



2011 Outlook

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2011 will mark the beginning of transition in Afghanistan but the successes of the 2010 surge, wanted by the American President Barack Obama, are still fragile and it won't be easy to consolidate them. Situation on the ground hints at the possibility of a deep discrepancy among North and South of the country, and this is coupled with an increased political discontent towards president Hamid Karzai. The fear is that the ethnic divisions might bring back the situation of the nineties which started the civil war, and the possible division of the country.

Pakistan continues to be a country in permanent crisis and the decisive moment of the conflict Afghan could provoke an escalation in the tribal area close to the border. This is an important and challenging front for the USA administration which is forced to eradicate the Taliban and terrorism roots in Pakistan if it doesn't want to succumb in Afghanistan while preparing to pass increasing responsibilities to local security forces. It will be a long and difficult process until 2014.

AFGHANISTAN

The quest for the new Parliament

The first knot to be loosened in 2011 will be the contested last September parliamentary election. As announced by the spokesman of the Afghan President Hamid Karzai, the assembly should be officially inaugurated on January 20. However on December 26 Karzai himself established a special court to decide about the gerrymander accusations and claims presented mostly by former MPs who have not been re-elected and are loyal to the president. They are Pashtuns, who feel they have been cut away from power and have already threatened to reach for their weapons and fight, not only to join the Taliban, but against the Tajikis of the North and probably the Hazaras, who are numerous in the Parliament. What has to be absolutely avoided is that the situation degenerates into the civil and ethnic war that could favor the Taliban as happened in the nineties.

“Step by step Pashtuns will say: we are not represented, the government does not care about us, our people are not in government, and step by step they will join the enemy,” warned Jamil Karzai, a former member of Parliament and cousin of the President. He is among a group of some 80 losing candidates who are challenging the results. Many, particularly among the Pashtuns, are demanding a recount or that the election be annulled. They say the results have been manipulated to create a new Parliament heavily unbalanced in favor of northern ethnic minorities.

Complaints were collected by the Attorney General who transmitted them to the Supreme Court asking to annul the elections, a risky move that threatens to plunge the country in a constitutional impasse. The Independent Electoral Commission has already certified the election results unfavorable to Pashtuns who support Karzai and the United Nations Security Council has sealed the validity of the vote.

The Pashtuns, who represent about 46% of the population, traditionally govern Afghanistan. The friction between the Tajikis of the North and the Shiites is historical. The problem is that the Pashtuns have lost at least 26 seats in the new Parliament — dropping from 120 to 94 in the 249-seat lower house, according to Mirwais Yassini, a legislator.

As if that was not enough, the new Commissioner that controlled the voting, Fazal Ahmad Manawi, is a Tajik accused of having disadvantaged the Pashtuns. The memory of frauds and legal claims that followed 2009 presidential election has convinced Manawi to not hold voting in many districts where security issues have been raised. Whole Pashtun tribes, like the Khogiani, in the East of the country, remained cut off from the elections.

In some traditionally Pashtun areas, as Ghazni, the Taliban boycotting activities have resulted in the election of Hazaras MPs. At the moment the Lower House, which is the most important, is divided into four blocks: the pro-Karzai MPs who lost their majority, the oppositions under the slogan of “Hope and Change” led by the Tajik Abdullah Abdullah, an independent Hazara group and a small minority of independents.

