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PAKISTAN: THE STATUS QUO PREVAILS, OR TIME FOR SOMETHING COMPLETELY DIFFERENT? *Part One: The Economy & Governance*

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With Pakistan facing an election in 2013, its role as a key component in the Afghanistan equation and as a would-be nuclear state, whoever rules the country will need to address a number of critical questions that focus primarily on internal issues, but whose repercussions go well beyond domestic boundaries alone. There are 5 major concerns which include: first, the economy –seen by a number of informed observers as *the* most critical variable facing the country– which has seen a marked deterioration since 2007; second, a deficit of governance, based on patronage rather than citizenship, which links strongly with the economy, with good governance including improved, more efficient use of resources, better education, and organisation. The other three major concerns are: an increased radicalism of mindset, that forces individuals and groups into supra-state activities; extremism and militancy; and the civil-military divide, which alienates the intelligentsia from both the state and the militarism.

Part One of this Note will examine the first two challenges – the over-arching issue of the economy; and the related theme of governance. Part Two (forthcoming) will examine the remaining three critical issues identified: radicalism, militancy and the civil-military divide.

Whatever the outcomes of Pakistan's upcoming elections in 2013, the country and its rulers face a number of critical challenges. These include a stagnant economy in deterioration since 2007, with a population growing at 1.6% (and currently approximately 180 million), poor economic indicators, and a growing disparity between rich and poor; and good (or at least improved) governance.

The question of how to maximise the opportunities inherent in the potential opening up of trade with India, beyond the short term alone, and how to prevent the hawks on both sides of the border from weakening trade agreements to prevent them reaching their full potential, presents both an opportunity and a challenge. Whilst initial indications are positive, will the current government or its successor be up to steering this delicate path?

Addressing the issues of poor management of energy supply, and inefficient public sector enterprises could yield economic dividends. However, unless they are supported by improved governance, the benefits will be limited or absent.

Overall, governance issues can be characterised as the repeated failure to regard the people of Pakistan as citizens, rather than as clients of a patron state. Furthermore, recent promising constitutional and legislative amendments have yet to be translated into implementation on the ground that is meaningful to the common man or woman.

The twin challenges of provincialism and nationalism, particularly in Balochistan and FATA, and the implications for the federation of the creation of a new province of Bahawalpur in the Punjab will need to be faced without resorting to military "solutions", as will the geopolitical realities of the nuclear issue.

The Economy: As Bad as It Looks

A cross-section of observers interviewed in Pakistan during April 2012 concur that the prospect of an economic and social melt-down is unfortunately finally all too real. As one of them put it: "*militancy, terrorism and the blow-back on Pakistan of the conflict in Afghanistan are a mere footnote in comparison the upcoming economic collapse that Pakistan is likely to face*".

Pakistan's economy is at a crisis point. The options are running out, the public sector is bankrupt, the deepening fiscal crisis is resulting in increased borrowing to fill the gap, and whilst printing money will ("merely") drive up inflation, the currency de-

cline against the dollar cannot be addressed without substantive policy changes.

Prices are rising, including for basic food and power (whereby people pay for consumption that does not take into account the daily power outages). However, there appears to be little will to redress public sector losses, and a tipping point – or what one interlocutor called “*the eruption of the volcano*” could finally be about to arrive. Yet, Pakistan has lurched semi-successfully from crisis to crisis over the past six decades, so what is it about this round, that might be different?

The “Urgent” Trumps the “Important”

Economic indicators are bad, but there is little political impetus to address or plan for the economy, because in Pakistan political parties run on slogans, not on policy-based platforms. Short-termism (“*we are only here for four years so we don’t have to bother*”) continues to define the strategic approach of the main political parties. It is also more appealing to deal with top-ticket issues like militancy, which sits better with the focus of short-term interests, than the long-stand-

Both structural issues and lack of growth of the formal economy, which has not been seriously addressed under the Zardari government, taken in conjunction with the scale of population growth (though the growth rate has dropped to 1.57%, the sheer size of the population - currently 180 million, likely to rise to 300 million in the next 50 years – has huge implications for the ability of the economy even simply to meet its current needs, let alone those of the future.

ing issue of poor economic performance. Thus, the urgent trumps the important.

