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HIGHLIGHTS

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I Overview

Pakistan: A sense of isolation and pressure prevailed in the aftermath of President Trump's critical remarks about Pakistan as he announced his new Af Pak policy. Measures announced by the New York State regulator against Pakistan's largest bank added to this, especially amongst Pakistan's elite. The BRICS communique from Xiamen, China naming Pakistan based terrorist groups followed, adding to the deep sense of dismay that Pakistan was being unfairly victimized by all. Domestically attention remained rivetted on the by election to the Punjab National Assembly seat former PM Nawaz Sharif was forced to vacate after his ouster by a Supreme Court ruling. The latest numbers coming in on the economy suggest major difficulties on the economic side as foreign exchange reserves have sharply reduced and the fiscal deficit and inflation rise.

Afghanistan: Following the announcement of the New Af Pak policy by President Trump, the relief that no immediate US disengagement was contemplated was further enhanced by the sense of being vindicated that the source of their problems had been so bluntly identified. Nevertheless, realities on the ground- a bad security situation and the necessity of having to deal with Pakistan - temper these sentiments. President Ghani's Eid address reflected this perspective when he said that: "We are ready for comprehensive political talks. Peace with Pakistan is on our national agenda". The India Afghanistan Strategic Partnership Council meeting in Delhi in the second week of September laid out a road map of major developmental cooperation projects and themes.

II Developments in Pakistan

Internal

By-election for former PM Nawaz Sharif's seat: The former Prime Minister's wife Mrs Kulsoom Nawaz was elected (18/9/2017) to the Punjab seat which fell vacant after her husband's ouster by a Supreme Court judgement. Her victory was a comfortable one over the Pakistan Tehreek i Insaaf (PTI) candidate yet its margin was reduced as compared to the result in the 2013 general election. Voter

turnout in this by-election was however also lower. Although the contest was a spirited one, the outcome is no great surprise. There are two issues of importance that the election has thrown up. Firstly, the Chief Minister (and Mr Nawaz Sharif's brother) as well as his son stayed away from the constituency throughout the campaign. For some lengths of time he was not in the country but the absence is regarded as noteworthy as it shows a growing rift between the two brothers and their respective nuclear families. Mrs Kulsoom Nawaz's campaign was handled entirely by her daughter Maryam Nawaz who is increasingly spoken of as her father's political heir. Mr Nawaz Sharif was also away from the country as he is in the UK where Mrs Kulsoom Nawaz is undergoing treatment for cancer. Secondly the candidate securing the fourth largest number of votes (in excess of 5000) belonged to the yet to be recognized Milli Muslim League – a front for the Jamaat ud Dawa. The candidate Yaqoob Shah's campaign (he stood as an independent) had used Hafiz Saeed's posters freely and cadres of the Jamaat-ud-Dawa (JuD) and the Falah e Insaniyat(the welfare wing of the JuD) had descended on the constituency from different areas. Although he lost his deposit, as did all other candidates barring the top two, nevertheless his campaign is suggestive of the core support the JuD can muster up. Incidentally Yaqoob was placed on the US treasury sanctions list of designated terrorists in 2012. For many Pakistanis, and especially those who represent the military's thinking, for the Lashkar e Taiba or the Jamaat ud Dawa to transform itself into a political party is the way to channelize the ground support it has into more acceptable channels. For liberals in Pakistan and for the world outside, this 'mainstreaming' of terror groups, not a new development in itself, is precisely what is wrong with Pakistan today. It is also the case that on the ground, even if not legally in terms of recognition by the election commission, the JuD has incrementally mainstreamed itself largely through the 'social work' it has been carrying out through the Falah e Insaniyat. Such a trend is indicated in the case of the candidate who came third in this by election. He was supported by the Labbaik Ya Rasool Allah party. This is made up largely of radical and extremist Barelvis who have come into the limelight using the cause of Mumtaz Qadri- the assassin of the Punjab Governor Salman Taseer-to mobilize people in the vicinity of Rawalpindi, Chakwal and Lahore. Barelvi mobilization and radicalization in the past decade has been significant although it has not received the same attention as the Deobandis.

