

THE FUTURE OF PAKISTAN

WHAT TO EXPECT FROM NAWAZ SHARIF'S NEW GOVERNMENT

BY REZA JAN

JULY 2013



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COVER IMAGE:PAKISTANI PRIME MINISTER NAWAZ SHARIF (CENTER) INSPECTS THE GUARD OF HONOR DURING A CEREMONY AT THE PRIME MINISTER'S RESIDENCE, JUNE 6, 2013. (SOURCE:REUTERS/MIAN KHURSHEED)

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ABOUT US

ABOUT THE AUTHOR

Reza Jan is an analyst and the Pakistan Team Lead for the American Enterprise Institute's Critical Threats Project. His work has focused on South Asian security as well as domestic and regional politics, energy and economic issues. He specializes in the Taliban insurgency, terrorist groups in South Asia, the Pakistani military and regional counterinsurgency strategy and operations.

Reza has briefed U.S. representatives and senior congressional staff as well as members of the U.S. military, intelligence and law enforcement communities. His writings and analyses have been widely published, including in the *New York Times*, *Foreign Policy* and *Small Wars Journal*, among others. Reza graduated with honors from Georgetown University's School of Foreign Service where he received a B.S.F.S. in International Politics, concentrating in Security Studies. Reza is from Karachi, Pakistan.

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ABOUT AEI'S CRITICAL THREATS PROJECT

The Critical Threats Project of the American Enterprise Institute equips policymakers, opinion leaders, and the military and intelligence communities with detailed and objective open-source analysis of America's current and emerging national security challenges. Through daily monitoring, in-depth studies, graphic presentations, private briefings, and public events, the project is a unique resource for those who need to fully understand the nuance and scale of threats to America's security to effectively develop and execute policy.

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EXECUTIVE SUMMARY

This report examines the policies, statements and makeup of the recently elected Pakistan Muslim League-Nawaz (PML-N) party in Pakistan in order to determine its likely future direction and to gauge the impact of its policies on Pakistan, the region, and its relations with the U.S.

The PML-N government, led by Prime Minister Nawaz Sharif, was elected to power on May 11, 2013. The new government faces a number of serious challenges to national stability, ranging from an energy and economic crisis to a persistent and lethal Taliban insurgency. Sharif's government has so far shown enthusiasm for addressing only a subset of the country's major issues.

Nawaz Sharif's political agenda can be broken down into three overarching sections: the economy, encompassing the country's energy crisis, macroeconomic stability and foreign energy imports; foreign relations, encompassing rapprochement with India and engaging with the U.S. and Afghanistan; and domestic security, encompassing Pakistan's Taliban insurgency and civil-military relations.

The PML-N government has so far focused, and continues to focus, primarily on energy and economic issues, almost to the exclusion of all others. It sees progress on this front as the source of its political legitimacy and the primary yardstick for judging its own success.

The PML-N government's primary focus has been to shorten the duration of lengthy, often nationwide, power outages that are cutting into productivity; secure a fresh bailout package from the International Monetary Fund to prevent a national default on foreign debt; and to restructure and privatize loss-generating and overly subsidized state-owned enterprises and power producers.

The government is looking to import foreign sources of energy but, despite public pronouncements to the contrary, is unlikely to continue pursuing the Iran-Pakistan gas pipeline project that it inherited from the previous government due to fears over U.S. sanctions and the program's own unfeasibility.

The Sharif government plans on vastly expanding ties with India. It sees improved relations with India not only as a ready source of additional revenue, but also as a means to assert itself in the realm of foreign policy that has thus far been dominated by Pakistan's military establishment.

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Despite loud protestations against U.S. drone strikes, the government aims to adopt a pragmatic approach to engaging with the U.S. on bilateral issues and on matters relating to the future of Afghanistan. It will struggle to shape policy vis-à-vis the U.S. and Afghanistan, however, given that Pakistan's army continues to dominate the decision-making process on that front.

The PML-N's near-complete focus on economic and energy issues is reflective of an unwillingness to comprehensively address domestic militancy, primarily militancy carried out by Pakistan's main insurgent group, the Tehrik-e-Taliban Pakistan (TTP). The government has issued contradictory signals, indicating both a willingness to talk to the TTP and to formulate a new national security policy that is tough on terrorism. It has made no decisive efforts in either direction despite numerous deadly attacks by the TTP and its allies across the country since the government took power.

While the Pakistani military has indicated an unwillingness to negotiate with the TTP, and a desire to take on the group militarily, concerns over entangling friendly militant proxies in Pakistan's tribal areas during any such operation means it is not likely to take serious action until some sort of peace agreement is reached in Afghanistan.

The Sharif government is looking to correct Pakistan's historic imbalance in civil-military relations. To this end, Sharif has structured his government in order to prevent Pakistan's powerful army from playing senior civilian leaders off of each other. While Sharif is not looking to openly oppose the army, he will try to chip away at the army's hold on power by opposing it on policy issues on which the government enjoys popular support, such as engagement with India.

The government's strong mandate at the ballot box and progress on the economic and energy fronts mean it currently holds the political capital to forge policy unopposed. This capital will diminish, and the government's capacity to drive its political agenda will evaporate, the longer it waits to address Pakistan's other serious maladies, however.

INTRODUCTION

Pakistani Prime Minister Nawaz Sharif's party, the Pakistan Muslim League-Nawaz (PML-N), made history on May 11, 2013 when it won Pakistan's general elections and completed the country's first constitutional transition of power from one democratically elected government to another. Sharif's government inherited a country rife with problems, however. Pakistan faces a daunting array of economic and energy-related challenges; continues to be plagued by deadly Islamist insurgents from all over the world; is watching a delicate transition take place in Afghanistan that could have serious repercussions on its own security; and continues to suffer from the historical imbalance of power between its civilian leaders and powerful military establishment.