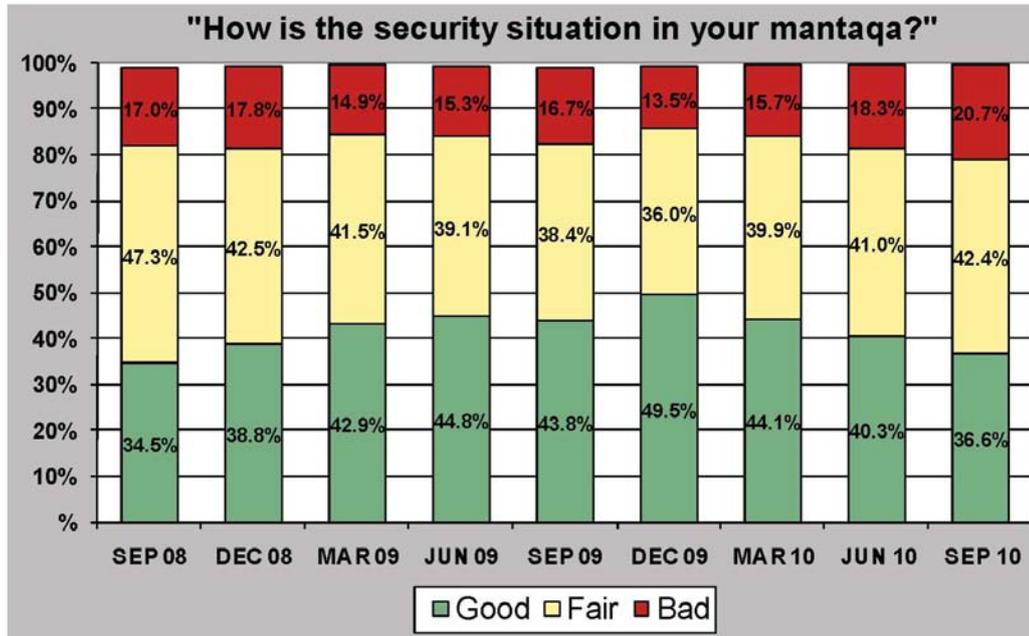
The group of the 80 Pashtun MPs, excluded rightly or wrongly from their re-election should not be underestimated. There is such a high concern that the powerful governor of Nangarhar, Gul Agha Shirzai, came to Kabul to talk to the President about building a movement to bring the Pashtuns together to contain their disaffection.

Mir Wali, a former MP from Helmand Province who was expected to be re-elected, holds documents issued by the election commission that showed him leading several weeks ago, only to be overtaken suddenly in the counting by virtually unknowns. “The outcome of this will be very dangerous,” Mr. Wali said. “Karzai has made a historical mistake, and the Afghans will be reading this mistake for 100 years from now.” According to the New York Times “he and other candidates warned that if they were not heard, Pashtuns would resort to violence and that the ethnic divisions could lead to civil war”.

The security problem

Bringing security would be the prime cornerstone of any strategy or decision in 2011 in Afghanistan (see the chart on Afghan perception security in the last two years).

Afghan Perceptions of Security



Positive perceptions of security have declined since the March 2010 Nationwide Survey, as shown in Figure 11. The number of Afghans rating their security situation as "bad" is the highest since the nationwide survey began in September 2008. This downward trend in security perception is likely due to the steady increase in total violence over the past nine months.

Source: **Report on Progress Toward Security and Stability in Afghanistan**, Report to Congress In accordance with section 1230 of the National Defense Authorization Act for Fiscal Year 2008 (Public Law 110-181), as amended, November 2010, p. 52.

However, the chart doesn't show that the overall security situation would be improved across Afghanistan. The stronger role of Afghan security forces particularly Afghan National Army (ANA) and Afghan National Police (ANP) will increase specially in the northern and the western provinces as the NATO and ANA will continue to be the sole provider of security in the south and the east of Afghanistan. Despite the calm socio-political structure, as national and international security official are outnumbered and under-resourced due to overstretched efforts to the periphery of Afghanistan, the central part of Afghanistan will experience further insecurity in the form of insurgency and organized crimes.

For the scope of this outlook we will divide Afghanistan into three macro-regions analyzing possible developments in terms of security and taking into account the most critical factors.

The northern area and the hypothesis of a nation split

In the North, the first phase of security handover of provinces will start in the most northern provinces of Badakhshan and Samangan from German forces to Afghan security officials. It can be argued that these provinces have been relatively calm due to public support for the international engagement in Afghanistan, and international forces did not play an important role in providing security from the beginning of expansion of ISAF. But the Pashtun strip (including Kapisa, Baghlan, Kunduz) in the North, which has been enormously infiltrated and influenced

by the Taliban of the South and by foreign fighters, can destabilize the neighboring provinces as it has already happened in the case of Takhar and Balkh.

The transfer of authority to the Afghan Security Officials will create another balance of power in the North due to re-consolidation of local power elite and military commanders. With the increased number of changes in security institutions in Afghanistan, many of the former Northern alliance military personnel and political elite have been shifted back to the North. The continued governorship of Atta Mohammad Noor, despite many rifts between him and president Karzai, and the appointment of General Dawoud Farkhar as the chief of security of the North are the two main examples of it. The three hubs of military command, Atta in Balkh, Sayed Khili in Kunduz, and General Dawood in the Takhar and Badakhshan, will form the backbone of the opposition movement led by the former Northern alliance political elites like Abdullah Abdullah, Dr. Mehdi, Younus Qanoni, and Amrullah Saleh, former chief of NDS (the Afghan intelligence).

