

POLITICS VERSUS DEMOCRATIC NORMS

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Political trends witnessed in Pakistan during 2019 repeatedly threw up questions about the future of the political order, amid a continuing crisis of governance and multiple gaps surrounding mainstream political parties.

The tone for Pakistan's political trends (in 2019) was set with the Pakistan Tehreek e Insaf's (PTI) victory in 2018 polls, which for the first time ever shattered the exclusive hold of the two traditional political parties – the Pakistan People's Party (PPP) and the Pakistan Muslim League – Nawaz (PML-N).

While Pakistan's democratic structure is just over a decade old since General Pervez Musharraf stepped down after a nine year long tenure, gaps surrounding Pakistan's inability to reform have raised pressing questions over the future of democracy.

Going forward, Pakistan's politics is likely to be driven by three competing trends:

1. Other than the Pakistan Tehreek e Insaf (PTI) led by Prime Minister Imran Khan, mainstream political parties continue to be run as familial enterprises. With the passing of each generation, a new generation of leaders from the families of elected politicians have stepped forward to take charge. Consequently, the idea of political parties growing naturally with a diverse set of claimants to step in different roles as evident in stable democracies, remains a distant possibility in Pakistan.
2. Internally within different political parties, an intense debate on policy issues remains a distant prospect. The absence of such a vital debate has meant that setting the course for parties to discuss key policy issues, remains far from being institutionalized. Without such a transformation, it is hard to imagine exactly how political parties will emerge as representatives of their constituents.
3. The debate over civil-military relations remains unending in Pakistan. Consequently, Pakistan's overall political atmosphere remains polarized with mainstream opposition parties seeking to elbow out the top ranks of the armed forces from decision making processes.

Democratic leadership

Pakistan continues to suffer from a clear paucity of political aspirants rising to the top tiers of mainstream political parties, unless they hail from either the Bhutto clan in the case of the Pakistan People's Party (PPP) or the Sharif clan in the case of the Pakistan Muslim League-Nawaz (PML-N). Several experienced politicians of high caliber have enlisted in the two parties over time but failed to rise above second or third tier leadership positions. Though the two parties have clamored for democracy, their internal character has remained far from democratic.

This gap has implications for the way that the parties can reach out to the rank and file among their constituents and deliver convincing messages. Their electoral victories over time have come more as a consequence of backings from a variety of actors, notably Pakistan's armed forces led establishment and key elements from

'biradaris' or clan from different parts of the country. It's therefore not surprising that the mainstream parties, once out of power, have repeatedly failed on the streets of Pakistan to mount a strong challenge to the ruling structure. An additional key implication has been the failure to build sustainable internal structures within political parties, for discussions on key policy issues. It is therefore not surprising that words like 'kitchen cabinet'-a small coterie of trusted advisers around the party leader, have been frequently used to describe how matters were discussed internally within parties, on key policy issues. It's also not surprising that the ability of Pakistan's mainstream political parties to hold timely and detailed discussions on key policy matters, remains weak.

In the past year, both PPP and PML-N appear to have remained focused primarily on the fate of their leaders rather than policy issues requiring intense debate. Health related concerns of former president Asif Ali Zardari, de facto leader of the PPP and former prime minister Nawaz Sharif, leader of the PML-N have consumed most of their parties' energy.

In sharp contrast, a glaring example of a policy neglect has been witnessed on Pakistan's agricultural economy, surrounded by multiple acute challenges. Almost half of Pakistan's population either directly or indirectly relies on agriculture as their main source of income. For political and economic reasons, this ought to deserve a more intense focus from political parties, at a time when the cotton crop in southern Punjab was hit by a locust attack and production of the rice crop remained below expectations. Meanwhile, the government's decision to raise the price of wheat for farmers by just below eight per cent, has left Pakistan's wheat sowing farmers short pocketed.

On 27th December, Prime minister Khan announced a new presidential ordinance that bars the National Accountability Bureau (NAB) from investigating businessmen from allegations of corruption. This followed a demand by Pakistan's corporate sector over several months, claiming that some of their community members were being unduly harassed by NAB officials. Irrespective of the merit of Khan's announcement, the long delay over this matter clearly suggests lethargy and a lack of focus within the ruling structure to address key issues.

