



THE ATLANTIC COUNCIL
OF THE UNITED STATES

URGENT

Needed: A Comprehensive U.S. Policy Towards Pakistan

A Report by the Atlantic Council

Honorary Co-Chairs: Senator Chuck Hagel • Senator John Kerry

February 2009



THE ATLANTIC COUNCIL

OF THE UNITED STATES

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THE ATLANTIC COUNCIL

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Table of Contents

Forewordi

Members of the Working Groupiii

Executive Summaryv

A Comprehensive U.S. Policy for Pakistan.....1

Political and Security Factors.....8

Regional Political Considerations 18

The State of Pakistan’s Economy..... 20

Recommendations..... 24

Foreword

The Atlantic Council has been a leading voice in warning the U.S., NATO, and the international community that it was heading toward failure in Afghanistan if it didn't change course – and that the implications were significant and far-reaching. This report sounds a similar warning bell on Pakistan, but in this case the repercussions of failure would be even further reaching both regionally and globally.

Since our report early last year on Afghanistan, we have been heartened by a greater focus of policy makers on the problem, and one of its co-chairs, General James L. Jones, has taken on the problem as National Security Adviser. Yet Afghanistan's deterioration has been accompanied by a worsening economic, political, and security situation in Pakistan, where the stakes are even more dramatic. A raging militancy and cross-border insurgency on the Afghan-Pakistan border threatens the stability and legitimacy of the fledgling democratic governments in Kabul and Islamabad. The Mumbai terrorist attacks of November 2008 served as an additional wake-up call of extremism's growing threats to the region.

In response to these concerns about Pakistan, the Atlantic Council established a task force in mid-2008 to offer the new U.S. administration suggestions on a fresh policy toward Pakistan. (The members of the Task Force are listed on the following page.) The Task Force met regularly during the summer and fall, and a core group traveled to Pakistan in December 2008 to visit with senior Pakistani government officials and other informed observers.

The Task Force members' aim, which I believe they have achieved, was to propose an effective, comprehensive approach for future U.S. policy towards Pakistan. While there may be parts of the report with which some participants are not in full agreement, each member of the group believes that the report, as a whole, provides a sound basis for a new U.S. policy for Pakistan. The Atlantic Council would like to recognize in particular the contributions of Esperanza Jelalian, Shuja Nawaz, Sir Hilary Synnott, and Harlan Ullman in the writing of this report. The views expressed in the report are those of the members of the task force and not the organizations they represent.

The most compelling message of the report is that time is running out, yet if we act immediately and wisely the U.S., its allies and partners still can help give Pakistan the ability to turn around its economy and stabilize its political system. Yet if we walk away from the package of measures we propose, Pakistan would continue its downward spiral. The ramifications would be far graver than those in neighboring Afghanistan, with regional and global impact.

The Atlantic Council would like to thank the many analysts, experts, and officials who generously shared their insights and time with the group: Dr. Stephen Cohen, Mr. Mohsin Khan, Dr. Marvin Weinbaum, HRH Prince Turki al Faisal, Mr. Sartaj Aziz, Ambassador Anne Patterson, RADM Michael LeFever, Mr. Gerry Feierstein, Gen. Jehangir Karamat (Ret.), Dr. Salman Shah, PML-N Chairman Nawaz Sharif, Chief Minister Punjab Shahbaz Sharif, General Ashfaq Kayani, and President Asif Ali Zardari.

Additionally, the Council would like to thank the vital members of the project team who unselfishly worked to produce this report: recently retired Director of the Asia Programs Joseph Snyder for his skillful management of the project and Jeffrey Lightfoot for his able coordination and assistance in the field.

We are indebted to Senators John Kerry and Chuck Hagel for their support of this endeavor as honorary co-chairs, and for co-sponsoring its release. Their leadership on these issues opposite sides of the aisles has been consistent and impressive..

With the release of this report on Pakistan, the Atlantic Council is also delighted to announce the opening of a South Asia Center in January 2009. Building on the insights and knowledge gained through this effort, the Council hired noted author and analyst Shuja Nawaz to serve as the first Director of the Center. Shuja will use his extensive experience and contacts in the region to establish the Center as a forum for dialogue between decision makers in South Asia, the U.S., and Europe. The Atlantic Council's comparative advantage in security issues as well as its relationships with NATO and U.S. defense establishments will also enable the Center to promote more open interaction between the militaries of key states in South Asia. In doing so, the Center intends to strengthen the idea of civilian supremacy in government and to counter the emergence of radical ideologies.



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Needed: A Comprehensive U.S. Policy Towards Pakistan

Executive Summary

Pakistan faces dire economic and security threats that threaten both the existence of Pakistan as a democratic and stable state and the region as a whole. Given the tools and the financing, Pakistan can turn back from the brink. But for that to happen, it needs help now. Such a reversal demands far greater and more urgent support and assistance from the international community in general and the United States in particular. And it needs to be based on focused policy changes and disciplined implementation by the Pakistan government, with adequate oversight to ensure that Pakistan can do the job.

A total of \$4-5 billion above the (Biden)-Kerry-Lugar proposals is needed beyond the IMF and other loans from the U.S. and other sources. Of this, about \$3 billion should go to the economic and social sectors directly.

About \$1 billion of fresh or redirected funds would go to security forces - both military and law enforcement. Of this \$1 billion, approximately \$200 million would be applied to recruiting, training, and deployment of an additional 15,000 police within the next six months who are essential to bringing long-term law and order to all of Pakistan.

During 2008, several useful reports on Pakistan were published by some of the nation's most respected think tanks. Each of these studies contained sensible analyses of what the United States should do regarding Pakistan and proposed sound recommendations accordingly. Rather than repeat or duplicate these efforts, this report by the Atlantic Council proceeds along a different path.

First, this report sounds the alarm that we are running out of time to help Pakistan change its present course toward increasing economic and political instability, and even ultimate failure. The urgency of action has been brought home by the terrorist attacks in Mumbai in late November that set Pakistan and India on a dangerous collision course. Simply put, time is running out for stabilizing Pakistan's economy and security.

As Pakistan's President Asif Ali Zardari told the Atlantic Council during our December 2008 trip to Islamabad, "we - [the United States, Pakistan, NATO and the world at large] - are losing the battle" to keep Pakistan stable, at peace and prosperous.

Unlike Afghanistan - where the international community is losing the struggle because of its failure to reform the civilian sector - Pakistan has the manpower and infrastructure to win its battles. But

Pakistan can only do so if it gets the necessary support urgently. And it is self-evident that a **secure, stable, and prospering Pakistan is in the best interests of the international community.**

We – meaning Pakistan and its friends – can and must win collectively. The starting point must be a full and objective understanding of today’s Pakistan and the fact that it is on a rapid trajectory toward becoming a failing or failed state. That trajectory must be reversed now.

Second, this report provides a conceptual framework, strategy, and specific actions that are needed to begin the long process of bringing peace, prosperity, and stability to Pakistan and to the region. The issue is not Pakistan alone or Pakistan and Afghanistan. The issue is broader and is inextricably linked with India, the Gulf, and Pakistan’s other close neighbors. As a senior Pakistani military officer told us: “If Pakistan fails, the world fails.”

Third, this report outlines the possible short-and long-term consequences of inaction: some of these, such as the breakup of the country, civil war or an all-out war with India, could be catastrophic for the country, for the region, and for U.S. interests.

Despite its current economic hardships, the United States has poured hundreds of billions of dollars into Iraq and many billions into Afghanistan in the past. However, it has been relatively miserly in its assistance for Pakistan where the stakes are far larger and more important to long-term American interests. There are good and bad reasons for this contradiction between needs and funding. And it will be extraordinarily difficult to convince a skeptical Congress and a public – already reeling with the trillion dollar cost of bailing out failed American corporations and agencies – of Pakistan’s urgent needs.

The time horizon to get aid to Pakistan so it can begin the job of turning around its economy and polity is months not years. Pakistan requires a great deal more assistance than it currently getting if it is to succeed and the principal source of that assistance must be the United States.

The U.S. also needs to urgently close the “Trust Deficit” between it and Pakistan, with greater exchanges of high-level visits, closer military, intelligence, and economic cooperation. And it needs to pass the (Biden)-Kerry-Lugar bill as soon as possible to begin the flow of more resources to Pakistan.

Needed: A Comprehensive U.S. Policy Towards Pakistan

Grounds for Urgency

In a report issued last year, the Atlantic Council warned that the international community was losing in Afghanistan. Unfortunately, many of the necessary but difficult corrective actions – particularly regarding civil sector reforms – have not been taken. Hence, while the U.S. is sending more forces to Afghanistan, unless these broader reforms are implemented, Afghanistan will become a failed state.

A similar fate awaits Pakistan unless there is clear recognition of the need for action; urgency in implementing a targeted plan of action; and assurances that such action will be sufficiently broad, resourced and sustained to be effective. The economic and security crises in Pakistan are grave and growing. The good news is that aid and support in terms of money, technical assistance and equipment can help turn these crises around quickly. But that requires prompt action.

Left unchecked, the ultimate consequence could be state failure. **We cannot stress the magnitude of the dangers enough nor the need for greater action now. These challenges and dangers can be mitigated with relatively modest funding increases for Pakistan’s economic development and security of about \$4 billion a year as loans or aid, above the IMF and other contributions.**

Preventing such disastrous outcomes rests on Pakistan’s own determination to act boldly and on its ability to weather these storms while promoting representative government and the rule of law. Absent comprehensive supporting actions both now and for the longer-term, including more aid, conditions will further deteriorate. Among the obstacles to success will be the understandable reluctance of the U.S. Congress to appropriate more funds for Pakistan because of the current domestic economic troubles, and a concern to make future American aid conditional upon Pakistani actions to take on terrorists and non-state actors, who are using Pakistan as bases for training, support, and cross-border attacks.

