EUROPEAN POLICY CENTRE

Policy Brief

April 2008

The King Baudouin Foundation and Compagnia di San Paolo
are strategic partners of the European Policy Centre

Building democracy and fighting extremism in Pakistan: a role for the EU

By Shada Islam

Background

Pakistan stands at a critical crossroads. The legislative elections held on 18 February have radically transformed the country's political landscape, ushering in a new era of democratic government after almost nine years of military rule under President Perwez Musharraf.

The success of Pakistan's mainstream secular political parties and the virtual electoral obliteration of Islamist groups – suspected of close links with Taliban insurgents – are also expected to inject new vigour into the global fight against terrorism and help salvage troubled international efforts to stabilise neighbouring Afghanistan.

Bringing Pakistan back from the brink is not going to be easy. Political turmoil, civil war and chronic institutional crises have plagued the country for most of its turbulent 60-year-old history.

Pakistan went through a traumatic break-up in 1971 when, after a disastrous conflict, its former eastern wing seceded as Bangladesh. Long bouts of military rule have been interrupted by short-lived civilian governments, and a lethal mix of political violence and religious extremism resulted in the tragic assassination last December of former Prime Minister Benazir Bhutto.

Political life in the country is likely to remain confused in the coming months, not least because of uncertainty over President Musharraf's future. However, by opting for democracy and moderation over army rule and religious extremism, Pakistan has set itself on a new, more upbeat course.

The country's new civilian leaders have said they want to consolidate its fragile democratic institutions, ensure good governance, and continue the struggle against religious extremism and violence. They need American and European assistance to achieve these goals.

An opportunity for the EU

The United States will remain the key foreign player in the country. But Washington's standing in Pakistan has been tarnished by the Bush administration's support for the increasingly unpopular President Musharraf.

In contrast, the European Union has built up political credit among Pakistan's political elite – including lawyers, human rights activists and pro-democracy groups – by calling for free and fair elections, insisting on the need to restore the independence of the judiciary and focusing on a return to the rule of law.

Building democracy in Pakistan will therefore require urgent and sustained EU action. The Union and individual governments need to engage rapidly with the country's new democratically-elected leaders and hammer out a fresh, long-term strategy for a stronger, more proactive and multi-faceted role in Pakistan.

The decision to deploy a large Election Observation Mission (EOM), led by Michael Gahler MEP, to monitor the Pakistan polls was

a step in the right direction, as was European Commission President José Manuel Barroso's immediate post-election pledge to build a strong and stable relationship with the country.

On 10 March, EU foreign ministers also stressed that the Union was committed to supporting Pakistan in building a prosperous and stable society based on the principles of democracy, the rule of law and human rights.

Words of EU support will have to be followed up by an urgent revamp of policy to focus on helping Pakistan tackle its twin challenges: building a functioning democracy and defeating religious extremism. A change of policy and direction in Pakistan will also have a direct impact on Afghanistan's future stability, and the success of NATO and EU operations in the country.

Against the Pakistani and Afghan Taliban

Pakistan was catapulted into the front line of the Cold War in 1979 when Pakistani-trained and US-funded *mujahideen* or freedom fighters drove the Soviet army out of Afghanistan.

The country's regional and global significance increased even further after September 11 2001, when President Musharraf agreed to join the US-led 'war on terror', reversing Islamabad's earlier policy of tolerance towards the Taliban.

However, relations between Kabul and Islamabad have been uneasy in recent years. Pakistan is accused of having allowed Taliban and Al-Qaeda operatives to shelter and regroup in the vast and lawless Federally Administered Tribal Areas (FATA) which border Afghanistan, and Afghanistani President Hamid Karzai has repeatedly warned that Pakistan is not doing enough to stop Taliban insurgents from infiltrating his country to fight against the NATO-led International Security Assistance Force (ISAF) in the volatile south.

Meanwhile, Pakistan itself has fallen prey to so-called 'Pakistani Taliban'. Trained in *madrassas* or religious schools in the country's tribal belt, these 'home grown' Pakistani militants have expanded their presence and influence in the heartland.

Battles between the Pakistan army and the extremists have become alarmingly frequent, both in the tribal areas as well as in major urban centres. As illustrated by daily suicide bombings and deadly terror attacks against civilians and soldiers, the militants are fighting back with a vengeance.

A new chance to fight extremism

Defeating the militants will not be easy. There have, however, been several positive developments recently. For one, the resounding victory of Pakistan's mainstream secular parties significantly decreases the risk that the nuclear-armed Muslim nation could fall under the sway of domestic religious extremists, including the 'Pakistani Taliban'.

Second, the defeat of Islamist parties, especially in the North West Frontier Province, is expected to erode support for the militants, including Taliban and Al-Qaeda operatives sheltering in the region. This in turn could give a much-needed boost to flagging international efforts to combat the insurgency in Afghanistan.