In Northern Afghanistan Tajiks and other ethnic groups are organizing and rearming in view of a possible escalation of the perennial standoff with the Pashtun President Hamid Karzai and the government in Kabul. Contemporarily insurgents have increased their actions, selective assaults and suicide attacks, in an area that for a long time had been considered relatively quiet. This scenario is likely to couple with the discontent of pro-Karzai Pashtuns in the South (*as mentioned earlier when discussing the quest for the new Parliament*) and shows the first symptoms of a not unlikely civil war based on ethnic and territorial grounds, similar in some respects to that one exploded in the 1990s after the fall of the Communist regime in Kabul and the rise of the Taliban.

Karzai's determined choices of opening to Taliban and to Gulbudin Hekmatyar's militiamen through direct contacts, and also thanks to the initiatives of the Council of peace inaugurated last summer, are seriously beginning to worry the northern Afghanistan politicians and those former commanders who have fought against the Taliban in this area until 2001.

The final strain happened last June with the resignation of Amrullah Saleh, the NDS (the Afghan services) Chief, who was in contrast with Karzai. Saleh is a Tajik who served and gained experience with Ahmed Shah Massoud, the legendary Commander who guided the resistance to the Taliban in the second half of the 1990s founding the Northern Alliance with Uzbeks, Shiites, and Pashtuns against Mullah Mohammed Omar's regime. Not all the Tajiks are united though: the rift between the early generation leaders in the North, led by former president Rabbani and Fahim Qasim (former Minister of Defense and Vice-President), and the new generation like Saleh, will increase. This situation can find supporting evidence starting from the 2009-2010 elections and continued Rabbani's support in negotiations with the Taliban as the head of Peace and Reconciliation Council.

The major concerns of the northern anti-Karzai faction are: 1) the hypothetical redistribution of powers with the Talibans willing to accept the peace road-map will be implemented at the expense of northern Afghanistan influence; 2) the increase of influence of the ISI (the Pakistani secret service) and the systematic limitation of "northerners" presence in government institutions; 3) the unbalanced distribution of resources pro-South Afghanistan; 4) the interference of pro-Taliban/Hekmatyar members in the Government since their goal is to destabilize the northern provinces; 5) northern politicians' disaffection to Kabul central government.

According to confidential information gathered on the ground the northern faction has already begun to react in many ways. The first goal is to mobilize the population and the local

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commanders waiting for the showdown. The northern leaders have already staged inflamed rallies and meetings, and in some occasions they have launched provocative appeals for a general revolt against Karzai's government. In this campaign of mobilization a particular attention is paid to the young people.

The operation takes place via local televisions, youth associations and the representatives of civil society in major cities, starting from Mazar-i-Sharif, the main town of the North.

In the middle of 2010 light weapons (AK 47, RPG and PK) began to be distributed to the northern Commanders serving in the Afghan security forces. This could be done thanks to the so-called Arbaki plan on weapons distribution to local militias so that they may defend the territory together with police and army. The process was wanted by the United States and has already been going on for two years in the provinces of the South as an anti Taliban measure. In the North, in addition to weapons, funds have arrived to ensure a possible military autonomy. Some areas are already divided and organized under control of local commanders ready to act swiftly in case of rapid mobilisation.

Abdullah Abdullah, who has been the Foreign Minister for years, has discreetly launched a lobbying campaign in the international community in favour of the reasons of the North.

Beside domestic actors, Germany and USA will remain the key players on the international side. The conflicting comments from German authorities (Ministry of Foreign Affairs vs. Ministry of Defense) and US command will continue to increase the public and political confusion in the North. Nevertheless, the German forces will go ahead with the handover of the provinces to the Afghan security officials, since they need a success story to feed for German domestic politics.

In northern Afghanistan fresh American troops arrived thanks to the plan of reinforcements launched by President Barack Obama. USA will invest \$3 billion in this area, mostly to build a base in Mazar -i-Sharif. It will be the third biggest US base in Afghanistan. The USA are discreetly supporting the front of the North in agreement with the Russians who fear an explosion of violence in these provinces, an event that could adversely affect the situation in the neighbouring former Soviet Republics.

