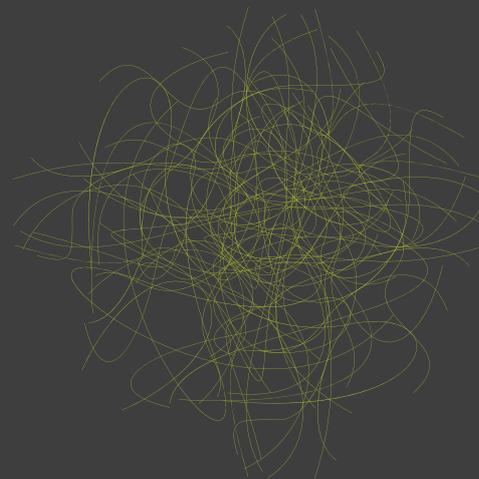


**Sources of Tension
in Afghanistan and
Pakistan: A Regional
Perspective**

**Pakistan & The
Regional
Powers: An
Overview of
2013**

Fahd Humayun

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PAKISTAN & THE REGIONAL POWERS: AN OVERVIEW OF 2013

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Preface

'Pakistan & the Regional Powers: An Overview of 2013' is a report by the Jinnah Institute (JI), commissioned under the Barcelona Centre for International Affairs (CIDOB)'s "Sources of Tension in Afghanistan and Pakistan: Regional Perspectives" policy research project. The Jinnah Institute is an independent think-tank that promotes knowledge-based policy making to strengthen democratic institutions in Pakistan, and builds public stakes in the human and national security discourse through dialogue, outreach and research.

The following overview is an analysis of developments in Pakistan and the region in 2013, drawn from the content of the quarterly Monitoring Briefs commissioned under the STAP RP to the JI over the course of the year. The Briefs are based on the issues identified in the STAP RP's Mapping Document, specifically, the key sources of domestic tensions that also have regional implications: governance; socio-economic issues; the conflict in Afghanistan; ethnicity and sectarianism; radicalisation and. In addition, the Briefs review Pakistan's bilateral relations with India, China, Iran, Saudi Arabia and Russia.

This Overview Report analyses trends and highlights their implications in the region that forms Pakistan's immediate neighbourhood. The reports also discuss progress in ongoing bilateral and multilateral dialogues in the region, as well as the impact of multi-track diplomacy on sources of conflict and tension, as per the STAP RP's areas of focus. The development of new regional organisations as platforms for dialogue, new strategic alliances, local and regional security challenges that potentially allow a broader understanding of Pakistan's security compulsions and choices are also discussed. The analysis in the following sections identifies the broad identifiable trends that characterise Pakistan's domestic as well as external environment in 2013, and offers a starting point for policy forecasts for the immediate future.

Pakistan: Sources of Tension 2013

With an eventful year drawing to a close, deepening uncertainty about transforming geopolitical realities now casts a long shadow over Pakistan. As Islamabad braces itself for the 2014 Afghanistan transition, the proximate powers are poised for a cautious but definitive recalibration. Against this external environment, the metrics of domestic governance, militancy, and economic and energy security are set to fix the parameters for Islamabad's diplomatic outreach, as well as the trajectory of regional geopolitics in Islamabad's immediate vicinity in the coming year.

In 2013, the defining domestic sources of tension for Pakistan can be broadly divided into the country's democratic transition, fiscal mismanagement, the public energy crisis, rising extremism, the *Tehrik-e-Taliban Pakistan* (TTP)'s war of attrition against the state, a deteriorating law and order situation in Balochistan, and a rapidly evolving endgame in neighbouring Afghanistan.

A Landmark Election

In a welcome departure from electoral history, 2013 heralded Pakistan's first democratic transition with over 40 million Pakistanis casting their vote in the country's summer election. This civilian transfer of power has significantly bolstered democratic institution-building in a country that has seen years of interrupted parliamentary rule. The May transition also brought stark new demographic realities to the fore: nearly half of Pakistani voters under the age of 35 voted for the first time, signaling the electoral contribution of an increasingly engaged youth demographic, which will shape future political outcomes. Concurrently, the smooth changing of the military guard after six years will help redress civil-military imbalance and restore confidence in the political processes of the state.