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Energy

Energy supplies are in crisis, due to issues around distribution, debt and poor management, with power cuts continuing for 8h a day even in the capital city of Islamabad. This is however

not solely a supply issue: there are issues around sustainability and waste of resources, including the use of diesel-based rental power plants rather than effort being spent on providing a permanent solution to the debt issue and enabling the independent power plants to go to optimum capacity. Reportedly, some 25MW of power is available. If the government were serious about using it more efficiently, it will need to reduce losses and address the Water & Power Authority (WAPDA) corruption. One outcome which fuels the potential for social unrest is that currently, citizens face daily severe power cuts, but receive no reduction in bills for (enforced) lowered consumption.

The Public Sector

Public enterprises (such as the national airline PIA, Pakistan Steel, the energy entity WAPDA) are virtually collapsing, and the tragic air crash of the (private) Bhoja Airlines plane killing all on board, on April 20 2012, are symptomatic of the decline in regulation, standards and maintenance across the board. Combined public sector losses (which theoretically at least are within the control of government to address) are estimated at some US\$ 4 billion a year. By way of comparison, the USA’s Kerry-Lugar bill allocation of US\$ 1.5 billion a year (US\$ 7.5 billion over five years) in assistance to Pakistan, pales into virtual insignificance. This situation constitutes a moral hazard, because relying on foreign assistance to bale Pakistan out of its fiscal woes results in a lack of incentives for fiscal and governance reform. Parties get elected anyway – despite, not because of – policies. Without fundamental, deep-rooted structural reforms, Pakistan will be unable to revive its economy.

Growth & Opportunity

The productive economy has been stagnant for the past three to four years, and Pakistan currently has the slowest growth rate (2.4% in 2011) in South Asia (6%, projected to grow to 7.9% by 2013, according to the World Bank). What are the reasons for this? Clearly, energy shortages have a devastating impact on the textile industry but as importantly, the government lacks a coherent, strategic policy to address the economic challenge. The long-term political and social consequences of this are likely to be severe. There is huge frustration with the economic policies of the government and people do not know what the country’s economic future will be. Here, the recent approaches to normalise relations with India through trade (including granting Most Favoured Nation (MFN) status to India) and some see a regional solution to national economic problems as presenting a critical window of opportunity for Pakistan, particularly if it were able to align with India and take advantage of the latter’s economic miracle, piggybacking its economic growth pat-

tern. However, economic opportunities with India will have a political price (for instance, over the Kashmir, Siachen and Sir Creek stumbling blocks). Even the MFN status and the opening of the Pakistan economy to India smacks more of short-termism than an actual strategy, exhibiting a “*what’s in it for us*” stance, rather than as part of a deliberate strategy to fix the Pakistani economy. Furthermore, India’s strategic ambivalence towards Pakistan (and vice versa) could subvert both the trade and the peace processes: there is a vocal peace constituency in both countries, but it is small in comparison to the establishment hawks.

However, there are indications that both the civilian government and the military appear to understand that the possibility of improved trade relations with India offer the potential solution to Pakistan’s economic problems, should the markets of India be opened up, in follow-on to the MFN agreement with India. There could be a political dividend too, should the vocal and sizeable business communities on each side of the border begin to invest in each others’ country, which would mean a strong lobby to normalise relations with India, a bug-bear for Pakistan for decades. Certainly, the growing maturity and sophistication of the Track 2 dialogue appears to be beginning to pay off, and the appetite for change appears to be present. However, it remains to be seen whether the “establishment” on both sides will allow any such agreements to go through as they stand, or whether vested interests against normalisation will whittle them down and weaken the agreements to such an extent that they become meaningless in strategic terms.

Lurching from Crisis to Crisis - The Disparity Between Rich & Poor

The devastating monsoon floods experienced in Pakistan in 2010 brought devastation, the displacement of large numbers of people, and a huge social and economic cost. In 2012, the heavy rains witnessed in the spring are already raising talk of more floods, and this is before the monsoon even starts. Crisis management of natural disasters, rather than a planned strategy, is likely to continue to be the name of the game for the immediate term.

Unfortunately, this is not a new situation, but has been building up for some years. The question remains however of just how long can crisis management be sustained? The impact of the poor management of the economy, and the failure of basic public services similarly due to bad management will all ultimately find political expression in some form or other. If not, the country could implode, resulting in either anarchy and/or social breakdown.

The economy is insufficiently focused on either internally or externally. Internally, there is an outcry about price rises, particularly fuel, and also about the energy crisis and power outages. However, as a nation, Pakistan fails to recognise the

implications of the disparity between rich and poor, which is growing proportionally to an alarming level. The one encouraging sign in this regard is that for the first time in the author’s personal experience of the country which spans several decades, members of the elite class are actually speaking out with considerable concern about this particular issue.

