

NATIONAL SECURITY STUDIES PROGRAM POLICY PAPER

PAKISTAN AND THE UNITED STATES

At a Strategic Crossroads

THE NEW AMERICA FOUNDATION-NATIONAL WAR COLLEGE STUDY GROUP,
SEPTEMBER 2011*

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Introduction

Pakistan, and Pakistani-American relations, confront their worst crises in recent memory. A host of interlocking challenges—grounded in a deteriorating economy—call into question Pakistan’s ability to “muddle through” as it has in the past, and the next two or three years pose a crucial test for the country’s efforts to arrest continuing socioeconomic decline. Meanwhile, U.S.-Pakistan relations are also imperiled: The two nations cannot continue the patterns of the last decade, an era of transactionalism and hidden agendas cloaked in the language of a “strategic partnership” that represented neither a genuine partnership nor a strategic approach to mutual challenges.

It is true that forecasts of a “collapse” of Pakistan have repeatedly proven wrong; and while it is difficult to know why, hard-to-measure pillars of stability counteract sources of destabilization. Slowly accumulating positive trends get little notice amid generally negative analyses, but rising

standards of living (at least until recently); a powerful “grey” economy, including remittances; the emergence of an independent judiciary and a free (if raucous) media; the electoral failure of radical Islamist parties; a civilian government about to complete its full term; energetic military responses to extremist movements in Swat and South Waziristan, which have involved nearly 150,000 troops and cost the Pakistani military over 3,000 combat dead; steadily growing public rejections of extremism and the Taliban—these and other realities suggest some areas of strength on which to build.

Yet an awareness of these same residual strengths can undermine the sense of urgency necessary to inspire real change. In the past, for example, large flows of external financing such as remittances and foreign assistance have provided a cushion and disincentive for tough economic reform. The scale and seriousness of the current crisis cannot be discounted; existing patterns of behavior, and current policy responses to major challenges, are not having the necessary results.

The time has come to develop a new strategic concept, reflecting emerging patterns of world politics and regional developments, to guide Pakistanis in their search for priorities and both the United States and Pakistan in managing this crucial relationship. In this post-Arab Spring, post-Osama bin Laden moment, military responses to radicalism have proven their limits, large-scale aid

* This report represents solely the views of the study group members. It does not reflect the views of the National War College or the U.S. Department of Defense.

programs are becoming untenable, and the “leverage” of bilateral aid relationships has shown itself unable to produce sustainable changes in mindset. Pakistan, and its international partners including the United States, require a fresh approach that moves beyond security issues as the touchstone for policy, that lays out a vision for a more prosperous future, and that empowers civilian, democratic governments at all levels to become more effective.

The strategic concept we propose to meet these goals is **a collaborative agenda for Pakistan to take its place as a major power in a modernizing South Asia**. This is a 21st century agenda for Pakistan, one based on progress, growth, trade, entrepreneurial energy, and popular involvement in democratic governance. It is a vision of an advancing, influential Pakistan standing at a vibrant crossroads of trade, diplomacy and geopolitics, at a time when the human capacities, natural resources, and mineral wealth of South Asia are destined to become increasingly important to global economic developments. The concept reflects two broad components: actions within Pakistan required to create the social, political, and economic basis for the country to achieve such a role; and a U.S. commitment to support those steps—on trade, peacemaking, and technical support—critical to help Pakistan fulfill that ambition.

The concept offers Pakistan the opportunity to transcend old obsessions and focus on the future, to achieve new levels of trade, investment, and growth. It is designed to shift the focus of policymaking from military issues to economic and political priorities, to achieve multiple goals—higher sustained growth, regional confidence building, and alleviating the root causes of extremism. It places emphasis on areas where major powers have the most interests in common, and takes advantage of the potential for regional trade routes and resource exploration. Most of all, it is designed to furnish a compelling vision and narrative around which key reforms in Pakistan can be justified and promoted—an idea of the future of Pakistan that makes necessary and possible the sorts of policy,

political, economic, and social change so far obstructed by a host of barriers.

For a decade, both Pakistani and U.S. policy has focused on the symptoms of instability—such as terrorist groups or leaders—rather than its causes. In its past dealings with Pakistan, the United States has demonstrated a habit of gaining temporary traction against one or another symptom, only to walk away. Pakistan has seen this inability to sustain strategic attention as a series of betrayals. The proposed approach would reflect a U.S. commitment to remain engaged on a long-term agenda for the indefinite future, one that shifts attention from symptoms to root causes and rejects the pattern of abandonment.

The strategic concept embodies a regional perspective and a multilateral approach, but at its core it represents a choice for the people of Pakistan—a choice about what kind of country they want to be and an opportunity to transform deeply ingrained patterns of political life. **In Pakistan’s domestic efforts, we emphasize three broad categories to lay the foundation for this strategic concept:**

1. Undertake a limited number of priority economic reforms;
2. Adopt a growth strategy designed to create an environment conducive to trade, investment, and innovation;
3. Take steps to institutionalize civilian rule and effective governance, built on the enhancement of effective civilian government capacity at various levels but also including support for civil society and entrepreneurial initiatives.

Meanwhile, initiatives in the U.S.-Pakistan relationship can lend powerful support for the overall strategic concept. These include several broad categories:

1. Shift from a relationship built around a few institutions to efforts to engage the Pakistani people and institutions of governance at all levels;
2. Gradually replace an aid-based, transactional relationship with a trade- and investment-based relationship of mutual benefit;
3. On security issues, replace secret agendas and concealed tools of statecraft with more transparent joint and regional frameworks for addressing common interests—frameworks that will admittedly require hard choices, tough compromises, and willingness to accept short-term risk by all sides;
4. Commit the United States to even more active efforts that facilitate steps necessary for bilateral progress between India and Pakistan on long-standing regional security dilemmas.

We also conceive of this strategy as **an agenda directed explicitly toward the Pakistani people**. Popular voice and involvement in change are playing a more vital role in public policy, in Pakistan as elsewhere, and strategies for change must increasingly meet the needs of the populace to turn back growing feelings of powerlessness, grievance, and hostility toward outside partners such as the United States.

We are aware that these broad categories, and the detailed policy recommendations we offer below, are not new to the policy debate. **But the concepts have proven difficult to implement, in part because of powerful barriers to any reform agenda within Pakistan and to trust and cooperation in the Pakistani-American relationship.** Long-standing mindsets and cultural and bureaucratic habits lock many actors into established patterns. The lack of mutual trust and prevalence of conspiratorial thinking on both sides undermines the hope for bold, collaborative agendas. There is a powerful disconnect between what Pakistan's economy requires (taxes, reforms, transparency) and what political leaders see as necessary for their own electoral success—tension that is likely to become even more

pressing during the next two years, as elections approach. Many Pakistanis are opting out of the public sector, avoiding taxes and seeking private alternatives to public services, thus creating a vicious downward spiral for effective governance. Efforts to promote more responsive governance at the provincial level confront the hesitation of federal ministries to surrender power and privilege. Pakistan historically has had to reach crises for attention to shift, but a crisis today could lead to instability and drain energy for reform.

