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Pakistan Politics

A Tragic Twist and the Aftermath

- ***Our condolences to the bereaved families of former Prime Minister Benazir Bhutto and the others who were killed on 27 December.***
- **Ground situation** – The reaction to the assassination of former Prime Minister Benazir Bhutto and the subsequent suicide bomb has been violent, and a three-day mourning period has been declared. There will be a public holiday during the mourning period.
- **Political reaction** – We expect the 8 January elections to be delayed. The Pakistan People's Party will need time to regroup itself. There is no obvious alternative leader. Former Prime Minister Nawaz Sharif has announced his party will boycott the elections and is calling for street protests to oust President Musharraf.
- **Fallout** – We believe President Musharraf's position has become weaker as public anger is aimed against his government. The current caretaker government will find it even more difficult to tackle the issue of rising oil prices and funding of Current and Fiscal deficits.
- **Likely scenario** – We expect the new leadership of the Pakistan People's Party to follow in the footsteps of former Prime Minister Benazir Bhutto and participate in what we expect to be the delayed elections. If there are strong and sustained street protests, we believe the army is more likely to ask President Musharraf to stand down than impose Martial Law.

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See Appendix A-1 for Analyst Certification and important disclosures.

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The assassination of former Prime Minister Benazir Bhutto has damaged what can be described as one of the two institutions of stability in Pakistan. Her Pakistan People's Party (PPP) has been a major political force over the last 40 years. The other is the Pakistan Army, which has been involved in politics almost since independence.

Twice in its history, the PPP stepped in when the army wanted to retreat from politics after a prolonged Military rule. First was in 1971, after the decline in popularity of President Ayub Khan and subsequent break up of the country. Second was 17 years later in 1988, following the plane crash of President Zia-ul Haq. History seems to be repeating itself after another 19 years.

Smooth transition to civilian government disrupted

This time, the transition appeared to be going smoothly. The process had started with Benazir Bhutto's decision to participate in the 8 January elections. This enabled President Musharraf to step down as Army Chief and officially end Military participation in politics. In our view, a likely outcome of the elections seemed to be a coalition government. We expected the PPP to emerge as the largest party and this would have led to a period of negotiation. President Musharraf would likely have allowed Benazir Bhutto to become Prime Minister for the third time, and, in return, she would likely have given constitutional cover to President Musharraf's decision of 3 November to impose Emergency and dismiss Justices of Superior Courts.

All this has now changed. Our initial reactions are as follows:

- Elections are likely to be postponed;
- The episode has weakened President Musharraf's position; and
- Former Prime Minister Nawaz Sharif has taken the center stage.

The future depends upon:

- How quickly the Pakistan People's Party is able to find a leader who has the necessary charisma and popularity in all four provinces. This needs to be done quickly otherwise former Prime Minister Nawaz Sharif will likely fill the vacuum;
- Whether the new leader of the Pakistan People's Party is willing to work with President Musharraf or use the current wave of sympathy to force him out and aim for 'full power'; and
- The reaction of the army and its willingness to continue to support civilian President Musharraf.

We expect PPP to participate in what we expect to be delayed elections

We expect the Pakistan People's Party to eventually agree to participate in elections. The other course of action is to join Nawaz Sharif and try to force President Musharraf out of office. This would be a high-risk strategy for the party and even if successful, would mean sharing power with Nawaz Sharif.

Benazir Bhutto had concluded that it was better to work with President Musharraf in order to strengthen her power gradually. Her party is likely to arrive at the same conclusion, in our view. Until the PPP is able to select a new leader, the party is likely to continue to be critical of the government.

Figure 1. Chronology of Events

7 May 2005	Justice Iftikhar Muhammad Chaudhry appointed Chief Justice of Supreme Court
9 March 2007	President Musharraf dismisses Chief Justice
10 July 2007	Mosque in Islamabad stormed by Army (BBC reports 173 killed)
20 July 2007	Supreme Court reinstates Chief Justice
10 September 2007	Former Prime Minister Nawaz Sharif not allowed to enter, sent to exile in Saudi Arabia
28 September 2007	Supreme Court allows Presidential election with Musharraf, but stays declaration of a winner
2 October 2007	Some members of Parliament resign to undermine Presidential Election
6 October 2007	President Musharraf gets 384 out of 389 votes cast, out of total possible 702 votes
18 October 2007	Former Prime Minister Benazir Bhutto allowed to enter, following amnesty on corruption charges
3 November 2007	President Musharraf imposes Emergency replacing most of Supreme Court Justices
25 November 2007	Former Prime Minister Nawaz Sharif returns with the support of Saudi Government
26 November 2007	Both Benazir Bhutto and Nawaz Sharif file papers for elections
28 November 2007	President Musharraf resigns as Army Chief
29 November 2007	President Musharraf takes oath as President for second term
15 December 2007	Emergency Lifted
27 December 2007	Former Prime Minister Benazir Bhutto assassinated
8 January 2008	Election date