The coming to power of the center-right, under the Pakistan Muslim League-Nawaz (PML-N), has been matched by a decline in the national reach of traditionally left leaning powerhouses – namely the Pakistan People's Party (PPP) and the Awami National Party (ANP). Moreover, the ability of the provincial governments in Khyber Pakhtunkhwa (KPK) and Sindh, governed by political parties in the federal opposition benches, to legislate and improve governance structures over the coming months will decide their ability to present a serious challenge to the PML-N's majority in Pakistan's national politics.

Fiscal Mismanagement

Fiscal imbalances, inherited from the previous government, continue to pose a significant challenge in attempts to revive a stagnating economy. Despite strong economic credentials, the PML-N government has so far been unable to ameliorate a deepening crisis caused by shrinking fiscal space, burgeoning public debt and depleting foreign reserves. After seven months in government, the PML-N has shied away from substantive measures to reform taxation and enhance revenue generation. Rather, domestic borrowing has seen a rise in the first three months, making it difficult for the government to rein in its ballooning budgetary deficit.

On an encouraging note, Pakistan's qualification for the \$7.3 billion IMF loan has opened avenues for multilateral financing, yet unparalleled conditionalities on structural reform will greatly reduce maneuvering space for the country's financial managers in the coming months.

Politically, the government remains under heavy criticism from both the political opposition as well as the wider public for having failed to bring inflation under control. Reduction in power subsidies, arising from the IMF programme, will likely increase the cost of living for the average household in Pakistan. As the government seeks to stabilise macroeconomic indicators, a decrease in fiscal expenditure on public sector development, health, education and community welfare will likely exacerbate social tensions.

An Energy Imbroglia

Adding fuel to these social tensions is a spiraling energy crisis. Voted into government on a mandate promising a resolution to the crippling energy shortfall, the PML-N government is prioritising the energy sector. There is widespread consensus that electricity shortfalls necessitate a re-articulation of the national energy policy. The public debate in 2013 was largely rooted in the need to resolve longer-term sectoral mismanagement and supply issues. With energy shortfalls costing the country four per cent of its GDP during the first half of the year, rabid loadshedding has been responsible for triggering a vicious cycle of low production, industrial lay-offs and disinvestment.

The imperatives for infrastructure expansion may well dictate Pakistan's regional outreach into the coming year. Proposals for building new dams, including the multi-billion Diamer-Bhasha and Dasu projects, have found interest among international donors such as the Asian Development Bank and engineering consortia. Meanwhile, evolving geopolitical dynamics, including the recent Geneva breakthrough in negotiations between Iran and P5+1 members of the UN Security Council, has fast-tracked the political conversation on the Iran-Pakistan (IP) gas pipeline. The project, however, remains fraught with financial challenges on Pakistan's side, and is hampered by the threat of US sanctions. Despite the government's reassurances that the pipeline project will go on as planned, such developments will hinge upon the political mood in Washington vis-à-vis sanctions on Tehran's export of petrochemicals.

Pakistan's geostrategic location as a potential energy corridor connecting Central and South Asia remains a powerful tool in its foreign policy arsenal. However, large-scale transnational projects that add power to Pakistan's national grid can only become operational if the domestic security environment improves substantially.

Rising Religious Extremism

The collective shift of Pakistan's political coalition to the right has bolstered religious extremism in Pakistan. The implications of this growing religiosity are manifest in episodic violence and ruthless sectarian targeting, such as that of the Hazara community in Quetta in January

and February, and the Christian community in Peshawar in September. Research studies too have shown a sharp increase in religious extremism in the country: in a pre-election research study, 38 per cent of those surveyed said they believed the country should be governed in accordance with Islamic law.¹

At the same time, public space for the religious right has grown in 2013. An anti-American public narrative, fueled by continuing drone attacks, has compounded the confusion colouring the discourse on religious extremism. If drone strikes continue, they are predicted to further fuel jihadist tendencies amongst conservative swathes of the population. To counter this growing tide of religious extremism, a mix of clear public messaging and innovative de-radicalisation initiatives is urgently required. Yet policy moves by political parties, including the August announcement by the PTI government in Khyber-Pakhtunkhwa to revise and rollback the province's academic curriculum in accordance with Islamic teaching and ideology, are a setback to the reform agenda initiated under the previous government.