There is no substitute for Pakistan's undertaking its share of the hard work reflected in this strategic concept—putting its own house in order—if it is to break out of these patterns and move forward. Pakistani policy responses to major social challenges have reflected half-hearted engagement, backtracking, refusal to make hard choices, and poor coordination and implementation among federal agencies. Strategies predicated on outsiders using leverage, coercion, persuasion, or bribery to “change Pakistani behavior” generally fail, because no one can force a fundamental change in mindset on the part of another. The United States cannot, and should not, be the driving force in bringing change to Pakistan. Yet too often, as many Pakistanis as well as devoted friends of Pakistan have long recognized, major actors in Pakistan have operated as if their country's destiny lay outside their control, or did not matter.

Our core strategic concept is designed to promote reform by creating enough attractive force—in the goal of a modernizing Pakistan joining an integrating and growing region—to offer political leaders a clear alternative: The opportunity is for a more prosperous, globally engaged Pakistan, as against the risk of continued stagnation and instability. In this context, hard choices—tax reform, land reform, completing the long-delayed census, devoting more resources to education and the energy infrastructure—would take on a new and specific purpose.

A second theory of positive social change reflected in our recommendations could be described as *catalytic grassroots activism*. Innovative, effective, compelling answers to Pakistan's challenges are likely to emerge bit by bit, from many actors across Pakistan, at many levels, some with the assistance of outside partners. It reflects an approach that is gradual, bottom-up, Pakistani-directed and owned, and built upon hundreds of experiments and positive examples. The process is well underway, but significant bureaucratic and regulatory obstacles stand in the way of its full realization.

This concept accepts, indeed recommends, a growing role for government agencies in such social change. Charities and NGOs are not yet numerous enough, do not have the absorptive capacity for assistance, and in some cases are not immune to issues of corruption or transparency. Many of our recommendations are designed precisely to *enhance* the capacity of government at various levels. As helpful as it may be, however, an incremental, grassroots engagement is not, in itself, enough: Pakistan's decline has been holistic and systemic, and a grassroots strategy for change must be matched with a number of national-level policy reforms.

Yet Pakistan is not the only actor in this drama who must confront hard choices and unpleasant truths. The United States has spent years viewing the process of forcing its own interests on Pakistan as a strategy, and seeing Pakistan's self-defense paradigm as "double-dealing" rather than a means of safeguarding its security in a dangerous neighborhood and in a historical context where friends do not always prove reliable. Meanwhile India, a rising power of growing influence, is not always willing to take seriously the ways in which its postures exacerbate Pakistan's threat perceptions.

We recognize that our proposed agenda represents only part of what must occur for Pakistan to surmount its many challenges. But we believe as well that, amid dozens of actions that "must" be taken, the agenda of policymakers will only allow for a few to be taken up at one time. **This**

study therefore emphasized the importance of *priorities*: We gave great attention to identifying, among the many proposals on the menu of policymakers, the *issues* we believe to be of greatest importance, and the *policy steps* whose accomplishment would have the most impact.

In order to achieve the broad goals laid out above, we propose a discrete number of recommendations for both Pakistan and U.S.-Pakistani relations. These include:

Policies for Pakistan (and Outside Partners) to Respond to Domestic Challenges

- Implement a broad-based tax reform initiative to achieve higher revenues and rationalized tax collection.
- Complete the long-delayed national census, now underway.
- Create mechanisms to improve policy coordination in the areas of national security, economy, and energy; empower the energy agency to implement an emergency plan.
- Take a series of steps (involving visas, border controls, and especially reduction of tariffs and non-tariff barriers) to enhance regional trade, including a multinational trade corridor.
- Promote effective governance at the provincial level through technical assistance and a strategy of developing repeatable models of success; also increase technical assistance to Pakistani institutions of governance, specifically the parliament and political parties.
- Create a task force or expert commission to make recommendations on improving the investment climate in Pakistan.

- Promote greater U.S.-Pakistani trade and investment through a “tariff holiday” on Pakistani imports to the United States and an Enterprise Fund for investment.
- Create a special investigator on visa issues to ease travel problems.
- Undertake quasi-governmental mechanisms to develop shared interests and goals.
- Develop a new model for a joint, publicly articulated counterterrorism (CT) program using the foundation of the Joint CT Task Force.

We understand that, in the present environment, little appetite for grand agendas exists in either capital. An agenda for change must be built step by step, lest an effort to do too much too quickly doom it to failure. Therefore **at the conclusion of the report we offer a sub-set of these recommendations as an initial phase to build momentum toward the strategic concept and set the stage for more fundamental progress over time.** This near-term agenda includes a mutual embrace of the long-term vision, a number of key rhetorical commitments, and several initial, concrete actions.

A critical step to make all of these initiatives possible will be efforts to reduce regional threat perceptions—and especially Pakistan’s intense fears of the Indian threat. Beginning to alter Pakistani threat perceptions will help unlock many other necessary policy changes—enhanced regional trade, compromise on Afghan outcomes, and changed spending priorities.

The time has come to break out of unsustainable models, both in domestic Pakistani responses to urgent challenges and in the U.S.-Pakistan relationship. This principle is reflected in the recommendations outlined below—a bold new vision for attacking Pakistan’s challenges and building a new foundation for U.S.-Pakistan ties.

Issue 1: U.S.-Pakistan Relations

In the wake of the raid on Osama bin Laden’s hideout in a city hosting major Pakistani military facilities, U.S. frustration over the Pakistani safe-havens for the Afghan Taliban, rising public discontent in Pakistan over U.S. counterterrorism policies, and the controversy over the Raymond Davis affair, U.S.-Pakistan relations have reached a historic crossroads. There is ample evidence that the relationship has never been more hostile or brittle than it is today—a fact made even more clear by recent U.S. decisions to suspend some categories of bilateral aid. Despite efforts toward a “strategic dialogue,” U.S.-Pakistan ties remain largely transactional—and amid increasingly venomous anti-Americanism in Pakistan, an accelerating loss of trust and the potential for another major crisis that would devastate public and official confidence, the time left to act may be short. The operation against bin Laden has proved to be a mixed blessing: Despite its obvious value, it has infuriated Pakistani public opinion, struck a blow against the prestige of the Pakistani army, backed both the security services and the civilian government into corners in terms of public opinion, further eroded trust between Washington and Islamabad, and now may cause some on the U.S. side to believe that the main post-9/11 purpose of the relationship has been served.

Despite some claims to the contrary, Pakistan and the United States have important shared interests. Both desire a strong, prosperous Pakistan. Both want a peaceful settlement in Afghanistan that does not pose a threat of instability across the border. Both benefit from regional stability.

Yet differences in perspective, style, and the means used to achieve specific interests repeatedly thwart an enduring, stable partnership—and the perspectives of the two countries today are diverging. Each, for example, has grown accustomed to seeking its strategic goals in the shadows, while speaking platitudes in public. Many in Pakistan connect their current plight to U.S. policies and presence,

and interpret every U.S. move in conspiratorial terms. Few in the United States take seriously Pakistan's strategic predicament, interests, or mindset, or remember that Pakistan has lost its own soldiers and civilians in the conflict with terrorists.