Robert D. Blackwill, a Henry Kissinger fellow for U.S. foreign policy, has already launched the idea of a "De Facto partition for Afghanistan". In one of his papers last July he said that "the U.S. policy should stop talking about timelines and exit strategies and accept that the Taliban will inevitably control most of its historical stronghold in the Pashtun South. But Washington could ensure that North Afghanistan (including Kabul – editor's note) do not succumb to jihadi extremism, using U.S. air power and special forces along with Afghan army and like-minded nations".

East and South under talibans' sphere of influence

The Taliban will continue to dominate the power structure with the help of local civilians and drug lords in the South and East of Afghanistan. The Taliban trans-border link between both sides of the Durand line (Afghanistan-tribal areas in Pakistan) will remain the main survival resource and line of communication and resupply in their battle in Afghanistan as the Afghan and International security forces failed so far to cut these channels.

Although the fighting will moderately intensify in the South to break down the Taliban or bringing them to the negotiation table, chances are that these results won't be achieved. The network of Islamic Extremists and Terrorist forming the bulk of Taliban inside Afghanistan and Pakistan, enforced by the links with international terrorists groups such as Al Qaeda, does not see any good reason why they should negotiate or provoke US forces in the short term. This will

create a sense of relative victory in the international forces and an opportunity to rearm for a fiercer future battle as the transition process moves on from ISAF to Afghan security officials. In addition to this, the strong comments by Afghan government in support of Taliban and enormous amount of money channeled to the Taliban front in the shape of "*buying the moderate Taliban*" will increase the Taliban moral and enhance public support for them. This process will be strengthened by the political support or even by the change of position of some members of current government toward the Taliban, with mutual benefit for both parties coming from the illicit money from drugs and corruption.

The area under Italian control

Western Afghanistan will be divided depending on how the power will consolidate and be redistributed at local level in the North and in the South. Herat and Badghis will shift toward the new Northern alliance, while Farah and Nimroz (not under Italian control) will plunge in to the South. But the political and military situation in the West of Afghanistan will also be shaped by the interaction of the Afghan government, NATO (lead by the USA) and Iran. Iran will continue to increase its support to the Taliban. However Iran's engagement will not be limited to the insurgent groups, they will work with all parties including political groups, civil society, religious scholars, media and the youth in the West in order to ensure their influence remains strong as they are losing ground in Kabul, after the leak of a money transfer to the presidential palace and the immense pressure by the West to stop it.

The situation in West Afghanistan will also be affected with the current domestic policies of President Ahmadinejad starting with the removal of all subsidies for energy and food in Iran. This will create a big job cut for Afghan refugees living in Iran and their possible mass return to Afghanistan (already started), as the living condition become immeasurably hard for them. Trade will also be affected by this policy and this can disrupt the relative economic growth of the Herat province and lead to social unrest and political tension.

Military strategy and civilian surge

The review of the U.S. strategy in Afghanistan, which was presented to President Barack Obama in December, shows that the 2010 reinforcements increase choice has obtained some successes, but that they are fragile and perhaps temporary, in addition to costing more than a 30% increase in NATO casualties compared to the previous year. The consolidation of territorial control, especially in difficult provinces like Helmand and Kandahar, is linked to the presence of U.S. reinforcements.

According to Ahmed Rashid, Pakistani journalist expert on the Taliban movement, "the critical test will arrive in the spring of 2011" as it happens every year. "If you see a resumption of violence by the Taliban as recorded in 2010" - he added - "I believe the situation will become very serious." In reality, the fighting resumes cyclically at the end of each winter and gets worse after opium harvest. Maybe this year the Taliban will find it convenient to keep a low profile to let the Americans start to retire, while NATO has little time left to give a further boost with the force of more or less 150 thousand men it has now on the ground. It is very likely that NATO will continue to increase the use of Special Forces, which have reached a number of missions never seen before.

Coalition and Afghan special operations teams have hit hard at the Taliban and allied groups' leadership and ranks during more than 7.100 raids throughout Afghanistan between May 30 and

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Dec. 2, 2010 (ISAF data). More than 600 insurgent leaders were killed or captured. In addition, according to "The Long War Journal", the Bill Roggio's website, which is always well informed on the Afghanistan conflict, more than 2,000 enemy fighters have been killed, and over 4,100 fighters have been captured.

The enemy commanders and fighters killed or captured are from various extremist groups, including the Taliban, the Haqqani Network, Hizb-i-Islami, al Qaeda, and the Islamic Jihad Group.