Source: Citi Investment Research

Key decisions will likely be delayed disrupting economic growth

The period of heightened tension and political uncertainty is very likely to adversely impact the economy and the stock market. Not only will day-to-day operations be disrupted, but the government's focus will probably also shift away from managing the economy. There are strong inflationary pressures and with rising current and fiscal deficits, the government needs to urgently raise oil prices and revive the privatization/divestment process, in our view.

The caretaker government has been delaying the decision on oil prices, as it was afraid that these would damage the prospects of pro-President Musharraf candidates. Now, these decisions will become even more difficult. These likely delays could result in cuts in development expenditure and/or rises in domestic interest rates.

Elections are likely to be delayed

So far no decision has been made on whether or not elections will be held as scheduled on 8 January 2008. We expect them to be delayed, as the Pakistan People's Party needs time to find a new leader, and as a major political party, is likely to be able to lobby the government to postpone the elections.

Any new election date will likely be announced with PPP's consent

After the mourning period, we expect there to be behind-the-scenes negotiations between the government and the PPP about the future course of action. The PPP is under pressure from Western governments to work with President Musharraf and ensure a smooth transition. Consultations within the party are likely to be contentious as there is a strong element within the party that has always opposed Army rule and found it difficult to accept Benazir Bhutto's decision.

In our view, the PPP leadership contenders include:

- Makhdoom Amin Fahim, who had been given the reins by Benazir Bhutto, but had yet to be given any significant power within the party, in our view;
- Asif Ali Zardari, Benazir Bhutto's husband. His elevation would ensure the continuation of the 'Bhutto dynasty' in some form; and

- Chaudhry Aitezaz Ahsan, who leads the anti-Musharraf element. He was the lawyer of former Chief Justice and is currently under confinement.

Former Prime Minister Nawaz Sharif has announced his party would boycott the elections. He is strongly anti-Musharraf and was forced into participating in elections following Benazir Bhutto's decision. His manifesto is highly critical of President Musharraf and demands restoration of deposed Chief Justice who was dismissed when the Emergency was imposed. His likely course of action now is to call for street protests and force the army to ask President Musharraf to leave office.

Prolonged Martial Law unlikely

The army seemed to have realized after the sharp dip in President Musharraf's popularity that it was time to hand over some power to a democratically elected government. There is an added pressure from the US in particular. In his initial reaction, US President Bush has again emphasized the need for democracy.

In our view, the possibility of Martial Law being imposed again would arise only if the PPP joins Nawaz Sharif in calling for street protests, demanding President Musharraf step down. This would put the new Army Chief in a tight spot. He is likely to conclude that another prolonged period of Martial Law is not a solution. Learning from the 1960s, President Musharraf is likely to follow President Ayub Khan and relinquish his reign as President.

Figure 2. Election Schedule

Nomination Paper Filing	21-26 Nov
Paper Scrutiny	27 Nov - 3 Dec
Appeal against acceptance/rejection	Up to 6 Dec
Decision on Appeal	Up to 14 Dec
Last date for withdrawal	15 Dec
Final list of Candidates	16 Dec
Campaigning Period	22 days
Polling Date	8 Jan

Source: Citi Investment Research

Figure 3. October 2002 Election Results

	No. of Seats	% Votes	% of Seats
PML QA	118	26.6%	35%
MQM	17	3.6%	5%
PML Functional	5	1.2%	1%
PML (Junejo)	3	0.9%	1%
National Alliance	16	0.5%	5%
PPP (Sherpao)	2	0.5%	1%
Others	1	0.3%	0%
Musharraf Sympathizers	162	33.7%	47%
PPPP (Benazir Bhutto)	80	28.4%	23%
MMA (Religious parties)	59	12.3%	17%
PML N (Nawaz Sharif)	18	12.7%	5%
PTI (Imran Khan)	1	0.6%	0%
Awami National Party			0%
Total Opposition	158	54.0%	46%
Other Parties	5		1%
Independents	1	11.0%	0%
Unreconciled*	16	1.0%	5%
Total Directly Elected	342	100%	100%

Source: Election Commission of Pakistan with Citi Investment Research classifications

Appendix A-1

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