Bloody sectarian clashes in the garrison city of Rawalpindi have prompted the government to counter the growing amount of hate speech and extremist content. Legislation to curb hate speech is now in the pipeline. A ban on the use of loud speakers to voice intolerant views has now been institutionalised in the country's largest province. Similarly, a cyber law is being devised to regulate hate speech on the internet. Yet, on its own the efficacy of such legislation is questionable. Unless a directed and focused attempt is made by the government to revise mainstream textbook curricula, regulate madrassah literature and institutionalise an extremist counter-narrative as part of the counter terrorism policy, the rise in intolerance is unlike to abate in the near future.

Tehrik-e-Taliban Pakistan (TTP)

The year has seen marked variation in the TTP's war of attrition against the Pakistani state. Offset by a contentious political debate on the subject of negotiating with the TTP, the new PML-N leadership has suffered from executive lethargy on the counterterrorism front: an All Parties Conference (APC) held in September posited that diplomacy, and not force, was needed to tackle rising militancy. The public polarisation on the subject of unconditional talks with the militants has been further intensified by rising casualties caused by the metastasis in the TTP's operations from the tribal hinterlands to urban centers of Peshawar, Quetta and Karachi: according to one research study, between January and May, 298 citizens lost their lives and 885 others were injured in terrorist attacks across the country.²

While militant violence is likely to be a chief determinant in Pakistan's quest for internal stability and security, the elimination of TTP commander Hakimullah Mehsud in November and deputy Wali-ur-Rehman in May has placed the militant outfit's capacity to launch large-scale attacks on precarious ground for the first time in months. The intensity of the TTP's war against the Pakistani state is now likely to pivot on the ability of the organisation's command structure to find fresh direction under Hakimullah's replacement, Mullah Fazlullah.

1. http://www.thecommentator.com/article/3138/nearly_40_percent_of_pakistani_youths_want_shariah_law
2. <http://tribune.com.pk/story/554140/pips-report-awami-national-party-bore-the-brunt-of-pre-election-violence/>

Balochistan Unrest

A plummeting law and order graph in Balochistan during 2013 has evoked extensive criticism against Pakistan's ruling elites. This has been compounded by legal investigations into a litany of missing persons cases. Despite judicial activism against illegal detention of nationalist Baloch workers, the province is unlikely to witness a significant improvement in law and order. However, a provincial government headed by a Baloch nationalist leader may mitigate separatist tendencies in the coming years.

A disastrous September earthquake exposed deeper ethnic tensions splintering the province and highlighted shortcomings in institutional capacity vis-à-vis relief and service delivery: during the subsequent rehabilitation drive, the government banned foreign aid workers and international NGOs from carrying out relief activities in Awaran as a precautionary measure for their safety. In addition to INGOs and ICRC relief workers, militant outfits have increasingly targeted educationists and journalists working in the province. Earlier in the year, Balochistan witnessed some of the worst sectarian strife in its history, with over 200 ethnic Hazaras targeted in successive explosions across Quetta.

As the pace of the US withdrawal from Afghanistan quickens, the Khyber-Pakhtunkhwa provincial government's decision to protest continuing drone strikes by restricting transit access for NATO convoys is likely to bring the security situation in Balochistan under further scrutiny. An estimated 300 NATO containers and oil tankers have been ambushed and torched in recent years while passing from Afghanistan into the restive province via the Chaman border pass. Over the course of 2013, worsening provincial security also coincided with a concerted upswing in militancy and the selective targeting of government and police installations, as well as the headquarters of pro-government tribal militias.

