to dissolve parliament, to dismiss an elected prime minister, and to appoint provincial governors. He also made a number of changes in the election laws to weaken other political parties. In July 2002, the government raised the bar for nomination, requiring that a candidate must have a college bachelor’s degree or equivalent military academy or seminary degree. Any person had been convicted on charges of corruption or abuse of power, had defaulted on a bank loan, or had absconded from court proceedings was disqualified. This rule essentially prevented former prime ministers and their close associates from running for the election.

The 2002 election was held on 10 October, and the majority of the seats were, of course, won by the PML-Q, popularly known as the “king’s party”. Of 272 National Assembly seats, PML-Q won 118 seats, followed by the Pakistan People’s Party (PPP) with 81 seats. The coalition of Islamist parties MMA won a surprising 60 seats. Since the King’s Party did not win a clear majority and failed to reach an agreement with both PPP and MMA, Musharraf followed a strategy of wooing elected legislators to leave their party and join the PML-Q. Among other examples, twenty members of PPP left the party and formed their own party - Pakistan People’s Party Parliamentary Patriot - before joining the

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<sup>284</sup> Mohamed El-Khawas, *op.cit.*, p.97.

<sup>285</sup> Mohammad Waseem, *Democratization in Pakistan: A Study of the 2002 Elections*, Karachi: Oxford University Press, 2006, p.71.

PML-Q.<sup>286</sup> This resulted in the PML-Q controlling enough votes to approve its candidate, Zafarullah Khan Ismail, as prime minister of Pakistan. Consequently, Musharraf continued dominating the political structure as “He had a prime minister he could work with, legislators he could manipulate to push his own agenda, and a political party he could control.”<sup>287</sup>

During all these years, from 2002 until the crisis of 2007, the Bush administration never really pushed Musharraf for a meaningful transition to democracy. The White House maintained the rhetoric that the “US-Pakistan strategic partnership is based on the shared interests of the two countries in building a stable and sustainable democracy and in promoting peace, security, stability, prosperity, and democracy in South Asia and across the globe.”<sup>288</sup> In practice, the Bush administration continued to express confidence on Musharraf and democratisation became a secondary consideration. Many critics assert that, “the Islamabad government was for more than five years given a ‘free pass’ on the issue of representative government, in part as a means of enlisting that country’s continued assistance in the US-led counterterrorism efforts.”<sup>289</sup>

The crisis in 2007 started with the dismissal of the Supreme Court’s Chief Justice, Iftikhar Mohammed Chaudhry, in early March. “It became the spark that ignited widening popular protest against Musharraf and gave both secular and religious opposition an issue to rally around.”<sup>290</sup> Later, Musharraf’s refusal to reinstate Chaudhry contributed to turning a judicial crisis into a full-fledged political crisis that threatened his regime. Musharraf followed the repressive measures and moved to control the media which backfired, and made journalists joining the protest. Consequently, in June 2007, the Supreme Court ruled that the firing of chief justice Chaudhry was illegal and ordered his reinstatement.

The agitation against the Musharraf regime grew again when in July he announced that he was not going to give up his position as COAS, as he promised earlier. He defended his COAS position on the ground that a civilian government “would not be strong enough to control extremism”, the same card he played throughout his regime for Washington as well. On 3 November 2007, he declared a state of emergency and suspended the constitution, and stated that these were necessary to prevent Pakistan from falling apart. These actions only contributed to the mounting of opposition against his regime and finally in late November Musharraf resigned from his post of Army Chief.

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<sup>286</sup> Ayesha Siddiqi, *Military Inc: Inside Pakistan’s Military Economy*, London: Pluto, 2007, p.100.

<sup>287</sup> Mohamed El-Khawas, *op.cit.*, p.102.

<sup>288</sup> “Fact Sheet: United States and Pakistan: Long-Term Strategic Partners”, available at: <http://www.whitehouse.gov/news/release/2006/03/20060304-4.html>, quoted in Shanthie D’Souza, *op.cit.*, p.528.

<sup>289</sup> Alan Kronstadt, *op.cit.*, p.81.