It may be true that Pakistan, according to a recent statement from the chairman of the U.S. Joint Chiefs of Staff, Adm. Michael Mullen, maintains a "relationship" with the Taliban Haqqani network, which is "funding, training fighters that are killing Americans and killing coalition partners." Pakistan is also believed to sponsor Lashkar-e-Taiba and other extremist groups. Such "hedging" behavior plays a risky game with U.S. (and international) patience. It also risks eroding, in the violent groups and rivalries it unleashes, the stability of the state, which the security services are pledged to preserve. But it also represents a serious and unavoidable tension between the respective interests and strategies of various nations, a by-product of the ironies and complexities of regional dynamics rather than a form of double-dealing. There is no question that different practices are required; the question is how to arrive at that point. Blunt U.S. demands that Pakistan "change its strategic calculus" in favor of U.S. interests must give way to collaborative efforts to discover a way out of shared dilemmas.

Perhaps most dangerous is a volatile set of interlinked perceptions. Each side now views the other as a part of the problem, not a route to solutions; and each assumes that it is the other's responsibility to compromise. Each sees itself as owning the moral high ground, and each has its own interests firmly in view. Cooperation continues in a number of areas, impelled forward by a lingering sense that neither can succeed without the other. But this is by habit as much as any faith in the relationship, and any of a number of new crises could fracture what has become a badly frayed bond.

Some officials and analysts in both countries would in fact be content to abandon the partnership. Yet such an

outcome offers no realistic path to achieving the core national interests of either country. Hostility, or even passivity, from Washington will hurt Pakistan in international economic terms, in the investment climate, in building regional relationships and trade. An antagonistic relationship with Pakistan would erode U.S. efforts toward regional stability, global counterterrorism, and disengagement from foreign combat operations. In the pre-9/11 world, a U.S.-Pakistan disconnect was unfortunate, but conceivable. Today, it would set the stage for a strategic disaster. It is to each side's advantage to remain aligned on the broadest strategic goals, even if they differ on specific issues—a pattern no different from many productive strategic relationships in world politics. Getting to that point, however, will take a dramatic perceptual shift, and serious compromises, from each side.

Recommendations

Most broadly, Washington and Islamabad Must Use the "Post-bin Laden Moment" to Clarify Interests and Re-Set the Relationship Around a Compelling Common Goal.

The relationship cannot return to its old assumptions or practices. Both sides must find a new public rationale, a new approach, a new appeal to the pursuit of mutual interests in a bilateral framework. We believe that there may be a limited window of opportunity for such a high-level approach based on respect for mutual interests before a new crisis makes a re-set impossible. We recommend a vision built around the strategic concept highlighted above: helping Pakistan to take its place as a major power in a modernizing South Asia. Washington and Islamabad could agree to disagree on some issues, while working together on an agenda to achieve this core concept. Such an approach could be based on the following principles. They reflect a combination of short-term and long-term ideas, but important progress toward all could take place in the next few years:

Shift U.S. and International Support from Aid to Trade and Investment. One step toward a changed mentality would be

a change from an aid-based, transactional relationship to a trade- and investment-based relationship of mutual benefit. The proposal is not to eliminate all forms of assistance, but to change the balance and focus of the relationship to trade and market-based instruments. Residual technical assistance, and even targeted infrastructure aid at much lower levels, could continue (as would emergency assistance in response to disasters such as earthquakes or floods). U.S. direct economic aid does not amount to a large proportion of the Pakistani economy or budget, and a reduction such aid would not make a huge financial impact. The goal would be development for its own sake, not a carrot or instrument to achieve secondary purposes. This can imply many steps.

- *Improve Access for Pakistani Goods to U.S. Markets.* Textiles constitute 60 percent of Pakistani exports, half its manufacturing output, and a third of its industrial employment. Yet Pakistani textiles make up less than 4 percent of U.S. textile imports, and some studies suggest that greater access would replace Chinese and other Asian textiles, not hurt U.S. producers. We recommend a new effort to increase quotas and reduce tariffs for Pakistani textiles as an alternative to most U.S. direct assistance. Pakistani textile imports to the United States are taxed at roughly 12 percent, while those from France are taxed at only 3 percent. We endorse both a U.S. commitment to a U.S.-Pakistan Free Trade Agreement as a medium-term goal, and a more immediate interim step proposed by the Center for Global Development: a five-year, duty-free, unlimited access period for Pakistani exports. Such an initiative will confront serious political obstacles in the United States (as it has when proposed in the past), but could perhaps gain traction when proposed as an alternative to aid.
- *Promote Greater U.S. Foreign Direct Investment.* Various U.S. government offices have pushed this, and U.S. FDI was growing before a precipitous decline over the last three years, but a more

concerted program of investment promotion in the context of an aid-to-trade shift could generate more results. American and Pakistani business leaders have laid out steps necessary to improve the climate for investment; these should be the focus of renewed Pakistani efforts (see below). We endorse suggestions for a Pakistani-American Enterprise Fund to offer financial and technical assistance to firms seeking to invest in Pakistan, and funding for Overseas Private Investment Corporation risk insurance and credit for investments by small and medium-sized businesses.

- *Generate Greater Involvement of the Pakistani Diaspora in Economic Projects.* Substantial remittances flow to Pakistan; investment, technical skill, and exchange programs could more regularly flow from this community as well. U.S. and Pakistani government agencies could do more to engage this community in all the initiatives outlined here, from enterprise funds to technical assistance programs to efforts to engage Pakistani civil society.

Replace the Focus on a Few Institutions with Efforts to Engage the Pakistani People and Institutions of Governance At All Levels. The United States must and will maintain close cooperative relations with Pakistan's army and other security services. Washington should continue to offer selected military aid and technical assistance. But we believe that this connection has dominated—and skewed—the bilateral relationship; that solutions to Pakistan's challenges must come from the Pakistani people, at many levels and from many sources; and that both sides must think of their relationship as not only government-to-government but also society-to-society. Moreover, we believe that existing models of U.S. assistance (already in the process of being revised by USAID) have often led to unintentionally counterproductive results, ranging from a dilution of the incentive for reform to promoting local corruption to choosing projects of more interest to donor

specialists than local populaces. As stressed above, this is not to imply an abandonment of partnering with Pakistani government institutions; enhancing the effectiveness of government is essential. So, however, is expanding the size, reach, and competence of civil society broadly defined, and government at levels beyond the federal, and finding new models for a much-reduced program of technical assistance that is far more targeted. Specific initiatives could include:

- *People-to-People Programs and Institution Building at All Levels.* This broad category implies many specific initiatives, from expanded work to empower civil society (including nonprofits, charities, think tanks, universities, and even media organizations) to efforts to support the institutionalization of civilian rule, including parliament and more effective political parties; and partnerships with provincial governments to enhance their ability to carry out expanding mandates. Many of these are spelled out in subsequent sections below. Indeed a much smaller and more targeted technical assistance portfolio could work hand in glove with the welcome new U.S. emphasis on providing support through Pakistani partners to build local capacity, rather than conducting projects directly.
- *Special Investigator on Visa Issues.* Pakistani and Pakistani-American travelers face recurrent visa problems and travel indignities. In the process of expanding people-to-people contacts, the U.S. government could create a position in the State Department whose task would be to reduce visa wait times and address issues of unfair or inappropriate treatment during immigration processing.