Conflict in Afghanistan: The Eleventh Hour

As international forces ready for a 2014 withdrawal from Afghanistan after twelve years of fighting, the conflict on the eastern front is on the precipice of an uncertain final act. Pakistan's release of Taliban political prisoners in 2013, including Mullah Ghani Baradar, indicates that a pluralistic and inclusive political settlement in Afghanistan is a highly desired outcome in Islamabad.

Crucially, the PML-N leadership continues to voice its desire to facilitate, but not lead, the Afghan reconciliation process. In the final days of November, Prime Minister Nawaz Sharif flew to Afghanistan to meet with President Hamid Karzai to discuss prospects for peace and reconciliation in a region.

While the summer saw the Pakistan-Afghanistan bilateral relationship undergo considerable stress in the form of mortar shelling along the shared international border followed by barbed diplomatic exchanges, renewed Sharif-Karzai interaction in the fall resulted in several important takeaways, including the important decision to reboot the Taliban office initiative. After a disastrous Qatari experience in June, the two leaders agreed to allow the Taliban to reopen an office in either Turkey or Saudi Arabia – a move that is likely to draw criticism from neighbouring Iran.

Regional Powers: India

A Bad Year for Bilateral Relations

A combination of potential leadership change in New Delhi and an evolving strategic and security dynamic in Afghanistan will shape India's responsiveness to diplomatic outreach by Pakistan through 2014. This year, attempts to move forward past the Indo-Pakistan stalemate were stymied by bilateral turbulence, in part because of an upswing in violence along the Line of Control (LoC), heated disagreements over national anti-terrorism posturing, and a general inability on either side to capitalise on opportunities for peace. Prime Minister Nawaz Sharif's election victory in May was the first of only several indicators that the unsteady peace process might finally gain momentum, but continued border clashes and lack of movement on the Mumbai attack case, continued to burden an already fraught relationship. With the BJP's nomination of Narendra Modi as their candidate for prime minister, peace makers are focused on the next six months, which are likely to determine the trajectory of ties between the two countries.

The potential re-emergence of the Taliban as a political stakeholder in the Afghan reconciliation process is also likely to be a serious concern for India, which in the past has openly backed Northern Alliance warlords in their political struggle in Afghanistan. In the context of the falling out over the opening of the Doha Taliban office this summer, India supported President Karzai's stance on the flag and name issue, criticising the Taliban for attempting to undermine the legitimacy of the Karzai administration. India also currently remains a leading regional donor to Afghanistan: in addition to developing a 200 kilometer railway link from Afghanistan to the Iranian port of Chabahar, in July the Afghanistan Investment Support Agency (AISA) announced that 17 new Indian companies had agreed to invest in the Afghan economy. For the Pakistani security establishment, increased Indian involvement in Afghanistan is likely to remain a source of concern in the coming months and may determine the extent to which Islamabad facilitates Afghan reconciliation efforts.

Presently, no substantive foreign policy initiative on Pakistan can be expected from an embattled Congress government. As the May 2014 election date nears, the window of opportunity for reconciliation with the incumbent Indian government seems to be shrinking. Before May, four key state elections are also due in Rajasthan, Delhi, Madhya Pradesh and Chhattisgarh. If the ruling Congress party performs poorly in these state elections and loses key constituencies, it will come under increased political pressure that will reinforce its reluctance to move forward on confidence building measures with Islamabad.

Building on Constituencies of Peace

Despite incidents of LoC ceasefire violations, a clear multiparty consensus holds the middle in the Pakistani political mainstream on normalising ties and making peace with India. While incidents across the LoC inflamed bellicose media rhetoric on both sides of the border³⁴, peace constituencies on both sides continued to play a significant role in assisting normalisation efforts. A series of initiatives at both the Track I and Track

3. <http://www.thehindu.com/opinion/letters/loc-skirmish/article4320283.ece>

4. <http://tribune.com.pk/story/599225/line-of-fire/>

II levels for constructive engagement continued through the year, and Prime Minister Nawaz Sharif's victory was the first major event in 2013 to create momentum to break the impasse.