<sup>290</sup> Mohamed El-Khawas, *op.cit.*, p.105

During the November emergency, criticism against the Bush administration's support to Musharraf regime also grew in the United States. Two former senior Clinton Administration officials criticised Bush administration for choosing to "back the dictator" rather than offer clear support for democracy and rule of law in Pakistan.<sup>291</sup> In late 2007, in Senate testimony, one former US diplomat noted that, "overall US policy toward Pakistan until very recently gave no serious attention to encouraging democracy in Pakistan."<sup>292</sup>

Many commentators also criticised the Bush administration's perceived overemphasis on Musharraf and the Pakistani military. As articulated by Hussain Haqqani (current Pakistani ambassador to the US) in a statement before the House Armed Services Committee, on 10 October 2007:

The United States made a critical mistake in putting faith in one man- General Pervez Musharraf – and one institution - the Pakistani military—as instruments of the U.S. policy to eliminate terrorism and bring stability to the Southwest and South Asia. A robust U.S. policy of engagement with Pakistan that helps in building civilian institutions, including law enforcement capability, and eventually results in reverting Pakistan's military to its security functions would be a more effective way of strengthening Pakistan and protecting United States policy interests there.

Such policy of engagement to build civilian institutions and sending back the military to their barrack had never been pursued by the US during the regime of General Pervez Musharraf. However, at this point, it is worth discussing why the Bush administration finally decided to withdraw its support from Musharraf and welcomed the Pakistanis' demand for democratically elected government.

*Why the Bush administration had to abandon Musharraf?*

Since 11 September 2001, the Bush administration developed close ties with Musharraf. As a *Washington Post* article reported, "For years, Pakistani President Pervez Musharraf had no stronger supporter than President Bush."<sup>293</sup> However, the US administration's disenchantment with Musharraf ensued in July 2007, when Musharraf announced his intention to keep his post of Army Chief. As Mohamed El-Khawas noted, "The Bush administration was surprised by the July announcement, which was contrary to Musharraf's promise to give up his military post."<sup>294</sup> It is at this point, the US administration for the first time during the Musharraf regime, made a move for a democratically elected civilian government in Islamabad. This move might have also been motivated by the mass protest against the regime during the Lawyer's movement in June 2007.

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<sup>291</sup> Alan Kronstadt, *op.cit.*, p.81.

<sup>292</sup> Quoted in Alan Kronstadt, *ibid.*, p.81.

<sup>293</sup> "As Musharraf Faltered, US Stayed at a Distance", *Washington Post*, USA, 19 August, 2008.

<sup>294</sup> Mohamed El-Khawas, *op.cit.*, p.107.

The US administration brokered a power-sharing deal between Benazir Bhutto and Musharraf. In July 2007, US Secretary of State Condoleezza Rice suggested the deal to Bhutto, by which she would support Musharraf's bid for a second term as president in exchange for his dropping the corruption charges against her.<sup>295</sup> The deal would also allow Bhutto to contest in the next general election, and if she was elected prime minister, to share power with President Musharraf.

The rising trend of terrorism and extremism in Pakistan in late 2007 might have also led to the realisation in the US administration that Musharraf had failed to deliver in countering terrorism. As Michael J Green, former top Asia official at the White House commented, "You could count on him to make tough decisions, even though you could never count on him to completely follow through."<sup>296</sup> The securing of "safe haven" by al Qaeda and the Taliban inside Pakistan was also viewed by the US administration resulting from a lacklustre counter terror effort of Musharraf. Therefore, as Stephen Cohen commented in late 2007, "more Americans now see (Musharraf) as a liability, and this begins with the US military who have encountered Pakistan-based Taliban."<sup>297</sup>

