

PAKISTAN'S UNENDING QUAGMIRE AND GLOBAL RESPONSE

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Pakistan has been riddled with multiple challenges and an alarming economic crisis which demands robust economic assistance and debt waivers to stabilise the country and evade an economic default. Along with the economic crisis, the political situation continues to be volatile as the nation is heading towards the next general elections by the end of this year. The security situation poses severe challenges to the military and political establishment with the Tehrik-i-Taliban Pakistan (TTP) holding its head high and escalating the numbers and intensity of terror attacks. The economic, political and security challenges in Pakistan are the result of the domestic and foreign policy choices the military-run state made, and the national priorities it defined for itself, over the decades. Although, Pakistan has faced economic crises before and has been in a perpetual debt spiral, what is different this time is the response of the global players and its 'friends and allies' who have in the past rescued Islamabad from bankruptcy.

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PAKISTAN'S DEBT SPIRAL, THE IMF CONDITIONALITIES AND POLITICAL VOLATILITY

Pakistan is in a severe economic crisis, with foreign reserves down to below US\$ 3 billion and inflation at approximately 40 per cent (at the time of writing the paper). Reports suggest a high probability of a breakdown of the supply chain, which will potentially worsen inflation in the coming months. Pakistan's total debt and liabilities stand at about 90 per cent of its GDP (see Table 1). Fuel prices have been hiked significantly and the Pakistani Rupee has declined to a historic low—about 30 per cent—against the US dollar. Pakistan has been struggling to get the approval of the 9th review of the IMF programme. Multiple rounds of talks/negotiations have taken place and IMF has not been convinced about Pakistan's actions on structural changes in the economy the world body laid out as preconditions to the \$1.1 billion tranche. These changes include—reduction in subsidies, raising fuel prices and increasing the revenue base by additional taxation. The IMF economic assistance carries tough conditionalities which are essential for Pakistan to be able to get out of the repeated borrowing cycle. The IMF Managing Director, Kristalina Georgieva, on the side lines of the Munich Security Conference, said:

“What we are asking for are steps Pakistan needs to take to be able to function as a country and not to get into a dangerous place where its debt needs to be restructured.”¹

The IMF chief further added emphasis on the actual beneficiaries of the subsidies:

“I want to stress that we are emphasising two things. Number one, tax revenues. Those who can, those that are making good money [in the] public or private sector need to contribute to the economy. Secondly, to have a fairer distribution of the pressures by moving subsidies only towards the people who really need it. ... It shouldn't

1. “Pakistan's Poor should Benefit from the Subsidies, not the Wealthy: IMF Chief”, *Dawn*, February 19, 2023, at <https://www.dawn.com/news/1738008>. Accessed on February 20, 2023.

be that the wealthy benefit from subsidies. It should be the poor [who] benefit from them.”²

The problem of the rich leveraging the benefits of the state subsidies has been highlighted in the United Nations Development Programme’s (UNDP) National Human Development Report (NHDR) for Pakistan released in 2021. Pakistan has been getting the reminders and notices about the international concern on the issue of unfair distribution and utilisation of subsidies. The report suggested that:

“Economic dividends enjoyed by the country’s elite groups which includes the political and military class, feudal landlords and corporate sector are approximately \$17.4 billion which is close to 6 percent of Pakistan’s economy.”³

Pakistan actually breached the IMF trust and did not adhere to the conditionalities demanding expansion of the federal revenue. Subsidies were not reduced and there was a cap on the petroleum prices which was not only contrary to the IMF guidelines, but also not in sync with the increase in oil prices globally due to the Russia-Ukraine war. IMF has been firm with Pakistan on the conditions and Islamabad is in a tough position as these conditionalities would further impact inflation adversely and raise the cost of living. This, in turn, would add to the anger and frustration among the people against the Sharif government, which is already bearing the brunt of the austerity measures it was compelled to take.

A series of analysis has been carried out within and outside Pakistan discussing basic inability or unwillingness to conduct reform by the leadership which has led Pakistan into a deep cycle of economic crisis. Murtaza Niaz, a political economist from Pakistan analysed:

2. Ibid.

3. “Elite Privilege Consumes \$17.4 bn of Pakistan’s Economy: UNDP”, *Al Jazeera*, April 13, 2021, at <https://www.aljazeera.com/news/2021/4/13/elite-privilege-consumes-17-4bn-of-pakistans-economy-undp>. Accessed on February 20, 2023.