Politics versus policy debate

The failure of opposition parties to hold intense internal and broad based debates on key issues, has finally given ample opportunities to other players to set the policy course. The area of Pakistan's economy and foreign policy deserve special attention amid an apparent failure by the opposition parties to play their role in such debates.

The past year has seen Pakistan sign yet another loan agreement for U\$6billion with the International Monetary Fund (IMF) to manage a crisis on external debt payments. This followed a bailout from Saudi Arabia, committing a deferral of oil payments worth U\$3.2billion annually from July 2019 till June 2022 – a total of U\$9.6 billion. These events have been preceded by Islamabad's policy commitments on a range of areas.

The areas of special mention under the IMF program have included Islamabad's promises to reform its widely dilapidated tax collection structure as well resuming a largely stalled privatization programme. Additionally, Prime Minister Khan's government has made it known that subsidies to large public sector companies will

be reviewed and scaled back if considered necessary.

Each of these areas have political dimensions, giving space to the opposition to agitate on the basis of its alternative recommendations. Yet, at a time when the opposition has given little detailed thought to an alternative course, challenging the government's policy position remains an uphill task.

Going forward, addressing Pakistan's policy gaps remains a key challenge. In the absence of a more intense debate on policy issues within political parties, the idea of setting the course for South Asia's largest country armed with nuclear weapons, to become more stable and prosperous remains a distant prospect.

For Pakistan's political decision makers, addressing this challenge is all the more vital in the midst of China's largest planned investment in Pakistan under the China Pakistan Economic Corridor (CPEC). In the past year, the US\$62 billion has been questioned from sections of the political class, raising issues such as a lack of clarity on the top priorities under CPEC to the need for changing the order of priorities altogether. In brief, Pakistan's mainstream political parties need to come together on a common platform to evolve a national consensus on the way forward for CPEC.

Civil-military Relations

Events in early 2020, notably the killing of Iranian General Qassem Solemani, have heightened the risk of fresh tensions in the region surrounding Pakistan. Noteworthy was a call from US Secretary of State Mike Pompeo to Pakistan's army chief General Qamar Javed Bajwa after General

Solemani's killing, ostensibly to convey the US position on this episode.

The regional fallout between the US and Iran is yet to play itself out. But a direct conflict between the two is set to place Pakistan's army in a much stronger position on driving domestic policies. There is a danger of a large influx of refugees from Iran in to Balochistan in the event of a full blown war.

Meanwhile, two events in the closing days of 2019 only sharpened the civil-military divide:

1) Verdict against former army chief General Pervez Musharraf

A verdict by a special court in December deepened the misgivings between Pakistan's armed forces and the civilian structures. More than the awarded death sentence, the language used in the verdict was especially provocative. The verdict stated that even if General Musharraf died before being brought back to Pakistan from Dubai where he is under medical treatment, his corpse ought to be hanged in front of the parliament in Islamabad.

2) Supreme Court verdict on renewal of General Bajwa's tenure

The Supreme Court carried out a judicial review of Prime Minister Imran Khan's decision to renew a three year tenure of Army Chief General Qamar Javed Bajwa and ordered new parliamentary legislation in late November, over a six month period for extensions of armed forces' chiefs in future. The matter has been resolved for now with the parliament having carried out the necessary legislation. But this episode has set the ground for fresh civil-military distrust unless a series of actions are taken to bridge the divide. At the very least, it's

essential to organize a regular dialogue between Pakistan's civilian politicians – government and opposition, and the armed forces to discuss, debate and resolve matters that may potentially undermine civil-military ties.

For the long term, resolving the riddle of Pakistan's civil-military ties is essential to resolve challenges surrounding the country's structures of governance. Over the years, civil institutional structures have weakened while the armed forces have been absorbed in areas which ought to be the responsibility of civilian rulers. This has only weakened Pakistan's civilian government. Moreover, an over extension of the armed forces in areas which should not have been their responsibility, has only forced them to add to their professional remit.