In the past three months alone, commandos have carried out 1.784 missions across Afghanistan, killing or capturing 880 insurgent leaders. According to a senior NATO official about one-third of these operations were directed against the Haqqani network.

It is not by chance that this network, which has struck the most fearsome suicide bombings in Kabul, has not hit the capital for months. There are numerous interpretations for this apart from attributing it to the difficulties caused by the special corps' activities.

One suggests that President Hamid Karzai's government is paying the Haqqanis not to attack, another is saying that the ISI (the Pakistani military intelligence) has told the Haqqanis to back off in order to keep them in the group of those who will be selected for any Afghan reconciliation talks. NATO, Afghan and Pakistani officials deny such maneuvering.

Despite the accuracy and effectiveness of special operations that have gained the coalition quite a tactical advantage, the war in Afghanistan cannot be won only with weapons. Last November, Anthony Cordesman of the Center for Strategic and International Studies (CSIS) in Washington, gave a warning on the delay of the 'civilian offensive' "The US civilian "surge" is a year away from being fully manned and operational in the field, where critical assets in building up effective Afghan forces will not be fully deployed before mid-2011, and where critical uncertainties exist in every aspect of the ability to scale-up and sustain any major aspect to "shape, clear, hold, build, and transition."

The Afghans, in addition to the problem of security, are plagued by a weak governance, by corruption, lack of jobs and an economic system which is not even worthy of this name, as well as by an ineffective judicial system.

"We have metrics that show increased progress," said a Western diplomat in Kabul. "But those positives are extremely fragile because we haven't done enough about governance, about corruption. 2010 was supposed to be a year of change, but it has not changed as much as we hoped."

This will be the challenge to meet in 2011 to hope to get out of the Afghanistan 30 years' old war-tunnel. To do this it's necessary to get engaged in the "civilian surge" as it has been done with the military one, and not give up until the victory is clear and clean.

PAKISTAN

Pakistan: Obama's new war?

On the occasion of last December strategic review President Obama declared that Pakistan is “increasingly coming to realize that the Al Qaeda and Taliban leaders who have been given safe havens pose a threat to Pakistan as well as the United States.”

The White House hopes that Pakistan in 2011 will start the much-needed offensive against the North Waziristan tribal area near the Afghan border, the main rear base for armed groups such as the Haqqani network, a true thorn in the side of the ISAF mission on the other side the porous border.

Despite Islamabad government assurances the Pakistani military are reluctant to launch the offensive in northern Waziristan. It has already been postponed several times during 2010. For this reason, the Pentagon, despite its denials, has prepared a plan to intervene with Special Forces within the tribal area, across the border in Pakistan. For nine years now, the border area is a natural Taliban rear base which allows sending men, weapons and supplies, as in the days of the Soviet invasion of Afghanistan. A strategic logistics route for the Afghanistan insurgency, over which the Pakistani intelligence often turn a blind eye, thanks to the unwritten historical alliances and a strategic interests shared with groups like the Haqqani network.

In the tribal area the same Osama bin Laden and his right hand man Ayman al Zawahiri might be hiding if still alive. Not only: in the last two years the area became the cradle of the Tehrik e Taliban Pakistan (TTP) movement, also known as Pakistani Taliban, who are giving a hard time to the Islamabad government hitting with suicide attacks and bombings all across the country.

This is one more reason to understand that the true center of gravity of the crisis is in Pakistan, hidden in the impenetrable border areas, where the CIA has stepped up air attacks using remotely piloted aircraft. Some 99 of the 112 raids launched from Agency drones have struck targets in North Waziristan. According To Bill Roggio, editor of the “Long War Journal”, a Web site that monitors the war in Afghanistan and Pakistan, the main objectives were the Haqqani network and Hafazi Gul Bahadur's facilities, a Waziri tribal chief who has an alliance with them. Attacking from the sky though is not enough. A New York Times article has revealed that “the real strategy appears to be for the United States to do most of the work itself — at least until the Pakistanis step up. That means even more strikes using Predator and Reaper drones in Pakistan's tribal areas, and possibly carrying out Special Forces operations along the border”. At the Pentagon, Gen. James E. Cartwright, the vice chairman of the Joint Chiefs of Staff, said that the United States would send conventional ground troops into Pakistan on their own only as a last resort. “The question of going further to unilateral action, that would be an absolute last measure,” he told reporters. “Because it has so many other impacts on the relationship that you'd really hate to end up in that position.”

