Pakistan at a Crossroads as Imran Khan Is Sworn In

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Criticism of Pakistan's anti-money laundering and terrorism finance regime by the Asia Pacific Group on Money Laundering (APG) is likely to complicate incoming Pakistani prime minister Imran Khan's efforts to tackle his country's financial crisis.

Addressing the criticism of the 41-nation APG, which reports to the Financial Action Task Force (FATF), an international anti-money laundering and anti-terrorism watchdog that earlier this year put Pakistan on a grey list with the prospect of blacklisting it is key to a possible Pakistani request for a US$ 12 billion International Monetary Fund (IMF) bailout.

A US demand that any IMF package exclude funding for paying off Chinese loans coupled with the APG/FATF criticism, against a backdrop of the Pakistani military's efforts to nudge militants into the mainstream of Pakistani politics and the incoming prime minister's mixed statements on extremism, could push Mr. Khan to turn to China and Saudi Arabia for rescue, a move that would likely not put Pakistan in the kind of straightjacket it needs to reform and restructure its troubled economy.

The APG criticism followed Pakistani efforts to demonstrate its sincerity by passing in February the Anti-Terrorism Ordinance of 2018, which gave groups and individuals designated by the UN as international terrorists the same status in Pakistan for the first time.

Pakistan, however, has yet to implement the ordinance by for example acting against Hafez Saeed, a leader of the banned group Lashkar-e-Taiba and the alleged mastermind of the 2008 attacks in Mumbai, who despite having been designated a global terrorist by the United Nations Security Council and having a US$ 10 million US Treasury bounty on his head, fielded candidates in last month's election.

The APG, which just ended talks with Pakistani officials, has scheduled follow-up visits to Pakistan in September and October to monitor Pakistani progress in addressing its concerns, which focus on legal provisions governing non-profit and charitable organisations, transparency in the country's beneficial ownership regime and the handling of reports on suspicious financial transactions.

Those concerns go to the heart of the effort by the Pakistani military and intelligence to mainstream militants who garnered just under ten percent of the vote in last month's election but have a far greater impact on Pakistani politics. The military and intelligence have in the past encouraged militants to form political organizations with which mainstream political parties have been willing to cooperate and establish charity operations that have had a substantial social impact.

Similarly, Mr. Khan, who earned the nickname Taliban Khan, is likely to have to counter his past record of allowing government funds to go to militant madrassas, his advocacy for the opening in Pakistan of an official Taliban Pakistan office, and his support of the Afghan Taliban. His Tehreek-e-Insaf (PTI)-headed government in Khyber Pakhtunkhwa, gave in February US$2.5 million to Darul Aloom Haqqania, a militant religious seminary.

Dubbed a "jihad university," Darul Aloom Haqqania, headed by Sami ul-Haq, a hard-line Islamist politician known as the father of the Taliban, counts among its alumni, Mullah Omar, the deceased leader of the Taliban, Jalaluddin Haqqani, the head of the Haqqani Network. Asim Umar, leader of Al-Qaeda in the Indian Subcontinent, and Mullah Akhtar Mansoor, Mullah Omar's successor who was killed in a 2016 US drone strike.

Those may be policies that, at least initially, may be less of an obstacle in assistance on offer from China and Saudi Arabia to replenish Pakistan's foreign exchange reserves that have plummeted over the past year to US$ 10.4 billion, enough to cover two months of imports at best. Pakistan's currency, the rupee, has been devalued four times since December and lost almost a quarter of its value.

Chinese loans have so far kept Pakistan afloat with state-owned banks extending more than US$5 billion in loans in the past year. PTI officials said this week that China has promised the incoming government further loans to keep Pakistan afloat and enable it to avoid reverting to the IMF, which would demand transparency in the funding of projects related to China's

US$50 billion plus investment in the China Pakistan Economic Corridor (CPEC), a crown jewel of its Belt and Road initiative.

And that is where the rub is. Despite Chinese officials reportedly urging Pakistan to reduce its deficit, neither China nor Saudi Arabia, which has offered to lend Pakistan US$4 billion are likely to impose the kind of regime that would put the country, which has turned to the IMF 12 times already for help, on a sustainable financial path.

Relying on China and Saudi Arabia would likely buy Pakistan time but ultimately not enable it to avoid the consequences of blacklisting by FATF, which would severely limit its access to financial markets, if it fails to put in place and implement a credible anti-money laundering and terrorism finance regime

Moreover, relying on China and Saudi Arabia, two of Pakistan's closest allies could prove risky. Neither country shielded Pakistan from FATF grey listing in February. A Chinese official said at the time that China had not stood up for Pakistan because it did not want to "lose face by supporting a move that's doomed to fail."

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