Under the Zia and Musharraf governments the creation of cartels, the growth of big business at the expense of equality and a distribution of the benefits from growth resulted in a widening of the gap between the haves and have-nots, which has been allowed to drift under the present government. The outcomes of this disparity – and indeed, some would say, the disparity itself – are being fuelled by the intolerance of Pakistani society as well, a nexus that is extremely disturbing. “*We are sitting on a volcano*”, as a politician from the ruling Pakistan Peoples Party (PPP) put it. In his view, the de-emphasis on labour rights – a traditional PPP platform – has led to labour unrest in urban areas potentially being the “soft underbelly” that could be a focus of destabilisation. At the grassroots level in rural areas, the same observer saw this parallel constituency as having

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been to an extent placated by an increase in the support price of agricultural commodities. However, in urban areas, the growing youth bulge, whose members lack jobs, incomes, opportunities and whose access to opportunity is hamstrung by the “*sefarish*” (influence) culture, is leading to great frustration. Widespread access to the media across all social strata has resulted in a growing awareness on the part of the “have-nots”, and hence to a frustration at the denial of people’s fundamental rights, which – up till now – has not found its expression in violent means.

Governance: in need of tough decisions

The failure to regard the people of Pakistan as citizens, rather than clients, is directly linked to both the ongoing fiscal crisis, in which assets are stripped for distribution to the supporters of patrons, as well as to the situations in both Balochistan province and FATA, both of which have historically been excluded from the benefits of the Federation. Improved use of existing resources such as remittances (which amount to some US\$ 11 billion/year) is part of good governance, which in turn is required in order to achieve economic growth.

Successive governments, including the present one, simply do not address these issues, because politics are patronage-driven. The current focus of the present government is on the upcoming elections and on delivering its vote banks. The tough decisions required to start moving towards address-

ing Pakistan's internal problems are therefore unlikely to be taken – in the immediate term at least. Will it then be a case of “*too little too late*”, or will whatever government takes over in 2012 or 2013 have the appetite to seriously address the key challenges facing the country? What are the options facing voters?

The “new” Pakistan – represented by youth, religious groups and civil society is not represented in politics and is seeking ways of expressing themselves (part of the explanation for the Imran Khan phenomenon, whose Tehrik Insaaf party is running on more a “what we are not” platform, than “what we are”). Khan is the only person trying to capture the concerns of the “new Pakistan”. There is a deep tension between the older political establishment and the expectations of the new Pakistan. The 2013 elections will be a test of patronage/*biraderi* (clan and kinship)/ethnic politics of the PPP, PML (N) and MQM (entrenched in urban politics in Sindh and challenged by the ANP and JI to an extent), pitted against the new forces being mobilised, which could potentially change the political face of Pakistan.

Whatever the truth of the extent of the activities of the “hidden hands” in Balochistan, Pakistan’s establishment genuinely seems to believe that India is stirring up trouble there and supporting the insurgents. However, this has been categorically denied by the family of the late Nawab Akbar Bugti (killed during the Musharraf government in August 2005).

Over the past few years there has been a shift away from centralised party control to an increased emphasis on regionalisation of Pakistani politics. Can the traditional parties practice inclusive politics? This is a critical question. The absence of service delivery by PPP and PML (N) governments and growing youth demands to enter the economic mainstream will be critical. However the two main parties lack a policy platform that addresses these issues and have failed to address the concerns of the common man (or woman). Imran Khan is trying to capture the disaffected. Despite the all-too-evident failings of the state and its governance system, whose writ is absent in parts of the country including Balochistan and FATA, there is none the less what has been termed by the optimistic “*a relentless quest for democracy in Pakistan*”, which may turn out to be its saving grace.

Implications of Recent Constitutional Amendments

The PPP government is proud of the constitutional amendments (CAs) it has seen through into law. Recent years have seen three major CAs: (i) the 18th, on bringing back powers usurped under the military dictatorship (with particular relevance for Balochistan province due to its prior disadvantaged position within the Federation); (ii) the 19th, which focuses on transparency in the appointment of judges to

the judiciary; and (iii) the 20th, which addresses the smooth transfer of power from one elected civilian government to another. This legislation is seen by some PPP stakeholders as embodying “*a new culture of political tolerance*”, with Pakistan’s democratic process and institutions “*coming of age*”. However, implementation has yet to fully take place, so the benefits of these reforms have yet to be seen or felt. Equally, the importance of these constitutional changes is understood only by a minority of the political elite, and does not translate down to the masses.