Nawaz Sharif took office on June 5 with a clear articulation of his administration's priorities. Sharif's first priorities are rescuing the country's failing energy grid and preventing imminent economic collapse precipitated by foreign debt obligations and domestic subsidies to loss-generating state-owned enterprises and power producers.

Sharif's emphasis on redressing Pakistan's economic problems carries over into his foreign policy objectives. He appears to be focusing on the economy, energy security and a general normalization of foreign policy that will bring Pakistan closer to India and distance it from Iran and the treacherous prospects of the Iran-Pakistan gas pipeline. Sharif is apparently pursuing a pragmatic approach towards engaging the U.S., but policy on America and Afghanistan still seems to be controlled by Pakistan's army. How much influence Sharif will actually have in this sphere is unclear, especially as he seems to want both to come to terms with the army and to chip away at its power base and influence in the political realm.

The Sharif government's almost single-minded focus on the economy means that it has accorded relatively little importance to the persistent and lethal anti-state Taliban

insurgency inside Pakistan. It has been slow to react to changes in the security environment and has shown a reluctance to take decisive action vis-à-vis the Pakistani Taliban, for the present.

The scale of Pakistan's economic and energy problems is so great that Sharif may well be unable to get beyond efforts in those two areas to pursue lower-priority challenges. This approach may well make sense for a Pakistani leader facing the economic collapse of his state, but it may not suit the interests of the U.S., and it may hinder Sharif in wresting greater control over Pakistan's foreign and defense—and, therefore, India—policies from the army.

Economy and Energy

The PML-N has made clear in its campaign manifesto and post-election statements that its primary focus is addressing Pakistan's debilitating energy crisis and restoring macroeconomic stability.¹ The government has so far demonstrated a great deal of seriousness on these matters and sees success in the economic sphere as key to pursuing other aspects of its agenda. The primary tenets of the PML-N's approach are shortening Pakistan's power cuts, known

as load-shedding, securing a new IMF bailout to prevent Pakistan from defaulting on foreign loan obligations, and addressing loss-generating state-owned enterprises that are hemorrhaging funds from the national treasury. The Sharif government is seriously considering foreign energy imports to ease the country's power crisis. It is, however, likely going to ignore and allow to wither the most high-profile such project it inherited from the previous government, the Iran-Pakistan pipeline, on both practical and political grounds.

Energy

Pakistan's energy crisis is probably the single biggest burden upon its economy. Pakistani cities suffer daily power cuts ranging from 12 to 20 hours that, in the hot Pakistani summer, bring life to a standstill and cause social unrest.² Power shortages also take a large economic toll, causing financial losses of over \$13.5 billion a year or about 1.5% of Pakistan's gross domestic product.³ Pakistan produces 11,000-12,000 megawatts of electricity a year whereas national demand is over 17,000 megawatts. This imbalance is exacerbated by the fact that the government heavily subsidizes energy from state-owned energy producers and is exceptionally poor at preventing energy theft or recouping losses from unpaid bills.⁴

The Sharif government's approach to dealing with the problem involves creating new power generation capacity to establish the credibility necessary to raise power tariffs to realistic rates.⁵ In simple terms, the government needs to get the lights back on.⁶ The PML-N is trying to accomplish this goal by clearing over \$5 billion in circular debt through the sale of bonds and government



PHOTO 1 | RESIDENTS ATTEND PROTEST AGAINST POWER CUTS IN KARACHI, OCTOBER 24, 2008. (SOURCE: REUTERS/ATHAR HUSSAIN)

treasury bills to the private sector. This government intervention brings the debt burdens of independent power producers onto the government's books to free them to resume power generation and shorten load-shedding times.⁷ The government plans to use this method to reduce power cuts to below four hours a day in critically hit regions such as Lahore. It hopes that the breathing room bought with its debt will stimulate industry and the economy and allow the government the space it needs to restructure the power sector.⁸ This restructuring will include privatizing state-owned utilities, stemming "line losses" and power theft, and converting some major oil-burning power stations to cheaper coal-fired ones.⁹ With load-shedding under control, the government can then begin raising power tariffs and bringing the price of electricity per unit closer to its generation cost.

The Sharif government is also looking to rationalize the use of dwindling national gas supplies by diverting gas away from industry and towards power generation.¹⁰ Gas is subsidized in Pakistan and its supply to industries such as fertilizer manufacturers means those industries are receiving subsidized feedstock at the expense of a gasping power grid.¹¹

The PML-N administration began its term intent on tackling the energy problem, and promised to get load-shedding under control in 60 days. While the government's statements have since sobered somewhat, its energy reforms continue apace.¹² A new energy policy announced at the end of June also calls for increasing power generation capacity to 26,800 megawatts from the current 11,000-12,000.¹³

The government has, so far, been aggressive in its approach to the power sector and it can be expected to continue its push for reforms. While the public has not yet felt the pinch of increased electricity rates, and may react more negatively once the changes begin to take place, it currently stands behind Sharif's push on load-shedding and energy sector reform.¹⁴ Given that energy and other subsidies form approximately four and five percent of the national budget respectively, tackling energy sector woes forms a major part of the PML-N's overall economic policy. It is not likely to backtrack on painful reforms in the face of political opposition.¹⁵

Macroeconomic Reform

On the macroeconomic front, the government's overriding concern has been securing a bailout from the International Monetary Fund (IMF) in order to avoid defaulting on its foreign debt, a significant portion of which is owed to the IMF itself. Almost 30 percent of Pakistan's \$36 billion budget for 2013-14, or over \$11.5 billion, has been allocated for debt-servicing.¹⁶ Pakistan repaid the IMF over \$3 billion in the last fiscal year and still owes it in excess of \$6 billion.¹⁷ Repaying loan dues and flooding the market with dollars in order to stabilize