Therefore, after the February 2008 elections, which produced victory for Pakistan's Peoples Party (PPP) and Nawaz's Muslim League (PML-N), Deputy Secretary of State Negroponte offered little public defence of Musharraf and called his future status "a matter to be determined by the internal Pakistani political process".<sup>298</sup> But privately, the Bush administration continued its effort to secure Musharraf's position in the government by pressing the election winner Asif Ali Zardari to follow through whatever agreements were made between his wife Benazir Bhutto and Musharraf in July 2007. On the contrary, the Bush administration faced with the biggest challenge by the coalition formation between Zardari and Nawaz, and their intention to proceed with the Impeachment. Finding no other way to rescue Musharraf, the Bush administration finally concluded that Musharraf's time was up and manoeuvred for a "soft landing" for Musharraf, and at the end secured 'immunity' before his resignation on 18 August 2008. Therefore, as predicted by Tariq Ali, a few years back that "Should he falter domestically, Musharraf will be ditched without sentiment by the suzerain",<sup>299</sup> his exit followed the anticipation.

Now before we conclude, it is worthwhile to discuss a few points that can be held responsible for United States' apparent failings in realising its desired objectives in Pakistan especially during the regime of General Musharraf.

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<sup>295</sup> *Ibid.*

<sup>296</sup> "As Musharraf Faltered, US Stayed at a Distance", *Washington Post*, USA, 19 August, 2008.

<sup>297</sup> Quoted in Tariq Ali, *The Duel, op.cit.*, p.254.

<sup>298</sup> Alan Kronstadt, *op.cit.*, p.43.

<sup>299</sup> "The Colour Khaki," *New Left Review* 19 (January-February 2003), quoted in Tariq Ali, *The Duel, op.cit.*, p.269.

### 3.3.4 Reasons for the US Failings

The following factors can be identified as the major problems of US strategies that led to the US's failure in achieving its most objectives in Pakistan.

First, the US ideals of democracy promotion have not been put into practice. In Pakistan, the US continued to support a military regime to attain its objectives. Consistent with the providential mission, the Bush administration in the post-11 September period put specific emphasis on promoting democracy as a means of fighting terrorism. Bush vowed that the United States “will defend the peace by fighting terrorists and tyrants...[and] will extend the peace by encouraging free and open societies on every continent.”<sup>300</sup> Free nations, it was contended, are not likely to engender terrorism, but are more inclined towards cooperation and peaceful cohabitation with other nations. Therefore, the Bush administration revealed a grand strategy of transformation targeting the Muslim nations under the rule of dictators. But the Bush administration never pursued such a policy with regard to Pakistan.

Second, the US administration while supporting a military regime failed to comprehend the fact that over the years a close relationship has developed between the Pakistani military and the islamists. Two factors contributed to such relationship. Both General Ayub Khan and General Zia ul-Haq took measures to Islamise the Pakistani army, consistent with their overall effort of Islamising Pakistani society. The use of Islamic ideology for the indoctrination of the army was manifest during Ayub Khan's regime. The Armed Forces Day during Ayub's era was celebrated with much fanfare and the soldiers were given to believe that they were not only defending their homeland against a belligerent and vicious neighbour but also in the cause of Islam against the ‘idolator infidels’.<sup>301</sup> This indoctrination process continued during Zia's regime. Zia had given the Pakistan army a new motto: “Faith, piety and struggle in the path of Allah”. The motto was derived from the title of an article by Abul Ala Maududi, founder (and ideologue) of the Pakistan Jamat-i-Islami. This Islamisation process contributed to the infiltration of the Islamists inside the army and army officers became sympathisers of the Islamists. On the other hand, the army also maintained a close relationship with the Islamists to secure their position in the society and to remain in power. This relationship between the army and the Islamists has been a major hindrance in the US-led counterterrorism effort in Pakistan during the military rule of Musharraf.

Third, compared to the military aid and security assistances, the US economic aid to Pakistan since 2001, were very limited. As Table 1 shows, of US\$ 11.9

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<sup>300</sup> George W Bush, “Address to the American Legion National Convention,” Salt Lake City, Utah, 31 August 2006.

<sup>301</sup> Saleem Qureshi, “Pakistan Nationalism Reconsidered”, *Pacific Affairs* (Vancouver), Vol. 45, No. 4, Winter 1972-73, p.568, quoted in Partha S Ghosh, *op.cit.*, p.110.

billion total aid, military reimbursement (CSF) comprised more than half of it (US\$ 6.6 billion) whereas only US\$ 3.1 billion has been provided as economic aid. And of economic aid only US\$ 17 million was given for promoting democracy. This overemphasis on security at the expense of development contributed to the persistence of reasons that breed extremism and terrorism.