Conclusion

Pakistan's overall political direction coming out of 2019 remains saddled with a number of challenges. For years, politicians and analysts have argued that the civilian structure will consolidate

over time, following a number of parliamentary elections. However, in addition to the future of parliamentary structures at the Centre and the provinces, the evolution of political parties has also set the trends for the future. As long as party structures remain weak and led by families where the highest offices have passed on in a hereditary manner, political parties will remain inherently weak and unable to mature democratically. This handicap will continue to undermine the ability of political parties to encompass a wider following of politicians and grass root constituents.

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2020: NOW OR NEVER

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Abstract

Year 2020 will witness the conclusion of the first year of an economic stabilization phase under the current International Monetary Fund (IMF) program. Hence, the mere improvement of macroeconomic indicators (the twin deficits, for instance) should ideally not be cause for celebration. What else can be expected of a heavily front-loaded IMF program? Either way, we had wandered down a dark road and have just started our journey to redemption.

Pakistan will turn 100 sooner than we'd like to think. Yet, its history of unforgiving boom-bust cycles continues unabated. Argue all one may about the decision to go to the IMF, the fact is that the program has been chosen as a panacea to the country's immediate ailments and macroeconomic indicators should eventually fall into place as they always have. Would it not be prudent then to keep broader issues the centre of attention in gatherings related to the economy?

These issues and their solutions are not guarded secrets; libraries of credible literature are readily available. Why then, even with the abundance of such information, do our problems still linger? The simple fact of the matter remains that inability to solve a problem can arise for two broad reasons: either the absence of willingness or lack of ability. Hence, the intent and implementation capacity of those ultimately responsible should always be closely monitored. Nevertheless, if the impressions that are now being created actually materialize, Pakistan could finally embark on a path of sustainable growth, particularly considering its

vast untapped potential.

To discuss the outlook for 2020, this article will pivot on the latest IMF Staff level report, released just recently, which provides a rather comprehensive numerical depiction of Pakistan. Whether or not one agrees with the report's forecasts, it cannot be argued that it does serve as a starting point. More importantly, this article will then discuss the broader issues at hand in light of the clues we are getting regarding the direction that the country is headed in.

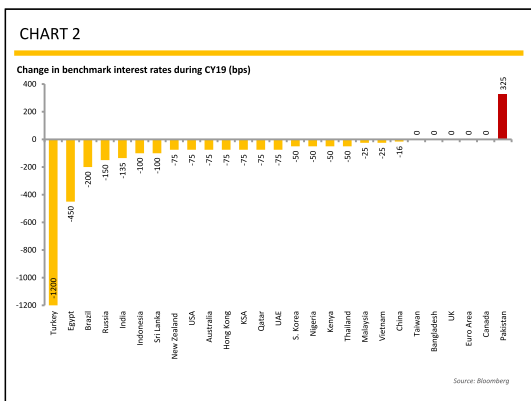
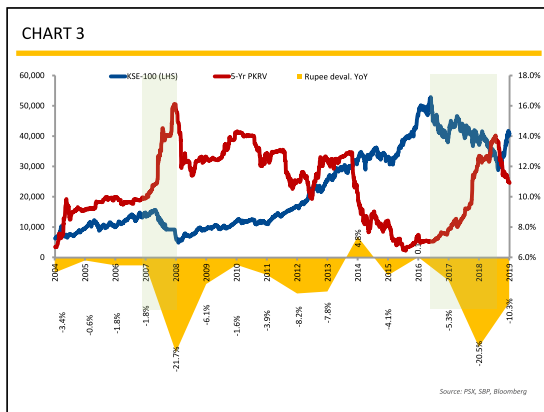
IMF and the road ahead

The IMF has maintained Pakistan's Gross Domestic Product (GDP) growth forecast at 2.4% for FY20. This estimate seems closer to reality than the 3.5% put forth by local authorities, given the slowdown prevalent in large scale manufacturing and agriculture sectors in particular. On inflation, the IMF has revised its FY20 forecast from 13% to 11.8%, which falls in line with government estimates of 11-12%. Given that the recent hikes in power tariffs are being used to alleviate the circular debt in the immediate term, one should hope that they have been factored in in the inflation forecasts. Otherwise, one should brace for inflation shooting beyond these estimates. Moreover, higher oil prices remain another critical risk. In such cases, it should not be surprising if interest rate cuts do not materialize as is generally expected. However, such rates are unsustainable for an economy such as that of Pakistan, particularly considering the hikes of 2019. Broader market expectations with regards to policy rate cuts are around the 200bps mark during 2020.