PHOTO 2 | PAKISTANI FINANCE MINISTER ISHAQ DAR (LEFT) TALKS WITH REGIONAL ADVISER TO THE INTERNATIONAL MONETARY FUND JEFFREY FRANKS (RIGHT), JULY 4, 2013. (SOURCE: REUTERS/MIAN KHURSHED)

the rupee against the dollar have left the government's foreign exchange reserves dangerously low.¹⁸

An indication of how seriously the incoming government saw the macroeconomic crisis at the start of its term was the fact that the only ministerial appointment announced before the PML-N formally took power was that of Finance Minister Ishaq Dar.¹⁹ Dar immediately set about crafting a budget and looking to secure sources of foreign funding to keep the country solvent. Soon after taking power, the PML-N hinted that it would try to delay going back to the IMF, or minimize the amount of its potential bailout, by seeking soft loans from friendly countries.²⁰ Sartaj Aziz, a former finance minister and currently the prime minister's special advisor on national security and foreign affairs, advised attempting to rectify the economy through domestic measures before resorting to foreign bailouts.²¹ PML-N insiders leaked that they were hoping Saudi Arabia would provide \$5 billion or more in financing or deferred oil payments, but the Saudis seemed to have shown no interest, and no other sources of funding materialized.²²

In the end, the stark realities of the government's dwindling foreign reserves, looming debt repayments, and overall dire financial position made an IMF bailout unavoidable. On July 5, the government announced that the finance ministry and an IMF team had concluded two weeks of negotiations, and that the IMF had agreed to provide Pakistan with a \$5.3 billion bailout payable over a ten-year period, assuming that the country continued to make progress towards certain financial targets.²³ The IMF dismissed earlier government revenue projections that Dar laid out in his FY 2013-14 budget announcement as unrealistic, and insisted on tough reform conditions on which Dar was eventually forced to capitulate.²⁴ According to the terms of the new bailout, Pakistan will aim to reduce its massive 9 percent fiscal deficit by 2 percent, increase revenue collection by cracking down on tax avoiders and ending numerous tax exemptions and, crucially, phase out energy and fuel subsidies over the course of the next three years.²⁵

By securing the bailout, the government effectively refinanced the payment terms of its 2008 IMF bailout package, and bought itself some time and breathing room within which to make larger structural changes to the economy.²⁶ The previous Pakistan Peoples Party (PPP)-led government squandered the money from the last \$11 billion IMF bailout, using it to pay for imports and subsidies, and repeatedly ignoring IMF austerity targets.²⁷ In the end, the IMF refused to disburse the last tranche of money due to the government's profligacy.²⁸ While the new government has submitted to several difficult conditions in order to secure the bailout, it can be expected to more faithfully adhere to the IMF's austerity

targets for several reasons: the PML-N has made economic reform its primary mission focus for its first year in power and comes into government with a simple majority strong enough to force contentious legislation through parliament; the IMF will not officially approve the loan until its board meets in September, before which time Pakistan needs to have shown significant progress on reforms; the government is looking to secure a further \$2 billion from the IMF for which it will need to be on its best behavior; and, lastly, the finance ministry is also hoping the IMF will provide it with a "letter of comfort" that will open the doors for other international financial institutions such as the World Bank and Asian Development Bank to extend assistance to Pakistan.²⁹ Although the bailout is expected to have a front-loaded first tranche in order to fulfill immediate debt payment obligations, the remaining installments will be disbursed pending progress reports on financial reforms; these will be evaluated by an IMF that is increasingly skeptical and aware of Pakistani financial malfeasance.³⁰ The Sharif government is planning to build its reputation on its economic progress; squandering the bailout and tanking the economy could very well sink the government altogether.

Lastly, another important step the PML-N-led government is taking to reduce budgetary losses, in addition to cutting energy subsidies and somewhat widening the tax base, is to stem rampant loss-generation at state-owned enterprises (SOEs).³¹ The government has announced plans to privatize a number of SOEs, and listed public tenders to hire top private sector managers and CEOs and hold them accountable for turning the SOEs

into profitable (or at least budget-neutral) enterprises.³²

Sharif's financial team hopes that by giving the energy sector and economy some relief, they will be able to decrease power shortages, reduce government subsidies to loss-making SOEs, spark industrial output and productivity and eventually, as a result, bring the budget deficit down to more manageable levels.³³ While his team has shown a seriousness of purpose in making advances on energy and economic reforms, these are, so far, the only major topics on which the PML-N government appears to be making major headway.

Imported Energy Solutions and Relations with Iran

Sharif's government has expressed strong interest in importing energy from abroad. One of the most obvious sources of fuel—and one of the previous government's enthusiastic foreign policy pursuits—is the infamous pipeline project with Iran known as the Iran-Pakistan (IP) pipeline. The pipeline is frequently touted within Pakistan as the key to the country's energy future and an important bolster to its own dwindling gas supplies.³⁴ It is also the most visible symbol of Pakistan's relations with Iran. While energy security may be a priority for the Sharif government, which continues to seek overseas energy solutions in various forms including ship-imported liquefied natural gas from India and the Gulf, one can expect little to come of the IP pipeline.³⁵ Given that engagement with Iran has been justified in large part as a national interest-based economic necessity, expect the withering of the IP pipeline project to lead to a general loss in momentum for engagement with Iran.³⁶ The government likely does not wish



PHOTO 3 | IRANI WORKERS AT A GROUNDBREAKING CEREMONY MARKING THE INAUGURATION OF THE IRAN-PAKISTAN GAS PIPELINE, MARCH 11, 2013. (SOURCE: REUTERS/MIAN KHURSHEED)

to imperil its economic future—and possibly its relations with the U.S. and Saudi Arabia—on the rocks of Iran's various sanctions regimes.