Benazir Bhutto Assassination Case: An anti-terrorism court (ATC) in Rawalpindi announced on 31st August the verdict in the Benazir Bhutto assassination case. The judgement acquitted five Tehrik-i-Taliban Pakistan (TTP) suspects and announced 17-year imprisonments for two police officers. It also declared the former President Gen Pervez Musharraf an absconder in the case. A joint investigation team had earlier implicated Musharraf in the case on the grounds that his government did not provide adequate security to the former prime minister despite her repeated requests. Apart from Musharraf, five other men including Baitullah Mehsud — well known as a TTP militant leader who has since been killed-have been declared absconders. The case has dragged on for nearly 10 years and it reflects the major structural infirmities of Pakistan's criminal justice system with a weak prosecution open to intimidation. An editorial comment in the Dawn possibly summed up the mood of many in Pakistan at this unsatisfactory conclusion: "It is a heartbreaking disgrace to the memory of one of the country's greatest leaders." The verdict is being appealed both by the PPP as also by the two police officers convicted.

Economy: With reserves now hovering around a level that can finance imports for only about three months or so, there are gloomy predictions being made about a possible recourse to the IMF again. In 2008, Pakistan went to the IMF when reserves had fallen to a level sufficient for barely two months of imports and in 2013 again in a similar situation. With exports falling and a rising import bill two other indicators have been causing concern: A rising fiscal deficit- reportedly close to 6 percent of GDP and rising inflation. With the country already in election mode for next year's general election, the prognosis of many independent Pakistani economists is gloomy not least also because of the anti-Pakistan tone of President Trump's statements and the apprehension that these could also impact on the economy's overall standing with potential creditors.

External

Fallout of President Trump's announcement of a new Af Pak policy: The reverberations following President Trump's broadside against Pakistan while announcing a new Af Pak policy have continued. Statements from senior government and military officials covered the full spectrum- from defensiveness

to denial to a sense of victimhood at being unfairly treated. At the same time some effort at containing anti US rhetoric is also visible and the attempt clearly was to project that the answer to this situation lies in diplomacy. Public opinion was sought to be reassured that a regional consensus on terrorism and Afghanistan is being evolved with the Foreign Minister's visits to Turkey (12 September) and Iran (11 September) apart from China (8 September). The latter visit is now likely also to be followed by a Trilateral Foreign Ministers Meeting with China, Pakistan and Afghanistan. These regional efforts will clear the way and enable the Pakistan Foreign Minister to make his postponed visit to the US too in which he will try and explain Pakistan's difficulties and challenges. Unrelated developments such as a slight diminution in Pakistan's cricket isolation – an international cricket team has visited Pakistan this September and to be followed by the Sri Lankans playing one or more matches in Lahore - also help in shielding public opinion from the extent of Pakistan's poor external image.

It would be a fair assessment that US postures have added to the sense of isolation and anxiety many Pakistanis feel about their country's external standing and image. This state of siege, especially in Pakistan's elite, was further enhanced by measures announced by the New York state's Department of Financial Services against the Habib Bank - Pakistan's largest bank - for its failure to comply with regulatory regimes aimed to combat money laundering, terrorist financing and other illicit financial transactions. The Habib Bank announced in end August that it was closing down its New York Branch. Later in early September it agreed to an out of court settlement to pay a fine of \$225 million. This fine, is the largest ever imposed upon a Pakistani bank and although large, is far smaller than the \$630 million that the regulator had earlier assessed. The latter figure would have wiped out the Bank's entire reserve. In financial and banking circles in Pakistan the impression certainly is that the action against the Bank was not unrelated to President Trump's new policy approach. Many felt that this was a warning that the lessons gained by the US in the past decade with regard to putting the financial squeeze on Iran would now be applied on Pakistan. With elections due in the first half of the next year, another convergence of fiscal difficulties with financial populism - not uncommon in Pakistan's history - is likely. In this background, tough US postures adds to the sense of pressure and isolation in Pakistan.

China: That within a few days the US Statement would be followed by a forthright statement about terrorist groups in Pakistan from the BRICS Summit in Xiamen, China (4-5 September) added to and perhaps multiplied these concerns. In both cases, what was new was not so much what was stated as the levels at which the statements came. (For further details of BRICS statement see Afghanistan section below). With regard to China, the Government of Pakistan has been at pains to emphasize that the BRICS statement used language which had earlier been employed and as such no change of substance in China's position had taken place and the fact that the groups mentioned were in fact banned in Pakistan also meant that the statement was not directed at Pakistan. A visit (8 September) by the new Pakistan Foreign Minister to Beijing soon thereafter (his first foreign tour after being appointed Foreign Minister) and supportive statements from his Chinese counterpart has provided some further reassurance. Certainly, only the most committed Chinese supporters in Pakistan believe the Chinese government has total equanimity with regard to extremist groups in Pakistan. The Xiamen BRICS statement suggests a greater convergence of China with US and other assessments. The difference, however, is that China for the time being, is concentrating on other aspects of its relations with Pakistan. In particular it will also try to see if it can reduce the huge friction in the Pakistan Afghan interface, a task which the US has failed in.