Beyond these perilous conditions, Pakistan and the United States are plagued by a “trust deficit.” As President John F. Kennedy observed decades ago, “the only thing worse than being an enemy of the United States is being an ally.” Pakistan has had good reason to share this view. The U.S. has often been a fickle friend, and Pakistan – for its part – a deceptive ally. Hence the centerpiece of any strategy should be to develop a sense of trust between Pakistan and the U.S. as a matter of urgency.

The most urgent crisis at this point is escalating tensions between Pakistan and India. The Mumbai attacks in late November of last year threatened to destroy a four-year-long effort to improve relations so as to enable both countries to concentrate on solving their own problems. Indian accusations of

Pakistani complicity in the attack have rekindled mutual grievances dating back to independence and partition. The most important role the U.S. can play in assisting Pakistan is to encourage progressive reconciliation between these two old rivals. Pakistan owes itself rapid action against the groups that have been linked to the Mumbai attacks and that still operate openly inside Pakistan instead of parsing the evidence presented and debating the details.

Pakistan's economic difficulties also pose an immediate danger. Short-sighted economic policies during the Musharraf era focused on consumption-led growth creating unsustainable trade and fiscal deficits which worsened throughout 2008. Pakistan narrowly averted insolvency last fall thanks to IMF loans projected at \$7.6 billion over the next two years. But in accordance with IMF conditionality, Pakistan has to make Draconian spending cuts to reduce its budget deficit from 7.3% to about 4% of GDP. Food and fuel subsidies have already been slashed. With inflation running above 30%, the public has been subjected to extreme hardships that cannot be sustained indefinitely. The reduction in oil prices has helped the balance of payments. Still, unless there is an economic turnaround in the coming months and the standard of living of average Pakistanis is seen to be improving, the public will hold the government accountable with unpredictable consequences.

The worldwide economic meltdown has exacerbated the already critical conditions creating a further dilemma. Pakistan's drastic spending cuts contrast starkly with other countries' methods of coping with the current recession. Hence, the harsh fiscal and monetary policies required for IMF financing may have to be adjusted to reduce the risk of further economic depression. As a result, Pakistan is caught between competing pressures –the need to ease fiscal and monetary policies to ease domestic hardship and the constraints against those actions to conform to the conditionality of IMF funding.

Pakistan is now a country under siege: its population was shaken by the September 2008 bombing of the Islamabad Marriott Hotel, the subsequent attack on the Anti-Terror Police headquarters, and the upsurge in suicide and roadside bomb attacks. The important northern city of Peshawar is barely under government control. The Army is overstretched in its deployments in the Federally Administered Tribal Areas (FATA) and the North-West Frontier Province (NWFP), where Swat is now slipping back into the hands of the militants; combat engagements with insurgents have been costly in loss of life and in creating tens of thousands of refugees in the northwest alone. The Pakistani Army's traditional view of India as the major threat was reinforced by reactions to the Mumbai attacks and detracts from the battle against the insurgents. That is why a substantial portion of the Pakistan Army remains posted on its eastern border, even as troops have been moved west to deal with insurgents, and why some forces have moved back to the east in the wake of the Mumbai attacks. All this despite statements by military leaders, such as Lt. Gen. Ahmed Shuja Pasha, the Director General of Inter Services Intelligence that terrorism – and not India – is the main threat today.

At the same time, continuing American Predator attacks in the FATA and more recently in the NWFP and the incursion of U.S. Special Forces in a controversial September 3, 2008 raid into Pakistan have catalyzed domestic resentment and led to even greater anti-Americanism within Pakistan. The Pakistan government has, understandably, described these attacks as direct assaults against its sovereignty and many Pakistanis regard them as presenting India with a potential rationale to launch its own strikes into Pakistan against presumed perpetrators of the Mumbai killings. The porous and still disputed border with Afghanistan and the failure of the two states to coordinate policies and approaches have impeded action to combat the increasingly violent insurgencies.

Pakistan is also a nuclear weapons state. While senior American officials are more confident about the security of those weapons, many Americans – especially in Congress – instinctively worry that, within an increasingly unstable environment, the controls may not be sufficient and want reassurance if not proof of their safe storage. There are also concerns about the transport of stored nuclear waste and enriched uranium that could be used for ‘dirty’ bombs.

Up to now, the U.S. focus has been principally on building Army capacity. But efforts to strengthen the Pakistani police and paramilitary forces are vitally needed to enhance peace and stability and reduce violence. Without progress in this field, military success will be fragile and perishable.

Pakistan’s domestic political scene poses its own problems for the country. Because the Pakistan Peoples Party (PPP) does not have a majority in the Parliament, the coalition government that it leads faces political challenges from the Pakistan Muslim League-Nawaz (PML-N) that is well entrenched in Punjab, the most heavily-populated and economically critical province, and other opposition parties. This opposition will come to a head in March with the impending Senate elections and a threatened Long March of the opposition coalition on Islamabad to seek the repeal of undue presidential powers and the reinstatement of the judiciary and the Chief Justice removed by Musharraf. Some of the smaller parties in the coalition are opposed to the action the government has taken against Lashkar-e-Taiba (LeT) and the parent organization of Jammāt ud Dawa in the wake of the Mumbai attack and to any U.S. military presence on Pakistani soil. These and other critics accuse the government of kowtowing to the U.S. and being a pawn in ‘Washington’s War on Terror’.

How long the current government can continue before it faces a vote of no confidence is an open question. The answer will depend in large part on its responses to the economic crisis, the militant insurgency in the FATA and the NWFP, and its handling of political opposition. Peaceful transfers of power that are an essential component of democracy have seldom been the practice in Pakistan. The lack of effective government institutions, such as an established structure for decision making on national security highlights the fragility of the current civilian government.

American Problems

On its part, the Bush administration did not fashion a cogent or comprehensive strategic approach towards Pakistan and the region, and support and assistance proceeded on a stop-and-go, erratic basis. The Bush aims at the outset of the invasion of Afghanistan in 2001 and the Pakistani objectives for dealing with the growing insurgency were divergent. The war on terror and finishing off al Qaeda are the top American priorities. Stability and quelling the insurgency inside the settled areas of the NWFP and the hinterland have been Pakistan’s goals. The insurgents and terrorists Pakistan seeks to neutralize have often been different from the main U.S. targets. This has been accentuated by the complex and long-term links Pakistan has had with many of these groups both in dealing with the Soviet occupation in Afghanistan three decades ago and in the continuing standoff with India over Kashmir.

Further, the Bush administration pursued two contradictory aims in Pakistan and the region in the war on terror. It sought to work with and bolster first the Musharraf and now the Zardari governments. But, frustrated by continued cross-border operations by Al Qaeda terrorists and the Taliban, it independently targeted high value insurgents with attacks in sanctuaries in the FATA and sensitive NWFP, invoking

the right to preemption and self defense of U.S. and Coalition forces in Afghanistan. These attacks continue to inflame Pakistani animosity against the U.S. and undermine both the government and the Pakistani military. Until recently Pakistan has tried to play off various tribal and Taliban factions against each other, even turning a blind eye to certain Afghan Taliban, while denying to the U.S. it has indeed pursued this strategy. It has also favored dialogue over force in certain instances, giving the impression to the U.S. that Pakistan may be “soft” on terrorism. This policy has led to controversy in the U.S. and accusations that the Inter-Services Intelligence (ISI) is a “rogue agency,” further complicating closer coordination and cooperation. This condition appeared to be improving in large measure thanks to better military-to-military understanding and interaction. But that was before the bombing of the Indian Embassy in Kabul that was linked by the U.S. to ISI-support of the bombers, and Mumbai. At best, this arrangement is still fragile.

What makes this situation more tenuous and delicate for the Pakistani government is the apparent “tacit understanding” between the Pakistan government and the United States that lies behind the continuing Predator attacks. Against the backdrop of a unanimously approved anti-terror resolution of the Pakistani Parliament in October 2008, continuing Predator attacks are testing the ability of the Pakistani government to build a consensus for follow-up actions. Indeed, both the PML-N and the religious parties in the government coalition have begun to withdraw their support of the resolution. So has the provincial Awami National Party government in the North West Frontier Province. The continuation of the Predator attacks by the Obama administration has revived public disquiet about this issue in Pakistan.

U.S. support and aid have historically been inconsistent, with generous assistance when the U.S. needed Pakistan, followed by long periods of sanctions when Pakistan took a more independent stance. U.S. reluctance to supply some of the equipment and training Pakistan needs urgently for counter-insurgency operations – including helicopters, night vision goggles, intelligence, surveillance and other equipment – has only heightened the trust deficit. The U.S. concern that it would fall into the hands of insurgents or be diverted to the Indian border does not help. And until recently, training had also been proceeding very slowly.

The Congress has been right in asking for accountability of the some \$10 billion of Coalition Support Funds and other security related funding made available to the Pakistan Army over the past decade. A principal reason why Pakistan until now has not been forthcoming in responding is because it is possible that well over two thirds of this money did not go to the Army and instead funded other government needs. Unfortunately, the policy of the past government does not relieve the new government of dealing with this deception. There have also been questions about the purchase of larger weapons systems that may not be appropriate for counter insurgency warfare.

Last, the U.S. has pursued its relations with Pakistan on a transactional and bilateral and not a regional or strategic basis. Nor does the U.S. have a single point of contact in Washington with responsibility for the region that cuts across security, political, economic, and strategic relationships. This should be corrected.

