Pakistan

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Executive Summary

The review period provides a mixed set of signals – some grounds for optimism for a fuller democratic transition and improved governance and some reasons for caution. The grounds for optimism include an orderly transition from a popular Chief of Army Staff (COAS) Raheel Sharif to his successor without an attempt to overtly take over the reins of government. The mere fact that the Pakistan Muslim League (PML-N) government led by Prime Minister Nawaz Sharif continued in office contributed to solidifying the expectation that a civilian government would complete its full term in office without coup or dismissal.

Yet, the PML-N government has continued its tenure amid some tensions. Widespread corruption continues to be a problem. It has attracted much media attention and the threat of another sit-in by the Pakistan Tehreek-e-Insaf (PTI), which was averted when a judicial inquiry into possible tax evasion was initiated. The PTI was unlikely to be able to mobilize the one million promised protesters, signaling a possible decline in the street protest as a mode of political challenge.

In 2015, local body elections were held throughout most of the country. Provincial governments, notably Punjab, have resisted devolving genuine fiscal autonomy to the local level and sought to maintain provincial governmental power through parallel structures.

The IMF completed its review of Pakistan’s Extended Fund Facility, a three-year loan program begun in 2013, and found Pakistan’s performance to be largely satisfactory. The PML-N government made some moves toward privatization of major state-owned enterprises, but these have dragged out or stalled in the wake of political opposition. While there was a decrease in inflation and an increase in tax revenues to 11.5% of GDP, the wider work of expanding the tax net and of securing effective central bank autonomy remains to be done. Key economic policy decisions regarding exemptions and special regulatory orders continue to be taken by the Economic Coordination Committee, and the process is lacking in transparency, accountability and...
bureaucratic filtration. In 2016, likely the result of the slow pace of reforms, Pakistan slipped in its Doing Business ranking to 138 out of 189 economies, and is now down 62 rankings from 2008.

The military continues to play a substantial role in Pakistani politics. The National Action Plan, put in place following a Taliban attack on an army school in Peshawar in December 2014, has been implemented. There has been a dramatic fall in terrorist incidents during the review period, with civilian deaths declining from 1,781 in 2014 to 62 in 2016. Most of the decrease comes from reduced activity by Balochi nationalists and fewer acts of sectarian violence. However, Taliban or Taliban-like incidents have increased slightly. In January 2015, the constitution was amended to allow military courts for a two-year period, with the capacity for speedy trials and death sentences, with no appeals process. The military courts have executed 12 and condemned another 149 persons to death. They have been criticized for creating a parallel system to the civilian courts, as well as allegations of coercion. As of January 2017, the military courts have not been renewed. Some political figures have accused the military of selective political engineering.

Plans for increased cooperation with Afghanistan on cross-border terrorism and through increased trade ties stalled amid mutual suspicion. Pakistan repatriated 370,000 Afghans in 2016, over 220,000 of whom were registered refugees. An estimated one million undocumented Afghans remain in the country. Increased regional isolation was signaled when a South Asian Association for Regional Cooperation (SAARC) meeting scheduled for late 2016 in Pakistan was cancelled. India declined to participate, citing a September 2016 attack in Kashmir and accusing Pakistan of state supported terror, and several other member states followed suit or expressed concern. While there has been some increase in trade with India due to a change in the import list regulations, Pakistan has not granted India most favored nation status. Other tensions have grown over the Indian leadership’s threats to divert Indus waters from Pakistan, the lower riparian, potentially violating the long-lived Indus Waters Treaty.

History and Characteristics of Transformation

Since independence in 1947, Pakistan’s political history has been shaped by the conflict between democratic forces and the military over the nature of political system, the conflict between and among different ethnic groups over the issues of provincial autonomy, and the conflict between religious groups and the secular elite over the role of religion in state and society.