Table 1: Pakistan's Debt and Liabilities-Summary

	Jun-22	Dec-21	Sep-22	Dec-22
I. Government Domestic Debt	31,037.5	26,746.5	31,404.6	33,116.3
II. Government External Debt	16,747.0	14,796.5	18,004.5	17,879.8
III. Debt from IMF	1,409.6	1,188.4	1,731.4	1,724.8
IV. External Liabilities ¹	2,275.6	2,055.0	2,440.3	2,486.5
V. Private Sector External Debt	3,596.3	3,029.6	3,900.3	3,799.2
VI. PSEs External Debt	1,675.7	1,205.3	1,805.8	1,792.3
VII. PSEs Domestic Debt	1,393.4	1,503.8	1,470.4	1,474.3
VIII. Commodity Operations ²	1,133.7	889.4	1,126.8	1,138.8
IX. Intercompany External Debt from Direct Investor abroad	905.1	785.0	997.5	931.2
A. Total Debt and Liabilities (sum I to IX)⁶	59,698.9	51,724.6	62,406.6	63,868.2
B. Gross Public Debt (sum I to III)	49,194.0	42,731.4	51,140.5	52,720.8
C. Total Debt of the Government—FRDLA Definition³	44,313.6	38,363.0	46,818.0	47,963.6
D. Total External Debt & Liabilities (sum II to VI+IX)	26,609.2	23,059.8	28,879.8	28,613.8
E. Commodity Operation and PSEs Debt (sum VI to VIII)	4,202.8	3,598.6	4,402.9	4,405.4

R

Provisional
(in billion PKR)

As percent of GDP

<i>Total Debt and Liabilities</i>	89.2
<i>Gross Public Debt</i>	73.5
<i>Total Debt of the Government—FRDLA Definition</i>	66.2
<i>Total External Debt & Liabilities</i>	39.7
<i>Commodity Operation and PSEs Debt</i>	6.3
<i>Government Domestic Debt</i>	46.4

Memorandum Items

GDP (current market price) ^a	FY22			
Government Deposits with the banking system ⁵	4,880.5	4,368.3	4,322.4	4,757.3
SBP's on-lending to GOP against SDRs allocation ⁶	474.9	474.9	474.9	474.9
US Dollar, last day Weighted Average Customer Exchange Rates	204.3784	176.5191	228.0465	226.4731

1. External liabilities include central bank deposits, SWAPS, Allocation of SDR including and Non resident LCY deposits with central bank.
2. Includes borrowings from banks by provincial governments and PSEs for commodity operations.
3. As per Fiscal Responsibility and Debt Limitation Act, 2005 (FRDLA) amended in June 2017, "Total Debt of the Government" means the debt of the government (including the Federal Government and the Provincial Governments) serviced out of the consolidated fund and debt owed to the International Monetary Fund (IMF) less accumulated deposits of the Federal and Provincial Governments with the banking system.
4. As per revised GDP (MP) at current prices (base 2015-16) released by PBS.
5. Accumulated deposits of the Federal and Provincial Governments with the banking system.
6. Less the SBP's on-lending to GOP against SDRs allocation (SDR 1.95 billion) equivalent to PKR 474.94 billion.

Wherever mentioned, P: Provisional; R: Revised

Source: State Bank of Pakistan, "Pakistan's Debt and Liabilities—Summary", at <https://www.sbp.org.pk/ecodata/Summary.pdf>. Accessed on February 20, 2023.

“Our growth is fake, driven by high money supply growth and external fiscal deficits rigged by rulers who avoid reform. This causes high inflation, low foreign reserves and a need for IMF loans that demand depreciation, high interests rates and cuts in twin deficits.”⁴

Pakistan’s debt problem is not new, and the debt burden has perpetually been high given the strategic choices Pakistan made. The priorities for Pakistan have been to stay militarily at par with India, develop nuclear weapons at the cost of eating grass, have strategic depth in Afghanistan and keep up the domestic and international momentum on the Kashmir issue. One of Pakistan’s top economists, Murtaza Syed, former Deputy Governor at Pakistan’s Central Bank SBP, pointed out three factors responsible for the economic crisis: guns, babies and lop-sided trade deals.⁵ Pakistan wasted the economic opportunity when it received lavish economic assistance and debt restructuring post 9/11 as a frontline state of the US war on terror. Even with the enormous external financial support coming in Pakistan failed to restore fiscal discipline and the military expenditure was not controlled.⁶ Pakistan’s inability to control fertility rate—and also signing unprofitable and disproportionate trade deals—have been largely responsible for the economic crisis today, according to Syed.⁷

The economic desperation, suggestive of an economic default in the coming months, is coupled with continuing political volatility. Former Prime Minister Imran Khan has dissolved the provincial assemblies in Punjab and Khyber Pakhtunkhwa in his bid to press for early elections. According to the Constitution of Pakistan, once the provincial assemblies are dissolved, elections should take place within a period of 90 days. From the time Imran Khan was disqualified from the government in April last year (2022) in a vote

4. Dr. Niaz Murtaza, “Economic Crises”, *Dawn*, February 7, 2023, at <https://www.dawn.com/news/1735779>. Accessed on February 15, 2023.

