

# Pakistan's Crumbling Economy: RSTV – India's World

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## Larger Background:

- This episode of India's World aims to analyse Pakistan's crumbling economy.
- Pakistan's currency hit an all-time record low against the dollar, less than a week after the government reached an agreement with the International Monetary Fund for a \$6 billion bailout.
- As a matter of fact, the Pakistani rupee slid as much as 3.4 percent on May 16th, 2019, before partially recovering to 145 rupees against the dollar and then further slid to 150 rupees per dollar.
- The currency has plunged more than 20 percent over the last year, as the country faced slowing economic growth, declining foreign-exchange reserves, and increasing budget and trade deficits.
- The central bank devalued the rupee and raised interest rates in 2018 as it sought to contain the financial blowout from the country's economic challenges.
- The long-delayed IMF package, intended to shore up Pakistan's public finances and strengthen its economy, would be Pakistan's 13th bailout since the late 1980s.

## Putting into perspective the state of Pakistan's economy:

- Pakistan's economy is in very deep trouble. However, this is not a transient phenomenon. The recent difficulties are symptomatic of a deep malaise in the economy of Pakistan. The malaise is structural in nature. It is also not purely economic. The political economy in Pakistan needs a basic restructuring.
- This would also mean a restructuring of the Pakistan state. This would be the 13th bailout after 1989- which is essentially 13 times in 30 years. It is important to note that IMF bailouts are temporary in nature to give the economy a certain push to enable it to correct itself. Unfortunately, this is not happening in Pakistan. This is because, the Pakistani's, regrettably, on account of their enduring animosity and hostility towards India, are just not willing to take sane decisions, required to bring Pakistan to a correct course. This unfortunately is the situation.

## What are the kind of reforms which Pakistan needs to undertake?

There are quite a few steps which the economy of Pakistan would need to take. Currently, we observe the following with respect to Pakistan's economy:

1. Pakistan's growth is dwindling. The growth rate of Pakistan is coming down every year. For example, it was 5.5 percent last year (2018), and it is now 4%.

2. Pakistan's indebtedness is rising.
3. Pakistan's external debt is also rising. This has become almost 29-30% of its GDP.
4. Pakistan's inflation is also spiking.
5. Pakistan's Forex reserves is as low as 8 Billion dollars.

- Thus, when we look at all that has happened, we come to the conclusion that Pakistan's economy is

not just a question of its Balance of Payments problem. But, it is also a problem of internal fiscal discipline.

- Thus, what Pakistan has done by going to the IMF is to address its Balance of Payments (BOP) problem. The IMF would expect that Pakistan would not only look at its external balances problem and come up with solutions. But also to look at the fiscal indiscipline issues as well.

One thus realize that the steps which are on the table right now are very, very tough.

1. There are talks which point in the direction of the interest rates moving up again.
  2. Tariffs on power and gas would have to be raised (but would have to be raised in a manner that at least 40% of the Pakistani people or entities don't get affected).
  3. Pakistan has to reduce its non-developmental expenditure.
- Now like India experienced for itself in 1991, i.e. when IMF gives a bailout, and when a country accepts it and accepts the conditionalities which the IMF imposes, then there is a natural political pushback.
  - This is because the IMF necessitates the implementation of tough measures. Also, when we raise interest rates, then the domestic industries react negatively.
  - Eventually, Pakistan may get the money that it needs. It might even boost its Forex reserves for some time. However, **it doesn't have the political courage and the political stability to carry on with the tough conditionalities.**
  - Unfortunately, this problem is not going to go away in a hurry.
  - Unless the Pakistani government takes measures to improve the Pakistani business environment, and improve transparency, a grim future awaits.

### **Why should anything be different with Pakistan this time around?**

Before the 1965 war, Pakistan was an example as to how a state in this region can be looking after itself. Pakistan was getting virtually everything from the United States of America and had a good economy.

- It is important to note that for any economy to succeed, there must be a climate wherein we witness political stability. There should also be a climate wherein FDI's can come in.
- Currently, hardly any foreign companies want to invest in Pakistan. Next, the institutions in Pakistan need to be protected.
- Moreover, although Pakistan has the right to form its own views on its strategy, policies, strategic depth, etc, but we see 9 Corps in the Pakistani Army for a country like India, which accounts for a strength of 550,000 people in the armed forces. Now, if 550,000 people have to be given their pay, pensions, etc, discounting the fact that weapons and ammunition also need to be brought in, the picture of Pakistan's economy being in a state of disarray raises alarm bells for people within Pakistan.
- Further, the Pakistan ISI spends a lot of money in things such as psychological warfare. Unless controls are brought in, by auditors, and the institutions, the situation does look grim.