Bilateral: The respective Secretaries of Water Resources of India and Pakistan met in Washington at the World Bank on 14-15 September to follow up on their August meeting with regard to differences on the Kishenganga and Ratle hydroelectric power plants in India. A statement from the World Bank said that "an agreement has not been reached at the conclusion of the meetings, the World Bank will continue to work with both countries to resolve the issues in an amicable manner and in line with the Treaty provisions." The differences boil down to the choice of dispute resolution mechanism- India wants a neutral expert, Pakistan, a Court of Arbitration. The next steps which either may take or what further attempt the World Bank may consider remains to be seen. Nevertheless, the fact that the Kishenganga project is nearing completion means that the pressure is going to be on Pakistan to move forward in some way if for no other reason than to stave off domestic criticism in the future with regard to the Ratle Hydroelectric Project.

III Developments in Afghanistan

Internal

Ghani Eid's message: President Ghani in his Eid day message on 1st September made references to Pakistan which have been interpreted as implying a readiness to move beyond the high degree of friction which has characterized the Pakistan Afghan interface for most of this year. He said that his message for Pakistan was that Afghanistan "is ready for comprehensive political talks. Peace with Pakistan is in our national agenda". Possibly, President's Ghani's calculation may be that in an environment where US pressure is going to grow, a bilateral initiative may have more potential for results than at any time since the beginning of this year. One issue, and there are many, which requires urgent attention from the Afghan point of view is reducing frictions on the border crossings on the Durand line which have led to prolonged closures in the recent past.

External

China: The declaration issued at the end of the BRICS summit at Xiamen had included a paragraph much debated since, on terrorist groups in Pakistan. The reference was of concern at the violence being caused by the "Taliban, ISIL/DAESH, Al-Qaida and its affiliates including Eastern Turkistan Islamic Movement, Islamic Movement of Uzbekistan, the Haqqani network, Lashkar-e-Taiba, Jaish-e-Mohammad, TTP and Hizb ut-Tahrir." The specific references to Pakistan based terror groups came in the wake of President Trump's strong statement on the Af Pak situation and was, therefore, to many in Afghanistan a vindication that their central concern had been forcefully articulated. The initial Pakistani reactions were of a mounted concern at what appeared to be a growing convergence of international opinion against Pakistan, in particular with regard to the situation in Afghanistan. Clarifications from the Chinese that the statement should not be construed as a change of policy have acted as a reassurance to Pakistan. Further reassurance came from the Chinese Foreign Minister during the visit by the new Pakistan Foreign Minister to Beijing, his first foreign tour after being appointed Foreign Minister. During this visit, it was also announced that later in the year the trilateral Foreign Ministers meeting with China, Pakistan and Afghanistan would be held. It may be recalled that this trilateral forum was set up in June 2017 following a Chinese mediation to resolve heightened Pakistan Afghanistan frictions following major terrorist attacks in Afghanistan. With the Quadrilateral mechanism (Quadrilateral Coordination Group- QCG- China, US, Pakistan, Afghanistan) moribund since mid-2016 the Chinese initiative has gained in importance, not least in its own eyes, because one area where US policy has been less than successful is in reducing the friction in the Pakistan Afghanistan interface. It will be of interest to see whether the renewed US pressure on Pakistan will make it more inclined to meet Afghan concerns to a greater extent than hitherto under the umbrella of a Chinese initiative. In the process, it may be able to meet some of the US expectations on Afghanistan related issues.

Bilateral: The 2nd meeting of the Strategic Partnership Council between India and Afghanistan was held in New Delhi on 11 September 2017. The Council was set up under the bilateral Strategic Partnership Agreement of 2011. The statement issued after the meeting, shows that a large portfolio of projects in different sectors have been aggregated. Other initiatives announced include expansion of the Air Cargo Corridor between Kabul and Kandahar with New Delhi to include other cities in Afghanistan and India as well as increasing the frequency of the cargo flights. Other items of significance mentioned include the early commencement of wheat shipments of 170,000 metric tons from India to Afghanistan via Chabahar Port (transit through Pakistan has not been permitted). Important also is the announcement of Indian assistance for two small projects on the Kabul River. The latter is likely to be viewed with concern by Pakistan, not so much because of the specific projects, but as an indication of growing Indian involvement in Afghanistan's water sector.

(The views expressed are personal)