CHART 1

IMF Projections, Dec 2019	Actual		Estimate	Projected				
	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Real GDP Growth %	5.2	5.5	3.3	2.4	3.0	4.5	5.0	5.0
Inflation (period Avg) %	4.1	3.9	7.3	11.8	8.3	6.0	5.0	5.0
Current Account Balance US\$ bn	-12.6	-19.9	-13.8	-6.6	-5.9	-5.9	-6.0	-6.8
Current Account Balance % of GDP	-4.1	-6.3	-4.9	-2.4	-2.0	-1.8	-1.7	-1.8
Gross FX Reserves US\$ mn	16.1	9.8	7.3	11.2	14.8	20.7	27.1	30.5
Primary Balance % of GDP	-1.6	-2.2	-3.5	-0.6	0.9	1.9	2.6	2.6
Budget Balance % of GDP	-5.8	-6.5	-8.9	-7.6	-5.5	-4.0	-2.8	-2.6
Government Debt* % of GDP	70.0	75.2	87.8	84.7	81.4	77.6	73.6	69.8

* General govt. & govt. guaranteed debt (incl. IMF)
Source: IMF

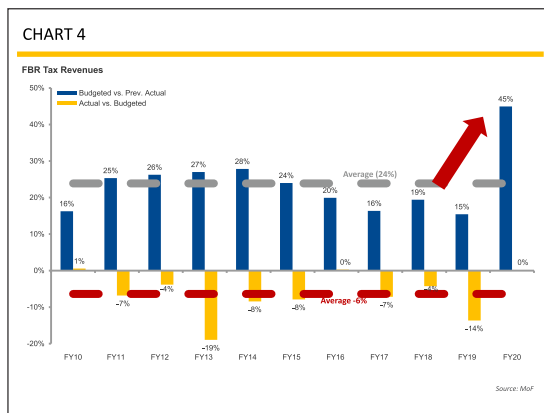


Beyond the stabilization phase of FY20, the IMF has forecasted that GDP growth will accelerate, the rate of inflation will slow down and macro imbalances such as the twin deficits will reach more manageable levels. But this is nothing new, rather a re-run of what has repeatedly happened in the past. Yet again, the stock market pre-empted the turnaround, reaping 42% gains from the lows in mid-August'2019 till end of CY19. At the same time, bond markets had been giving telling signs.

The external account situation has shown considerable improvement during 1HFY20. The current foreign exchange reserves levels have reached relatively safer levels. In fact, they currently stand near the IMF's year-end targets. The Current account deficit (CAD) is expected to comfortably beat the IMF target of US\$6.6

billion. And this reflects in the exchange rate which appreciated by nearly 3.6% during 1HFY20 as against general fears of a horrendous depreciation spell. Although the IMF does not specifically publish exchange rate forecasts, the implied rate using the latest Staff level report shows that the IMF expects the Rupee to depreciate by 3.7% per annum leading upto 2024 as against 4.8% implied in the previous report (July, 2019).

However, one summit that has remained insurmountable so far for the government is the high revenue collection target set by the IMF and that too right from the very onset of the program. The front-loading severity of revenue collection



targets can be gauged from the fact that the IMF is aiming to lift the tax-to-GDP ratio from 12% in

FY19 to 14.2% in FY20 and then 15.9% in the following year. This is by no means an easy feat to achieve. So far, during 1HFY20, total revenue collection stands at Rs2.08 trillion. Such is the size of this target that despite collection being 17% higher YoY, there remains a shortfall of Rs287 billion. In this situation, conventional wisdom dictates that something has to give – in a more favourable scenario, a waiver would be granted while on the other end lies the cameo appearance of a mini budget (a real one this time). If all else fails, perhaps an option that has been ignored for far too long would eventually have to be considered, i.e. expenditure cuts. Here, one can be forgiven for confusing expenditure cuts with merely development expenditure cuts, given what has happened in the past. This will most likely not be the case anymore, as it could require a re-haul of the government apparatus that we have grown accustomed to.