Authoritarian rule maintained by the bureaucracy and the military after the first coup in 1958 could not bridge the gap between eastern and western Pakistan. The first parliamentary elections in December 1970 brought an overwhelming victory to the eastern Pakistan-based Awami League (AL). The military and political leadership of western Pakistan was not interested in transferring power, which led to civil war in eastern Pakistan. The Indian intervention in December 1971 resulted in the defeat of the Pakistani army and the independence of eastern Pakistan, which then became the state of Bangladesh.
A short-term civilian interregnum was ended in 1977 when the army under General Muhammed Zia-ul-Haq again took over the government. Zia-ul-Haq pursued a policy of Islamization of state and society to broaden the legitimacy of his regime. He benefited from Pakistan’s geostrategic importance after the Soviet invasion of Afghanistan in December 1979. As in the 1950s, Pakistan again became a key state for American foreign policy in terms of containing the Soviet Union, and thus a main recipient of Western assistance. The Afghan Mujahedeen were trained by Pakistan’s Inter-Services Intelligence (ISI) to fight the Soviet Union in Afghanistan. In this period, Pakistan was also able to nurture its nuclear program. Zia-ul-Haq promoted a liberal economic policy to open Pakistan to the global economy. After he died in a plane crash in August 1988, Benazir Bhutto, who led the Pakistan People’s Party (PPP) after the death of her father, won the elections in November that same year. In 1997, the military under General Musharraf again staged a coup against an elected civilian government. Musharraf ruled Pakistan till 2008. However, Pakistan’s political and economic problems were only aggravated by the short-term nature and scope of the policies. Pakistan tasted electoral politics in the 2008 and 2013 general elections, and the sequence of an elected civilian government completing a full term in office and peacefully transferring power to another elected government is a step forward in the democratic transition. Yet parties remain dominated by personalities and established dynasties, state policies continue to have an elitist bias, and civil-military relations still favor the military. Since 2003, 61,000 people have been killed in terrorist attacks associated with Taliban, separatists and sectarian militants. During the review period, the National Action Plan has been successful at reducing the number of terrorist attacks in the country, but the parallel system of military courts, which expired in 2016, has been criticized on human rights grounds. Devolution promised in the 1973 constitution is moving forward with increased provincial authority. Local government elections were held in 2015, but the level of local capacity and autonomy remains an open question.
The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

Pakistan’s state monopoly on the use of force is contested by terrorist organizations, armed sectarian outfits, nationalist insurgents, armed drug traffickers and extortionists. Such organizations and outfits normally operate from the Federally Administered Tribal Areas (FATA), which include South and North Waziristan. However, they also have recruitment and training centers in major cities such as Lahore, Karachi, Quetta, and Peshawar.

The National Action Plan was initiated in January 2015. With broad support from federal and provincial governments, and most political parties (two prominent exceptions were the religious parties Jamiat Ulema Islam-Fazal and Jamaat-e-Islami, which abstained from the vote), the National Action Plan aimed to crack down on banned violent organizations. A major element was the establishment of military courts for a two-year period to prosecute terrorism suspects and allow for capital punishment. Other measures included a crackdown on hate speech and financial measures against terrorist funding.

As reported by the Pakistan Institute of Peace Studies, Pakistan has since experienced an impressive decrease in the incidence of terrorist attacks in both 2015 (down 48% from 2014) and 2016 (down 28% from 2015). The overall decrease in terrorist attacks fits into a generally downward trend from 2009. The exception to this was the province of Khyber Pakhtunkhwa, which saw a small increase in the incidence and fatalities. The total number of fatalities also declined, although less sharply, except in Balochistan in 2016, which saw a 63% increase in fatalities along with a 29% decrease in incidents in 2016.

The notion of state identity is contested and vague in Pakistan, particularly around the implications of Islamic orientation for constitutional arrangements and governance. The 1973 constitution declares Pakistan an Islamic republic. It states that laws should be in accordance with the Shariah. Members of the Ahmadi religious
community are still prohibited from defining themselves as Muslim and are therefore effectively disenfranchised. Both the prime minister and the president of Pakistan have to be Muslim.

The conflict over identity has intensified post 9/11, although sectarian violence was increasing before this. Pro-religion political parties and Islamist militant organizations such as Tehrik-i-Taliban Pakistan have resorted to coercive means to compel society and the state to follow their rigid interpretation of Islam in letter and spirit. In addition, the nationalist forces in Balochistan and Sindh (Jeay Sindh Mahaz) have launched left-oriented political movements to ensure their cultural and political identity. Pakistan’s state has, ironically, invoked the religious identity of the state to counter secular ethnicities at the local and provincial level. Balochi ethno-nationalism persists, particularly amid suspicions that the China Pakistan Economic Corridor, which passes through Balochistan, will not provide an equitable share of benefits to Balochistan. 2016 saw a decrease in sectarian attacks for the third year in a row. However, the deaths of two major cultural figures associated with Pakistani identity in 2016, famed singer Amjad Sabri and Junaid Jamshed (a pop star turned evangelist), were notable for the public expressions of shock and grief. While somewhat intangible, common cultural heroes suggest shared national affinities and references, and may indicate a trend of strengthening Pakistani national identity. It remains unclear how broadly shared such sentiments are across various communities in the country because of the difficulties in conducting representative surveys in Balochistan. Conducted surveys indicate a much higher affiliation with being “Pakistani” among the inhabitants of Punjab and Khyber Pakhtunkhwa than among the inhabitants of the rural areas of Sindh or Balochistan.