Possible Consequences

As of this writing, the Mumbai crisis has yet to run its course. While India's angry reaction is understandable, scenarios which could range from a freeze in India-Pakistan relations to the use of military force or other coercive actions must be avoided. However, unless Pakistan takes steps to demonstrate its seriousness to pursue the Mumbai perpetrators and other terrorists and terror organizations, the crisis could persist.

Some optimistically argue that Pakistan can muddle through these crises, as it has seemed to do in the past. If conditions worsen, many in Washington and in Pakistan believe that an Army takeover and emergency or military rule could well occur again despite Chief of Army Staff General Ashfaq Parvez Kayani's determination to keep the military out of politics. The problem is that, as it has shown over the last nine years, the Army is no better prepared to cope with Pakistan's many crises than the civilian government. It will be reluctant to accept responsibility for an intractable situation. General Kayani is attempting to refocus the army on its professional duties and winning the war against domestic terror. A continuing process of disengagement from the political sphere should be encouraged and supported. It follows that the capacity of any civilian government will need to be strengthened.

A Pakistani government might at some point feel forced to enter into negotiations with Taliban and insurgent groups and thus grant greater freedom of movement for militants in FATA and the NWFP. That might relieve some of the violence in Pakistan for the short term. However, as past experience has shown, it would allow extremists to rally and strengthen. And thus from a U.S. perspective, this would be unwelcome, straining the Washington-Islamabad relationship with major complications for Afghanistan.

Similarly, deterioration of already dire economic and internal political conditions could further weaken Pakistan's viability as a state where violence and instability would be difficult – if not impossible – to contain within its borders. And al Qaeda and other radical groups could be empowered and emboldened with frightening consequences for vulnerable targets in Britain, Europe, and even the United States.

It is our estimate that the Pakistan government has between 6-12 months to put in place and implement security and economic policies or face the very real prospect of considerable domestic and political turbulence. Some of the recent rioting against food and energy shortages accentuates our concerns.

Clearly, action now to mitigate and try to prevent any of these and other negative consequences is essential.

What To Do

These are the principal broad policy recommendations of the Atlantic Council Pakistan Task Force. *More detailed proposals are contained in the Recommendations section of the report on page 24.*

- Understanding the dangers inherent in Pakistan and the region, the Obama administration should develop a comprehensive strategy and policy for Pakistan in a regional and bilateral

perspective, which should be logical, aggressive, well-funded, and should be announced within ninety days of taking office.

- The strategy should have as its prime objectives the stability of that country and the improvement of relations and understanding between the U.S. government and the government and citizens of Pakistan.
- U.S. strategy and policy should be based on the understanding that the U.S. cannot and will not be able to resolve Pakistan's problems. The Pakistanis and their government must create and implement a comprehensive domestic and foreign policy strategy for this purpose. However, the United States and the international community should provide greater financial and technical support to assist their efforts.
- Strategy and policy should also be based not on engagement with and support of a single government or individual but should be framed on a broader basis.
- To give appropriate recognition to the need for a regional solution, the U.S. special regional representative to the region should not only be charged with responsibility for advancing U.S. policy with Pakistan and Afghanistan but also should take into account the relationships with and influence of India, Turkey, Russia, China, Iran, the Gulf States and Europe, and help Pakistan resolve its differences with neighboring countries. This representative must coordinate actions with Central Command, as was the case in Iraq.
- In consultation with International Financial Institutions, the U.S., working with other donors, should rapidly provide Pakistan with significant balance of payments and budgetary support designed to prevent financial collapse and to alleviate the immediate humanitarian effects of high food and energy prices. In the case of the U.S., better coordination between Treasury and State is needed to avoid conflicting signals, as was the case of the recent IMF loan where Pakistan was not given the quantum of assistance that was available, for example, to Iceland, Hungary and Ukraine through the IMF's emergency financing mechanism. Other forms of indirect financial assistance should also be examined urgently, such as the removal of textile quotas or support for the construction of regional gas pipelines.
- The order of magnitude will depend on what other funding sources may be available, but the overall totals needed from the U.S. and other sources are approximately \$5 billion very soon and \$10 billion over two years.
- For the longer term, and noting the potential for an immediate beneficial political effect, the U.S. should pledge significant financial support for social, economic, and political development, designed to assist Pakistan in strengthening or rebuilding its civilian institutions, improve civil-military relations, and to encourage non-governmental organizations and civil society.
- Reduction of hostility with India and opening up economic and political relations would release Pakistani resources for development. The U.S. should engage in consultations with other relevant governments, including India, China, Saudi Arabia, the Gulf States and Europe to maximize efforts to promote a deeper economic and political Pakistani relationship with India and thus to help ensure the country's economic and political stability over the longer-term.

- The U.S. should increase aid for Pakistan's police and redirect aid urgently focused on improving the capacity and training of the army and paramilitary forces for counterinsurgency warfare and fighting militancy.
- We must also recognize and support the efforts of the Pakistan Government to not only protect the poor but also to empower women during this difficult economic transition through the Benazir Income Support Programme. While recognizing that the Programme needs to be better targeted and monitored (it will be reviewed carefully by the World Bank and the International Monetary Fund in mid-2009), we encourage this effort to improve the lives of the most vulnerable parts of Pakistani society and to protect them against the deprivations of economic turmoil.

Political and Security Factors

The U.S. and Pakistan: A Roller Coaster Relationship

Because of the importance attached to military operations to destroy Al Qaeda, Pakistan in recent years has often been viewed by American officials in the context of Afghanistan. As a result, events in Pakistan have been assessed largely in terms of their effect on U.S. objectives for Operation Enduring Freedom. Since 9/11, the implications for Pakistan as a whole have largely been neglected or poorly analyzed. But the well-being and stability of Pakistan – a nuclear power with a population of 170 million that likely will double by 2050 – is of supreme importance in its own right. A sound and coherent strategy towards Pakistan is needed. Its formulation requires an informed understanding of the history, of the social, political and economic dynamics, and of the key personalities and influences.

This brief report cannot by itself fill the knowledge gap or provide a full analysis. Instead, this report highlights broad political, security, regional, economic and social factors relevant to formulating a U.S. national strategy towards Pakistan, which in turn serve as background to the report's operational recommendations for implementing such a strategy.

The challenges in southwestern Asia need to be considered in three separate but related contexts: Afghanistan, the Afghan/Pakistani tribal belt, and Pakistan. (Underlying all of these is the long-standing difficult relationship between Pakistan and India.) In the present conjuncture, Pakistan is arguably the most important of the three. With nuclear weapons and a huge army, a population over five times that of Afghanistan and with an influential diaspora, Pakistan now seems less able, without outside help, to muddle through its challenges than at any time since its war with India in 1971.

A Troubled Past

At the end of the British-dominated colonial era in the Indian sub-continent, India achieved independence from Britain in 1947. But the break with Britain was a secondary objective for Pakistan, whose primary goal was to provide a homeland, separate from the new India, for those Muslims in the sub-continent who wished to make use of it. The ensuing arrangement was both bloody and inherently unstable. Vivid memories remain, in both India and Pakistan, of the mass movement of peoples, family separations and slaughter that caused at least half a million and possibly twice as many deaths. The Kashmir dispute, which led to conflict immediately after the birth of the two new countries, is still described by Pakistan as 'the unfinished business of Partition', over sixty years after that event.

From a Pakistani perspective, any threat analysis must take into account not only the fighting taking place inside Pakistan and Afghanistan, but also the looming presence of the major economic and military power to the east. The Pakistani narrative portrays a hegemonic India which would dominate the South Asian subcontinent and bring Pakistan under its thrall. The long-simmering dispute over Kashmir and the memories of three wars, including Indian involvement in one that led to the break-up of Pakistan and the birth of Bangladesh, still rankle in Pakistani minds.

Leaving aside its constant differences with its massive neighbor, Pakistan remains fraught with tension as it strives to accommodate its multifarious internal differences. Among the four provinces, Punjabis

form over 60% of the population and dominate both the Army and the economy, which causes resentment among the other three. The Pukhtuns (or Pashtuns) – a tribal people – have a separate language, tradition and culture (see box on the Pukhtuns). Sindhis, in the south east, include semi-feudal agricultural laborers and ostentatiously affluent traders in the port city of Karachi. The desert province of Baluchistan, which has seen several violent insurgencies since independence, contains almost half of Pakistan's land mass but is home to little more than 5% of its population. As a whole the nation is made up of disparate ethnic groups with very low human development indicators, including low literacy, widespread poverty, and inadequate public health and education. In short, Pakistan has had a perpetual problem with stability.

These inherent challenges have been more than reflected in weaknesses in the country's politics and institutions. With military takeovers occurring roughly at ten-year intervals, no elected government since Zulfikar Ali Bhutto's controversial rule in the 1970's ever lasted a full term until the most recent elections in February 2008. Even these were held under a military president, Pervez Musharraf, who had himself taken power through a military coup in 1999 and manipulated the Constitution and the body politic for his own purposes.

In their struggle to exercise and to maintain power, secular politicians and military leaders alike have made use of and sometimes promoted extreme religious groupings in "Faustian bargains" for their own ends. Like Musharraf and others before him, President Zardari's PPP party has forged political links with religious and regional parties that have violent militant wings. Before he was deposed by Musharraf, the PML-N party leader and Zardari's main political opponent, Nawaz Sharif saw it in his interest to promote Sharia Law as Pakistan's principal legal system.

But before the present epoch and the global threat of violent Islamist militancy, the most significant politicization of religion for secular purposes in the region occurred during the regime of General Zia ul Haq and the Soviet occupation of Afghanistan from 1979 to 1989. Massive western, especially U.S., resources were channeled through Pakistan in order to promote a Jihad, a holy war, against the Soviet presence in Afghanistan. The mujahedeen, or holy warriors, were spawned, supported, and encouraged as valued allies, supplied and managed by the CIA and Pakistan's Inter Services Intelligence Directorate (ISI).