Fourth, in fighting the war against terror in Afghanistan and countering terrorism in Pakistan, the biggest blunder made by the US administration was misunderstanding or not understanding the nature and rationale of Pakistan's support to the Taliban. When the Northern Alliance, believed to be friendly to India was put in control of Kabul by the US, despite Pakistan's opposition, it was a 'strategic debacle' for "army officers committed to avoiding a situation where Pakistan was sandwiched between two hostile states."<sup>302</sup> Although Pakistan changed its policy, and continued to work with the US, it never gave up on the Taliban to maintain its only leverage against Afghanistan if it turns unfriendly.

Finally, the Iraq war became a diversion for the US policymakers. Getting involved in another war, before finishing the job in Afghanistan diverted considerable attention and direction of the US strategists to the Iraq war – depriving the need of Afghanistan as well as of Pakistan. To quote Kofi Annan, former Secretary General of the United Nations, "Huge resources were devoted to Iraq, which focused away from nation building in Afghanistan. The billions spent in Iraq were the billions that were not spent in Afghanistan."<sup>303</sup> And the US attack on Iraq was critical to convincing Musharraf that the United States was not serious about stabilising the region, and that it was safer for Pakistan to preserve its own national interest by clandestinely giving the Taliban refuge.<sup>304</sup>

#### 4. Conclusion

The paper shows that in the post-11 September 2001 period, the United States redefined its policy objectives in Pakistan commensurate with its global policy objectives of fighting and countering terrorism and extremism in every continent of the world. The main policy objectives pursued by the US were ensuring Pakistan's continued cooperation and active participation in fighting the war in Afghanistan, assisting Pakistan in countering terrorism and extremism within its own boundary, and securing Pakistan's nuclear weapons from falling into the hands of the religious extremists. To ensure Pakistan's immediate cooperation in the war against terrorism in Afghanistan, the US pursued a strategy of coercive diplomacy, and successfully and promptly secured Pakistan's full support. However, to maintain Pakistan's continued support, the United States provided

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<sup>302</sup> Schaffer, *op.cit.*, p.174.

<sup>303</sup> Quoted in Ahmed Rashid, *op.cit.*, p.XLI.

<sup>304</sup> *Ibid.*

massive aid to Pakistan as well as sustained close relationship with the military regime of Musharraf. Nevertheless, the tenure of Musharraf regime was characterised by rising incidents of suicide terrorism and extremism in Pakistan, and the Taliban and al Qaeda remnant's secured a safe refuge in the Afghanistan-Pakistan border areas, and finally the democratisation process faltered in Pakistan. The United States therefore, evidently failed to achieve most of its objectives.

The paper argues that it was the limitation of the US policy objectives and the lacuna in the strategies employed to pursue those limited objectives were mostly responsible. While democracy promotion has been adopted by the Bush administration as a global strategy of transformation to fight terrorism and extremism in nations mostly Muslim majority countries, such policy has never been pursued in Pakistan. The over-emphasis on security assistance at the expense of development aid had also led to the persistence of the causes that bred extremism. Finally, the strategy of deep cooperation with Musharraf emboldened the military regime and the army, defying the US policy objectives of countering terrorism that eventually resulted in the Taliban and the al Qaeda acquiring renewed strength and, wreck havoc on the US allied forces in Afghanistan.

In any analysis, the US-Pakistan relations during the Musharraf regime were complicated. The leader of the free world had to cooperate with a dictator to achieve its foreign policy objectives and national interest. On the other hand, Pakistan's rationale for maintaining the relationship with the sole superpower was more parochial. The Musharraf regime viewed its relations with the US through the prism of securing heightened flow of aid, and support for the military regime rather than developing a strong relationship based on mutual interests. Doing so served the interests of its military ruler fairly well whereas the aspirations of the Pakistanis for democratic governance rarely received serious attention. Moreover, the trust deficit between the two countries also hindered the development of a long-term and healthy relationship. The alienation of the people of Pakistan was complete when the Bush administration continued to support the Musharraf regime during the mass protests in late 2007. The US administration appeared naïve in acknowledging the problems of Pakistan and depended only on one person to solve all its problems even when that person in some instances was indeed responsible for the problem.