The 1973 constitution declares Pakistan to be an Islamic republic. It states that the laws in Pakistan should be in accordance with the Shariah. However, the Shariah has little influence on law making in Pakistan. Most of the laws follow the British model and the conventional practices in the subcontinent. The areas where the Shariah has heavily influenced the judicial practices in Pakistan include blasphemy laws and the Hudood Ordinances. During the period under review, the government failed to take measures against the abuse of blasphemy laws. While Muslims have been charged with blasphemy for injuring the sentiments of followers of other religions, the mob violence associated with blasphemy charges tends to arise when the accusations are made against religious minorities such as Ahmadis and Christians. Salman Taseer, a Punjab Governor who spoke out against blasphemy laws, was assassinated in 2011 by his bodyguard Mumtaz Qadri; Qadri was executed early in 2016 and his funeral was attended by roughly 30,000 people. The massive crowd was a sign of how Qadri had been lionized. Taseer’s son has reported that he faced death threats after criticizing the blasphemy laws in December 2016. Although no one has been executed under the blasphemy law, the accusation has led to notorious lynchings and riots. The government’s record of protecting religious minorities and religious freedom is very poor. It has failed to reform the legal system to ward off abuses of...
blasphemy laws. In November 2016, an anti-terrorism court sentenced five men to death for their role in the lynching of a Christian couple accused of blasphemy; the impact of this on deterring future acts of violence against minorities is not yet clear, particularly as it bypassed the civilian court system.

The District Coordination Officer (DCO) is the official head of the district government. According to the Local Government Ordinance 2001, the function of the officer was to coordinate the activities of all government officials at the district level. However, the provincial governments have amended the Local Government Ordinance 2001, returning powers to the bureaucracy. The 18th constitutional amendment retained article 140-A relating to the devolution of power to local governments and expanded it to provide that local government elections should be held by the Election Commission of Pakistan. The provincial governments of Punjab, Sindh and Balochistan have used different tactics to delay local government elections and to resist granting effective autonomy to local bodies after elections. According to the Human Rights Commission of Pakistan in 2015, the devolution promised in the 18th amendment has not been realized in terms of effective powers at the local level.

The bureaucracy heads the district government. However, its record in service delivery is very poor. The village Panchayat system continues to function as a parallel justice system in some areas of South Punjab, Sindh and Balochistan. It continues to deliver informal justice, in some cases very harshly. The government has made little effort to reform the district administration or to provide it with sufficient funds to upgrade health, education and other basic facilities.

In 2015, 64% of Pakistanis had access to sanitation, according to the World Bank’s Development Indicators; this is up from 62% in 2014, and has followed an upward yearly trend of one to two percentage points each year since 2005. The World Bank also lists 91% of Pakistanis as having access to a water source in 2015, a similar percentage to past years. According to the Social Development Policy Center, public spending on water supply and sanitation was only 0.11% of the GDP during 2000-01, which increased to 0.18% of the GDP in 2007 to 2008, and a further increase to .2% of GDP in the 2014 to 2015 period. The SDPC traces these shifts and differences at the provincial level to the presence of elected local governments, asserting that local governments correlate with greater spending on water and sanitation. These aggregate figures do not, however, reflect the different infrastructure within the different provinces, and the infrastructure is much more developed in central and northern Punjab and urban Sindh than in the province of Balochistan or the rural areas of Sindh or southern Punjab.
2 | Political Participation

Following the 2008 and 2013 multiparty elections, both of which saw a turnover in power, the next elections are scheduled for 2018. In 2015, there were elections for members of the local government at district, tehsil and union council levels.

Political party competition is fierce, and there are important policy differences between some parties. During the 2013 elections, the secular parties (the Awami National Party (ANP), PPP and Muttahida Qaumi Movement (MQM)) were targeted by the Taliban. This did not prevent people turning out to vote, one of the highest turnout rates in Pakistan’s history and an important indicator of the value they see in their vote. Women’s participation was also increased in many, although not all, parts of Pakistan.

While the electoral management bodies are political autonomous, the registration procedures for voters, candidates and parties are not transparent, media access is biased and there are several problems of electoral violence, block voting and violations of the integrity of the election process.

Despite irregularities and some clashes, the scale of the local government election activity was impressive. According to the Free and Fair Elections Network, the Election Commission of Pakistan established a total of 63,860 polling stations for the 2015 local government elections that were held in Islamabad Capital Territory, Punjab, Khyber Pakhtunkhwa and Sindh. Free and Fair Election Network (FAFEN) observers at 22% of the polling stations recorded 139,127 irregularities and illegacies – averaging 10 violations per polling station.

