

RELEASE IN PART B5

From: Sullivan, Jacob J <SullivanJJ@state.gov>
Sent: Thursday, January 12, 2012 11:48 PM
To: H
Subject: Pak

I asked Vali to put his thoughts in writing. They are below:

We don't have much leverage here--largely because this is not about military abuse of power but Pakistan's dire economic situation. We should consider the following:

If SC dismisses the government then it is all within the constitution--and the military will be merely executing a constitutional order. The Constitution allows the Court to ask the military to implement its writ if the government refuses to do so. The government has been in violation of a Court order since 2009. In that case all we can do is to ask the military and Supreme Court to make sure the constitution is respected: an interim government sees to new elections in 90 days. Let us remember that Zardari's dismissal may end up being popular (especially if Nawaz and Imran Khan do not object), and then an American intervention can actually backfire--we don't want to set off an Arab Spring directed against us.

The second issue to keep in mind is that the reason the military is seeking to remove Zardari is economic. Zardari has handed over all security issues to the military and there is no challenge to the military from the civilian government. But Kayani is very worried about the economy. In the past month two Corps Commander meetings have been about the economy alone and Hafeez Shaikh was asked to brief the Corps Commanders on the country's finances. Pakistan has short term loans amounting to 30% of the GDP coming due this summer. The fact that US aid and economic engagement is waning has both amplified the country's troubles and put to a lie that Zardari or Haqqani could at least deliver American money to the country. That the IMF has finally left Pakistan and called Zardari's bluff has had a noted impact. The military and many in the bureaucracy and business community blame Zardari and say he has blocked every single one of IMF reforms, and effectively sunk the IMF program on the expectation that the US would step in and keep the IMF in. (It did not help that IMF holds the line on Pakistan if it is asking Greece to actually implement serious restructuring reforms). Our focus here is on security and intelligence cooperation and Afghanistan. But in Pakistan they are in a Greece moment--fearing economic collapse. If we intervene on Zardari's behalf we will in effect be telling Kayani and the military that we will assume responsibility for the economy--and for Zardari and Gilani's corruption and mismanagement--when the economy collapses this summer?

Kayani has been saying that the political parties can keep the parliament but since none of the politicians likes to do the necessary reforms they should agree to an Italian solution, the parliament supporting a government of technocrats for a couple of years to put the country's finances in order. It is not a given that this will come to fruition.

[Redacted]

In an ironic way the collapse of Strategic Dialogue and our civilian engagement has forced economic issues to the forefront in Pakistan.

[Redacted]

Between now and Tuesday, however, we should speak with Kayani, Pasha and Hina to express our concerns and make sure they understand our desire that the constitution remains in force and transition of power happens in accordance with the constitution.

Zardari has flown to Dubai. He has said he will return tomorrow. Whether he does or not could be a big indicator.

B5