There were two lasting and damaging consequences of this. First, once the Soviets withdrew from Afghanistan, the mujahedeen remained in being. After ten years of encouragement to fight for what was presented as a religious cause, many of these – Pakistanis, Afghans, Arabs and others – were still fired with zeal. Looking for other opportunities, they transferred their attentions, with the continuing active assistance of the ISI, to Indian-administered Kashmir, which witnessed an upsurge of violence in 1989 following rigged elections there in 1988. It was the same mujahedeen, continuing the line from 1979, who served as a cover for the Pakistan military in the ill-fated Kargil offensive in 1999, and whose groups Musharraf steadfastly refused to break up during the year-long dangerous stand-off with India in 2001-02. From Pakistan's perspective, they were valuable irregulars who could supplement Pakistani security forces in the event of hostilities. Rather than try to rein them in, it was deemed better to keep them occupied on the eastern border, in harassing Pakistan's existential enemy, India, and subsequently on the western border, engaged with Afghanistan. However, such zealots were never susceptible to fine-tuning and were always quite capable of turning on their erstwhile controllers and threatening Pakistan itself, as is happening today.

The Pukhtuns

It is of course simplistic to describe the militants in Afghanistan and Pakistan as 'Al Qaeda and the Taliban', as if the Coalition's opponents were members of two essentially homogenous groups which, whatever their differences, shared similar aims. In practice the composition and motivations of the fighters and of their sympathizers and supporters are varied, complex, and vary over time. FATA itself is a complex social and economic entity with many different tribal and political characteristics and changing demographics. It has a youth bulge that is unemployed and highly susceptible to recruitment by local renegade leaders who have broken with the traditional tribal leaders and reject their relationships with the government's representatives.

Pakistani attitudes towards Al Qaeda and other non-Afghan or Pakistani fighters have been fairly straightforward, even though intermarriage since 1979 has blurred distinctions. Pakistani security forces have proved ready to attack and kill them without hesitation and to no little effect.

The approach towards the Afghan Taliban and others has however been carefully nuanced and calibrated. The Taliban, or religious students, who recognize the religious and secular leadership of Mullah Omar, went to ground after the sustained U.S. attacks in the aftermath of 9/11. But they have re-emerged in a new and more effective form, partly because the Coalition's initial concentration of attention on Kabul and the U.S.'s preoccupation with Iraq eased much of the pressure on them. Many Taliban are indeed motivated by a radical religious zeal arising from a distorted view of Islam which is rejected by many other Muslims. But there are many others in the fight: criminals, warlords, narcotics smugglers, young men who see little other future for themselves, and insurgents who object to the presence of foreigners exercising violence in their homeland.

Almost all of the Afghan and Pakistani Taliban are Pukhtuns, but all Pukhtuns are not Taliban. Some understanding of the Pukhtuns (or Pashtuns, or Pathans) is therefore essential in dealing with the threat to U.S. interests. Hardened by millennia of conflict in the exceptionally rough terrain of what has been the transit route for waves of invaders from Alexander the Great to the British, the Pukhtuns are tough, warlike and fiercely proud of their religion, heritage and traditions. Of the roughly 40 million in the region, perhaps 15 million live in Afghanistan while the rest are mainly in Pakistan's NWFP, northern Baluchistan, as many as 4 million in the city of Karachi and some 3.5 million in the FATA. Part of the boundary between Pakistan and Afghanistan, the 1500 mile long Durand Line, which was drawn up by the British in the late 19th century and divides tribes and villages, has never been and is still not accepted by Afghanistan as an international border. There are thousands of individual crossings each day. The line is blurred by the presence of millions of Afghan refugees in Pakistan and, in recent months, by 20,000 refugees from Bajaur Agency in Pakistan to Afghanistan. Despite some 1000 border posts on the Pakistani side and a much smaller number to the west, it is impossible in practice to seal off such rough terrain and the long established trade and smuggling routes. It is therefore relatively easy for fighters or fliers to move in either direction, and impossible for the Pakistani security forces to control them, even if they were inclined to do so.

But it is the Tribal Code, or Pukhtunwali, rather than the physical ease of passage, which is of the greater political significance. Although its practice has been eroded in recent decades, conformity to this code is expected of any Muslim living in the tribal area. Pukhtunwali centers around the concept of honor (*izzat*) of the individual or the tribe, from which spring the obligations of revenge and safe conduct (*badal and melmastia*). There are also mechanisms for mediation, and rules, based on ostracism or in its extreme form death, if the Code's obligations are not met. These include

collective responsibility and collective punishment. It was this Code which the U.S. promoted in 1979 – 1989 when encouraging a holy war to drive out the uninvited Soviet infidel who had violated Pukhtun honor by entering the tribal homelands without invitation.

It is evident that this same Code applies similarly to Coalition operations in Afghanistan and the FATA, and that it is also relevant to tribal behavior towards the Coalition's opponents. The Coalition's presence, like that of the Soviet Union and of the British before that, is seen as a violation of communal honor which the Code and custom requires to be avenged. The deaths of tribesmen at the hands of Coalition forces must similarly be avenged, if not by the closest male relative then by his descendants. A tribesman fleeing from the Coalition who seeks refuge must be given hospitality and safe passage: the greater the threat, the greater the honor accruing to the host.

The situation is rendered more complex by the fact that the seven Tribal Agencies and six Tribal Regions that make up the FATA have a special autonomous status within the Pakistani Constitution which severely curtails the writ of Federal authorities and security forces.

The Pakistani authorities understand these considerations but unsurprisingly have proved unable to work within or around them. They present one of the greatest challenges for the current elected government, but which it has so far proved unwilling or unable to address. Historically, in their attempts to manage these areas which proved impossible to settle, the British used a mixture of inducements and retribution. Conscious of Pukhtunwali, they aimed to destroy property as a form of punishment rather than kill tribesmen. They would therefore give due notice of their intentions so as to allow villagers to evacuate their homes. Until about 2004, the Pakistani authorities used local levies and the paramilitary Frontier Corps, who were almost all Pukhtuns themselves, in any operation in the tribal belt, rather than the Punjabi-majority regular Army. The large-scale intervention of the Army in 2004, quite unused to conducting counter-insurgency operations, was violently resented within the FATA, and opposed accordingly.

There are other unwelcome phenomena which have arisen in the rest of Pakistan in recent years. Before 2005, four years after the start of the Coalition's operations in Afghanistan, suicide bombings in Pakistan were very unusual, with scarcely a handful each year. But the number rose to 56 in 2007 and 63 in 2008. A 'Pakistan Taliban', the Tehrik-e-Taliban, has emerged in South Waziristan Tribal Agency and spread across the region; its leader Baitullah Mehsud is said by the Pakistani authorities to be one of the main instigators of such bombings, helped in some cases by Punjabi Sunni militants from Central and Southern Punjab, who may also have ties to Al Qaeda. Terrorists are now demonstrably able to operate throughout the country including in the heart of the capital, Islamabad, as was shown by the bombing of the Marriott hotel, close to the Parliament buildings, in September 2008.

There is good reason to believe that Mehsud and the Afghan Taliban leader Mullah Omar have serious differences. And it may be the case that Al Qaeda's presence is no longer welcome to the Afghan Taliban. But it would be wishful thinking to suppose that such differences signify any reduction of threat to Coalition interests. Of greater significance is the increase in numbers, diversity, sophistication and ferocity of the opponents of the Coalition and the possibility that the Pakistan Army, beleaguered as it is, chooses to limit its targets to Al Qaeda and the Pakistani Taliban, who threaten the Pakistani state, and pull their punches with the Afghan Taliban and 'freedom fighters' whom the ISI originally helped create.

Pakistan today is facing an internal war against radical Islamists and other insurgents, who have established a foothold in northern Baluchistan and the FATA regions that were once the buffer between the rest of Pakistan and Afghanistan. They have now also extended their influence and violent activity into the settled areas of the NWFP as well as key parts of the hinterland. In 2007, of some 56 suicide bombings, some 36 are said to have been directed at the Pakistan military, a development that has shaken the establishment in Pakistan. In 2008 Pakistan experienced 63 suicide and car-bomb attacks, which killed 725 – the highest number in a single year since 2001.

Attitudes Towards the U.S.

The second consequence of the 1979-89 period was the impact on Pakistani attitudes to the United States. Pakistanis are not alone in ambivalence to the U.S.: quick to criticize but eager, if possible, to send their children to seek a better life there. But in political terms, successive generations have come to regard the U.S. as a fair-weather friend, ready to deploy funds and muscle in pursuit of its own interests but neglectful, threatening, and vindictive when the balance shifts. When Pakistan became the front line in the Cold War after 1954, it benefited from massive U.S. resources. But the U.S. was seen as insufficiently supportive in the 1965 conflict with India and suspended military and nuclear-related sanctions in 1979 after Pakistan constructed a nuclear enrichment facility. The Cold War alliance was renewed after the Soviet invasion of Afghanistan in 1979. But after the Soviet withdrawal in 1989, U.S. priorities changed. Pakistan became subject to nuclear-related sanctions once again, with further tightening of the screws in 1998 after India's and Pakistan's nuclear tests and in the following year after Musharraf's coup against Prime Minister Nawaz Sharif.

Whether or not U.S. sanctions had any objective justification – which was sometimes the case and sometimes not – is irrelevant in terms of public perception and the political significance of a chronic deficit of trust between the two countries.