Alarming, government debt as a percentage of GDP has already reached record highs; yet the IMF has forecasted this ratio to fall gradually from current levels going forward (refer to IMF projections tabulated earlier).

One caveat is that the tacit assumption in this

forecast is high growth in revenue collections. But in the unfortunate scenario that revenue collection takes longer than expected to match the desired pace, how will the authorities manage to bridge the shortfall? The answer is obviously expenditure cuts. Again, to emphasize, these cuts could reach proportions that have not been seen, at least in recent history.

Foundations of the state

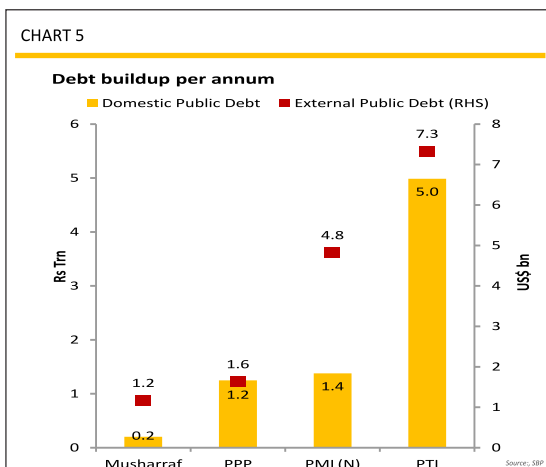
Before moving on to the broader challenges at hand, it is imperative to highlight that speaking about them puts one at the risk of venturing beyond the limits of time. Such is their vastness. Regardless of perspective, there is tremendous amount of work that needs to be done in Pakistan's social and physical infrastructure. With the aim of covering maximum ground, the article adopts a 'to-the-point' strategy. Either way, there is no arguing that libraries of credible literature on the topic are anything but scarce. This article simply attempts to present the beating heart.

The three areas of focus should be:

1. Meritocracy
2. Planning
3. Education

Judiciary, Legislature and the Executive may be the three pillars of state, but meritocracy, planning and education form the foundation on which these pillars continue to stand. And these strong foundations have, for decades, allowed great nations to remain great and developing nations to prosper.

Interestingly, if one simply works on meritocracy, all else will fall into place. An effective workforce will automatically pave the path towards proper planning. And proper planning should prioritize



education.

Meritocracy

First and foremost, meritocracy should be ensured at all levels. The term simply means that competent people should command areas that they excel in. In other words, the right people for the right jobs. All of them! It is quite similar to solving a puzzle; all the right pieces need to fall in the right place to get the desired result. For instance, the current Federal Board of Revenue (FBR) chairman was appointed to ensure revenue generation. One piece of the puzzle in place. So far, so good. But the appointment of just one individual is grossly insufficient to tend to Pakistan's myriad fiscal troubles; the expenditure side remains largely unattended to. For instance, while the FY20 budget did see salary cuts in the federal cabinet, one should ask whether the country really needs such a large cabinet, especially in times of fiscal austerity. Would Pakistan not be better off without the extra workforce and countless ministries that we see constantly arguing over jurisdiction? Since when did clutter become an integral part of governance? Can the country not survive on skeleton staff?

Planning

This thought leads us into the realm of planning, which needs no elaboration. As mentioned above, planning can be considered as a function of meritocracy. Hence, meritocracy in letter and spirit should help avoid major shortfalls in formulation of consistent and effective policy. At the risk of making it sound like a history lesson, past – and some very recent – hiccups are presented below.

- It has lately been quoted that data has surpassed oil to become the world's most

valuable resource. And it is disheartening at the very least to say that in Pakistan, even a man-made resource as vital as this needs substantial nurturing. 72 years since independence, it remains a dream to see Pakistan Bureau of Statistics (PBS) become an autonomous body, free from conflicts of interest.

