

General Political Environment: Historically, Pakistan has been a fragile state for reasons ranging from weak institutions creating an environment susceptible to terrorism and corruption, to a feudal social structure largely blamed for the grinding and chronic poverty of much of the population.

Current president General Pervez Musharraf came to power in a bloodless coup in 1999. He is concurrently President and Chief of Army Staff. In 2001, he chose to ally Pakistan with the US in its so-called 'War on Terror'. In doing so Musharraf not only avoided hostile US military intervention in the country but also opened the door to aid flows and debt rescheduling. There have been at least five assassination attempts against the President and there are likely to be further plots against the regime. It appears that the Bush administration is increasingly distancing itself from the Musharraf government as it strengthens US trade and defence relations with India.

Musharraf continues to dominate political decision making despite the continued existence of the National Assembly. Although Musharraf's PML-Q is in a minority position, the President has been able to co-opt members of the coalition of Islamic parties (MMA) so as to pass legislation. However, the support of the MMA has been ebbing ever since Musharraf reneged on his promise to step down from either of his dual roles by the end of 2004. A referendum orchestrated in 2002 rendered Musharraf's presidential powers official until 2007. It is understood that in lieu of a Presidential election in 2007 President Musharraf will be selected as President by Parliament and the provincial assemblies. This approach has been heavily criticised by western governments, including the US. Former presidents Benazir Bhutto and Nawaz Sharif, both in exile, have joined forces in a pact to restore democracy to Pakistan, yet there is little evidence that this will have much effect in changing the *status quo*.

Investment Environment: The government welcomes foreign investment in Pakistan and has hastened the privatisation of public sector assets, especially in the oil and gas and telecommunications sectors. It has moved to relax the foreign investment regime.

Key challenges include highly under-developed strategic infrastructure and an antiquated taxation system. Tax reform is crucial, but likely to be constrained by wealthy landowners. Administrative organizations are generally regarded as corrupt and ineffective. The government has a track record in bringing unilateral changes to investors' contracts. Corruption and issues of commercial morality remain areas of concern.

Political Violence: The government's perceived bias towards Punjab, the country's most affluent province, has caused disgruntlement amongst the underdeveloped, yet resource-rich provinces in the hinterland. This bias has contributed to an ongoing rebellion by tribal militias in Baluchistan. Militias have been engaged in guerrilla warfare with the Pakistani army, whose resources are already stretched between counter-terrorism activities and patrolling Kashmir. Over the past two years Baluchi militias have been sabotaging strategic infrastructure, such as natural gas lines.

Muslim extremism and sectarian violence are persistent threats to Pakistan's internal political stability. Sunni-Shi'a violence along with frequent anti-western street protests and violence are common, particularly in Karachi.

It is understood that Pakistani intelligence maintains ongoing contact with Islamic militants operating in both India and Afghanistan, including those linked to the Taleban, as a means of exerting Pakistani influence in the region. The Pakistani military has been involved simultaneously in fighting pro-Taleban, predominantly Pashtun tribesmen in the Northwest Frontier Province (NWFP) over the past five years. In September 2006, a peace accord was reached with tribesmen in North Waziristan in which the army agreed to pull out of the region if local chiefs agreed to eject foreign militants. It has been claimed by many observers that this has done little to weaken militant influence in the region. It remains a highly volatile area.

Tensions with India have threatened regional stability since 1947. Three years of peace talks have resulted in small improvements and confidence building measures. A solution to the contentious Kashmir conflict is unlikely in the short-term. Pakistan's perceived support for Kashmiri militant activities in India, such as the July 2006 Mumbai bombings, is a strain on relations with Delhi.

Political

Political Structure

Federal Parliamentary Democracy (currently under military rule)

President

General Pervez Musharraf (concurrently Chief of Army Staff)

Legislative Bodies

National Assembly (bi-cameral)

Major Parties

- Pakistan Muslim League – Quaid (PML-Q) 77 seats– supports Musharraf
- Pakistan Peoples Party (PPP) 63 seats– major opposition to the Muslim League.
- Muttahida Majlis-e-Amal (MMA) 53 seats–an umbrella for five Islamist parties

Last Elections

Lower House - October 2002.

Next Elections

- Presidential: 2007
- Lower House: October 2007

Press Freedom Survey:

- 2006 Score: 61 Not Free (0: Free; 100: Not Free) freedomhouse.org

Control of Corruption Index:

- 2005 Score: -1.01 (-2.5: Worst; +2.5: Best) worldbank.org

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Political Outlook

It is widely anticipated that President Musharraf will be confirmed in his position by Parliament in mid-2007 thus assuring continued political stability in the short-term. Medium-term pressures on the President's position could emerge from a variety of sources including his allies in the Islamist parties and from within the senior ranks of the military. It is unlikely that any degree of civilian rule will be restored in the medium to long-term. However, PPP leader Benazir Bhutto could emerge in some position as the civilian face of the Musharraf regime following upcoming parliamentary elections. The security situation in the NWFP remains an area of concern as does the progress of détente with Delhi.