The tragedy of 9/11 changed the relationship once again. Musharraf made the only choice possible of breaking his ties with the Taliban in Afghanistan and pledged to become an ally in the war on terror. The U.S. became Musharraf's willing partner, providing him resources and helping him maintain his autocratic control, while ignoring other political actors inside and outside the country. Since by this time the Taliban's excesses were all too apparent and they had become deeply unpopular in Pakistan, the UN-backed bombing campaign against targets in Afghanistan which started in October 2001 was not initially unpopular among ordinary people. Paradoxically, it was in early 2003, in the run up to the operations in Iraq, a country with which Pakistan had no significant ties or interests, that the mood shifted significantly against the West and against the U.S. in particular. The reasons for this are little different from the reasons in other Muslim countries, and indeed elsewhere, but the intensity and near-unanimity of sentiment reflected the effects within Pakistan of its own engagement in the war on terror.

Since 2003, and as a result of the difficulties facing the Coalition in Afghanistan following the resurgence of the Taliban, doubts have emerged in Pakistan about the Coalition's staying power. This has led to fears of a re-run of 1989: if the U.S. were to pull out, Pakistan would seemingly be left to face the consequences of the violence and instability not only in its neighbor Afghanistan but within the tribal belt and Pakistan more generally. Although impossible to verify but not implausibly, Pakistani authorities

maintain that their security forces have suffered more deaths since 2001, some 1400, than the total of all the coalition countries in Afghanistan as a result of their military operations within Pakistan. They deeply resent being criticized for not doing enough and especially resent the violations of their sovereignty by the use of drones and, on September 3, 2008, by U.S. forces on the ground.

There is little doubt that, reflecting the different U.S. and Pakistani priorities, the Pakistani Army and the ISI under the leadership of Musharraf were re-insuring in Afghanistan and indirectly assisting the Afghan Taliban, especially when they sought refuge in the FATA from U.S. pursuit. This was regarded as inconsistent with Pakistan's commitments and incensed the U.S. military. This entirely unsatisfactory situation has driven a further dangerous wedge between two governments which seek to present themselves as allies and has exacerbated the trust deficit.

Domestic Politics

The narratives and perceptions surrounding Pakistan's troubled history and the turbulent relationship with the U.S., whether or not soundly-based, play directly into Pakistani domestic politics. Any strategy towards Pakistan must therefore take full account of them and, ideally, seek to redress the balance.

Western governments tend by default to support the concept of democracy. After the mysterious death of the military dictator Zia ul Haq in 1988, the U.S. had high hopes for the western-educated Benazir Bhutto who became Prime Minister in the subsequent elections. The U.S. also proved ready to transfer support to her political rival Nawaz Sharif when Bhutto was dismissed after two years by the then President amid allegations of corruption. Although Sharif's party had been largely created by the Army as a counterweight to Bhutto – whom it distrusted – he met a similar fate in a similar timescale. Each contender then served similarly foreshortened terms once again, each one of which seemed worse than the former. It was true that elected governments' powers were greatly constrained by the role of the Army in the wings, but this could not excuse the seeming inability of both key political parties to live up to their responsibilities as regards both governance and integrity. Under elected leaderships democracy appeared to become no stronger while the rulers' abuses of power increased in scale.

Against this background, successive Chiefs of Army Staff were frequently urged within Pakistan to intervene once again, to improve the effectiveness of governance and to reduce self-serving corruption. In Sharif's second term as Prime Minister in 1999, when the country was nearly bankrupt and after Sharif had intervened in the operation of most of the country's institutions, had pledged to introduce Sharia Law and, the final straw, had meddled in what the Army regarded as its own business, the then Army chief, Musharraf, presided over a pre-planned but bloodless coup. While the coup itself was strongly condemned by the U.S. and British governments, Sharif's departure was widely welcomed in Pakistan. Western opposition moderated as Musharraf started to introduce some overdue and beneficial reforms and made use of his persuasive powers to project his intentions to make Pakistan a moderate state. Under Musharraf's leadership and largely as a result of financial inflows from the US and other sources - including remittances from the Pakistani diaspora following 9/11 - the economy experienced some impressive growth figures.

But with the passage of time Musharraf became less able to maintain the momentum of reform; he had some damaging setbacks, made major errors of judgment, engaged in transparently dubious political

expediciencies, implemented some unfortunate economic policies and increasingly lost popular support. His backing for the U.S. and the war on terror was used against him and, ironically, he was also blamed for allowing the nation's honor to be humiliated by U.S. criticism that he was not doing enough.

It was precisely when Musharraf's popular support had drained away in 2007 that the U.S. government appeared to be pinning their hopes on him personally. This increased the animosity against the U.S. and further weakened Musharraf's position as he was accused of 'fighting the Americans' war'. The wholesale opposition of the judiciary, after Musharraf had summarily sacked the Chief Justice in March 2007 and suspended some 60 judges, introduced a new dimension to the ongoing political crisis and it became clear that Musharraf's days were numbered.

The Pakistan Army, once the most popular national institution in the country, lost its position of respect and dropped in popularity below journalists and lawyers, as Musharraf used the threat of the military's coercive power to dismiss the Chief Justice. When his decision was overturned by the Supreme Court, he resorted to a second "coup" by removing the Chief Justice again in November 2007. But the outrage which followed proved this to be a miscalculation. After he gave up his leadership of the Army to General Ashfaq Parvez Kayani in late 2007, he lost his ability to manage Pakistani politics at will.

In this turbulent environment, and with the encouragement of the U.S. and British governments, Benazir Bhutto and Musharraf were persuaded to accommodate their very considerable differences. Criminal charges against Bhutto and her husband were dropped with perhaps the objective that Bhutto's PPP party would win the general elections due in late 2007 and that she would serve as Prime Minister while Musharraf remained as President. Nawaz Sharif, however, would not be allowed to return to Pakistan from his forced exile in Saudi Arabia, which would severely disadvantage Pakistan's only other significant national political party. However, Sharif was able to return in November with Saudi help, and Bhutto was assassinated on 27 December. Both events dramatically changed the balance of power allowing both the People's Party and Sharif's Muslim League to assert their electoral strength. The postponed elections in February 2008 gave the PPP, under the leadership of Bhutto's widower, Asif Ali Zardari, a plurality but not an overall majority.

The new army chief, General Kayani, publicly proclaimed his desire to withdraw the army from political activities and refocus on its professional roots. He declared 2008 the Year of the Soldier and 2009 the Year of Training to make up for the lost attention to the fighting fitness of the army under Musharraf's eight years. He also sought the removal or return of army officers inducted into the civil government and other positions by Musharraf. Some 1200 officers had been parachuted into key slots in ministries, parastatal enterprises, and educational institutions during the Musharraf regime over 1999-2008. He also briefed the new civilian government led by the PPP on the security threats and sought its guidance on how to proceed. Absent a clear governmental strategy, the army was once again inserted into the battle against the insurgents in FATA and the NWFP. The army has not been well prepared for such warfare.

The Pakistan Army

Pakistan's army is a conventional force of about half a million, poised to defend its eastern borders against India. Pakistan's army fears not only the large size of the Indian army arrayed against it (over 1 million strong) but also the emergence of a new doctrine named Cold Start in India that would allow it to move rapidly and without warning into Pakistan. Pakistan's counter strategy rests on an Offensive-Defensive approach that involves a massive riposte into India at a point of Pakistan's choosing, enough to seriously hurt the invader. The poison-pill defense of Pakistan rests on its nuclear weapons. India's doctrine allows it first use of its own nuclear weapons. Pakistan has had an ambivalent position on use of nuclear weapons until November 2008 when President Asif Ali Zardari reportedly – unilaterally and without consultation with his military commanders – eschewed first use as an option in an interview with an Indian news agency. In the absence of a peace or at least an entente with India, Pakistan is constrained to maintain a large conventional force. But it has been forced to alter its stance to meet the threat from the internal insurgency along its western border.

Pakistan moved the equivalent of six infantry divisions that comprise its Strike Force against India from the eastern border to the western frontier. These forces have been involved in supporting the U.S. and NATO effort to seal the western border with Afghanistan and thus to prevent Taliban from entering and exiting that country to fight the foreign forces there. They have also been battling insurgents inside FATA, and Swat, Dir, and Malakand, within the settled areas of the NWFP. Over 1400 military deaths and thousands of other casualties have left the army demoralized. Moreover, the conventional army has had to learn to adapt to unconventional warfare on the fly. It is ill-equipped for this war. The United States has provided financial support to assist Pakistan in covering the costs of moving its forces into FATA but there has been little attempt to provide adequate equipment to allow the Pakistan Army to do its job. The return of some forces from the western to the eastern borders following the Mumbai attack will only make the counterinsurgency efforts of the Pakistan military more difficult.

Additionally, the great majority of the Coalition Support Funds given by the U.S. to reimburse Pakistan for counterterrorism operations was reportedly diverted to the Ministry of Finance, and a mere \$300 million reportedly trickled down to the Army in the financial year-ending 2008. As a result, at a time when the Pakistan Army has been engaged in extensive combat operations, the accelerated 'burn rate' on material has not been matched with necessary investments. Pakistan also lacks the technical equipment to maximize its performance in irregular warfare operations. The Army lacks modern night vision devices to monitor the border and helicopters to carry troops rapidly and engage a mobile militant force that strikes randomly across a vast area, ranging from South Waziristan to Dir and Swat. Pakistan needs to beef up its forces in the region but faces a serious problem since it does not have any forces to spare from the eastern border, so long as the Indian threat remains. The enduring tension between Pakistan and India affects not only the Pakistan Army but has a destabilizing effect on all of South and Central Asia, underlying the necessity for enhanced regional engagement by the U.S. and its partners.