The urgency of the announced early withdrawal in Afghanistan in July 2011 could push the administration to an escalation of attacks in Pakistan's tribal areas to consolidate the fragile success of the surge on the other side of the border.

The National Intelligence estimate, which put together the analysis of 16 US agencies, stressed that the situation in Afghanistan will not improve much until Pakistan does not do its part of staunch ally and until the poisonous ivy of the tribal areas won't be root out.

To launch a covered "war" in both Afghanistan and Pakistan the President needs congressional approval, but there is no doubt that in 2011 the already opened front in the tribal areas will be

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increasingly crucial. Escalation seems inevitable and already underway. Since September, the CIA has carried out more than 50 drone attacks in North Waziristan and elsewhere — compared with 60 strikes in the preceding eight months. Islamabad's ambassador to Washington, Hussain Haqqani, has immediately responded to the New York Times revelations by saying that "Pakistani forces are able to manage the threat posed by militants within our own borders. The forces of any foreign country will not be allowed or requested for any intervention. On the other side senior American military commanders in Afghanistan are pushing for an expanded campaign of Special Operations ground raids across the border into Pakistan's tribal areas."

In fact, the C.I.A. has already launched some "land" operations in the tribal areas using the so-called Counter-Terrorism Pursuit Teams, Afghan militia units trained to gather information especially on the ground, but at least in one case they blew up an ammunition depot in Pakistan tribal area.

Not only: new intelligence assessments from the region assert that insurgent factions now are setting aside their historic rivalries to behave like "a syndicate," joining forces in ways not seen before. After one recent attack (in 2010) on a remote base in eastern Afghanistan, a check of the dead insurgents found evidence that the fighters were from three different factions, military officials said. New York Times revealed this and explained that after the attack it has been found "that the fighters were partisans from three factions with long histories of feuding: the Quetta Shura Taliban of Mullah Muhammad Omar; the network commanded by the Haqqani family; and fighters loyal to the Hekmatyar clan. Signs of this new and advanced syndication among insurgent groups have been especially evident in two provinces of eastern Afghanistan, Kunar and Paktika."

Any U.S. move should take into account Pakistanis' moods. They were registered with a series of surveys in recent years and put together by the Charney Research of New York last December. In Outlook 2011 we publish some charts of comparative results. The first chart is about the "popularity" of the armed groups and terrorist nested in tribal areas, and operating in both Afghanistan and Pakistan, as the local Taliban (TTP).

Al Qaeda and Taliban lost ground in 2009 but are rebounding and LeT's popularity has grown.

Percent who view each favorably

	2010	2009	2008	2006
Al Qaeda	18	9	18	n/a
Taliban	15	April: 10 Dec: 4	13	23
TTP	18	n/a	n/a	n/a
Lashkar-e Taiba	25	43	16	19

IRI Polls '08, '09, CR Q. 47, 48, 50, 51, Gallup, 12/09, Pew Poll '09, '10

Charney Research

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The second chart reflects the perception of Pakistani population resident in the tribal area (FATA) on both military and civilian U.S. operations. Note the high percentage that favours projects for cooperation and development.

Fata residents remain very cool to the US govt and military but open to US development aid

	Jan 09	Jul 10	US aid for ...	Improve opinion of US
Favorability: Barack Obama	18%	11%	Scholarships to America	74%
Favorability: US military	9%	12%	Education in FATA	70%
Support US-led War on Terror	17%	22%	Health Care in FATA	66%
Support US drone strikes	n/a	22%	Business investment in FATA	59%
Support US military hot pursuit	n/a	6%	Pakistan military	58%

CR Jan 09, NAF Jul 10

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The third chart shows the entire population of Pakistan in relation to the influence of Western culture and the importance of having economic relations with the West.

Pakistanis are hostile to Western cultural and political influences, but favor closer economic ties.