Domestic Challenges: Provincialism & Nationalism

(a) Balochistan

Balochistan’s nationalist insurgency is a long-standing problem. Whatever the truth of the extent of the activities of the “hidden hands” in Balochistan, Pakistan’s establishment genuinely seems to believe that India is stirring up trouble there and supporting the insurgents. However, this has been categorically denied by the family of the late Nawab Akbar Bugti (killed during the Musharraf government in August

2005). Other “hidden hands” perceived by the military as being involved in the province include the US, Iran and the UK. The province has also seen an alarming rise in the incidence of sectarian violence in the province, with a particular targeting of the Hazara sect (a hardworking, educated group of people with visually distinctive, easily-recognisable physical features). Motives are attributed in part at least to ethnic

and economic jealousy and resentment that tragically often expresses itself in sectarian violence, but which has both religious and ethnic, and also economic underlying motives.

(b) FATA

Apart from the nationalist insurgency in Balochistan, the Federally-Administered Tribal Areas (FATA) are a flash point which the PPP government has tentatively begun to address also through legislative reform, specifically of the Frontier Crimes Legislation and Regulations (a legacy of the 19th century colonial period, which permitted draconian tribal control measures including collective punishment) and the extension of the Political Parties Act (August 2011) to FATA. This is a first step towards normalisation, but it remains unclear whether ultimately FATA will be converted into its own province, or will join Khyber-Pakhtunkhwa province.

Three key issues in FATA are: (i) governance, including access to justice; (ii) development; and (iii) security. Though the people of FATA have had the vote since the 1997 elections (under the Adult Franchise Ordinance of 1996), the recent extension of the Political Parties Act means that the inhabitants of FATA can now vote under the party system, and indeed can contest elections themselves: (previously, they could only

stand as independents). Lack of access to easily-accessed, affordable, swift justice was a “selling point” for the Taliban in FATA, who provided fast solutions to local-level problems, in contrast to the responses from state institutions. Socio-economic development indicators in FATA are extremely poor relative to the rest of the country, and it has not been on the receiving end of development assistance in significant terms. Security too is of real concern, in a context where militants have assassinated many tribal leaders and where untrained, poorly paid *khassadar* law enforcement forces (who are also few in number) are recruited, paid – but critically not pensioned (including in case of loss of life) - by the government, have had little incentive to stand up to the Taliban.

(c) New Provinces?

The predominance of the Punjab in Pakistan’s military and other elites is legendary. Not surprisingly, periodically the question of breaking it up into smaller entities periodically surfaces in public discourse. This, taken in conjunction with the prevailing trend towards regionalisation of politics in Pakistan, is perhaps behind President Zardari’s April 2012 public statements about creating a new Seraiki-speaking province (parts of which would be taken from the existing Punjab province) - though not all those potentially included in it are in favour: the senior member of the former royal house of Bahawalpur reportedly said in April that he would rather Bahawalpur joined Balochistan – with all the problems that province faces - rather than a new Seraiki province, though his preference would be to regain the former status of the house Bahawalpur. In the event, at least part of his hopes may become a reality: on May 9 2102, the provincial parliament in the Pakistani province of Punjab on Wednesday unanimously approved a resolution to reinstate Bahawalpur Province and to create a new Province in Southeren Punjab.

(d) The Nuclear Issue

For the rest of the world, Pakistan’s nuclear capacity is a source of supreme concern. However, as is the case in Iran, within Pakistan, the nuclear issue is a driver of national pride and identity, to an extent which is not well understood by the West, in the case of either country. In the view of some Pakistani observers, the existence of nuclear weapons makes another round of future ground war with India less likely. In this regard, the tragic avalanche that killed some 124 people on Siachen in April 2012 has had one positive outcome, in that for the first time, the military are talking about withdrawing from the glacier, and implicitly, a downsizing of its presence face to face with India.

Conclusion

If the goal is a stable, secure Pakistan, then unless the economy is seriously addressed, the outcome will not be a positive one. However, good governance is a clear pre-requisite for achieving economic growth. Let us hope that dividing the dual challenges of provincialism and nationalism, including the division of the Federation into additional provinces; and starting to find non-military solutions to the situation in both Balochistan and FATA, will lead to positive outcomes.