The ISI presents its own particular difficulties as a component of the Pakistan military. For a good part of its existence the ISI operated dangerously independently of the regular military establishment in its ties with the Afghan Taliban and other insurgent elements. Under the current Army Chief, General Kayani, the Director General of the ISI has become increasingly answerable to the formal chain of command. But the weak link in the ISI's chain of command is the operational level officers who control field operatives, especially in FATA. Reliance on pro-Taliban operatives or retired ISI officers with ties to the Taliban creates problems for command and control of operations in the field. The new Director General of ISI, Lt. General Ahmed Shuja Pasha, himself a Pakhtun and a former Director General Military Operations, seems to understand these issues well and may be willing to delve deep into the ISI's operations to ensure that no autonomous actions take place. But the jury is still out on results.

The decision by Sharif, whose party had come in second, to enter into a coalition with the PPP and others was widely welcomed as an apparent recognition of the need to work together in such a time of crisis. But the coalition fell apart acrimoniously after, under a joint threat of impeachment by Zardari and Sharif, Musharraf stood down as President in August 2008.

Zardari managed to secure a sizeable majority in the indirect elections for the now vacant Presidency in September. But his position is weak among the general public. Opinion polls reveal him to be deeply unpopular with the general public as a result of long standing allegations of corruption. The Army too may be reserving judgment on him in light of his past history. He has also caused divisions within his own party by sacking many of his wife's former advisers and bringing in his friends and business associates. And his fulsome overtures to the U.S., partly in a so far unfulfilled search for U.S. funding to deal with a grave economic crisis (see below), are being used by his opponents for their political advantage. The country is facing a crisis of governance now with a bloated and largely ineffective cabinet that reflects a division of spoils among the many parties that the PPP has in its unlikely coalition, minus Sharif's PML-N.

Three recent developments have had a particular political significance in Pakistan. The operation involving U.S. ground forces in the South Waziristan tribal agency on September 3, 2008, the second day of the holy month of Ramadan, caused an immediate outcry, with strong condemnation by both houses of Parliament, by the Prime Minister, the Chief of the Army and finally by Zardari himself. This, on top of the various other real or supposed grievances against America, will make it harder for any political or military leader to be seen to be cooperating with the U.S. over Afghanistan.

Second, when Zardari was in Washington at the end of October 2008, he unprecedentedly described the militants in Kashmir as 'terrorists', rather than use the hallowed terminology of 'freedom fighters'. Welcome as this may have been in the U.S. administration, it is regarded within Pakistan as a capitulation, made all the worse by the fact that Zardari returned from Washington empty-handed. The impression therefore remained that the U.S. was unwilling to help Pakistan with its economic and social problems, greatly exacerbated by rising food and fuel prices and the fall of the currency, but was solely preoccupied with military and security issues in and around the tribal belt.

Third, and most urgently, the November 2008 Mumbai attack has rekindled old animosities between Pakistan and India at a time when Pakistan is faced with multiple economic, political and security crises. Threats of Indian cross-border military action in the face of a perceived failure on Pakistan's part to deal with the Mumbai perpetrators have caused the Pakistan Army to begin redeploying forces from FATA and the NWFP back to the border with India. (Although some of these moves involved routine rotation. Others brought infantry divisions to key sectors where India might be seen as entering Pakistani territory should a conflict erupt.)

Pakistani Society

Despite the considerable difficulties facing the country it would be wrong to regard Pakistan as doomed to go down the path of violent Islamism. In this context, the diversity of the country described earlier is also one of its strengths. Although the vast majority of Pakistanis are Sunni Muslims, there are minority Shia and Ismaili communities as well as Christians and Hindus. There is also diversity among

the Sunni, including members of Deobandi and Barelvī sects. Far from being sympathetic to the cause of radical Salafists, the predominant Sunni influence has been the Sufi tradition, which is unaggressive and tolerant, and enriched by poetry, song, and dance. The great majority of the much maligned madrassas, or religious schools, fulfill an essential social service by providing food, clothing and shelter to children of the poor when the state's primary education system has been severely weakened through neglect and corruption by successive governments. It is the recalcitrant minority of such schools who actively support the Taliban and which need firmer control.

There now exists in Pakistan a spectrum of opinion stretching from, at one end, a vague sympathy for the Afghan Taliban and hostility to the U.S. – shared by a majority of the population and an overwhelming majority of Pukhtuns – through active support for the Taliban to actual participation in hostilities at the other end. Any U.S. strategy must avoid policies which move many people along that spectrum towards action against us.

If, as is suggested above, the opposition in Pakistan to the Coalition stems in part from the effect of the Coalition's military operations on Pakistan's security, then it may be possible to improve Pakistani perceptions and reduce opposition by helping Pakistanis cope with some of the other significant challenges which affect their daily life. This might also help Pakistan's leadership convince their electorate that cooperation with the U.S. in fighting terrorists is in their own interests and not simply a consequence of coercion by the U.S., which is the widespread popular view at present.

There can, however, be no expectation of quick results: the wounds are too deep and Pakistan's institutions are too weak to be able to deliver progress swiftly. To begin with, therefore, a reasonable aspiration would be to avoid making matters worse, even if this may seem unambitious and require the tacit acknowledgement that mistakes have indeed been made. But both the avoidance of political error and the achievement of any progress will require a strategy towards Pakistan which takes account of the country's management and governance as a whole. It will not be sufficient just to provide traditional development assistance, since the country's institutions are so weak and its absorptive capacity is so limited.

The United States should make its intentions clear; that it will make every effort to bring about improvements to ordinary Pakistanis' well-being; that these efforts will be sustained and not subject to short term political expediencies or personalities; and that counterpart efforts and transparency also are required if any such partnership is to succeed. Sectors for particular emphasis in development efforts include employment creation, education and primary health, strengthening of the judiciary and the electoral system, agriculture, power supply and distribution, and water management and storage.

Regional Political Considerations

Pakistan's heated rivalry with India colors its relationships with other countries, including the United States, China, and Afghanistan. Spectacular acts of terrorism, such as the bombing of the Islamabad Marriott hotel in September 2008, have shocked the Pakistani establishment into understanding that the militant threat emanating from the tribal belt, Punjabi militants, and al Qaeda is urgent and poses a serious threat to the entire nation. Unfortunately, the November 2008 Mumbai terrorist attack and the immediate suspicion in India of Pakistan's involvement is further evidence that Pakistan is seen as 'ground zero' for international terrorism. Notwithstanding the alarming growth in Islamic extremism in Pakistan, the renewed tensions, finger pointing, and tough rhetoric between India and Pakistan following the Mumbai attacks have reinforced the belief among Pakistanis that India poses the greatest threat to Pakistan.

Under the Presidency of Pervez Musharraf, India and Pakistan agreed to a ceasefire over the Line of Control in 2003 and engaged in a Composite Dialogue that had lowered tensions. President Zardari has also made conciliatory statements. But the Mumbai attack and the tough language both countries have adopted in its wake suggest that neither India nor Pakistan will be inclined to do much to accommodate the other's concerns.

Despite India's growing stature in international affairs and strong regional position, Delhi is faced with the strategic conundrum of how to deal with a country whose instability poses a serious threat to its security, and also serves as a base for anti-India Islamist militants. Although the mistrust between these two countries is substantial, a civilian, democratic government in Pakistan is in India's long-term interest. The opportunity exists for the U.S. to help both Pakistan and India rethink their relations with each other, which might be encouraged by enhanced economic and energy integration between the two countries. Despite India's objections on this score, the new regional envoy of the United States can and should play a role in this regard.

Competition over the political future of Afghanistan produces another flash-point in relations between Pakistan and India. The Karzai government has grown increasingly close to India over the last few years, even as Kabul's relations with Pakistan worsened under the final years of Musharraf's rule. Pakistan has a long-term interest in a friendly, stable government in Afghanistan, particularly a government that will not grow too close to India. For its part, Afghanistan sees India as a useful hedge against dominating Pakistani influence. The competition between the two rivals risks a proxy war in Afghanistan, most worryingly exemplified by the alleged ISI involvement in the July 2008 bombing of the Indian Embassy in Kabul. The U.S. and its NATO allies' failure to bring significant progress to Afghanistan in a timely fashion further encourages Pakistan to hedge against a Western withdrawal.

This competition for influence in Afghanistan is among the reasons that relations between Pakistan and Afghanistan have remained poor over the last few years. Relations have improved cosmetically since Zardari's election as President, but tensions remain. Afghanistan's consistent refusal to recognize the Durand Line as the Afghanistan-Pakistan border invites suspicion in Islamabad that Afghanistan might someday try to bring Pakistan's Pukhtuns under Afghan control. And the Karzai government, weak and believed to be riddled with corruption, resents Pakistan's past support of the Taliban and has suggested that Pakistan's ambivalent anti-terrorism efforts are to blame for the growing insurgency in Afghanistan.

Clearly the tensions in South Asia between Pakistan and its neighbors stand in the way of major U.S. interests in peace, stability, and democratic governance in the region. The problems of the region are interrelated and will require sustained and even-handed U.S. engagement with a focus on long-term objectives. The suspicions and growing capabilities of other players – such as Iran and China – will require that the U.S. approach the region with a wider scope. Nevertheless, improved relations between India and Pakistan lie at the core of any U.S. strategy to stabilize both Pakistan and Afghanistan.