Sharif's decision to personally occupy the foreign portfolio, however, carries certain risks. While the Sharif government is clear that it wishes to advance peace with India, the formation of a dynamic, expert and agile foreign policy team will be necessary to prevent the bilateral process from backsliding, or being hijacked by military dynamics along the LoC. Simultaneously, the potential for increased economic cooperation and trade between the two countries remains significant, given that illegal Indian goods worth as much as \$4.2 billion are entering Pakistan each year.⁵

Similarly, the debate on water and food security is also embedded in a highly inflammatory public discourse in Pakistan: relations with India are likely to be further complicated because of this factor over the coming months. To cite just one example, public sentiment in Pakistan turned against India for releasing floodwater into trans-boundary rivers crossing into Pakistan at a time when the Sutlej, Chenab and Indus rivers were already in high flood.

Regional Powers: China

Strategic Interests & Gwadar

Access to the Arabian Sea and trade routes to the Middle East via Pakistan's deep sea port of Gwadar continue to drive China's geostrategic relationship with Islamabad. More recently, Beijing's strategic calculus has been shaped in response to the US-led withdrawal from Afghanistan, and the possibilities of a realignment of US interests from Central and South Asia to South East Asia. Gwadar, strategically located at the confluence of Southwest and South Asia, with Central Asia not that far away, is poised to emerge as an oil and gas hub and petrochemical center – with Pakistan functioning as a crucial energy corridor linking Iran with China.

Under a new PML-N government, bullish on industrial and economic growth, the potential for implementing lucrative Sino-Pak energy and development projects remains high. Early in the year, Pakistan awarded a multi-billion dollar contract for the construction and operation of Gwadar Port. Corridors passing through Pakistan and leading on to the energy and natural resource-rich Central Asian heartland are crucial lifelines for China's gas-guzzling industrial economy. At the same time, it is realistic to assume that China will be watching for any negative fallout from the aforementioned withdrawal from Afghanistan, including a return of the Taliban that may threaten heavy Chinese infrastructure and economic investment in the region.

The emergence of new variables, however, including Pakistan's inaction in facing militant and extremist challenges, can potentially thwart bilateral momentum with China. This realisation has prompted mild cautioning from diplomatic quarters in Beijing over the deteriorating security environment in Pakistan. China has recently pointed to

5. <http://pakistan.worldnewsviews.com/2013/11/06/ip-gas-pipeline-iran-to-accept-payment-in-currencies-other-than-dollar/>

the dangers of religious militancy in its own Xinjiang province, which it sees as emanating from the Afghanistan-Pakistan regional conundrum. Fresh infrastructure projects with Pakistan, such as the proposed 2,000 kilometer long energy corridor connecting Gwadar to Kashghar, also continue to face security threats in the form of militancy and insurgent violence.

This Chinese concern has been augmented by the increased frequency of threats to Chinese engineers, entrepreneurs and infrastructure specialists in Balochistan, as well as the killing of ten tourists including two Chinese mountaineers in Gilgit-Baltistan this summer. Interestingly, a thaw in China's relationship with India has also left behind an imprint on its cordiality with Pakistan: in January Chinese textile mills turned to India instead of Pakistan to buy cotton yarn, and Premier Li's visit to Islamabad in May was preceded by a diplomatic stopover in New Delhi – moves that have triggered mixed responses in Islamabad.

Bolstering the Economic Denominator

The health of the Sino-Pak economic relationship is likely to depend on Pakistan's ability to provide adequate security arrangements for joint medium and small-sized enterprises in the country, train more China-specific trade specialists, and develop indigenous capacity and mechanisms to overcome language barriers. This year, commerce ministry statistics showed that Pakistan's bilateral trade deficit with China had surged to over 53 per cent following the signing of the 2009 Free Trade Agreement.