Under the previous government, Pakistan made headway in forging new relations with Iran, despite U.S. pressure to do otherwise.³⁷ As the Saudi Arabian-Pakistani relationship wilted under the Zardari government, and Pakistan got more desperate to boost the availability of natural gas for energy, fuel and industrial production, it looked to embark upon an ambitious program to import gas from, and normalize relations with, Iran.³⁸ Citing national interest, Pakistan's government spurned U.S. pleas to find other sources of gas, and, later, threats of sanctions.³⁹ Iranian and Pakistani leaders visited each other to sign public agreements and prepared mechanisms for constructing pipelines to connect Pakistan to the Iranian gas network. Iran, desperate to see the deal through, agreed to offer \$500 million worth of financing for the construction of the Pakistani section of the pipeline, an amount equal to over a third of the project's cost, and an Iranian company, Tadbir Energy, won the bid to carry out actual construction (Iran has already completed construction of the pipeline on the Iranian side).⁴⁰

Such an arrangement prevented Pakistan from having to carry out any cross-border transactions that might trigger international sanctions, at least in the early stages, and looked to make the process so painless for Pakistan as to make it a political no-brainer for Pakistan's politicians to sign on to the scheme.

The pipeline deal began to falter late in the tenure of the previous government, however, and the PML-N has so far given significant indication that the IP pipeline deal is not likely to be pursued further. The reasons for this are as much a question of politics as feasibility.⁴¹ While Pakistani banks were actively bidding for the pipeline project in 2011, a legal decision in the U.S. in late 2012 shook Pakistan's central bank's confidence in the country's ability to pursue the deal.⁴² In December 2012, U.S. regulators heavily fined two heavyweight British banks, HSBC and Standard Chartered, for involvement in money laundering and facilitating illegal Iranian transactions in U.S. dollars, activities sanctionable under U.S. law.⁴³ Standard Chartered also has big operations in Pakistan; following the ruling, Pakistan's central bank told domestic players to minimize transactions with Iran, lest Pakistan too fall afoul of U.S. law and jeopardize its ability to conduct dollar-denominated transactions.⁴⁴

The Zardari government, however, pledged in January and February 2013 to forge ahead with the \$1.5 billion pipeline; the move was assessed by many in Pakistan to be a last-ditch pre-election gimmick by the PPP.⁴⁵ Pakistan awarded the contract for laying 500 miles of pipeline on its side of the border to the Iranian firm Tadbir

Energy, which was not internationally sanctioned at the time. The construction would be financed with a soft loan from Iran.

Soon after the elections, however, it became apparent that Sharif's government would not further pursue the IP pipeline. While rectifying Pakistan's energy crisis is at the top of Sharif's agenda, analysts in Pakistan say the Iranian option is not feasible even if U.S. concerns are not taken into account, given that Iran is offering gas at a price much higher than international market rates.⁴⁶ Tadbir Energy was itself sanctioned by the U.S. Treasury in June 2013, and Sharif will not likely go out of his way to anger both the U.S. and Saudi Arabia, with which Sharif has friendly relations, in order to pursue a deal that would threaten Pakistan with economy-crippling sanctions at a time when it is also seeking international financial assistance to stay solvent.⁴⁷

While the Sharif government loudly proclaimed early in its tenure that it would pursue and complete the IP pipeline on schedule, the Iranian government was likely the only intended recipient of the message. Even though Pakistan's Annual Plan 2013-14, released in June 2013, included planning for the Iranian pipeline, no money was allotted for the project in the current budget.⁴⁸ In fact, a Sharif cabinet minister, speaking anonymously, said Pakistan's plan was to "procrastinate by trying to haggle lower prices from Tehran, based on the comparison with coal."⁴⁹ Through the above approach, the Sharif government would be able to quietly sidestep the pipeline issue without officially canceling the deal, which would incur a penalty payment to Iran.

Foreign Policy Priorities

While Sharif made his first trip abroad to China, a high-profile affair during which he signed several deals on investment and cooperation, the future of his government's foreign policy lies closer to home. For Sharif, vast economic prospects and the desire to tame Pakistan's national security state mean rapprochement with India will be the crown jewel of his foreign policy, though he will pursue it cautiously and less bombastically than he indicated during his election campaign. Pakistan's relations with the U.S. and, as a result, its relations with Afghanistan as the U.S. gradually departs the region, will also figure highly in the early portion of the PML-N government's term, though Sharif's government will still struggle to assert itself over the Pakistani military which has traditionally been master of the country's foreign policy.

New Rapprochement with India

The focus of Nawaz Sharif's foreign policy lies eastward, in India. Sharif's government sees Pakistan's future as being inter-linked with that of the South Asian giant and hopes new ties with India will allow Pakistan to profit handsomely from direct trade and tourism as well as from facilitating Indian trade into Central Asia.⁵⁰

Pakistani trade with India currently sits at less than \$3 billion.⁵¹ A draconian visa regime, extensive import prohibitions list, and tariffs and non-tariff barriers on both sides are, in large part, to blame for suppressing bilateral trade that analysts estimate could reach \$10 billion in three years and could eventually be as high as \$40 billion a year—an amount larger than Pakistan's entire budget.⁵² Punjab,



PHOTO 4 | INDIAN (LEFT) AND PAKISTANI (RIGHT) SOLDIERS SHAKE HANDS AT THE WAGAH CHECKPOINT ON THE PAKISTAN-INDIA BORDER, MAY 11, 2010. (SOURCE: REUTERS/MOHSIN RAZA)

home territory for the PML-N, stands to gain in particular, given its proximity and similar culture and demography to neighboring Indian Punjab.