The State of Pakistan's Economy

The state of Pakistan's economy is every bit as worrisome as its security situation. Due to major structural flaws, exogenous shocks, worsening security conditions, and misguided or insufficient economic policies, Pakistan's economy stood at the brink of disaster late last year. Pakistan's current economic turmoil comes on the heels of several years of economic growth and prosperity during Musharraf's rule. Between 2004 and 2006, Pakistan's GDP averaged 7% growth, inflation stood at a respectable 8%, and the current account deficit ran at a manageable level. This growth came at a high cost, however. The Musharraf government's focus on short-term growth – partly for political expediency – set the stage for major problems when rising prices for food and commodities and a global credit crunch burst Pakistan's bubble.

In an analysis of how the Pakistani economy collapsed, economist Shahid Javed Burki¹ identifies four major flaws with the economic policies pursued by the Musharraf administration. He first faults the government for relying too heavily on external flows of capital for investment, particularly the private flows of investment that all but dried up at the onset of the global credit crunch. Second, as the country experienced economic growth and demanded increased imports, no effort was made to develop an export capacity, which worsened the trade deficit. Third, the government, like those before it, never undertook a serious effort to lower tax rates with a broadening of the tax base, which has resulted in a lack of resources available to the government. Finally, Burki faults the Musharraf administration for allowing the Pakistani state to weaken at the same time as the private sector gained strength.

The Musharraf government came under serious pressure in early 2007 as the Pakistani people began to call the legitimacy of its actions into question. As the government grew weaker, economic factors out of Islamabad's control put increased pressure on the economy. As oil and food prices increased globally in 2007, the Musharraf government and the subsequent caretaker government did not attempt to pass the costs on to consumers because such action would have increased the government's unpopularity. Therefore, the subsidy bill ballooned and the government opted to finance the budget deficit through heavy borrowing from the State Bank of Pakistan. This produced a dramatic increase in the fiscal deficit, from 4.3% of GDP in 2006-2007 to 7.4% in 2007-2008.

Increased spending on subsidized energy imports and food imports resulted in a major depletion of Pakistan's foreign reserves, which dwindled from \$13.3 billion in July 2007 to \$3.4 billion in November 2008, leaving just enough to cover one month of the country's imports. Inflation reached 25% in October 2008, which deeply affected the poor and unemployed population. In addition, the value of the rupee dropped more than 25% last year while the stock market plunged 40% during the last six months of 2008. GDP growth slowed to the 2-3% range, not exceeding the rate of population growth.

Pakistan therefore stood at the brink of an economic collapse in the fall of 2008, forcing it to accept an unpopular IMF program based on a 'home-cooked' economic austerity plan drawn up by the government of Prime Minister Yousaf Raza Gilani. The IMF's executive board agreed to provide a \$7.6 billion loan over a 23-month period, which gives Pakistan immediate access to about \$3.2 billion and an additional \$4.4 billion, subject to quarterly reviews.

¹ Burki, Shahid Javed. "A strategy in the making." *Dawn*. 18 November, 2008. <http://www.dawn.com/2008/11/18/ed.htm>.

However, the IMF package includes requirements for spending cuts, phasing out energy subsidies, implementing tax reforms, accelerating privatization, increasing interest rates, and implementing exchange rate flexibility to correct fiscal and external imbalances and control inflation. Pakistan has already implemented some of the IMF measures by eliminating subsidies on food and fuel and raising electricity tariffs. The government has also allowed the exchange rate to depreciate. But the fiscal situation may not have improved with tax revenues likely to stay below IMF targets.

As part of the condition for the IMF loan, the State Bank of Pakistan has increased its discount rate from 13% to 15% at a time when central banks around the world are easing monetary policy to stimulate economic growth. There is concern that such action – aimed at curtailing inflation – will increase already high borrowing costs for companies, which could in turn suppress economic growth.

According to most estimates, the government of Pakistan needs \$5 billion in the short term to avoid defaulting on its external debt and \$10 billion over the next two years to continue to service its outstanding debts. The government of Pakistan has secured commitments for enhanced financial assistance and development projects from IFIs such as the World Bank and the Asian Development Bank. However, Pakistan's political leaders hope that the IMF agreement will unlock additional funding from other sources, such as the Friends of Pakistan nations, which include the U.S., the United Kingdom, the United Arab Emirates, Saudi Arabia, and China. One hope is that Saudi Arabia would help - as it has in the past - by deferring Pakistan's oil payments. Although Pakistan's worsening economic situation began before the global financial crisis, the country's ability to raise additional funds from these countries might be at risk from the global recession. A lack of confidence in the economic leadership in Pakistan has apparently held back commitments by Pakistan's friends in the region. Everybody seems to be waiting for the results of the IMF program.

Structural and Development Challenges for Pakistan

Pakistan's short-term economic woes tell only part of the story of the development challenges facing the current government and those that will succeed it. Like many developing nations, Pakistan faces a number of structural challenges that prevent it from reaching its potential. There is a woefully low investment as a percentage of GDP in the social sectors such as health and education. As a result, Pakistan has very low literacy rates and poor health services.

In order to improve its infrastructure, strengthen the state, and provide more widespread social services, Pakistan will have to find a way to widen its tax base. Pakistan has the lowest tax-to-GDP ratio in the region and less than 1% of the country's 165 million people pay income taxes.

Enhanced tax revenues could allow greater investment to resolve Pakistan's energy crisis. Rising demand, water shortages, high oil prices, and insufficient investment in energy generation have given rise to significant energy shortages. Protests have occurred throughout the country because of prolonged power blackouts and rising electricity prices. The energy deficit has reduced production - including in the textile sector - curtailed economic growth and discouraged foreign investment.

Access to abundant, clean water resources is critical for Pakistan's economic growth. Agriculture employs 44% of the Pakistani population, particularly the rural poor whose economic development is important in defeating extremism. Foreign investment is needed to increase water storage and improve

distribution. More Karachi residents die each month due to contaminated water than all the Pakistani soldiers killed in combat with India since 1947.² Nevertheless, Pakistan spends 47 times more on defense than it does on water and sanitation. There is similarly insufficient investment in public health and education. In the area of economics and development – as in security – Pakistan’s real threats and challenges lie as much at home as they do next door.

Likewise, Pakistan has great needs in other infrastructure development and is seeking foreign investment in aviation, sea and inland port, railway, and road projects. Many of these projects could enhance economic integration between Pakistan and its neighbors.

During the Musharraf years, large inflows of foreign investment and remittances fueled consumption demand and led to the expansion of the domestic market and the growth of a middle class. However, the deterioration of law and order and political instability during the last year, compounded by concerns about absence of the Rule of Law, has caused hemorrhaging of volatile foreign investment. The global recession will also reduce the flow of remittances from important sources such as the U.S., the U.K. and the Gulf.

Standard & Poor’s and Moody’s Investors Service lowered their credit ratings for Pakistan in October 2008, citing the risk of the government defaulting on its external debt payments and its inability to secure funding from donor nations to deal with the current crisis.³ While loans from the IMF and other donors will help Pakistan to weather its current pressing economic difficulties, only a major improvement in the investment climate can bring about long-term growth.

Key issues in the U.S.-Pakistan Economic Relationship

The economic relationship between the U.S. and Pakistan remains crucial for Pakistan, and U.S. aid and support will be essential for Pakistan’s continued development. U.S. businesses and investors have major concerns about operating in Pakistan, which must be addressed if trade is to grow. The U.S. has been Pakistan’s largest investor, accounting for one-third of the country’s Foreign Direct Investment since 1990. However, concerns about political stability, security, corruption, and an often manipulated judicial system discourage greater inflows of American investment to Pakistan. In recent years the cost of extra security measures has further affected business confidence.

U.S. investors continue to advocate legal, procedural, judicial, and institutional reforms that boost economic efficiency and contract enforcement to help improve dispute resolution mechanisms.⁴ Similarly, the U.S. business community supports efforts to negotiate a U.S.-Pakistan Bilateral Investment

² Milam, William. “The Hydra has a fourth head.” *The Daily Times*. http://www.dailytimes.com.pk/default.asp?page=2008%5C11%5C26%5Cstory_26-11-2008_pg3_2.

³ Ahmed, Fashi. “Can Pakistan Stay Afloat?” *Newsweek*. 10 October, 2008. <http://www.newsweek.com/id/163349>.

⁴ For instance, a protracted commercial dispute in Pakistan that involves prominent U.S. corporations, including Siemens Westinghouse, continues to linger in Pakistani courts despite a clear ruling by the International Chamber of Commerce Arbitral Tribunal in December 2000. The successful resolution of this case would send a signal worldwide that Pakistan has taken a tangible step to improve its investment climate by respecting the rule of law and providing for international arbitration mechanisms in contract disputes. Former Prime Minister Shaukat Aziz was aware of this issue. President Zardari too has sent it to his government’s Law Minister, but no action has resulted to date.

Treaty (BIT). It could help create a stable, predictable investment climate that would help attract FDI as well as encourage existing investors to expand their operations in Pakistan, especially in capital-intensive industries such as energy.

During the last few years, most U.S. foreign aid has been earmarked to Pakistan's military. And access to the purchase from the U.S. of armaments which are not related to operations in Afghanistan has further reduced Pakistani funds available for its social development. Legislation introduced by Senators Biden (D-DE) and Lugar (R-IN) in the 110th Congress (S. 3263: The Enhanced Partnership With Pakistan Act of 2008) would have tripled non-military aid and make military aid available on the condition that it goes toward terrorism prevention activities. The Biden/Lugar legislation, now sponsored by Senator Kerry, authorizes \$7.5 billion in development assistance to Pakistan over five years and proposes an additional \$7.5 billion over the five subsequent years. Such a long-term U.S. effort that commits resources to social programs in education, health care, infrastructure development, and poverty alleviation should help reverse perceptions that the U.S. is not a reliable long-term partner.

