

FATF: A Challenge for Pakistan in the US-Taliban Peace Talk Scenario



Pakistan's active engagement in the US Taliban peace talks might create opportunities for its withdrawal from the FATF list. The next few months promises to be critical. Recently, the Financial Action Task Force (FATF) Plenary assessed the agreed action plan for Pakistan and the findings don't look encouraging. Noncompliance with FATF action plan bears the risk of pushing the country toward blacklisting. Pakistan, apparently, is committed to implementing the FATF action plan but things are not as clear as they appear to be. Owing to the peculiar character of the current state of affairs in the regional political economy, even an outright compliance does not augur well for Pakistan. There might be two very important factors that must be taken into consideration. Firstly, in case of compliance, Pakistan's politico-economic relationship with Afghanistan would be compromised. Secondly, the political trust deficit between the countries may widen.

The ground is slippery, to say the least, and treading on it may require some diligence. The FATF delegation have expressed concern that a major part of business transactions in Pakistan are not well documented. The unchecked foreign currency smuggling is also an important concern, damaging the economy of Pakistan in ways more than one and needs to be revamped in compliance with the FATF action plan. Fund-raising by banned religious outfits, as well as by politicians bearing corruption charges is another worrying issue raised in the FATF report. It goes without saying that Afghanistan is the epicenter of these problems.

Pakistan cannot move with a required pace on these issues despite its willingness and capacity. Let's suppose, Pakistan has a strong financial sector and institutional framework to handle the undocumented business transaction and currency smuggling. All relevant institutions may show their muscles to document the transactions. For example, State Bank of Pakistan, Securities and Exchange Commission of Pakistan, Federal Board of Revenue, Pakistan Customs, National Counter-Terrorism Authority and others may demonstrate coordination, capability and capacity for the futures of Pakistan. The problem is that such institutions are not well developed in Afghanistan. Therefore, Pakistan cannot fully document the business transactions at least in the case of Afghanistan despite its willingness and intent. The still budding financial institutions of Afghanistan may hinder the institutional cooperation and synchronization between Pakistan and Afghanistan.

If Pakistan withholds its supportive bilateral economic cooperation with Afghanistan for the sake of compliance with the action plan of FATF, it will create a trust deficit among the two countries. This trust deficit would have an adverse impact on the role of Pakistan in the revival of peace process between the United State and Taliban. Ultimately, both US and Afghanistan will hold Pakistan responsible for not keeping their end of the bargain. The other option is to help Afghanistan rebuild and develop a resilient financial system as soon as possible. However, it's a long haul.

The other major issue is on the political front. As mentioned earlier that fund-raising activities by banned organizations and political exposed personalities is a source of concern in FATF's report. If Pakistan immediately implements financial intelligence to curtail terrorism financing and takes a speedy action against the exposed political personalities through prosecution, assets freezing and other means, it would dispel the fear of FATF but the trust deficit between Pakistan and Afghanistan might widen even more.

One option is that the government of Pakistan may go for a judicial solution. But then, it is an open secret that the judicial system of Pakistan is not competent to cope with an issue of such significance. Moreover, the judicial solution might delay the implementation of FATF plan and Pakistan has just four months to prove that it means business. This might also lead to more than required judicial interference and further harm the relationship between the two countries.

Hence, Pakistan is at the horn of a dilemma at the moment. It's a catch 22 as the solution of one problem aggravates the other. It has to come clean before the FATF but Afghanistan might be a casualty in this battle. On the other hand, if it appeases Afghanistan and works to be in the good books of the US, it might get access to the coveted Asian markets but being in the blacklist of FATF would hamper it to reap the benefit of this move. It is very important for Pakistan to have a proactive diplomacy to renegotiate the points of action plan with FATF which are directly related with politico-economic relations with Afghanistan and the US. It's a bumpy ride and caution is the word.