Sharif is also looking to cooperate in the energy sector, and has expressed an interest in purchasing electricity directly from India's grid. In May, the PML-N government announced it was seriously looking at proposals for importing over 1,000 megawatts of electricity from India to help it deal with its serious energy shortfalls.⁵³

Soon after taking power, Sharif stated that he intended to resume the process of normalizing relations with India begun in 1999, prior to the toppling of his government in an army coup.⁵⁴ Sharif has called for new engagement with India and confidence building measures aimed at improving bilateral relations.⁵⁵ Shortly before elections, Sharif promised that, if elected, he would set up commissions to probe the 1999 Kargil conflict, when Pakistani forces invaded a portion of Indian-administered Kashmir, and claims of Pakistani military involvement in the 2008 Mumbai attacks, when Pakistani terrorist group Lashkar-e-Taiba (LeT) killed 156 people in a three-day rampage in Mumbai.⁵⁶

He furthermore indicated that the state should stop anti-India hate speeches delivered by people like Hafiz Saeed, the founder of LeT.⁵⁷ After Sharif won the national polls, he invited Indian Prime Minister Manmohan Singh to attend his swearing-in (Singh declined).⁵⁸

Sharif, in his exuberance for pursuing Indo-Pak normalization, likely overstepped in his outreach to India and began to make the Pakistan Army's top leadership very uncomfortable. Shortly after Sharif's election but before he was sworn in to office, Pakistan Army Chief General Ashfaq Parvez Kayani held an unprecedented three-hour meeting with Sharif, after which Sharif became notably more muted on the topic of India.⁵⁹ According to reports, senior Sharif advisors and "foreign policy-making institutions" (which in Pakistan include the army) have asked Sharif to "go slow" on India. Mention of India was notably absent from Sharif's inaugural address to parliament as well.⁶⁰

The change in tone should not be construed as a change in priorities for Sharif and the PML-N, however. Sharif understands that he will find himself in conflict with the army eventually, particularly in crafting policy towards India, but he is likely looking to avoid unnecessary confrontations in the early days of his government when stabilizing the economy and reducing energy shortages are more immediate priorities. One indication of the seriousness with which Sharif regards normalizing Indo-Pak relations is the fact that he kept both the foreign and defense ministry for himself—Sharif is accepting no intermediaries who could dilute his vision of engagement with India; keeping both portfolios forces the army to deal with him personally when it comes to crafting policy towards India.⁶¹

Engagement with India is also continuing apace through back-channels. Sharif's point man on India appears to be Sartaj Aziz, the Special Advisor to the Prime Minister on National Security and Foreign Affairs.⁶² Aziz is a foreign policy veteran, extremely close to Sharif, and was at the forefront of Indo-Pak reconciliation efforts and the Kashmir peace process during the last Sharif government in 1999.⁶³ He met India's External Affairs Minister Salman Khurshid at the ASEAN summit in Brunei in July, during which he said that increased trade and cooperation between India and Pakistan could act as a catalyst for improved relations; both he and Khurshid said the two countries were looking to "accelerate [improvement of] relations" and resume bilateral dialogue.⁶⁴ He also announced that the Indian and Pakistani prime ministers would meet during the September United Nations General Assembly meeting in New York.⁶⁵

Indeed, some of the delay in the normalization of Indo-Pak relations is not just a result of the apprehensions of foreign policy hawks and the army's leadership in Pakistan. India has been sluggish to reciprocate Pakistani overtures in equal measure.⁶⁶ Part of this can be attributed to domestic politics—India is about to go into an election year and improved relations with Pakistan is not a popular stump speech topic in India—a series of cross-border clashes just prior to Pakistan's elections likely also dampened enthusiasm in India for unfettered engagement.⁶⁷ Furthermore, Indian skepticism of the Pakistan Army and its involvement in politics remains strong.⁶⁸ India is likely waiting to see whether or not the Sharif government is going to be able to contain those sections of the army and its leadership that continue to view opening up to India as dangerous.

While Sharif is now quieter on the subject of India, and made his first foreign visit to the less-controversial destination of China, his pre-election rhetoric, economic and energy priorities, the structure of his cabinet and the steady evidence of behind-the-scenes Indo-Pak diplomacy make clear that India is likely to be one of Sharif's main foreign policy priorities over the course of his term.

Relations with the U.S. and Afghanistan

Perhaps least complicated or contentious of all of the Sharif government's policies are those regarding its relationships with the U.S. and Afghanistan, primarily because his government has yet to regain control of forming policy towards both countries. The U.S. and Afghanistan were, during the last government, almost entirely the purview of the army, and still are to a large extent.⁶⁹ Based on public statements from PML-N officials, little seems likely to change despite the PML-N's occasional public denouncement of aspects of U.S. foreign policy such as drone strikes.

Nawaz Sharif has publicly called for an end to drone operations in Pakistan. In his inaugural address to parliament, he termed them a violation of Pakistan's sovereignty, and said the government would need to come up with a "joint strategy to stop drone strikes."⁷⁰ That is where his antagonism towards the U.S. seems to end, however.