For Pakistan, China symbolises cheaper goods and closer markets, not to mention an incoming stream of human expertise and infrastructural capital. Crucially, China also continues to retain the capacity to help develop Pakistan's energy infrastructure and assist in overcoming an acute energy shortfall, in the form of innovative renewable energy schemes and new nuclear power plants. Interestingly, an international report published in March⁶ maintained that China had become the world's fifth largest arms exporter, with Pakistan as its main recipient, indicating greater defence cooperation between the two countries with the potential of shaping a deeper strategic partnership in the future. Furthermore, Islamabad's reliance on China as a key diplomatic, economic and security ally – not only in the region but also in the context of multinational forums such as the UN Security Council and G20, are likely to embed local perceptions of China as Pakistan's most trusted ally.

Regional Powers: Iran

Energy Cooperation & Political Feasibility

Relations between Pakistan and Iran in 2013 were marked by increased high-level contact, sustained diplomatic engagement and new bilateral conversations on energy, intelligence-sharing and border security. In connection with the debate on new energy markets, the geopolitical shift represented by the \$1.5 billion Iran-Pakistan (IP) gas pipeline project car-

6. <http://www.nation.com.pk/pakistan-news-newspaper-daily-english-online/national/19-Mar-2013/pakistan-biggest-chinese-arms-buyer>

ries profound implications for Pakistan's relationship with the US, as well as India and Afghanistan.

Leadership change in Tehran and Islamabad in 2013 coincided with a November breakthrough in diplomatic negotiations between Iran and the P5+1 UN Security Council members in Geneva over Tehran's nuclear programme. The thaw in Iran-US relations has resulted in a partial lifting of sanctions on Iran's petrochemical industry, yet the export of Iranian petroleum products by other nations still remains a red line for Washington. For Islamabad, this is a complicating political development: traditionally, the search for energy security has been a key determinant in shaping Pakistan's policy outreach towards Iran. The threat of US sanctions, however, raises the prominence of the alternate, US-sponsored Tajikistan-Afghanistan-Pakistan-India (TAPI) pipeline – that purposefully bypasses Iran – in the public discourse of Pakistan's relations with the United States.

An evolving geopolitical dynamic in the Middle East and Central Asia has also influenced Iran's diplomatic posture towards Pakistan: increasingly encircled by an elaborate network of US military bases both in the Gulf and in Central Asia, Iran is keen to avoid a long-term US military presence in Afghanistan. To cite just one example, this year the Iran navy announced its intention to establish a new naval base at Pasabandar in the Sea of Oman, near the country's border with Pakistan and port city of Gwadar – a move potentially designed to foster greater economic and trade cooperation with India which also seeks access to Central Asia's energy resources and markets.

Meanwhile, Indian upgrading of the Iranian port of Chabahar – 75 kilometers away from Gwadar – will not be without consequence for Pakistan's security establishment, which has traditionally evolved its responses from a doctrine of strategic encirclement. The inherent risk of allowing Gwadar and Chabahar to become port cities rooted in a struggle that is more strategic than economic in nature, has the potential to give way to a deeper maritime contest in the Persian Gulf. If India chooses to use Iran to circumvent Pakistan by sea, this is likely to hurt, rather than promote, regional trust.

Border Violence

The Pak-Iran bilateral relationship is increasingly tested by attacks in Iran's southeastern Sistan province, conducted by Sunni militant groups such as the banned *Jundullah* outfit operating out of Balochistan. For Iran, such security concerns channel from a larger motivation to combat sectarianism and growing extremism in the region – this in turn stems from an older contention with the rise of Saudi-Wahhabi influence in Pakistan that dates back to the 1980s. The sectarian strife paralysing Balochistan has also triggered concerns in Tehran, particularly after 86 Hazara pilgrims travelling to the Pak-Iran border were among 92 killed in Quetta explosions in January. Iranian interest in quelling sectarian violence along the 800 kilometer Pakistan-Iran border is also likely to translate into a greater push by Tehran for joint intelligence-sharing, counterterrorism planning and border control.