Third, Pakistan's new political leadership appears determined to improve strained ties with Afghanistan, ending the deep mistrust that characterised relations between Presidents Musharraf and Karzai.

Importantly also, a return to civilian rule and the military's retreat from politics will free the Pakistan army to focus on fighting the militants in the north west and take tougher action to stop the cross-border movement of insurgents into Afghanistan.

On the domestic front, meanwhile, counter-terrorism policies forged by a legitimate, democratic government are likely to secure more popular support than the actions of a discredited president believed to be fighting 'America's war'.

State of play

The vote for secular democracy opens a potentially bright new chapter in Pakistan's turbulent history. However, building democracy and fighting religious extremism in the country will be a long-haul effort, requiring determined domestic leadership backed up by strong and sustained international support.

Pakistan's new leaders face an enormous, uphill struggle to restore international confidence in a country often described as the "world's most dangerous place". Consolidating democracy while fighting an increasingly violent insurgency will be a long and painful process.

To secure results, politicians will have to concentrate on forging a credible political and socio-economic development strategy for Pakistan – including its impoverished and neglected tribal areas – while the army puts its time and effort into fighting the militants.

Ensuring such a vital division of tasks will be difficult. Pakistan's politicians have a reputation for corruption and inefficiency, and political institutions

have further weakened since President Musharraf's coup in 1999.

The Pakistan People's Party (PPP) is being run by Benazir Bhutto's unpopular widower Asif Zardari and her 20-year old son Bilawal, a student in the UK. For all its popular appeal and socialist, secular message, the PPP retains its feudal roots. The Muslim League, led by former Prime Minister Nawaz Sharif, is equally in need of change and modernisation.

The country is also still reeling from a year of political agitation and violence triggered by President Musharraf's dismissal of Pakistan's Supreme Court Chief Justice Iftikhar Muhammad Chaudhry in March 2007, and the subsequent imposition of emergency rule and suspension of civil rights. Media freedom is still restricted.

Democracy in Pakistan is, above all, conditional on the army's retreat from political life. General Ashfaq Kayani, who took over from Musharraf as army chief last year, has ordered soldiers to stay out of politics and give up jobs in the bureaucracy. However, according to Pakistani analysts, the formidable military machine controls business assets worth about $20 billion, a third of all heavy manufacturing in the country and up to 7% of Pakistan's private assets.

Uneasy trade relations with the EU

The US will continue to loom large on the Pakistani political landscape, with the new civilian leaders and army officials expected to maintain Islamabad's traditionally close links with Washington.

But while President Musharraf's foreign policy was almost exclusively US-centred, the country's new political elite – conscious of rising anti-American sentiment among the public – is likely to seek a larger group of friends and allies. Improving relations with the EU (Pakistan's largest trading partner and leading foreign investor) will thus be a top priority.

Relations between the EU and Pakistan could certainly do with a boost. Contacts between the two sides have blown hot and cold over the years, depending on whether Pakistan has been under military or civilian rule. The relationship now needs to be put on a more solid and sustained footing.

The ratification in 2004 of a so-called "third generation" EU-Pakistan agreement provides a good basis for reinforcing relations. Much remains to be done, however. EU aid to Pakistan is a fraction of the $10 billion in American aid that Pakistan has received since 2001. However, most US aid has gone to the military, while European Commission assistance – worth €500 million since 1976 – has been spent on a mix of infrastructure and social development projects and programmes in Pakistan, with additional aid coming from France, Germany and the UK.

EU aid has also been used to boost financial sector reform and to promote small and medium-sized businesses. In addition, emergency assistance worth €95 million, including humanitarian aid and reconstruction support, was agreed following the October 2005 earthquake in the country's northern regions.

Trade relations are currently uneasy. The Union is Pakistan's largest trading partner, with EU imports of mainly textile and clothing currently valued at about €3.5 billion a year. But a spate of EU anti-dumping investigations, including a long-running dispute over Pakistani bed linen exports to Europe, has strained the trading relationship.

Islamabad is also angry at its removal from the Union's special tariff concession scheme known as "GSP Plus", under which some countries have complete duty-free access to the EU market. The Union revamped the system after India won a World Trade Organization dispute panel against Pakistan's inclusion in 2005. Islamabad now argues that it faces higher tariffs on its exports of textiles and other key products than other South Asian countries which benefit from lower-duty schemes.

Pakistani officials argue that unless the EU ensures a 'level playing field' for all South Asian exporters, European investors and importers will shift business from Pakistan to other countries, including Bangladesh, which has duty-free access to the EU market, and India, which is negotiating a free trade agreement with the Union.

The EU has promised to conduct a study on the impact of its trade policy on Pakistan by the end of the year, but there is currently little appetite in Europe for opening free trade talks with Islamabad.