Work Toward a More Transparent Relationship, Ending Reliance on Secret Agendas and Concealed Tools of Statecraft.

- *Expand High-Level Collaboration on a Negotiated Settlement in Afghanistan.* Trilateral talks are underway with U.S., Pakistani and Afghan

representatives to build the foundation for a dialogue among Afghan parties in which the Taliban would participate, working explicitly on a political strategy for the regional conflict alongside a shared military counterterrorism program. This has always been the route to ending the conflict that can take advantage of overlapping U.S. and Pakistani goals and interests. This path has now become a top U.S. and regional priority, and both U.S. and Afghan leaders are engaging Islamabad.

- *Use Quasi-Governmental Mechanisms to Clarify Goals and Interests.* The relationship suffers from a lack of clarity in the mutual vision of a way forward, especially in Afghanistan. Neither side now has a clear idea of the political outcomes that would meet their interests. Even as negotiations with warring parties are underway, the two governments could use quasi-governmental organizations—for example, the National Defense Universities of the two nations—to hold a series of dialogues to identify the interests of both sides and outcomes that met those interests, to feed into the processes described above.
- *Develop a Transparent Counterterrorism Program.* On both sides, there is a tendency to operate in secret—Pakistani support for militant groups, as well as U.S. covert operations and drone strikes, are part of this tendency. This only sets the stage for public outrage when secret activities are revealed without being grounded in a fundamental strategic justification. Given the recent collapse in trust, both sides may now be placing even greater emphasis on covert, self-interested measures, exacerbating this tendency. Yet extremism and terrorism threaten both nations, and both publics support some range of activities to combat these threats. The time has come for the two governments to move toward joint, sustainable actions—against terrorism, militancy, and insurgency—that can be agreed and defended in the public sphere. We recommend that the two

sides develop a shared, public counterterrorism/counterextremism program using a variety of tools—perhaps including drones, but looking beyond military action—to root out al Qaeda and Taliban elements from Swat, South Waziristan and other areas. The program could perhaps build off the foundation of the newly-announced U.S.-Pakistan Joint Counterterrorism Task Force. It would begin by clearly identifying the mutual interests of the two sides and attempting to lay out a campaign, engaging the most effective instruments available to each side, to which both could publicly commit themselves. Developing such an effort will take an honest dialogue between the security and intelligence services of the two sides, based on shared interests and common goals. Amounts and purposes of U.S. military aid could be publicized, perhaps on a public web site. Pakistani concerns about civilian casualties and national sovereignty could be addressed with a scaled-back or more transparent drone program—perhaps involving public release of some video footage, as well as clarification of targeted individuals and the reasons for their targeting—more clearly under Pakistani government guidance. After all, the war against the militants in the tribal regions is Pakistan’s more than America’s, and polling in the tribal region indicates that if the Pakistani military were seen as more directly responsible for a drone program, opposition to it would subside dramatically.

- *Intensify U.S. Support for Regional Peace Building.* The United States has pressed Pakistan hard on counterterrorism since 9/11 but has been less able to appeal to India for progress on key issues, notably the two countries’ dispute over Kashmir and other questions of Indo-Pakistani confidence building. Many issues, including trade, Lashkar-e-Taiba, and Pakistan’s role in Afghanistan, could appear in a different light if Pakistan sensed greater U.S. support on issues of

regional security. Indian Prime Minister Manmohan Singh’s efforts to safeguard the idea of dialogue over the last two years have been admirable; the United States must encourage the Indian establishment, even as it does Pakistan, to build on initiatives begun during Gen. Pervez Musharraf’s rule to end the Kashmir conflict. There is also a strong case for taking action on Kashmir for Kashmir’s sake—to reduce recurring clashes and allow Kashmiris to escape the constant menace of violence and geopolitical maneuvering. We therefore recommend, in the context of the regional agenda suggested above and in support of recently resumed India-Pakistan dialogues, that the United States strengthen its commitment to promoting regional confidence-building measures and progress toward resolution of disputes. While a final peace in Kashmir is obviously a long-term goal and one that can only be concluded between New Delhi and Islamabad, India’s desire that no third country intervene as a mediator in Kashmir can be accommodated without precluding American efforts to positively support bilateral confidence-building measures and underwrite more visible progress on longstanding security challenges.

Issue 2: Civilian Rule

Pakistan’s political culture remains problematic—personalized and driven by patronage, a system that has traditionally operated for the benefit of a small elite—and it remains unclear that leaders of the civilian parties are operating from a sense of urgency. In this way Pakistan is not unlike many other nations—confronting severe socioeconomic challenges with imperfect governance structures and without, yet, the commensurate political or social energy required to make the necessary reforms. The hope is that the evolution of more institutionalized and effective civilian governance will generate lasting consensus on key national priorities that better meets the needs of the

people. In the past, popular satisfaction would often be driven by charismatic leadership employing populist themes. In today's media-saturated environment, such image-driven leadership is too easily exposed; in the future, results-driven service delivery by effective governance institutions will be the key to meeting popular needs.

Our discussion of trends in this area produced lively debates—and no consensus on the balance between persistent evidence of stagnation and suggestive evidence of a new political order. Participants noted that most political leaders display little appetite for tackling the toughest economic or social problems. Entrenched interests continue to dominate the political scene, twisting many key decisions to their personal or institutional advantage. The politicians offer the excuse that they cannot perform because of the dominant role of the army, while the army relies on critiquing politicians as a rationale for its role—in this sense, they use each other as alibi and pretext. In the process, the people become marginalized, subsumed to the class and institutional interests of the ruling elite, which rejects most promising ideas for change. Momentum for reform is also dampened by what might be termed a “linchpin nation syndrome”: Many Pakistani leaders assume that, because of their key strategic position, the world community will bail them out when crisis hits. It may be difficult to imagine key reforms being adopted without the most basic terms of reference of the Pakistani political situation changing in dramatic ways.

Yet the evidence is not all discouraging—we also sense a tentative transitional moment. Pakistan has now undergone an extended period of civilian rule. An interlocking set of reasons has kept the army from direct governance for some time: the lack of a political party to support, an absence of desire to inherit the country's urgent problems, an urge to rebuild the army's reputation in the post-Musharraf era, and a belief on the part of some senior officers that the military ought to allow civilians to rule as a principle. Inspiring numbers of political leaders and ministry officials possess an appreciation for needed reforms. The political

system has now *come close* to necessary actions, such as tax reform, only to back off at the last minute (though some believe the recent tax proposal debate was more calculated than real). There is a palpable sense of growing popular dissatisfaction with the status quo and desire for a “progressing Pakistan.”