Improving access for Pakistani textiles to the U.S. market would also benefit Pakistan's economy and popular views of the United States. Pakistan has requested increased access to the U.S. market, specifically duty-free treatment for the country's apparel, leather and textile industries. Electoral politics have long made such an agreement politically difficult for the United States, despite its importance for Pakistan's economy.

The Reconstruction Opportunity Zones (ROZs) initiative that would grant U.S. duty-free treatment to goods produced in Afghanistan and designated tribal areas of Pakistan could help increase economic activity in the some of the poorest areas of Pakistan. But implementation of such an innovative scheme in such a difficult environment will require much skill and attention.

In the long term, the U.S. could explore negotiating a full-scale Free Trade Agreement (FTA) with Pakistan.

Recommendations

Political-strategic

- In recognition that U.S. policy toward Pakistan must be considered in the regional context, the new U.S. special representative to the region with responsibility for policy toward Pakistan and Afghanistan, Ambassador Richard Holbrooke should recognize Pakistan's relations with India, Turkey, China, Russia, Iran, the Gulf States, Saudi Arabia, and Europe (EU and NATO), as well as the United Nations and bring them into discussions on future US policy and aid for Pakistan. One of the early steps the envoy should consider is to convene a regional conference to discuss how stability and peace can be achieved; how terror can be contained; and how states in the region can cooperate with each other more effectively.
- In damping down the current India-Pakistan crisis, U.S. policy needs to promote beneficial action by both sides. Pakistan must clearly do more to neutralize and control terrorist organizations operating on its soil and hence must meet some demands it believes are harsh and too biased towards Indian preferences. Giving Pakistan leeway to do so on its own timetable may be a way out and prevent the government from being seen as doing so at India's bidding.
- Confidence building measures between India and Pakistan must be expanded. In dealing with terrorist incidents, joint investigative capabilities with possible mentorship by the FBI and/or Scotland Yard should be created. Using the Incidents at Sea agreement between the U.S. and Soviet Union in 1972 as an example, Pakistan and India should be encouraged to form a joint maritime security patrol to prevent seaborne attacks by surveillance and exchange of information.
- Regarding Afghanistan, the Tripartite Commission needs to be strengthened. Areas of attention include greater exchanges of information and operational data; working out joint rules of engagement; conducting trials of joint Afghan-Pakistani-Coalition forces for cross-border operations to determine how far cooperation can be extended in the field in the battle against terrorists who fully exploit the absence of adequate border control and military coordination.
- The U.S. must reinforce Pakistan's efforts to strengthen democracy, engaging with political parties across the spectrum and supporting programs that strengthen political participation and civil society. The U.S. should encourage the Pakistan government to more actively work to build a strong and wide base of support its current economic, political, and military strategy and an informed civil-military dialogue.
- The U.S. should expand its efforts to assist Pakistan in building institutions of democracy by expanding training opportunities for political party workers on organizing parties and conducting elections. The U.S. should build on the work done by NDI and IRI and draw the EU and the European Parliament and other institutions into this effort.
- Pakistan needs to update its census and re-demarcate electoral constituencies to better reflect the growth and redistribution of population. This will not only affect the balance of urban

and rural seats in parliament but also provide the basis of a more equitable distribution of federal resources among the provinces. Pakistan is now an urbanized country. The electoral seats do not reflect this. The U.S. and others can provide technical assistance to get this done speedily.

- Individual U.S. states should form partnerships with Pakistan's four provinces, drawing on those states with significant Pakistani-American populations. This teaming can bring to bear additional American resources in helping Pakistan along social, economic, political lines to create opportunities and advance better mutual understanding. A model for this program - albeit a military one - would be the National Guard State Partnership Program, where state branches of the U.S. National Guard team up with foreign nations to enhance bilateral relations.⁵

Security

- The U.S. needs to redirect security assistance to Pakistan for both army and paramilitary forces to improve their capacity for counterinsurgency warfare and fighting militancy, including the elimination of Al Qaeda bases and operations in Pakistan's border region. An estimated \$1 billion is needed now to better equip the Pakistan Army for counterinsurgency. This should range from basic equipment, personnel gear and armored vests, to more sophisticated systems, including electronic detection tools and unmanned reconnaissance vehicles and helicopters able to operate in the rugged and mountainous terrain. At least \$200 million is needed to recruit, train and equip 15,000 more police and paramilitary forces. The U.S. must insist on a more rigorous reporting regime to ensure that the Ministry of Finance does not divert these funds into the general budget, as is alleged to have happened with Coalition Support Funds.
- The U.S. must devote more assistance to rebuilding Pakistan's police forces, including training and financial support to restructure and reorient police to provide security internally. This should include investments and training in the forensics sector.
- The U.S. needs to engage seriously and consistently with Pakistan on their perception of the threats to Pakistan's security and stability and how they can best be contained. This threat analysis should include an assessment of what Pakistan can do with the resources it has and what greater levels of U.S. and other assistance and support can achieve. Mutual understanding of how to best to manage religious extremism and with religious groups is essential here as well.
- While the opposition to U.S. and ISAF forces in Afghanistan by the Afghan Taliban are of major and legitimate concern to U.S. and ISAF governments, the Pakistani people, and especially those in the Tribal Belt, consider the Pakistani Taliban (Tehrik-e-Taliban) to be the greater and more proximate threat to Pakistan's interests and stability. The U.S. and others must recognize that this is a top priority for the Pakistani authorities and assist them in combating this latter threat.

⁵ For more information about the National Guard's State Partnership Program, visit <http://www.ngb.army.mil/ia/States/states/europe.htm>.

- Particular attention should be paid to the significance and relevance of Pukhtun traditional customs and laws, to the wider influence of the 40 million strong Pukhtun community spread around Pakistan and in the south and east of Afghanistan. U.S. goals in Pakistan should be calibrated to take account of these ground realities. The U.S. should support the gradual integration of FATA into NWFP or Pakistan proper so it is no longer treated as a neglected 'buffer zone.'
- To repair the trust deficit and the lost generation of Pakistani officers who were denied access to the West's military training, larger programs for exchanges and in-country training to help close this gap are essential. To expedite this process, this should include U.S. and Pakistani joint training in counterinsurgency in third country sites.

Political-economic and social

- The new administration should support early passage of the Kerry/Lugar legislation that authorizes \$1.5 billion a year over the next five years in non-military aid to Pakistan, and advocates an additional \$7.5 billion over the following five years. Beyond Kerry-Lugar, Pakistan needs an estimated additional \$5 billion a year from U.S. and other sources to cover critical budget shortfalls. This funding program should focus in particular on: public education, water and irrigation, electricity and energy, and agriculture. A measurable impact will not necessarily be immediately evident in all development sectors, but the long-term payoffs will be significant.
- As with U.S. military assistance, economic and social assistance will require substantial mentoring, monitoring, and institution-building. The U.S. should devote specific resources to this objective, as poorly managed and executed efforts will result in significant waste of U.S. taxpayer dollars, as we have seen in other recent large-scale reconstruction efforts. Agreed targets and benchmarks should be set in consultation with Pakistan before aid is released.
- Pakistani 'buy-in' is crucial to the success of any development effort. The U.S. program should make good use of independent 'technocratic' expertise, working within programs that correspond to the wishes of the Pakistani authorities and private sector.
- Such effort should extend into provincial administrations if possible and as appropriate and should not be limited to the federal government, as much of the social spending is controlled by the provinces.
- To help Pakistan exploit its iron ore, natural gas, coal and other resources, the U.S. should offer to conduct a geological survey of the country as it did for Afghanistan. To counter the argument that any survey risks compromising Pakistan by revealing the location of sensitive systems, the U.S. can argue effectively that it possesses far more effective and intrusive detection techniques and would not rely on a survey for those purposes.
- To help generate investment, the U.S. should identify specific programs in the agricultural, energy, educational and infrastructure sectors that can be supported by private investment or other means. The Pakistani-American community in the United States could serve as a source of funding for this initiative.

- The U.S. should look favorably at the Iran-Pakistan-India pipeline once the new administration has sorted out its policies for Iran. The U.S. should also support the Turkmenistan-Afghanistan-Pakistan-India pipeline.
- The U.S. should recognize the strategic role that the private business sector can play in furthering development goals and offering an alternative to illegal activities and terrorism along the Afghan-Pakistan border. The new administration should aggressively encourage Congress to pass legislation that would create Reconstruction Opportunity Zones (ROZs).
- The new administration should pursue completion of the U.S.-Pakistan Bilateral Investment Treaty (BIT) in order to bolster guarantees and safeguards for U.S. investors.
- The U.S. should encourage the Pakistani government to shift from indirect to greater direct taxation to enhance government revenues. Introduction of a true General Sales Tax as a Value Added Tax rather than a tax on production is key to this shift.
- The U.S. must work with Pakistan to bolster intellectual property rights (IPR) protection. The U.S. downgraded Pakistan to the Priority Watch List in 2008 due to the lack of progress on legislation to provide data protection for proprietary pharmaceutical and agricultural chemical test data. The U.S. should assist Pakistan in its efforts to promote public awareness of IPR and consider providing training for customs officials.
- The U.S. government should emphasize the importance of resolving foreign investment disputes. Fair and prompt resolutions of existing U.S. investor disputes should be viewed as a litmus test for whether Pakistan is serious about respecting its obligations.
- Despite the limited scope for development of institutions and employment opportunities in the FATA, the U.S. should provide humanitarian relief in the FATA. Because of their considerable importance and the extent of deprivation of the internally displaced people, the U.S. should especially focus on helping the 200,000-300,000 refugees from the Bajaur Tribal Agency and the Swat region in NWFP. Initially using the army and the Frontier Corps to help implement and protect development projects in FATA may be one way of handling the situation in the near term.

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