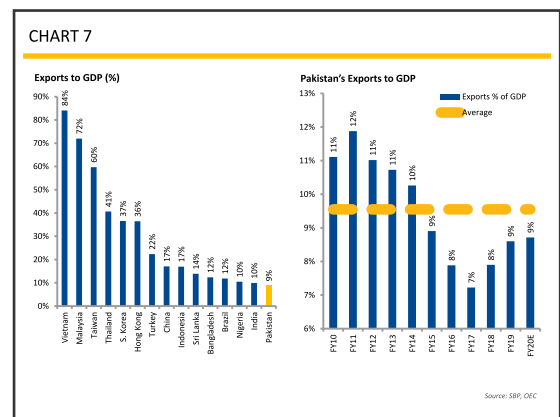
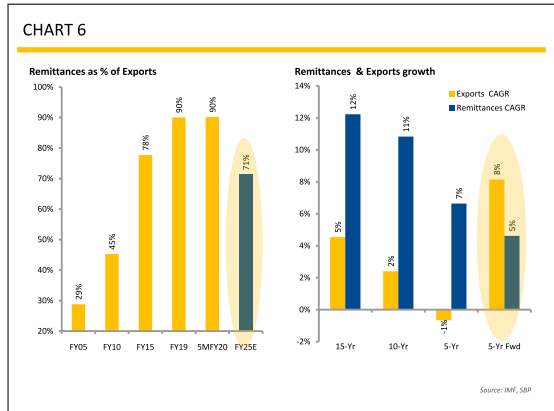
- Another interesting point can be found in the annual budget speeches. It is no less than a mystery how it is possible for individuals placed at ministerial positions to provide annual estimates of the country's account so far from the actual numbers so close to the year end. For instance, the estimated fiscal deficit (as percentage of GDP) for FY19 was announced at 7.1% in the FY20 budget speech while the actual number came to 8.9%. This 1.8% difference translates to roughly Rs700 billion!
- It could be the dense fog nowadays, but the current economic policy framework is not adequately clear. For instance, one may recall an Economic Advisory Council (EAC) that was established sometime in FY19 (which ended in a fiasco after members resigned for various reasons). More recently the Economic Development Council (EDC) was formed and, for a brief period, it seemed that this body would help formulate policies. Yet sometimes one gets the impression that the Prime Minister has taken it upon himself to make all policy decisions.
- On the other hand, we see the repeated reshuffling of senior

appointees. This simply tells that either there is a problem finding the right people or there is a lack of decisiveness.

- Then there is the matter of Gas Infrastructure Development Cess (GIDC) where a formal decision was made and then taken back, which has resulted in the case now pending in the courts of law.
- And what does fate have in store for state-owned enterprises (SOEs)? Will they be privatized or will they continue to remain under government ownership? If the former stands, then the question is “when”; In case of the latter, the question is “how”.
- It seems that China-Pakistan Economic Corridor (CPEC), Pakistan's much-hyped 'Game Changer' has lost its place in the spotlight. The great debates that were in the limelight until just recently have now been rather overshadowed by other routine headlines.
- Then there were the rather aggressive talks about the dangers of Chinese involvement in Pakistan through CPEC. However, these voices died out soon after their sources became part of the governing mechanism of the country.
- The sudden sprouts of ideas that authorities go through are another cause for serious concern. Take the construction of dams and diaspora certificates for instance which came in like freight trains and disappeared like Houdini.

Apart from these hiccups, the state of planning in Pakistan can be seen in various sectors of the country such as Power, Petroleum refining, agriculture and technology to name a few. And if that wasn't enough, one just needs to look at the

unique case of Pakistan's exports growth. Despite all efforts, the current growth figures suggest that the country's remittances will soon exceed exports. In terms of the export to GDP ratio, Pakistan not only finds a spot among the worst in the region but



has, for the past few years, somehow found itself underperforming even its own historic average. In a recently released report by the ADB¹ the authors have pointed out that “Periods of GDP growth rates that are higher than the BOP-constrained growth rate tend to result in foreign exchange reserve depletion, followed by periods of fiscal and monetary policy-led suppressed growth.”

The report claims that the current Balance of

¹Why Pakistan's economic growth continues to be balance-of-payments constrained. 2019. ADB Central and West Asia working paper series

Payments (BOP) situation (which has fundamentally remained unchanged for a considerably long time) only allows Pakistan's economy to grow sustainably up to a maximum rate of 3.77%. The only way to sustain a higher growth rate is to enhance exports. To this end, the report identifies avenues to redemption, some of which are quoted as follows:

- Identify the causes of lost export value in important industries (glass and stone, mineral products, plastics, and chemicals);
- Explore options for moving into new export products that require productive capabilities similar to those used for existing Pakistani exports, but have a higher level of sophistication within the product space;
- Establish a national single window for exporters; and
- Improve the availability of trade finance.