Sharif has so far given few details on how he might bring about an end to the strikes.⁷¹ He has been far less vocal on drones than his chief political rival, Imran Khan of the Pakistan Tehreek-e-Insaf (PTI). When PTI officials called for the government to shoot down interloping drones, PML-N officials



PHOTO 5 | U.S. SECRETARY OF STATE JOHN KERRY (CENTER) WITH AFGHAN PRESIDENT HAMID KARZAI (LEFT) AND PAKISTANI CHIEF OF ARMY STAFF GENERAL ASHFAQ KAYANI (RIGHT) AFTER THEIR TRILATERAL MEETING IN BRUSSELS, APRIL 24, 2013. (SOURCE: STATE DEPARTMENT)

rebuked them, saying they were not in favor of using force, and preferred diplomatic means of engaging the U.S. on the issue.⁷²

The Sharif government has, in fact, shown a degree of understanding toward U.S. concerns and a willingness to adopt a practical approach to relations with the U.S. Sharif said in his first address that Pakistan "must learn others' [American] concerns about us, and express our concerns about them, and find a way to resolve this issue."⁷³ An anonymous senior PML-N official commented that drone strikes cannot be seen in isolation, and that "there are reasons for drone attacks and we have to address those."⁷⁴ While little is likely to come of a PML-N proposal that hinted at launching a military operation against militant sanctuaries in the tribal areas in exchange for an end to drone strikes, it indicates that the government is sensitive to U.S. policy concerns in the region.⁷⁵

Furthermore, the government has indicated its willingness to assist the U.S. in its drawdown from Afghanistan and to help facilitate peace talks with the Afghan Taliban.⁷⁶ U.S. Special Representative to Afghanistan and Pakistan Ambassador James

Dobbins said on July 11 that Pakistan had recently become more cooperative with regard to Afghan peace efforts and that the new civilian government with a strong mandate presented new opportunities for that cooperation to expand.⁷⁷

That said, Pakistan's security policies towards Afghanistan, particularly its stance towards the Afghan Taliban and the Haqqani Network, are not likely to change in the short term, primarily because they remain aspects of Pakistan's foreign policy firmly rooted in the army's uninterrupted control. The army continues to see the Afghan Taliban as a useful proxy for safeguarding its interests in Afghanistan once the U.S. withdraws, and the civilian government may even follow the army's lead on the matter to some extent. Afghan government officials recently expressed their ire over a suggestion allegedly made by Sartaj Aziz during a June 28 meeting with Afghanistan's ambassador to Pakistan that the Afghan government, as part of a peace accord with the Taliban, cede influence to the Taliban in several provinces.⁷⁸ The suggestion closely reflects the Pakistan Army's vision for an Afghan end state (although Aziz denies ever making the claim).⁷⁹ Until the pattern of army control over Afghan and U.S. policy formation is broken, the Sharif government is likely to have few opportunities to make its own mark on proceedings. For the moment, it does not seem to be pursuing an independent path on those issues with any kind of enthusiasm; it appears content to let the army handle that aspect of foreign policy for the moment (or has not yet found the opportunity to challenge it), and is maintaining its focus on domestic energy and economic concerns, and building bridges with India.

Economically, relations between the U.S. and Pakistan are likely to normalize further. The U.S. has started to reduce the amount of aid it grants to Pakistan in the form of Coalition Support Funds (CSF), which are considered reimbursement to Pakistan for security operations in support of the war in Afghanistan. The Obama administration has sharply cut its request for CSF allocations to Pakistan this year from \$1.9 billion to \$1.2 billion, citing the U.S. drawdown and reduced military operational tempo in the region.⁸⁰ Pakistan, meanwhile, hopes to improve trade relations with the U.S. Expanded trade is unlikely to happen rapidly, however, and Pakistan will feel the pinch of losing the de facto cash grant and budget padding that CSF represented.⁸¹ It will need to make up the shortfall elsewhere but can, for the moment, still expect the U.S. to vote in its favor at the IMF.

Domestic Security, Militancy and the Pakistan Army

Pakistan faces near-daily attacks by the Pakistani Taliban that have killed thousands of people since 2001. While the Taliban insurgency, which plays host to al Qaeda and foreign militants from all over the world, continues to put serious pressure on the Pakistani state, the Sharif government has given its security policy little attention in comparison to its economic policies. The PML-N's half-hearted calls for talks with the Tehrik-e-Taliban Pakistan (TTP) also conflict with the sentiments of the Pakistani military. The Sharif government is likely to disagree with the powerful Pakistani military on many policy issues, but appears to be committed, nonetheless, to creating space for itself and slowly eroding the army's public legitimacy for interfering in politics and foreign policy.

Addressing the Persistent Threat of Militancy

One of the principal challenges confronting the new government remains that of its domestic insurgencies, particularly the one being waged by the TTP, the main faction of the Pakistani Taliban. The TTP remains the primary enemy of the state and is responsible for the deaths of thousands of Pakistanis since its formation in 2007. The TTP continues to call for the overthrow of the Pakistani state and the implementation of its own conception of a Sharia-compliant government.⁸²

Unfortunately, the government currently does not appear to have a unified or fully conceived policy regarding the TTP. The PML-N was purposefully quiet or vague about its approach to dealing with the insurgency during its election campaign, in large part because it wanted to avoid coming into the crosshairs of militant groups that had been targeting political parties openly opposing them.⁸³ The PML-N did not promise any new military operations against the Taliban and made soft calls for peace talks with them.⁸⁴ Nawaz Sharif, soon after his election victory, gave a speech on May 20 in which he said that there was “no harm” in talking to the Taliban and that, “If [the] Taliban offers us an option to have dialogue, [the government] should take it seriously. Why can’t [the government] talk to the Taliban to make [Pakistan] peaceful?”⁸⁵

If Sharif’s speech was meant to be the announcement of the PML-N’s stance towards negotiating with the TTP, not only was it at cross purposes with a speech given by the army chief that same day,



PHOTO 6 | PAKISTANI TALIBAN CHIEF HAKIMULLAH MEHSUD (CENTER) SITS WITH OTHER MILITANTS IN SOUTH WAZIRISTAN, OCTOBER 4, 2009. (SOURCE: REUTERS/REUTERS TV)

which praised the country’s defiance of the dictates of extremists, but it was soon to be made obsolete by developments outside of Sharif’s control.⁸⁶ On May 29, a U.S. drone strike killed the TTP’s second-in-command Wali-ur-Rehman, one of the group’s leaders seen as most in favor of negotiating with the Pakistani state. Predictably, the TTP almost immediately withdrew its offer of dialogue in protest, and began launching attacks across Pakistan with renewed vigor.⁸⁷