### **Why is it that organizations such as the IMF, etc. continue to dole out cash to Pakistan?**

- Pakistan is a big state. It is dwarfed by India, and China. But, when you look at it objectively, it is a country with a population of about 207-210 million people. This is a fairly large population. It has huge resources. It is a state with nuclear weapons.
- No one wants a state of nuclear weapons to go down the way that Somalia or Venezuela has gone. One expects a certain amount of minimum stability with these states. It is for this reason that no major power, including the United States of America, will allow Pakistan to go down under. Thus, for the last 2-3 decades, it has been kept on a drip. And that drip will not be taken away. Pakistan also has a very large informal economic sector. This informal economic sector is vibrant.

- So, here you have a classic contradiction- that the informal economic sector keeps the country going.
- Further, it is important to note that the money over which the Pakistani state has no control, goes into all kinds of directions including terrorism.
- The Pakistani state must put its house in order economically to prevent this from happening. The problem is that the Army's strategic objectives clash with this kind of regulation.
- This is because the Army wants to use these forces and groups which are sustained through these informal flows for its objectives against India and in the neighbourhood (in Afghanistan) and elsewhere.
- It is hard to imagine a radical change happening.
- The elite in Pakistan is not willing to do much in this direction.
- **The Pakistan Army as well (even though Bajwa makes occasional noises for the modernization of Pakistan), would find it hard to drink the poisoned cup that will require it to examine its foundational principles.**
- Thus, these periodic economic crises will come and will stabilize at a lower level.
- Pakistan indeed poses a major challenge to the world community.
- It is also strategically and geographically placed in an area where it can be a centerpoint of the international economic diplomacy that is currently going on.
- If the IMF is giving Pakistan money, it is also to try to send out a message saying that it has not yet abandoned the state of Pakistan to the Chinese scheme of things.
- Pakistan has played this card very well. Also, where India has not made the necessary headway is in making sure that Pakistan's listing under the FATF from a grey list to a black list takes place. This was expected after Masood Azhar's naming as a UN designated terrorist- but this did not happen.
- **If India had achieved the listing of Pakistan onto the FATF black list, then this loan of the IMF, would have been in a sense, not forthcoming as easily as it has happened.**
- There would have certainly been some more conditions which in the long run would have been in the interest of Pakistan and would have probably helped Pakistan recover from its current crisis.
- Currently, one can expect that Pakistan's inflation would rise even more. Pakistan's rupee would devalue further. There are estimates which suggest that it may go as high as 200 Rupees to a dollar.
- This is because **Pakistan's exports for the past 5 years have been declining year on year, while the imports are rising.** Pakistan is in a state of deep trouble with a 300 Billion dollar economy, and 200+ million people and a growth rate of less than 4% and an inflation rate of 9%.
- **Pakistani export is dependent to the extent of 60% on the cotton crop.**
- Thus, the Pakistani economy is a stunted economy. And, in order to become a full-fledged manufacturing economy, Pakistan would need to change course.
- However, as far as the FATF black listing is concerned, one is really not certain as to whether the Americans want to put such enormous pressure on Pakistan at this stage, such that its economy gets even further derailed.
- It is important to note that the Americans always play a very calibrated game- keeping a country under pressure not only for economic reasons, but also for their political purposes, but not so much pressure that there is rioting on the streets.
- From a military perspective, Pakistan comes under the U.S. Central Command, and India comes under the Indo-Pacific Command.
- **The U.S. Central Command is sold on Pakistan and there is a need for it.** This is because, if today, America has to exit Afghanistan, then a stable Pakistan is important.
- Today, we also have many Chinese projects that are coming up in Gilgit Baltistan; there is also a major Chinese presence in Gwadar. The PLA has also taken a lot of steps in the Xinjiang province.

### Concluding Remarks:

- India should be concerned because Pakistan is a neighbouring country. India doesn't have too voluminous a trade level with Pakistan directly. Although there is a lot of indirect trade that still

takes place through either Dubai or through Singapore.

- **However, India should be worried for its strategic safety and stability;** she can't afford to have a neighbouring country to be economically unstable.
- It is in India's interest that the economic stability of Pakistan which is a big challenge, does not lead it to a country where the entire edifice collapses.
- Another question to ask is: If Pakistan is a malignant state- then is the stability of a malignant state in our interest?
- This is the question that we need to ask ourselves.
- Pakistan is a country that defines its very existence in terms of animosity towards India. Thus, we need to take a very hard look at Pakistan.