	Agree	Disagree
Foreign movies, TV, and music are good.	14%	64%
Muslims should reject western political ideas.	60%	25%
Greater foreign trade and commerce	Good: 54%	Bad: 15%
Economic connections with developed West	Closer: 47%	Reduced: 34%

Charney Research

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Q.67, 68, 60,65

A country in permanent crisis

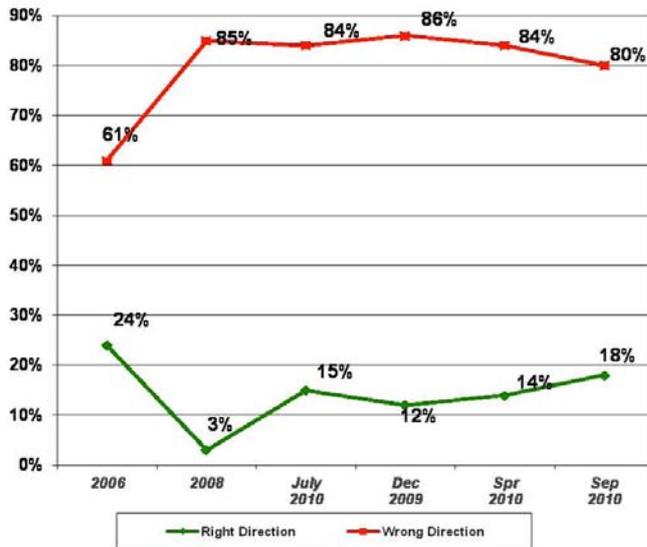
Pakistan is a country in constant crisis, where the civil power always seems to fail to fully address the most alarming problems faced, from the economy to the local Taliban terroristic activities. The military have always been and remains to be the only strong institution, which still enjoys a good popularity. The armed forces, under the leadership of General Ashfaq Kayani, have committed to stay out of political games, but the emergencies of the country always bring them back to center stage.

2011 starts with a government that relies on a weak majority. Pakistani Prime Minister, Yusuf Raza Gillani, enjoys more credibility in public opinion than the discredited President Asif Ali Zardari, but runs the risk of not having enough numbers in parliament to govern. Last December Gillani removed two ministers, one from the religious party Jamiat-e-Ulema-e-Islam and the second from Zardari's People's Party, both accused of corruption.

Jamiat party replied by leaving the coalition government. In the short or medium run the fear is that the government may lose other pieces, starting with the Muttahida Qaumi Movement (MQM), which is very strong in Karachi, the country's largest city and financial heart. The problem is that in 2011 the government will be committed to fight for its survival, while it really would need all the strength to drive Pakistan out of the serious crises that it's facing, starting with the economic one which according to data collected by Charney Research, is the first concern of the public (67%) followed by terrorism (28%).

Pakistan's mood is very negative, due to the economic crisis, violence, and poor public services.

Generally speaking, do you think things in Pakistan are going in the right direction or wrong direction?



Pakistan's Biggest Problems

Reasons given by 10% or more (Dec 09)

Economy: 67%

Terrorism / Law and Order: 28%

Electricity and Water: 1%

Q. 8-9, IRI Poll Jul '09, Dec '09, Pew poll '10. Gallup poll '09. '10

Charney Research

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Pakistan's economy is propped up by an \$11 billion loan programme from the International Monetary Fund as well as aid from donors like the United States, desperate to prevent the country from becoming a failed state. Pakistan's 2010/11 budget, released in June, was an austere and unpopular one, attempting to balance conditions from the IMF with the needs of a desperately poor populace.

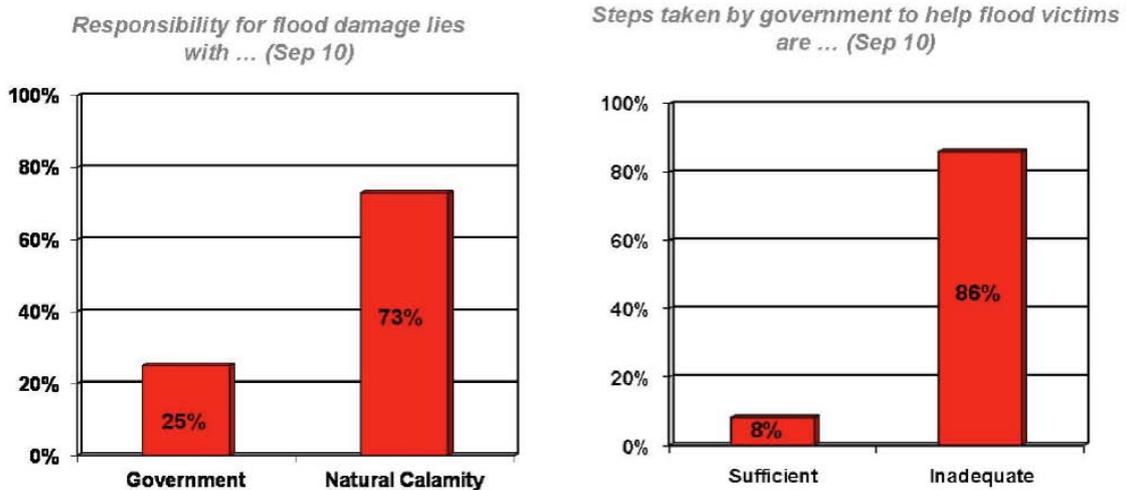
Last August floods devastated much of the country and will weigh on the economy for a long time.