A still buoyant economy

Pakistan's economic outlook is fairly bright, with growth rates of about 7% a year, on a par with India. The focus on economic restructuring, privatisation, deregulation and liberalisation has also attracted foreign direct investment, with FDI flows rising from $322 million in 2001 to $3.5 billion in 2006.

However, efforts to reduce poverty have been largely unsuccessful, environmental degradation remains a problem and, despite promises, the country's education system remains shambolic. Pakistan spends only 2.3% of its GDP on education, the lowest level of any country in South Asia, while military spending accounts for 3.5% of its GDP. Adult literacy is only 50%, compared to 60% in India and 92% in Sri Lanka.

While state schooling is poorly funded, *madrassas* have flourished, with some incubating the Taliban militants now destabilising both Afghanistan and Pakistan. The new government will also have to deal with rising food and electricity prices.

Prospects

The EU can play a key role in helping, as well as prodding and pushing, Pakistan in the right direction. Stronger EU engagement in Pakistan will contribute to stabilising the country itself, and also have far-reaching, positive repercussions on neighbouring Afghanistan's future.

European aid to Pakistan has so far focused on health, education and rural development. These sectors will continue to demand attention, but the Union must also move beyond traditional aid programmes to a broader platform of assistance to a country in urgent need of political, economic and social renewal.

Given the high stakes, EU policy-makers should waste no time in beginning the gruelling task of exploring new ways of consolidating democracy and ensuring stability in the country. This will require setting aside more funds for Pakistan – not an easy move given other demands on the Union's external budget. The assistance package can, however, be better targeted and financial aid must be backed up by technical assistance. This is especially necessary because foreign aid programmes to Pakistan continue to be riddled with inefficiency and corruption.

With a little (more) help from Europe

While it is clearly still a developing country which needs help to fight poverty, Pakistan is also in transition. The EU should therefore seriously consider how its know-how in reforming the economic, political and social infrastructure of the former communist nations in Eastern Europe, and similar efforts being undertaken in the Balkans and in North Africa, can be applied in Pakistan.

Such expertise, as well as European experience in helping to reform and modernise political parties, fight corruption and promote good governance, could prove invaluable to Pakistan's reformers.

The EU also has a role to play in providing assistance to Pakistan's increasingly dynamic civil society groups. The focus should be on ensuring media independence and providing support for groups that advocate human rights, including the protection of women, children and support for marginalised communities.

EU policy-makers have other vital cards they can use to leverage their role and influence in the country. Unlike the US, which has lost popular support in Pakistan because of its unconditional backing for President Musharraf, European governments built up credit last year by demanding a return to the rule of law, the organisation of elections and judicial independence.

The Union also said repeatedly that only a democratic government could fight militancy and terrorism effectively. European policy-makers can therefore count on the goodwill of Pakistan's incoming political leaders as well as lawyers, pro-democracy activists and human rights defenders, who will have a key role to play in shaping the country's future policies.

The new government will also need advice on crafting a new counter-terrorism strategy which strives to combat extremism through development, not just military deployment. President Musharraf's use of military action against terrorists was unpopular and largely ineffective because it did not go hand-in-hand with long-term political and socio-economic action to develop some of Pakistan's most deprived regions, including Baluchistan and the North West Frontier Province.

A more targeted approach, centring on winning hearts and minds, must focus on bringing development to the arid mountainous northern regions. While building schools and hospitals is a priority, Pakistan must also invest in developing better job-training programmes for the region's young men who migrate to the Gulf in search of employment.

Workers from the Federally Administered Tribal Areas and Baluchistan often occupy the least skilled jobs in the Middle East, and even these are now threatened by increasing mechanisation and technology-intensive economic activities. It is thus crucial to take action to identify the next layer of skills that migrant workers can master to move up the skills ladder.

More generally, Pakistan's friends must shift from backing the country's political personalities to helping build strong institutions. While the Bhutto family, Nawaz Sharif and the new army chief General Kiyani will continue to be key players, restoring democracy in Pakistan requires putting the domestic and foreign spotlight on establishing strong institutions, not individual politicians.

The coming months pose a challenge to the new government and its friends and allies. As in the past, much could still go wrong. However, the rewards will be high if all sides seize the current opportunity to change Pakistan's future course.

Shada Islam is a Senior Programme Executive at the European Policy Centre. The issues raised in this paper are among the themes discussed and analysed in the EPC's EU and Asia Forum.

European Policy Centre ■ Résidence Palace, 155 rue de la Loi, 1040 Brussels, Belgium
Tel: +32 (0)2 231 03 40 ■ Fax: +32 (0)2 231 07 04 ■ Email: info@epc.eu ■ Website: www.epc.eu

With the support of the European Commission