The attacks severely shortened the Sharif government’s honeymoon period but the new administration has yet to come to any kind of national consensus on how to approach the TTP. The government has not reacted strongly to any of the number of horrendous attacks launched since the start of its term or ordered any fresh military response to the onslaught. While the military has made clear its disdain for negotiating with the TTP, senior government officials have mentioned that they would be open to talking with those elements that renounce violence and accept the writ of the state.⁸⁸ The government has, however, only gone as far as calling for an All Parties Conference to be held in

order to come to a national consensus on militancy; the conference, planned for July 2013, was recently delayed indefinitely.⁸⁹ The PML-N has partaken in similar conferences held under the aegis of the previous government, the results of which have been inconclusive and the approaches agreed upon indecisive.⁹⁰

This half-hearted approach to addressing militancy can be attributed to the fact that the government didn't want to, and still doesn't want to, have to deal with Pakistan's militant problem at the moment. The Sharif government considers its primary problems to be the energy crisis and macroeconomic stability; it sees addressing these issues as the foundation of its electoral mandate and is choosing to concentrate all of its attention on these problems.⁹¹ The Sharif government sees its first three months in power as vital in accomplishing significant milestones on the economic and energy fronts and sees any other issue, including the TTP insurgency, as a distraction.⁹² The elimination of the PML-N's chief delaying tactic—calls for talks with the TTP—due to the death of Waliur-Rehman does not seem to have broken its focus on those issues as of yet.

What can one expect of the government going forward? It is not likely to proactively take on the TTP in a concerted manner, unless circumstances force it to do so. Given that Pakistan has already suffered a number of bloody attacks since the PML-N took power, and little action has resulted, the question is raised of just how bad the violence needs to get in order to force the government's and the army's hands. While the Sharif government in early July made some indications that it was forming a comprehensive, consensus-based national

security policy, including calls for the war on terror to be won "at all costs," it has subsequently hinted at its desire to once again engage the TTP in talks.⁹³ The contradictory statements exemplify the government's double-mindedness about tackling militancy with real purpose.

The military, for its part, has vowed to stay in North and South Waziristan until militancy in the region is brought to an end, and has even hinted at the possibility of carrying out an operation against the TTP's main strongholds in North Waziristan, but it is not keen to make a move until the war in Afghanistan has come to something of a conclusion.⁹⁴ While the government, according to one report, was floating the idea of launching a military operation against militants in the Federally Administered Tribal Areas (FATA) in exchange for the U.S. ceasing its drone operations in Pakistan, there does not appear to have been any progress on that issue so far.⁹⁵

While the army is serious about taking on the Taliban in Pakistan, it primarily means to target the TTP, not the "Quetta Shura" Taliban, Haqqani Network, or other groups with which it has established understandings and that it believes are forwarding its goals in the region.⁹⁶ The army ideally hopes for a peace deal in Afghanistan before 2015, by which time the U.S. would have withdrawn, that will allow Afghan Taliban fighters to be repatriated back across the Durand line and physically and politically resettled within the Afghan state.⁹⁷ Such an agreement would not only clear the battlefield for unencumbered operations against the TTP, particularly in North Waziristan, but would also, the army believes, rob the TTP of allies and moral legitimacy

in their fight against the Pakistani military.⁹⁸ So far, no one in the Sharif government has publicly hinted at disagreement with, or a desire to modify, that gameplan.

Managing Relations with the Pakistan Army

Nawaz Sharif and the PML-N have a long and complicated history with the Pakistan Army and, while Sharif has no officially-stated policy for addressing the army in particular, managing the civil-military relationship is likely a key concern of his. He has already made several bold steps toward defining his relationship with the military and laying out the vision of his future interactions with it. Briefly, Sharif's objective is to maintain cordial relations with the army in general, but to challenge it in disputes he knows he is likely to win in order to chip away at its hold on political power.

Sharif's decision to personally oversee the Defence and Foreign Ministries, instead of appointing a senior minister to handle the two independently vital posts, appears to be the opening gambit in his plan.⁹⁹ Both ministries have historically been utterly dominated by the army and adherents to its decision-making priorities. The previous defense minister complained of being completely powerless in his position, as policy formation on Pakistan's most vital foreign affairs matters—India, Afghanistan and the U.S.—has historically taken place within the army's General Headquarters (GHQ) and those of its main spy agency, the Directorate for Inter-Services Intelligence (ISI).¹⁰⁰ By keeping both portfolios for himself, Sharif is looking to control or, at the very least, become part of the flow of information within the ministries.¹⁰¹ Decisions will no longer be able to be



PHOTO 7 | PAKISTANI PRIME MINISTER MUHAMMAD NAWAZ SHARIF (LEFT) MEETS WITH CHIEF OF ARMY STAFF GENERAL ASHFAQ PARVEZ KAYANI (RIGHT) IN ISLAMABAD, JUNE 13, 2013. (SOURCE: GOVERNMENT OF PAKISTAN/PRESS INFORMATION DEPARTMENT)

rubber-stamped through pliant or apathetic ministers; Sharif himself will need to be consulted for approval on major defense or foreign policy decisions.

While a strong move on Sharif's part, if viewed from a civil-military relations angle, the decision has its drawbacks and is revealing of the nature of the PML-N and its leaders. The Ministries of Defence and Foreign Affairs are large and complex organizations; each has a large staff of civil servants and foreign service officers to oversee, and multiple internal and external operations to manage.¹⁰² The Ministry of Foreign Affairs in particular comes with the added complications of protocol statuses and interactions with foreign diplomatic missions and personnel on a regular basis. Sharif cannot hope to do either ministry full justice in personally taking charge.¹⁰³

Sharif's arrogation of the foreign ministry served the additional purpose of quelling an intra-party dispute between Sartaj Aziz and Tariq Fatemi, another senior former diplomat, over who would be foreign minister.¹⁰⁴ Sharif's determination, however, that neither of the two very capable men was appropriate for holding the post individually,

and that no one suitable could be found for the Defence Ministry, betrays a lack of trust within the upper echelons of the PML-N's leadership.