An initial variable in this area, a precondition for civilian politics, will be *continued military restraint*. What level of independent civilian governance will the army tolerate? A second crucial determinant will be the *level of institutionalization of the political parties*: Can they emerge into a “post-personalization” era? A third variable tests the degree of policy development of the leading political parties: Will they be able to *build on established points of agreement, such as the need for continued civilian governance, to generate an expanded set of national consensus items*, points that would underpin needed reforms and policy changes? Fourth and finally, we recognized the simple—but decisive—role of *individual leadership*. Will enough committed, decisive, nationally minded leaders emerge at all levels (provincial and local as well as national) to infuse civilian politics with the necessary energy?

Part of our conclusion was that neither Pakistan nor its institutions have “collapsed,” which represents both good news and bad. The institutions necessary for policy reform and implementation exist. What is lacking is the willpower to make them perform on behalf of the people. And so, while some of our recommendations involve enhancing skills and capacity, ultimately leadership and purpose will be key determining factors. Part of the goal of our strategic concept is to change the context, to create new requirements to step up to the demands of an opportunity, a challenge, and an implied risk, that no actor on the Pakistani political stage can completely evade.

A related issue in civilian governance is a trend toward “devolution” or sub-national governance, a long-standing process and goal in Pakistan that in its most recent guise

has been prompted by legislative developments—some elements of the 18th Amendment as well as the 7th National Finance Commission Award, the process by which revenues are shared among the four provinces. Parliament passed the 18th Amendment (a wide-ranging constitutional reform that included provisions transferring substantial responsibilities, including whole ministerial portfolios, to the provinces) in April 2010 with great fanfare. But the process bogged down for a time in disagreements over power and resources as federal ministries, provincial governments and localities have sparred over its implementation. Federal officials resisted the loss of authorities; provinces have proved uncooperative power-sharing entities with local governments; and indeed the role of localities in the process remains subject to debate.

Yet devolution is grounded in a theoretically promising justification: the idea that administrative units closer to the people—provinces, districts, various forms of local government—would be more responsive, and that decentralization of government functions could, potentially, enhance the effectiveness of service delivery, the fairness and enforcement of laws, the provision of justice, and other goals. In the context of widely recognized problems of patronage and rent-seeking at the federal level, one goal of devolution has been to fragment entrenched interests and offer a more direct avenue for popular voices to influence the distribution of public resources and goods. Of course, provincial and local government need not be more responsive than federal ministries; patronage and rent-seeking exist at all levels. Changes in established habits and power relationships, moreover, are not likely to be rapid.

Whatever its eventual outcome, devolution is proceeding apace. In the third and most recent phase, completed on July 1, 2011, seven more federal ministries (including health, food and agriculture, environment, and labor and manpower) were technically “abolished” and their functions transferred to the provinces. They joined 10 other ministries (including education and rural development) already devolved. The upshot is that Pakistan is undertaking one of

the most profound experiments in policy decentralization of any nation in the world.

That process carries equal degrees of risk and opportunity. Provinces and localities have the potential to become more effective and determined sources of reliable governance, but they may not be ready for the substantial new responsibilities they will face, and fiscal chaos could loom as provinces spend money freely to fund their new requirements. It is not clear what capacities, staff, or even what parts of all devolved ministries will actually head off to the provinces. As devolution proceeds, Pakistanis will want to see improved services and rule of law emanating from their provincial capitals and localities—but the process could instead generate a governance vacuum, perhaps requiring the center to step back in. Devolution could also exacerbate potentially destabilizing regionalism and ethno-sectarian identity. Some provinces might perform better than others in response to the new responsibilities, which could exacerbate internal inequities. Pakistan will be left with a federal government whose responsibilities (and institutions) fall into five primary areas—defense, finance, foreign affairs, communications, and revenue; but consistent, reliable standards and regulations will need to be made and enforced in other areas, and it is not clear how that will happen now that so many policy issues have become decentralized.

Recommendations

Develop Stronger Civilian Planning and Strategy Capabilities. The Pakistani government lacks institutions devoted to strategic analysis, planning, coordination across government agencies, and policy implementation. Pakistan could re-create, for example, a *National Security Council structure* to support the civilian leadership, to offer enhanced strategic analysis and vision as well as normalizing civil-military relations by leveling the playing field in terms of high-level planning processes. There are objections to the idea: Mechanisms already exist (such as the legislative defense committee); the problem is a lack of

will by civilian officials, not an absence of structure; former president Musharraf established such a National Security Council, but it soon became non-functioning. However, we continue to believe that civilian officials need stronger planning, strategy, and interagency implementation structures, and a council like this could help officials who did want to take more responsibility to do so. Another mechanism that would achieve the same goal in a different way might be the strengthening of the existing defense committee of the federal cabinet with a dedicated, permanent secretariat. (*We make similar recommendations below for offices dealing with the economy and energy policy.*) We also endorse the strengthening of legislative mechanisms that help the civilian government to exercise oversight functions in key areas, such as the staffing of parliamentary standing committees.

Complete the Planned National Census. The census—last taken in 1998, scheduled for 2008 but delayed since then by both political and technical issues, finally begun with house listing counts earlier this year—is expected to have the effect of shifting power toward growing urban centers and away from traditional land-holding rural powers. Any shift in the political calculus can have unexpected results, and the changes that the census will unleash certainly carry risks as well as opportunities. On balance, however, it has the potential to empower political actors focused on meeting popular needs and affect the trend of public expenditures and the implementation of the 18th Amendment. The United States and other parties could offer technical assistance to the ongoing process.

Enhance the Development of Parliament and Political Parties. Promoting the capacity and professionalism of the institutions of civilian governance will underwrite the growth of civilian rule. Such programs are not new, but they could be continued and expanded. Examples include:

- *Parliamentarian Capacity Building Efforts*—training, exchange programs, staff-to-staff contacts, scholarships for parliamentarians and staff, and

other investments in the long-term skill of the legislative branch.

- *Support Programs Aimed at Enhancing Popular Ability to Monitor Elections.* These could include NGO efforts or public monitoring programs.
- *Political Party Capacity*—pre-election training, capacity building and training in the development of broad-based campaign finance sources to break the dominance of elites on the promotion of candidates and exchange programs with U.S. political organizations. The idea of intra-party elections, formally abandoned by the 18th Amendment, needs to be revived.

Programs in each of these areas have been underway for some time, with sometimes welcome results. A continuation and expansion of such efforts would bear important medium-term results for civilian governance.

Empower Innovative Civil Society. Domestic as well as international charities and governments should look to support those active in Pakistani politics building a new national consensus on key issues. At various levels—federal, provincial and local—nongovernmental charities, activist groups, new media organizations, and others are assuming a more powerful voice as the population advocates for solutions to social problems. Recognizing the limits and failures of existing aid and NGO models, innovative and entrepreneurial nongovernmental groups are developing new models for making progress; their experiments, energy, and innovative spirit deserve support. We understand that this is a broad and general recommendation. But the popular demand for better government performance will ultimately make a crucial difference in changing mindsets; social entrepreneurs engaged in efforts to promote such a public voice represent a crucial avenue to the success of any agenda for reform. In terms of external support, we are aware of the fraught recent history of U.S. and international engagement with Pakistani civil society. It may be that a new strategy is

required, developed in cooperation with local activists, given political and security concerns.