Pakistan's floods displaced millions of people, and destroyed crops and livestock. The government has estimated direct loss to the economy of almost \$10 billion, far short of the initial damage estimates of \$43 billion. The IMF has offered \$450 million in emergency aid to cope with the immediate impact of the disaster. The budget deficit in fiscal 2010/11 is projected between 5 percent and 6 percent of GDP following the floods, compared with an earlier target of 4 percent.

Furthermore the flood emergency response from the government was considered completely inadequate by people. While his country was drowning President Zardari paid a partially private visit abroad and lost even more credibility. In some areas of Punjab - the largest province of the country - and in the tribal areas Taliban and Islamic charities linked to them succeeded in showing that they helped the people better than the government. Only the military were able to intervene with reasonable effectiveness restoring trust in institutions, but all the flooding long

term issues, such as reconstruction and economic recovery, will have to be addressed in 2011. Not to mention displaced people who are a reservoir of potential recruits for extremists. The survey on the response to flooding by the government is emblematic.

Pakistanis don't blame government for flood damage but most are disappointed with its response.



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Gallup Polls Sep 2010

Taliban and terrorism threat in Pakistan will not diminish in 2011, and dreadful scenarios regarding the security of the nuclear arsenal cannot be completely ruled out. Pakistan's poor record of preventing attacks even directed at secure military targets has raised concern that militants could penetrate a nuclear facility. Analysts say that while there is minimal risk that insurgents could get their hands on a nuclear missile, a potential danger is that they could steal some fissile material which could be used to build a "dirty bomb".

Data collected in recent years' polls indicate however that the real problem of the country is governance, even more than extremism.

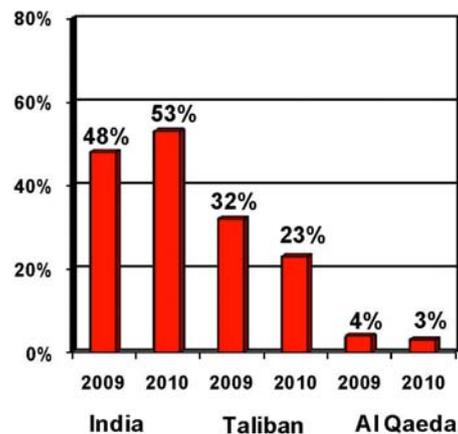
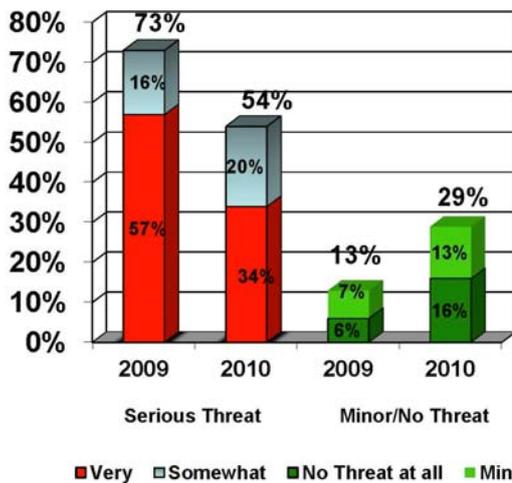
On one side there is a strong public reaction against violence, which hurt the extremists, and Pakistanis are more willing to confront extremists. On the other Pakistanis are becoming somewhat complacent about the extremist threat, less willing to work with the US, and still obsessed by the Indian threat which is tied to the historical quarrel about Kashmir.

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The Taliban are now seen as less of a threat than last year, and India is still perceived as a greater one.

How serious of a threat is the Taliban to Pakistan?

Of all these threats I have named [the Taliban, India, al Qaeda], which of these is the greatest threat to our country?



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Pew Polls '09. '10 Q. 60aa. 60b

Pakistanis remain anti-American and Western culture and politics, as we have seen in the previous charts, but their openness to economic ties and international economic and counter-terror cooperation, mostly with civilian interventions in the field of development aids, offers opportunities for 2011.