5. Murtaza Syed, “Guns, Babies and Trade Deals”, *The News International*, February 25, 2023, at <https://www.thenews.com.pk/print/1043992-guns-babies-and-trade-deals>. Accessed on February 26, 2023.

6. *Ibid.*

7. *Ibid.*

of no confidence, he has been staging protests and leading a series of rallies to gather support against the current government on the narrative of corruption and incompetence, adding to the existing challenges of governance. Imran has managed to maintain the momentum of his support and he continues to employ a series of tactics which have not allowed the political situation to stabilise. The general elections are scheduled for the last quarter of this year and, in all likelihood, the Sharif government would want to delay elections in order to buy more time to stabilise the economy and ensure their support base. There is intensifying conflict between the state institutions—political, judiciary and military, with one blaming the other for the dysfunctionality of the nation. Maleeha Lodhi aptly analysed the ongoing chaos:

“If almost every state institution is now caught in the cross hairs of the political storm with its reputation being affected by this. This [the ongoing political confrontation] is pushing the country into uncharted territory where the standing, credibility and integrity of state institutions is increasingly being called into question. If public trust in institutions is eroded and their legitimacy undermined this will only leave the country in a more ungovernable state.”⁸

EMBOLDENED POSTURE OF TEHRIK-I-TALIBAN PAKISTAN (TTP)

Ever since the Taliban has taken control of Afghanistan (August 2021), the Tehrik-i-Taliban Pakistan (TTP) has accelerated the terror attacks. Surely, the defeat of the democratically elected leadership in Afghanistan is seen as a major ideological victory by the Taliban. The TTP was the first organisation to send a congratulatory message to the Taliban in Afghanistan after the group took control of Kabul. Pakistan has been pressuring the Afghan Taliban to control the TTP and persuade them for a ceasefire. There have been series of talks between the TTP and the Pakistan regime. The peace talks moderated by the Pakistan Army have not been successful and the TTP is

8. Maleeha Lodhi, “Institutions as Battleground”, *Dawn*, February 27, 2023, at <https://www.dawn.com/news/1739338>. Accessed on February 27, 2023.

unwilling to give up its demands of including the need for imposing Shariah and the reversal of the merger of Pakistan's erstwhile Federally Administered Tribal Area (FATA) with the north-western province of Khyber Pakhtunkhwa.

The TTP has emboldened its posture, and a series of terror attacks specifically targeting the police personnel have taken place in Pakistan. A deadly terror attack in Peshawar on January 30, which killed more than 100 people, the attack on February 5 in Quetta, and the February 17 attack on Karachi police office indicate intensifying security challenges for the state. The group has been holding its head high with unrelenting and implicit tactical support from its ideological allies on Pakistan's western border, the Afghan Taliban. Lately, the TTP has been projecting itself as a nationalist movement and announced a parallel government. In fact, a closer look at the TTP's expansion indicates that it is following the expansion pattern of the Afghan Taliban. The Taliban's support of the TTP has been a significant point of contention between the Pakistani leadership and the Taliban.

There are ample speculations regarding a military response targeting the group. Conflicting statements have been issued from the regime regarding the state's response to the TTP. However, three options can be evaluated in this context:

1. The government brings the TTP back to the negotiating table and attempts for a ceasefire. This is less likely because of two factors: First, Imran Khan has been repeatedly held responsible for the rise in terror attacks as his government tried to negotiate with the group and released more than 100 TTP prisoners, which added to the group's strength. Second, the TTP has not shown any signs of willingness to compromise in their demands which would be unacceptable to the state.
2. Pakistan takes the Afghan Taliban into confidence and they take the responsibility of controlling the group. This option is being explored repeatedly by the leadership.⁹ The TTP is an ideological

9. Kamran Yousuf, "Pakistan gets 'Fresh Commitment' from Afghan Taliban on TTP", *The Express Tribune*, February 20, 2023, at <https://tribune.com.pk/story/2402681/pakistan-gets-fresh-commitment-from-afghan-taliban-on-ttp>. Accessed on February 22, 2023.

extension of the Afghan Taliban and it did extend support to the Taliban during the US war on terror. The Afghan Taliban now feel obliged to return this favour by providing assistance to the TTP. The Taliban have denied presence of TTP in their territory and have also warned Pakistan against any attacks on Afghan soil. Given strong links between the Taliban and the TTP, the efficacy of this option is debatable, but given the volatile situation in Pakistan this option seems to be the choice for the regime.