Develop Repeatable Models of Success for Enhanced Capacity at the Provincial Level. Recommendations to build capacity at sub-national levels often run up against the scale of the challenge and the bureaucratic and political barriers to rapid reform. The larger context—of history, traditions, institutions, culture, and more—gets in the way of effectiveness, even when new “skills” are imported. But current plans for devolution demand enhanced effectiveness in provincial and, to the degree possible, local governance. Therefore our recommendation is for the government of Pakistan and outside donors to focus on finding a handful of cases—mostly provincial agencies and ministries, perhaps including some district/local governments—and to develop a catalytic set of *integrated model success stories* that address many elements of incentives to achieve success at effective governance on their issue or in their area. The approach would be to:

- Find specific partners, from strong provincial ministers to innovative NGOs, already working to create public-sector capacity and good governance in the specific areas of public policy devolved to provincial authority;
- Engage, where possible, external actors with applicable skills and resources, such as the Pakistani Diaspora community or private business;
- Set clear, achievable goals;
- Offer effective support in the form of resources, training, and other means;
- Provide strong accountability and oversight mechanisms;
- Achieve specific results within a defined time period.

If sponsors could support *two or three dozen success stories*, the hope would be for a cascade effect of demand for similar reform elsewhere—and a gradual spread of a transferable, adaptable model.

Enhance Oversight of Local Governance. Various mechanisms have been established as part of the devolution process, such as through the Provincial Local Government Commission and audits of district governors, to exercise oversight of the effectiveness and transparency of local governance. Follow-through has been incomplete. Rigorous means of tracking the status of governance will be critical to monitoring the status and progress of the devolution process.

Issue 3: The Economy

As much as civilian politics is the basis for solving social problems, economic reform and progress represents a parallel foundation for the solution of most other issues.

Pakistan has in the past exhibited strong growth, and the national standard of living—as measured for example by the U.N. Development Program’s Human Development Index—has grown slowly but steadily. But economic trends over the last two years have been almost uniformly negative. Inflation has been running in double digits since January 2008, reaching a peak of over 20 percent in 2009, declining to still onerous levels of between 10 percent and 15 percent through 2010 and 2011. Rising food and fuel prices could have major social and economic ramifications, including public discontent and growing resentment at government. High fuel prices have posed particular risks because of the government’s habit of providing subsidies—which raise fiscal deficits and government debt and force it to print money to cover the shortfall. The dynamic creates new inflationary pressures; it can also drain government coffers, transforming a financial crisis into a balance-of-payments crisis, evaporation of the country’s foreign currency reserves, and a collapse of the exchange rate.

Pakistan’s endless negotiations on a new round of IMF funding drag on, unresolved because of Islamabad’s failure to meet the agreed conditions, specifically the introduction of fuel price increases and the Revised General Sales Tax (RGST), a revamped national sales tax designed to close the

country's revenue gap. Pakistan's tax-to-GDP ratio is one of the lowest in the developing world, and the popular perception is that wealthy and landed Pakistanis do not pay their fair share. Pakistan's budget deficit is projected at over 6 percent of GDP for 2010-2011, and even optimistic future projections suggest persistent deficits over 5 percent of GDP. Already some 45 percent of public tax revenue goes toward interest payments on the public debt, and Pakistan is dependent on billions in annual foreign financial support. Continued deficit spending also absorbs credit from banks and starves business of capital for growth.

The challenge of reliable energy is also inextricably linked to growth. Despite a theoretical abundance of megawatt-production capacity, the national power grid and production are not keeping pace, either in modernization or output, with national demand, in part because Pakistan is producing less than 50 percent of installed capacity. Some official figures suggest a national energy shortfall of over 60 percent of projected demand by 2030. Some industries are running at just 50 percent of capacity because of energy shortages.

All of these trends call into question the government's ability to achieve sufficient growth rates to generate enough jobs for the large numbers of young people entering the workforce. The economy may grow just 3 percent for 2010-2011, partly because of the impact of floods, and projections for future years suggest growth of only between 3 percent and 4 percent. In the meantime, the population, especially of working-age people, is burgeoning, and one well-known estimate suggests that Pakistan requires economic growth of more than 7 percent simply to generate enough jobs for its exploding workforce. Left unchecked, these trends will lead to a decline in real incomes and living standards, a collapse of faith in the future, and crowds of disaffected, unemployed young people.

Some positive trends infuse the economy with residual vigor. Remittances, for example, which had been growing at \$1 billion per year and may be coming in to fund small

businesses as well as to aid individuals, will likely reach \$11 billion in 2011. They are part of a massive secondary or grey economy which is supporting the society in ways not fully understood. Yet Pakistan cannot rely on such grey economic activity forever. It requires more comprehensive economic activity to transcend boom and bust cycles.

Recommendations

Tax Reform to Achieve Linked Goals. Pakistan needs enhanced revenue generation to underwrite improved governance and service delivery. Any new tax should allow relatively high exemptions to protect the lower middle class and the poor. A moderate, progressive tax focused on income, wealth, and property would allow the wealthy to pay their fair share without imposing an onerous burden, would give the government broad popular support for the move, and would achieve crucial economic goals. (A small wealth tax was actually included in the 2011 budget until the last minute.) But Pakistan also requires broader tax reform in the context of devolution to solve multiple problems: insufficient revenue at the local and provincial levels to meet growing governance responsibilities; overlapping taxation; some taxes mismatched to services (federal taxation on services provided by localities); and more. A broad reform should address a number of these issues, raising revenue overall while rebalancing revenue somewhat toward localities and provinces. Pakistan could nominate an expert commission to develop a comprehensive package of steps to achieve these interrelated goals, looking at the 18th Amendment and the National Finance Commission Award (NFCA) as well as general tax reform requirements. The commission could also consider more radical ideas, such as all direct taxes being made a federal responsibility, while all indirect taxes—RGST—shifted to the provinces. Greater revenue would also allow Pakistan to *adhere strictly to the Fiscal Responsibility Law* which mandates a ceiling on debt and fiscal deficits—now largely ignored, but a principle that we believe ought to become a consensus norm governing both the federal and provincial budgets among civilian parties.

Promote Regional Trade. As part of our overall strategic concept, we recommend initiatives to accelerate trade throughout South Asia as a way of enhancing economic prospects of all nations, especially Pakistan. Most broadly, we support the concept of a regional trade corridor—whether the “Modern Silk Road” proposed by some today or a “Grand Trunk Road” corridor that might be based on a public-private venture to link Pakistan and perhaps Afghanistan into regional investment corridors in India—as a foundational vehicle for trade and investment. Most significantly, improved trade with India represents a natural source of potential growth for Pakistan, and also a potential leverage point for easing tensions between the two states. Just as after World War II former enemies France and Germany created the coal and steel common market that spawned the European Union, the more India, Pakistan and other regional players collaborate along economic lines, troubling political issues will begin to be seen as nuisances in the way of an emerging regional prosperity. Populations gathered into a cycle of growing, interdependent prosperity will have even more intense motives to avoid violence and build effective governance. India retains high tariffs on Pakistani imports, Pakistan has not yet reciprocated Most-Favored Nation (MFN) status with India (although it has said the matter is under consideration), and little effort has been made to enhance the less than \$2 billion in official and unofficial bilateral trade that goes on (as opposed to estimates of 10 times as much which could take place in a depoliticized environment). A number of short-term initiatives could jump-start this process:

- Easing visa restrictions, allowing multiple-entry visas for businessmen;
- Easing restrictions on direct shipping and on rail and air links;
- Allowing Indian and Pakistani banks to open branches in each other’s countries;
- Increasing the number of transit points and customs posts;
- Opening specific sectors to mutual foreign direct investment.