Regional Powers: Saudi Arabia

Ties to the House of Saud

Pakistan's traditionally intimate relations with Saudi Arabia triggered fresh international interest after the Saudi government announced a \$15 billion bailout package for Pakistan's energy sector in May, coinciding closely with the formation of a PML-N government in Islamabad. The close relationship between the Sharif family and the conservative House of Saud stems from the three-time prime minister having spent much of his post-1999 time in Saudi Arabia from where he continued to head the PML-N's operational activities.

Against a backdrop of continuing strategic cooperation and joint maritime, Hajj and energy undertakings over the course of the year, renewed outreach by Riyadh has also spawned worries in fiscal quarters over the prospect of binding Pakistan's economy to Saudi oil, based on the possibility of enhanced Wahhabi influence that is believed to fan Sunni-Shi'a rivalries in Pakistan's already hyper-sectarian sociopolitical landscape.

Pertinently, the religious denominator that cements Islamabad's rejuvenated relations with Riyadh offsets the Saudi Kingdom's own longstanding military, intelligence and commercial alliance with the United States – a country that remains heavily dependent on access to cheap oil in the Persian Gulf. This paradox helps explain Saudi Arabia's decision to repatriate a *Lashkar-e-Taiba* (LeT) agent this year who implicated Hafiz Saeed in the 2007 Mumbai attacks. Such moves by the Saudi government are thought to be rooted in an awareness of the need to underscore the Kingdom's antiterrorism credentials. Similarly, the Saudi government's eagerness to facilitate political reconciliation in the Afghan endgame by offering to open a Taliban political office can also be interpreted as part of an outreach effort geared to dispel perceptions of a radical Islamic threat emanating from Riyadh.

A Brewing Regional Turf War

It is possible to view Saudi oil as a counterforce to Pakistan's potential future dependence on Iranian energy imports. Saudi Arabia, along with the United States, has been a vocal opponent of the proposed Iran-Pakistan gas pipeline project but for very different reasons. Containing Iran's role as an exporter of Shia ideology in the region has traditionally been a key motive for the Saudi government's outreach in Iran's neighbourhood.

Concurrently, Pakistan's ties with Riyadh can also be understood in the context of a concerted eastward economic push by Saudi Arabia. The Saudis have been increasingly expanding economic ties with China and India; presently, Saudi Arabia exports more oil to China than it does to the US⁷. Interestingly, India is Saudi Arabia's fourth largest oil export market, and trade with New Delhi is geared to move beyond the ambit of oil in the coming months. Moving into 2014, Pakistan may want to follow suit, if only to reduce the country's dependence on Saudi crude oil. For a stronger, strategic, more sustainable and equitable economic partnership

⁷ <http://www.cnbc.com/id/101179670>

with Saudi Arabia, Pakistan could also possibly consider asking Riyadh to make sizable profits in Pakistani commercial real estate, education, infrastructure, information technology and public transportation projects.

Regional Powers: Russia

Slow but Steady Beginnings

Trade and regional cooperation were the topics of Pakistan's interactions with Russia in 2013. While ties with Moscow have often been overshadowed by Islamabad's headlined encounters with the United States and China, the year saw this underdeveloped relationship evolve significantly on both economic and strategic fronts.

Recent attempts at forging strategic linkages and increased diplomatic activity are also made more imperative in the context of the impending US withdrawal from Afghanistan, and in response to strategic alliances such as the Indo-US nuclear deal. For Moscow, the maintenance of functional governance in Afghanistan remains crucial in preventing their expansion of radical Islamist groups into Central Asia. At the same time Russia's social and economic sphere of influence southwards allows the country to counterbalance US and Indian polarity in Asia, and for the most part Pakistan is the ideal surrogate for this purpose.