Rather amusingly, the China–Pakistan Free Trade Agreement-II (CPFTA-II) recently came online that gives duty-free access to over 6,000 Chinese items against allowing 313 Pakistani products to be exported to China on similar terms. Brilliant, isn't it?

One subject that has been ignored for too long by policy makers is population growth. Prime Minister Imran Khan, in his first address to the nation, expressed his desire to learn how China overcame its problems to become the powerhouse that it is now. A fundamental tool in China's success was managing population growth decades ahead of working on other areas such as infrastructure development. PM Khan has indeed publicly spoken about the challenge of a rising population. A small glimpse at Pakistan's historical population growth reveals that its population

doubles every 25 years. At this rate, Pakistan will be home to over 400 million in the next 25 years and cross the 800 million mark in the subsequent round. An article in the *Washington Post*² suggests the same – that the population could double by the mid of this century. It further claims that Pakistan's population growth is among the highest (barring Africa) and the situation is 'a disaster in the making'. Reasons cited are 'religious taboos, political timidity and public ignorance ... where only one-third of married women use any form of birth control.'

Pakistan's population problem has also been recognized in a *World Bank Report*³ which recommends “reduction of fertility rates via awareness programs to encourage informed decisions on parenthood, including information on birth control, reproductive health, young women's health and child development...” as a reform measure to reduce population growth from 2.4% in 2017 to 1.2% by 2047. A policy note by the *World Bank*⁴ suggested that one reason why investment and interventions in human capital have not borne fruit so far is the consistently high population growth rate, which has diluted the impact of reform. Moreover, health and population control are cited among key areas to ensure growth in incomes.

Education

Once meritocracy and an effective planning framework are in place, emergency focus on education should naturally flow in. Without investing on human capital, any quantum of public spending and infrastructure projects will be pointless. With regards to education, 'Pakistan@100: Shaping the Future' claims that Pakistan needs to spend twice the amount on education of what it currently does, keeping in

²A disaster in the making': Pakistan's population surges to 207.7 million, 2017.

³World Bank. 2019. Pakistan@100: Shaping the Future. © World Bank

⁴Pakistan@100 policy note on Human Capital. 2019.

view the regional average. The same report also highlights that: “Not only the quantity but also the quality of education is concerning in Pakistan. In rural areas 48 percent of class 5 students and 83 percent of class 3 students could not read a class 2 story in Urdu/Sindhi/Pashto; 54 percent of class 5 students and 85 percent of class 3 students could not read class 2 sentences in English; and 52 percent of class 5 children could not do two-digit division.”

However, there is also the view that there is sufficient spending on education and the problem lies in financial discipline⁵. “Ghost” schools and employees in the public sector continue to haunt enforcement of the policies in place. In such a scenario, where quality of education is also an issue in the few schools that do function, enrolment rates are unnaturally low as parents see low opportunity costs in not sending their children to school.

The problems in the education system are expected to worsen if quick but long term remedies are not worked out. Given the growing population, the student-teacher and student-school ratios could easily worsen from the levels that they have already dropped to.

Conclusion

The article mentioned that inability to perform either finds roots in absence of willingness or lack of ability. In the latter case, the former can still compensate and produce some result. However, when the tables are turned, there is no hope.

Pakistan has a history of too frequent boom-bust cycles. It should be kept in mind that the mere improvement in macroeconomic indicators does not mean that economic growth will shoot anytime soon. It is high time that a now-or-never approach be taken for moving forward. Again, to quote 'Pakistan@100: Shaping the Future':

“Pakistan's future looks very different if it fails to achieve ... reforms ... Its consumption-based growth model, low tax revenue and inefficient resource use will have prevented crucial investments, and instead continued Pakistan's pattern of boom-and-bust growth cycles, and depleted the country's natural-resource base. In addition, its political system will remain influenced by elites that will continue to capture the majority of the economic benefits.”

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⁵Pakistan's Education Crisis: The Real Story, 2015 (Woodrow Wilson International Center for Scholars – Asia Program)