Such actions could set the stage for more fundamental medium-term actions such as mutual tariff reductions and Pakistani reciprocation of MFN status, and cross-border energy trade. The scheduled meeting of the Ministers of Commerce of India and Pakistan in September is a positive sign that the door may be opening for improved trade relations between the two countries. There is also potential for enhanced Pakistan-Afghanistan trade: Pakistan is Afghanistan’s largest trading partner, but much of what crosses the border remains informal or covert. Formalizing this trade would add to the revenue of both countries, deepen bilateral relations beyond security issues, and more clearly demonstrate to Pakistan an arena of influence within Afghanistan outside Pashtun client groups.

Improve Policy Coordination and Strategic Planning on Economy and Energy. In the spirit of improved institutionalization, two linked reforms would enhance the procedural ability to coordinate strategy and policy:

- Transform the Planning Commission of Pakistan into a *Ministry for Economic Reform* to design, coordinate across government, and implement the broad-based program of reform required to put Pakistan on a high-growth trajectory. With many planning functions moving to the provinces, this recommendation—to enhance a centrally coordinated strategy office—becomes even more critical.
- More reliable and expanded energy supplies are required for Pakistan’s economic progress. Some industries are running at 50 percent or less capacity due to energy shortages and unreliability. Most studies and experts agree on the required steps: changes to pricing standards and subsidy practices, investment in infrastructure, development of new energy sources (including renewables), better coordination of donor projects. One challenge is the lack of coordinated policy development, implementation and follow-through. We recommend either the formulation of a *Ministry of Energy*, or, failing that, the formation

of an *Energy Security Council*, to create a revised Integrated Energy Plan with emergency, short-term steps to generate rapid progress and to promote integrated energy planning across the entire government.

- In a related move, we recommend that Pakistan should *pass the law on Central Bank autonomy*, approved by the Senate but languishing in the National Assembly, and prohibit central bank financing of the government. This would constitute steps toward the institutionalization of economic decision making and insulate monetary policymaking from political pressures.

Enhance Investment Climate. Our strategy envisions Pakistan as an economically vibrant regional power increasingly linked into regional and global networks of trade, information, and security. One necessary step along this road will be to enhance its climate for foreign investment. Investment is a crucial tool for economic advancement, far preferable to aid: It generates jobs, transfers technology, promotes spin-off activity and reinvestment, creates opportunities for partnerships with local firms, and in many other ways is an essential avenue to global competitiveness. We broadly support the approach laid out in the economic strategy recently proposed by the Planning Commission of Pakistan, whose emphasis on a trade, investment, innovation, and entrepreneurial-based growth pattern matches the recommendations of our report. But to make that a reality, Pakistan must take a number of steps—detailed in many analyses by business groups, both inside Pakistan and outside—to enhance the investment climate. These range from control of corruption facing businesses to regulatory and tax burdens to infrastructure issues. Some of these are long-term challenges, but some can be addressed more immediately. We recommend the creation of a special Task Force or high-level Commission on this issue, to develop executive actions, recommend legislation, and oversee implementation and enforcement.

Conclusion: From Here to There

Perhaps the most powerful objection to an agenda like the one outlined in this report is its political feasibility, in the current environment. All the momentum is in the other direction—retrenchment, a pulling apart in the U.S.-Pakistan relationship. No political will exists to embrace a positive, long-term vision based on compromise and trust.

What is required is a road map to reach the strategic concept—a way to get there one step at a time. Leaders in many capitals may not be willing to make the whole leap at once. But they may be willing to take a few initial steps, in the hope that the final vision may one day be possible. To be clear, this concept is *not* one of “horse trading” or *quid pro quo* deals. That mindset reflects the transactionalism that we believe must give way to a new, shared sense of responsibility for the future of the region. Instead, we propose a gradual set of initiatives to build confidence toward the strategic concept. We have not laid out a comprehensive multi-stage process—that can only emerge organically, depending upon events. Instead we have proposed a number of initiatives from our list that could form the first stage of the process—the places to begin.

Transitional Agenda: Building Momentum for Change

Phase One Actions: Pakistan

- Commit to the strategic concept and its vision of an influential, developing Pakistan
- Pass an integrated tax reform package (perhaps not complete, but substantial)
- Continue commitment to national census with planned fall 2011 stages in process
- Form an Energy Security Council empowered to create an emergency integrated energy plan to address current problems of energy supply
- Announce key steps designed to enhance regional trade, as well as appoint a task force or other means to continue process of policy reforms to promote trade

Phase One Actions: United States

- Commit to the strategic concept and partnership with an influential, developing Pakistan
- Announce Pakistan-American Enterprise Fund for investment
- Propose free trade agreement and introduce legislation for a five-year tariff holiday on Pakistani imports
- Announce the intention to make a transition from aid to trade relationship over time
- Appoint special investigator on visa issues
- Develop initiative for expanded support for regional peace building

Phase One Actions: Joint U.S.-Pakistan

- Initiate Track II mechanism on interests and policies in Afghanistan and intensify collaboration on the foundations of a negotiated settlement to the conflict
- Create joint task force to build elements of new joint CT program

This discrete set of actions would establish a new vision for the future, require both sides to take concrete actions to demonstrate commitment to a changed reality, and put in place planning and analysis efforts to design and implement additional reforms.

Appendix: Significant Contributory Issues

In addition to the leading issues highlighted above, the study group considered a number of other major challenges and opportunities confronting Pakistan over the medium term. In each section below, we very briefly highlight significant trends in that issue area, key questions whose answers will determine the course of the issue, and the crucial factors that will determine outcomes. We then offer a few recommendations for action.

Education

We do not offer a detailed analysis of this issue, which has been treated in great depth in other reports and analyses. But we do highlight the simple fact that a promising medium-term vision of Pakistan depends upon improvement in educational achievement. Pakistan's citizenry must become more educated if it is to compete in a global marketplace.

Trends

- Continued stagnation of public sector; evidence that 1 in 4 teachers do not report for work, achievement poor.
- Growing role of nationalist and Islamist themes.
- More families seek out private alternatives (33 percent of students in private sector schools) but not all are of high quality.

Key Questions

- Will revenue reform generate resources to increase national, provincial support?
- Will leadership at all levels come to see education system as support for national progress vs. patronage system?

Determinants

- Commitment of government at all levels to reform.
- Degree of resources available to devote to issue.
- Public demand for improvement.