In the context of this polar need, while economic and strategic cooperation between Russia and Pakistan is encouraging, current levels do not correspond to the real existing potential for partnership, particularly in the fields of oil exploration and transportation projects. The possibility for future defence cooperation remains just as high, with media reports suggesting that Russian arms are already making their way to Islamabad via China⁸. In September Russia announced that it was ready to help execute the Pakistan-Iran gas pipeline project, ignoring US sanctions on Iran. Present Russian investment in Pakistan's gas and coal sectors, and moves to invest in hydropower infrastructure at Mangla, Tarbela and Dasu also provides a sound platform for future expansion in the bilateral agenda.

Conclusion: The Road to 2014

With regional stability in Pakistan's geographic vicinity in a state of flux, political and security transitions in India, Afghanistan and Iran will all impact Islamabad's own tension triggers. Leadership changes on the eastern and western fronts are likely to impact the security architecture in South Asia, and influence emerging scenarios in the Afghan endgame as well.

Political reconciliation in Afghanistan and US drone strikes in Pakistan are likely to remain critical sources of tension as 2014 unfolds.

Drone strikes in particular continue to undermine the Pakistani state's own capacity to respond to domestic terrorism, and undercuts concerted efforts to stabilise the international border with Afghanistan.

8. <http://newindianexpress.com/theSundayStandard/Russian-ammo-takes-Chinese-road-to-Pakistan/2013/07/07/article1670963.ece>

The role of non-state actors along the Afghanistan-Pakistan border will remain a key challenge for both governments in the coming period.

Attempts by the Afghan Taliban to use Pakistan for reverse strategic depth is a behaviour which needs to be curtailed if regional peace is to be given a chance: the recent capture of TTP lieutenant Latifullah Mehsud in Khost, and the assassination of Naseeruddin Haqqani in Islamabad, similarly suggests that Afghan intelligence is a growing player in the rapidly evolving endgame scenario. Amidst these emerging dynamics, Afghanistan's own state capacity, the question-mark around incoming international financial support, and the ability of the Afghan National Security Forces (ANSF) – already plagued by desertion and drug abuse – will be a crucial determinant in regional efforts to prevent that country from sliding into civil war.

If a timely political reconciliation is not reached in Afghanistan, Pakistan may experience an increase in domestic instability, due to the twin challenge of militancy and extremism.

As religious organisations expand their influence in the country's political and civil society space, the ensuing regional impact is likely to negatively supplement tensions playing out in Pakistan's external vicinity. Tackling this challenge is imperative to prevent non-state actors from jeopardising Pakistan's bilateral ties with other neighbours. Particularly, increased interest by regional powers in the outcome of the Afghan endgame, guided by crosscutting economic investment and security interests in the region, essentially implies that a tumultuous and anarchic transition in Afghanistan is the least desired outcome in foreign capitals, including Islamabad.

With India, the nomination of Narendra Modi as its candidate for prime minister and continued belligerent posturing by the Indian military suggests that 2014 will continue to test the bilateral peace process. In this context, the role of regional organisations to facilitate diplomacy and communication remains imperative. Within the wider South Asian ambit, dates for the 18th South Asian Association for Regional Cooperation (SAARC) summit, due to be hosted by Nepal, are yet to be announced. However, the potential for increased South Asian connectivity and cooperation is tied to aspirations of peace and greater regional stability.

The continuation of Track II initiatives and engagements similarly serve as a vital mechanism for dialogue and reconciliation, working to identify and address sources of regional tension. Such forums have significantly helped deescalate tensions, and also worked to create the public and political space for government-level ventures including President Karzai's visit to Pakistan.

For Pakistan, constructive and continued engagement with all regional players remains a primary foreign policy objective, and the articulation of this position is likely to continue in Islamabad's diplomatic discourse as the country and the region prepares to weather the challenges thrown up by 2014.

As the internal political and socio-economic landscape in Pakistan evolves in the coming months, domestic and regional stability is likely to be path-

dependent on a peaceful solution to the Afghan endgame. Progress in peace efforts on the eastern front with India, and Pakistan's capacity to tap the potential for greater trade, energy and economic cooperation with key regional players, will determine the extent to which the region can recover from a lost decade of peace and shape itself to enter a new decade of interconnectivity and prosperity.

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