3. Counter-insurgency military operations targeting the TTP is the third option. The military has previously conducted counter-terror operations—Zar-e-Azb in 2014 and then Radd-ul-Fasaad in 2017. The operations impacted the TTP numbers and its ability to conduct terror attacks, but the group sustained itself and eventually flourished with Taliban support. Despite TTP's rising number of attacks, the military operation seems to be restrained due to four factors: (1) Counter-insurgency operations in the past led to significant displacement in the tribal areas; (2) Given the alarming economic crisis (and the misery caused due to the floods), any military operation will add massive financial stress on the country; (3) Military operations against the TTP have an immense potential of a blowback from the Afghan Taliban; and (4) Speculations regarding a conspiracy theory and it might be intentional on the part of the military to not control the group's activities and leverage the security situation for attracting US counter-terror aid and assistance.

The TTP challenge is likely to intensify given the developments in Afghanistan. The Taliban, after coming to power post US exit, have remained reluctant to alter their position on women's education and rights, apart from multiple other issues which they committed and have refused to adhere to. Even though the Taliban are desperately trying for diplomatic and political recognition internationally and external assistance is vital for the sustenance of Afghanistan, they have not shown any willingness to change their position on human rights and having an inclusive government. Reports suggest that the Taliban (in Afghanistan) have apparently announced their plan to build hundreds of radical schools all across the nation which will nurture and

cultivate the third and fourth generations of radicals.¹⁰ Hashim Wahdatyar, an Afghan Scholar, states:

“The group [Taliban] is turning educational institutions into religious schools and curricula into a fastidious form of religion. Strategically, this would help them fortify the bases of their regime.”¹¹

The Taliban Ministry of Education announced that the Taliban is focusing on large numbers of institutions:

“... there are around 6,000 religious schools in the country [Afghanistan], and added that the group plans to build 34 large religious schools in each of the provinces to serve up to 34,000 students at a time.”¹²

Expansion of the Taliban ideology will strengthen the ideological and tactical base for the TTP, and containing the group will be a serious challenge for Pakistani leadership.

GLOBAL RESPONSE TO PAKISTAN'S ECONOMIC CRISIS

This is indeed one of the most challenging times for Pakistan when it is compelled to deal with multiple crises at the same time. The economic, political, and security challenges invariably share a linkage, and one intensifies the other. This is not the first time that Pakistan is facing an economic crisis. The nation has been in an intensifying debt spiral on account of financial mismanagement, structural economic flaws, and more importantly, the national priorities it defined for itself and the path it chose to fulfil these priorities. There are a number of factors responsible for Pakistan's economic crisis including: the military's dominance and high stakes in the economy, its obsession to neutralise India's military capability, maintain narrative on

10. Hashim Wahdatyar, “How Long will the Taliban Government Last”, *Politics Today*, February 21, 2023, at <https://politicstoday.org/how-long-will-the-taliban-government-last/>. Accessed on February 28, 2023.

11. *Ibid.*

12. *Ibid.*

Kashmir, excessive reliance on China, constant diversion of national resources towards non-development expenditure and continued fiscal mismanagement.

With all the existing problems, the reality is also that Pakistan has a large military well equipped with modern weaponry, which it received from the West and continues to import from its all-weather ally China. Pakistan also has a rapidly growing nuclear arsenal with reportedly 165 warheads and is immensely proud of achieving *full spectrum deterrence*. In the last two decades, Pakistan's focus on weapon modernisation has projected distinct trends. On the conventional front, focus has been on the build-up of the air force and maritime strike capabilities of the navy, and on the nuclear front, it has focused on expanding the arsenal and diversifying the delivery systems. Weapon modernisation has remained unaffected with Pakistan's economic crisis.

The nuclear weapons for Pakistan are aimed at war prevention and denying India space for a conventional war. It has conducted a proxy war through terrorism in India (in Kashmir and other parts of India) for more than three decades, under the nuclear overhang. Pakistan's geographical location facilitated strategic dividends for the state from major powers, including the United States and China. The nuclear weapons that it developed during the 1980s while fighting the Russians as a front-line state of the US, and the terrorism infrastructure it has nurtured for decades to 'bleed India' and 'seek strategic depth' in neighbouring Afghanistan have made Pakistan a state that is arguably "too dangerous to fail". In the past, Pakistan's debt burdens have been occasionally eased by its friends and allies who believed stability in Pakistan was in their strategic interest. However, this phase of the economic crisis in Pakistan is experiencing a different positioning from Pakistan's traditional donors, where the commitments have been limited. The IMF has been tough with the conditions and scrutiny. The IMF wants Pakistan to enhance its revenue base, increase taxes, reduce subsidies and have a market-determined exchange rate. Given Pakistan's history the IMF has been concerned that the loan from the international lender should not be used to repay the Chinese loan by Pakistan. Hence, the IMF has insisted Pakistan receiving assurances from Pakistan-friendly