Recommendations

- *Enhanced Resources.* One obvious necessary step, which would be made possible by the revenue reforms we recommend, is greater investment in the education sector.
- *A Transferable Model of Local Reform.* The spirit of our recommendations suggests a path forward: Rather than attempting generalized reform everywhere at the same time, develop proven, holistic models in a few places with effective local partners; spread the model.
- *A National Campaign to Focus Attention.* These specific reforms might be more effective if undertaken under the umbrella of a general national campaign of some sort, with specific goals and benchmarks, to generate a sense of urgency and commit political capital. British charities are supporting a task force on this issue (<http://educationemergency.com.pk>).

Security and Extremism

The question of security and state stability is obviously central to Pakistan's future. If Pakistan cannot establish public order and security as a generalized expectation across its territory, its people will not have faith in the future, its businesses will not be able to plan for growth, and foreign investors will stay away. The Pakistan Institute of Peace Studies claims that almost 9,000 civilians were

killed and injured from extremist-related violence in 2010, a decline of 11 percent from 2009. Despite army operations in the FATA and Khyber Pakhtunkhwa (KPK) areas, civilian governance remains a major concern. In major urban areas of Sindh and Punjab, violence is on the rise.

Trends

- Army campaigns in FATA and KPK make progress; long-term rule of law unclear.
- Spread of extremism to urban areas and Punjab.
- Growing risk of “sponsored” militant groups turning against the state or staging global attacks.
- Growing Islamist sentiment throughout country, in military and government.

Key Questions

- Can military progress in FATA and KPK turn into governance?
- Can state combat extremism in Punjab, Sindh?
- Will the military reassess its support for radical groups?

Determinants

- Militants in FATA and KPK kept on margins / society.
- Energy and effect of actions to control rise of extremist cells in Punjab, Sindh, urban areas.
- Larger, inter-connected socio-economic issues.

Recommendations

- *Develop Sustainable Model of Post-COIN Governance.* As has been widely recognized, what follows the military phase of operations in FATA and KPK may not do enough to establish lasting foundations of governance and development. Pakistan could establish a task force to seek out best practices—from its own operations and from those of similar operations around the world—for employment by military and civilian institutions in these areas.

- *Strategy to Combat Spreading Extremism.* In its reaction to threats outside FATA/KPK, Pakistan has yet to develop a comprehensive, multi-instrument strategy. The prime minister's office could take the lead in developing one with the security services.

The Role of the Media

The explosion of a burgeoning free media environment in Pakistan has become a double-edged trend. Powerful independent voices are essential for the entrenchment of a stronger civil society and healthy politics. On the other hand, the early stages of free media development in any society tend to be riotous and at times sensational in the presentation of issues. All of these aspects have been very true of Pakistani media, especially the vernacular press. The media have also been manipulated by the powerful military and intelligence apparatus to help the army gain public support for favorable decisions and to shape the public narrative (all too often fomenting anti-Americanism and anti-India sentiment). The challenge here, as in many other areas, is greater institutionalization, professionalization, and capacity building. The groundwork for a vibrant, free media that underwrites an improved politics has been laid. The challenge now is to realize the full potential of the free media.

Trends

- More free, democratic, inclusive media.
- Business models that specialize in the sensational.
- Tends to amplify conflicts between political actors and sectarian groups.
- Bureaucratized media world in which organizations represent journalists to achieve benefits, not professionalism.
- Role of vernacular press, whose weight is not appreciated in the West.

Key Questions

- Will responsible voices emerge?
- Will media professionalize their operations?
- Will the idea of accountability take hold?
- Will journalists covering security issues gain more freedom?

Determinants

- Emergence of professional journalists.
- Self-regulation and accountability via industry standards.
- Security service willingness to tolerate greater scrutiny.

Recommendations

- *Programs to Build Media Professional Standards.* Exchange programs, training, institution-building grants, and other mechanisms to enhance the journalistic standards in the field.
- *Accountability and Protection Institution.* Access by journalists to justice and accountability mechanisms when powerful state organizations attack their rights.

Transparency

Addressing issues of public-sector transparency and corruption is essential over the medium-term to restore public faith in governance and reverse an accumulating slide into habits of social behavior—among all classes and in dozens of realms of life—that are destructive to the rule of law and national self-identity. Many forms of corruption exist, with many different effects. Perceived corruption reduces public acceptance for tax reform, for example, because people do not trust government to use their funds honestly. The fair exercise of the rule of law is skewed by widespread practices of corruption that benefit those with means and connections. None of these patterns will change overnight, but efforts must be made to begin new ways of thinking. And yet this is a challenging issue to handle in policy terms: Destabilizing the political order to eliminate

corruption in the short term would be a mistake. Recent moves in the direction of devolution offer an important window of opportunity to make progress. Provincial governments can be more anxious to see services delivered effectively than the national government. In some cases they would be open to programs designed to build effective, efficient, transparent institutions reflecting principles of good governance.

Trends

- Continued use of public institutions for private, family, coalition interests.
- Public perception of degree of corruption worsening.
- Lack of anticorruption mandate or organization.
- Growing role of an independent media.
- More assertive role of an independent judiciary.

Key Questions

- Will public institutions more regularly reflect objective rules.
- Will pol. parties adopt reform as agenda item?
- Can reforms occur given political culture?

Determinants

- Commitment by key leaders at national and provincial levels.
- Salaries of officials in public institutions.
- Mechanisms of accountability, such as automation.

Recommendations

- *Develop Best Practices.* Fund case studies of offices and organizations where corruption has been overcome and transparency has emerged—the Motorway Police, national identity card process, others—to determine how they achieved that status. Pakistan also has a substantial e-government initiative underway; placing records online achieves many transparency goals and has already begun to achieve results, even beyond the core goals—for example, promoting water sharing agreements once water availability levels of neighboring provinces are posted. Included in these could be studies to determine where automation has helped to enhance transparency.
- *Boost Transparency in the Provinces.* Use the emerging devolution process to offer expanded programs of transparency and capacity building at the provincial level.
- *Conduct Pilot Salary Experiments.* Given that salaries are a critical determinant of vulnerability to corruption, and given associated trend toward devolution, conduct pilot programs at provincial level to fund targeted, strategic provincial-level ministries or agencies to offer competitive salaries, attract strong candidates and build the ethic of good governance.

Acknowledgements

We would like to thank, first and foremost, the members of the Study Group who gave so generously of their time and expertise. The analysis, arguments, recommendations, and text itself reflect a true collaborative effort. This project would not have been possible without their energetic assistance and thoughtful guidance.

Nor would it have been possible without the skilled support of New America Policy Analyst Andrew Lebovich. At every stage, from project inception through the design of the published report, Andrew was an essential partner of the project directors. His expertise, dedication and good cheer contributed greatly to the work and the final product.

We also owe thanks to National War College research assistant Alexia D'Arco. Especially during the early portions of the study she offered critical research support to our deliberations as well as assisting with many aspects of running the project. She is a superb analyst and our thinking was shaped by her work.

Apart from the study group, we received comments on the evolving report from a number of other sources. We would especially like to thank Shamila Chaudhary, now a fellow at the New America Foundation, whose thoughtful comments were of great value.

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**Study group members participated in deliberations of the group and offered comments on draft reports. They concur with the basic strategy and recommendations of the report. Each member reserves the right to disagree with individual points or recommendations raised in the report.*



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