# FATF: An economic weapon

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As the world is shifting from kinetic warfare towards non-traditional warfare, economic policies are used to wage a war that can destroy nations to their core. Over the years, many international organisations were formed to promote growth, stability and development. The organisations might have been created with honest intentions but they have been used as political and diplomatic weapons to coerce, tempt and bribe. One such organisation, the Financial Action Task Force (FATF), claims that it aims at reducing money laundering, terrorism financing and strategic flaws in the international financial system. The ‘Grey List’ of FATF comprises those countries who have systemic flaws in their financial regulations but are acting to mitigate the problems. Pakistan has been on the ‘Grey List’ since 2018, its international financial transactions are strictly monitored, creating further problems for an already struggling economy. Ironically, the worst offenders who are on the ‘grey list’ are always the lower-income or middle-income countries with existing vulnerabilities to economic security. Since 2008, Pakistan has been placed on the ‘grey list’ thrice now, and research suggests that it has been one of the major impediments to the country’s economic growth.
Pakistan was subject to comply by FATF action plans. It did not only have to stop money laundering and terror financing but close all the loopholes in the financial system altogether, such that, new laws had to be formulated, sanctioned, investigated, prosecuted and recorded. It was also Pakistan’s responsibility to ensure that none of the UN-designated terrorists get any financial resources from Pakistan. With a weak and struggling economy, Pakistan had to abide by the international watchdog’s stringent mechanism too. It is quite bizarre as similar demands have never been laid for other countries with similar flaws as Pakistan had. Despite all the hurdles, Pakistan was successful in achieving 26 out of 27 objectives demanded in the second phase, yet it was retained on the ‘grey list’ in October 2021. The choice of the FATF decision committee of 39 member states is nothing short of unfair and borderline biased. It does not seem technically sound as Pakistan has exhibited great commitment through “concrete, tangible and verifiable actions” that were acknowledged by FATF. The decision to retain Pakistan on the ‘grey list’ is noticeably a matter of diplomatic intervention and political compulsion by Pakistan’s adversaries motivated by regional animosities and great power politics. It is evident that FATF is being used as a tool to wage economic warfare to coerce Pakistan. Indian External Affairs Minister S. Jaishankar is on record saying the Bharatiya Janata Party (BJP) government led by Narendra Modi ensured that Pakistan remained on the ‘grey list’ of the Financial Action Task Force (FATF). “Due to us, Pakistan is under the lens of FATF and it was kept in the grey list. We have been successful in pressurising Pakistan and the fact that Pakistan’s behaviour has changed is because of pressure put by India by various measures.”
The next session of FATF decision on Pakistan’s status is approaching, and it is predicted that there are high chances that Pakistan will be retained on the grey list. Pakistan has already suffered great economic losses already while it has to prepare for more to come. Increased scepticism about the economy’s future prospects is one way through which FATF grey-listing can have a negative impact on the economy. Local investment, exports, and inward foreign direct investment are all expected to suffer as a result of this. According to Synthetic Econometric research, the FATF grey listing in 2008 may have caused $3.76 billion in GDP losses. However, it is important to highlight that these losses were not limited to the year of the FATF’s grey-listing in 2008, since such measures may have long-term economic consequences. Moreover, this is demonstrated by the GDP losses in the years after 2009-2011, with a total loss of $10 billion anticipated over the three years. As a result of the FATF’s grey-listing, Pakistan’s real GDP has fallen by almost $38 billion in comparison to synthetic Pakistan during the last 12 years (2008-2019). Not only does it hamper the final domestic consumption and production but also trade and foreign investment. Consequently, grey-listing resulted in lower levels of exports and inward FDI, resulting in total losses of $4.5 billion and $3.6 billion approximately. Following the exit from the grey list in 2015, Pakistan’s economy saw a slow recovery with an estimated increase in GDP in 2017 and 2018.
Pakistan’s economy is already in disarray, and being on the Grey List will exacerbate the situation. Pakistan’s trade imbalance is currently $24.78 billion, with foreign debt accounting for 41 percent of GDP. As a result of being placed on the Grey List, Pakistan would have a tougher time borrowing money from foreign nations to satisfy its existing foreign loan payback commitments. Foreign money lenders may be unwilling to lend money to Pakistan now that the FATF has highlighted concerns about the country’s financial system’s openness. Pakistan will be forced to seek assistance from the International Monetary Fund (IMF) once more, with its own stringent conditions, and the cycle will continue. The declaration of Pakistan being placed on the FATF grey list was unwarranted as the decision is usually taken while reviewing the country’s financial situation. On the other hand, Pakistan’s crippling economy was not taken into account this time, let alone the pandemic, and the decision was made on the whims of Pakistan’s adversaries. Therefore, the international community ought to reciprocate and appreciate Pakistan for its commitment towards eradicating money laundering and terror financing. The economic warfare intended to coerce Islamabad motivated by geopolitical compulsions must be stopped.