countries that they would bridge the gap of external finances.¹³ The IMF tranche of US\$ 1.1 billion is not enough to save Pakistan from a default but it is certainly likely to give it a breather and potentially open other channels of economic assistance such as the World Bank and the Asian Development Bank. However, there seems to be no short-term remedy for the economy and the sufferings for a common man are here to stay.¹⁴

Pakistan owes a significant share of its foreign debt (approximately 30 per cent) to China (including state-owned commercial banks). There have been on and off reports regarding commitments of a roll-over from China but nothing concrete was confirmed (till mid-March) which could change the debt dynamics of Pakistan. Although an assurance of US\$ 8.8 billion bailout came from China (as claimed by Pakistan's finance minister) in November last year, it was increasingly clear to Pakistan that it has to meet the IMF conditions to secure additional loans.¹⁵ According to the media reports, recently Pakistan has got some space and received a rollover of \$2 billion in deposits from China.¹⁶

Saudi Arabia reportedly committed a financial package of US\$ 4.2 billion in November last year.¹⁷ In January 2023, it was reported that the Saudi Fund for Development will conduct a study on enhancing deposit in Pakistan's Central Bank and also evaluate the plan to increase investments (US\$ 10 billion) in Pakistan.¹⁸ There has been so

13. Kamran Yousuf, "Islamabad gets 'Positive Signals' for Help from Riyadh, Beijing", *The Express Tribune*, February 20, 2023, at <https://tribune.com.pk/story/2402210/islamabad-gets-positive-signals-for-help-from-riyadh-beijing>. Accessed on February 23, 2023.

14. Shahid Iqbal, "No Quick End to Crisis in Sight", *Dawn*, February 22, 2023, at <https://www.dawn.com/news/1738467>. Accessed on February 24, 2023.

15. Ibid.; Shahbaz Rana, "Pakistan Seeks Emergency \$3 b Saudi Cash Injection", *The Express Tribune*, December 8, 2022, at <https://tribune.com.pk/story/2390048/pakistan-seeks-emergency-3b-saudi-cash-injection>. Accessed on March 27, 2023.

16. "Pakistan Receives US\$ 2 billion Rollover Deposits from China to get IMF Bailout: Report", *The Indian Express*, March 24, 2023, at <https://indianexpress.com/article/pakistan/pakistan-usd-2-billion-rollover-deposits-china-imf-bailout-report-8516989/>. Accessed on March 25, 2023.

17. Shahbaz Rana, n. 15.

18. Bloomberg, "Saudi Arabia Eyes Boosting Investments in Pakistan to Over \$10 billion", *Al Arabiya*, January 10, 2023, at <https://english.alarabiya.net/News/saudi-arabia/2023/01/10/Saudi-Arabia-eyes-boosting-investment-in-Pakistan-to-over-10-billion>. Accessed on February 23, 2023.

far limited confirmations on Pakistan receiving the actual assistance. Fulfilling the IMF requirements has been a prerequisite for Islamabad to secure loans/assistance from its traditional friends. In January this year, the UAE agreed to roll over the existing loan of US\$ 2 billion and grant an additional loan of US\$ 1 billion.¹⁹

Over the years, Pakistan's so-called 'friends' have witnessed the nation's incapability to overcome financial distress even with constant external assistance. Pakistan got into a cycle of living on debts and the donors failed to see any serious efforts from the country to rectify the structural issues leading to a perpetual fiscal deficit.

Pakistan's relevance at the global level also seems to have declined. Washington has reduced interest in Pakistan after its exit from Afghanistan. Also, more importantly, the US has been focused more on the Indo-Pacific strategy aimed at countering China. The fallouts of the Russia-Ukraine war have engaged the attention of the Muslim world. India's economic growth and expanding diplomatic profile have attracted suitable attention and curiosity at the global level. Now, what remains to be seen is what Pakistan will do to regain its relevance. Will it revert to its old tactics of mis-adventurism, or will the realisation of rethinking its national priorities finally sink in?

19. Sanaullah Khan, "UAE Agrees to Rollover \$2 bn Loan, give Additional \$1 bn", *Dawn*, January 12, 2023, at <https://www.dawn.com/news/1731269>. Accessed on February 20, 2023.