The army remains leery of Nawaz Sharif; according to a 2009 U.S. government cable quoting army chief General Ashfaq Parvez Kayani leaked by Wikileaks, Kayani said he distrusted Sharif even more than he disliked President Zardari and had even considered, for a while, ousting Zardari in order to prevent Sharif coming to power.¹⁰⁵ Sharif's personal experience of being toppled in the 1999 army coup led to an inherent distrust of the army, and he is not keen to tolerate their machinations. According to multiple sources, however, the rest of his party is not quite as diametrically opposed to the military, and the army maintains cordial relations and shared world views with many PML-N leaders and lawmakers.¹⁰⁶ As a result, Sharif feels he cannot rely on anyone else to toe his line should the army and the government encounter friction; rather than embarrassingly sacking disobedient ministers down the line, Sharif seems to be taking no chances. His paranoia, justified though it may be, does not augur well for the state of the party's leadership.

Sharif has already started to feel out the boundaries of his relationship with the army. Shortly after his election, General Kayani met with Sharif and asked him to scale back the speed and scope of his engagement with India.¹⁰⁷ While Sharif has been less vocal about India since then, his government continues to work behind the scenes to normalize bilateral relations.

In June, Sharif also announced that his government would try former President General Pervez Musharraf, the man who toppled Sharif in 1999, for treason on charges of illegally abrogating the constitution in 2007.¹⁰⁸ Many analysts speculated that Sharif would not take up the Musharraf case out of a desire not to unnecessarily antagonize the army.¹⁰⁹ They speculated that the army would look unkindly upon their former chief being hauled in front of a court to stand trial for charges that carry the death penalty, and would fear the trial expanding to Musharraf's accomplices and comrades, some of whom are still active duty officers. The government, likely aware of the concern, made clear that it would not try anyone else alongside Musharraf and considered him to have acted alone in his unconstitutional behavior in 2007.¹¹⁰ The government is likely functioning on the belief that setting the precedent of accountability of army officers for violating the constitution is more important than a witch hunt for Musharraf and his cronies. Given the high level of public and judicial support behind trying Musharraf for various crimes over the course of his nine years in power, Sharif is not likely to stir much public discontent that might be used against him.

Sharif has also started to float the idea of increasing civilian oversight of the military and of improving coordination between civilian and military intelligence and law enforcement agencies.¹¹¹ His interior minister, Chaudhary Nisar Ali Khan, has been vocal in condemning failures of civil-military cooperation, alleging that the disconnects have allowed numerous major terrorist attacks to occur and then go unpunished.¹¹² He has spoken out against former chief of the ISI Lt. Gen. Ahmed Shuja Pasha, whom he accused of meddling in politics.¹¹³

In early July, the report of the Abbottabad Commission, a body appointed to investigate how Osama bin Laden was able to find refuge in Abbottabad, Pakistan and how U.S. operatives were able to penetrate deep into Pakistan to kill him unmolested, was leaked to *al Jazeera*.¹¹⁴ The report is harshly critical of all government agencies but lays primary blame for the intelligence failure with the army and the ISI.¹¹⁵ While details of the report's disclosure are being investigated, initial reports indicate that it was leaked from within the Prime Minister's Secretariat.¹¹⁶ Whether or not this is true, Sharif's government is presently calling for greater intelligence sharing between agencies and improved civilian oversight of the military, and is able to do so under the cover of wide public criticism of the army following the damaging revelations made public in the report.¹¹⁷ On July 11, Sharif visited the ISI's headquarters, a rare act for a prime minister, to be briefed on intelligence and security matters.¹¹⁸ During the briefing he reportedly reiterated an increased need for inter-agency intelligence sharing. Government sources say a new security policy the government is forming envisions the interior minister being a coordinating officer between Pakistan's various intelligence agencies, a proposal at which the army is likely to chafe.¹¹⁹

Sharif appears to be trying to strike a delicate balance between slowly extricating the military from civilian spheres and not incensing it enough to risk a coup; he is being careful to pick fights he can win, or where he can hide behind the weight of public opinion. Whether he can continue to do so remains to be seen.

Conclusion

Nawaz Sharif and his government face the unenviable task of bringing Pakistan back from



PHOTO 8 | PAKISTANI PRIME MINISTER NAWAZ SHARIF (CENTER) ONBOARD A PAKISTANI AIRCRAFT IN LONDON, SEPTEMBER 10, 2007. (SOURCE: REUTERS/PETR JOSEK)

the brink. Five years of utter mismanagement and lack of governance at the hands of the previous PPP-led administration left the country's economy in a shambles, its institutions devoid of legitimacy, and its militancy problem, on balance, no better off than when it assumed power.

Sharif's priorities remain the following: getting the lights back on in the country; buying the economy enough breathing room, via help from foreign lenders, in which to be seriously restructured; rationalizing and re-aligning the country's foreign policy vis-à-vis Iran, India, the U.S. and Afghanistan; taking on the country's virulent domestic insurgencies; and establishing the principles of civilian dominance of the military.

The government so far has made significant headway only on the economic and energy fronts. While it (not incorrectly) believes dealing with those issues to be the crux of getting Pakistan on a stable footing, it ignores the rest of the country's maladies at its own increasing peril. Its popular mandate at the ballot box may have bought the government six months' worth of political capital, but eventually its performance will become the key factor determining its popularity and future survival.¹²⁰

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