Success of any bilateral relationship depends on mutual trust and interests. During the Musharraf regime, the US administration had failed to pay attention to the security problems of Pakistan in the region. All the misdeeds committed by the Musharraf regime that the US did not want him to do had their origin in the Pakistan-India conflict. From supporting local extremists to aiding the Taliban all were linked one way or the other to Pakistan's bilateral problems with India. Therefore, pursuing the resolution of Pakistan-India conflict would

have been an effective way to earn the trust of the Pakistani people. As an Indian scholar remarked, “no amount of bilateral dialogue would help as India had the competitive advantage in such a dialogue.”<sup>305</sup> Therefore, only an international mediation or third-party intervention can resolve the Kashmir dispute and here the US can be more active rather than accepting the status quo. Pakistan should also realise the importance of its relations with the US. The country now has to act for its own interests since once again the interests of the US and of Pakistan converged in fighting and countering terrorism and extremism in the region of South Asia.

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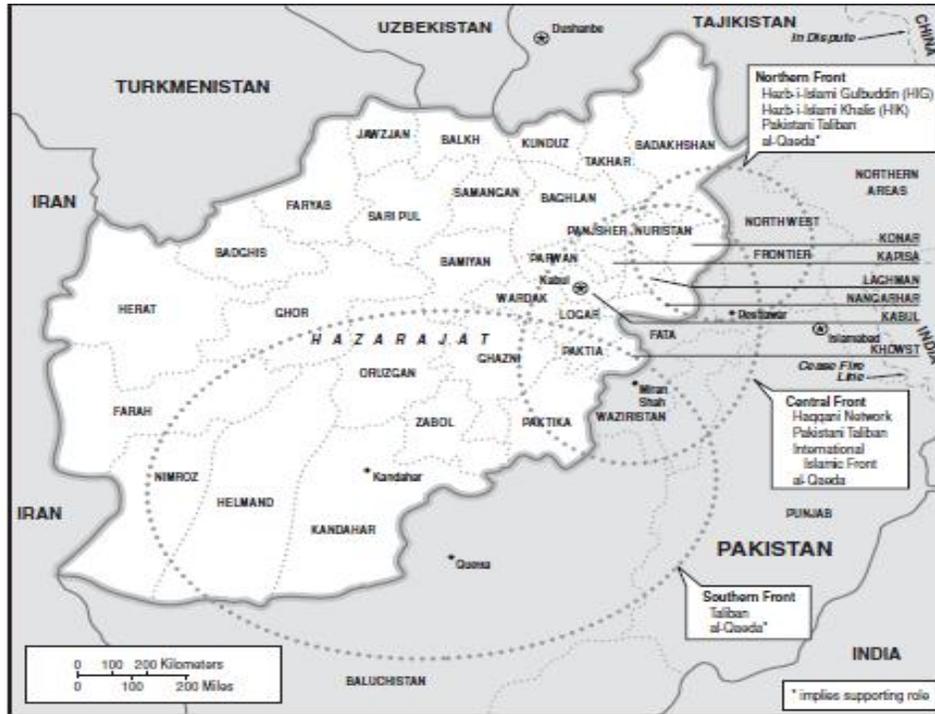
<sup>305</sup> Partha S Ghosh, “The Muslims, South Asia, and the United States: A Post-9/11 Analysis”, *South Asian Survey*, Vol. 10, No. 1, 2003, p.103.

**Appendix-1**



### Appendix-2

Figure 1: Location of the Three Major Fighting Fronts in Afghanistan-Pakistan border areas



Source: Seth G. Jones, "Pakistan's Dangerous Game," *Survival*, 49:1 (2007), p. 20.