Pakistan is a political system with many potential veto players, including the clergy, landowners, business elites and the military is widely perceived to remain the key arbiter of defense, security and foreign policy in the country, despite the civilian supremacy asserted by the formal constitutional documents. Pakistan Institute of Legislative Development and Transparency (PILDAT)’s report on the state of civil military relations, covering the June 2015 to July 2016 period, states that the civilian government has not institutionalized a consultative process on vital national strategic issues, strengthening “the perception that elected governments are neither serious nor methodical in making well-considered decisions on vital national security issues.” Meanwhile, the military leadership continues to feel as though it has final onus over determinations of national interest, and thus “at times, instead of giving their input and then leaving the matter to the elected leadership of the country, insist on their interpretation of the national interest relating to issues such as relations with India, Afghanistan, Iran and the US and the security policy.”

One of the major institutional mechanisms devised to try to coordinate these relations has been the National Security Council, founded in 2013. The National Security
Council is described in its charter as “the principal decision-making body on national security,” which according to PILDAT potentially encroaches on the powers of the federal cabinet, and further has only an executive order backing it rather than legislation.

Even within these conditions, the National Security Council’s (NSC) formal meetings have been relatively few, while ad hoc and less formal contact between the civilian and military leaderships have been more frequent, suggesting that the institutional mechanism has been sidelined or not been fully utilized. While the prime minister met the chief of army staff 29 times between June 2015 and July 2016, only two meetings of the NSC were held. In effect this means deficiency in democratic control over the armed forces.

The 1973 constitution grants association rights to individuals, subject to the restrictions imposed by law in the interest of the integrity of the state and its territories.

Pakistan has a vibrant civil society. It has a vast array of associations and organizations representing the interests of different communities. These include trade unions, student unions, bar associations, peasant organizations, journalist unions and charity organizations. Welfare associations, both formal and informal, are a significant source of social support, often filling a governance vacuum or providing a social safety net. Such third sector entities are prominent in emergency services and health care.

An increasingly heavy-handed attitude toward NGOs, particularly those with international connections (INGOs), can be traced to Pakistani intelligence’s linking Save the Children International to the covert American hunt for Osama bin Laden. Whereas previously INGOs had to register with the Securities and Exchange Commission for financial oversight, the policy announced in October 2015 requires INGOs to register with and obtain permission from the Ministry of Interior to ensure that they are not working against Pakistani interests (defined in an expansive way that further allows the Interior Ministry to revoke permission) and includes provisions for geographic and other limits on INGO activity. The Federal Interior Minister was quoted as saying, “NGOs working against Pakistan’s strategic, security, economic or other interests will have their registration cancelled.”

Human Rights Watch has criticized the crackdown on INGOs in 2015 as a tool for repression of voices critical of the government or military and for undermining humanitarian efforts. They have also criticized the way in which certain groups have been targeted by the intelligence services, particularly nationalists in the province of Balochistan. In addition to the restrictions imposed on criticizing the military, the Tehrik-i-Taliban Pakistan (TTP) has attacked certain groups, notably Shias.
Article 19 of the 1973 constitution grants freedom of speech and expression to every citizen of Pakistan. The blasphemy laws bar Ahmadis from using Islamic terminology and symbols and preaching their faith. Blasphemy laws are used as a pretext to persecute religious minorities, particularly Christians and Ahmadis. According to an Amnesty International Report, the blasphemy laws and their implementation violate Pakistan’s obligation to respect and protect the right to freedom of opinion and expression, as set out in Article 19 of the International Covenant on Civil and Political Rights.

A Social Development Policy Institute survey in 2015 of locations in Punjab and Sindh, found fear of the security services as an impediment to freedom of expression, as well as worry about growing religious intolerance, particularly in Sindh. In 2015, the Committee to Protect Journalists, which ranks countries where journalists are killed and where perpetrators go unpunished, has ranked Pakistan as the 9th deadliest. 35 journalists have been killed since 2010. Reporters without Borders ranked Pakistan 147 out of 180 countries for press freedom in 2016, the lowest rank in South Asia. Cyril Almeida, a respected journalist for Dawn, was verbally attacked by the prime minister’s office and banned from travel in an apparent response to his article on civil-military tensions. The travel ban was lifted in October 2016, although the journalist remains under investigation.

In 2015, Pakistan Electronic Media Regulatory Authority (PEMRA) set up a guiding code of conduct restricting media topics during live coverage, such as security operations, hostage standoffs, terrorist attacks, and hate speech on religious issues. The 2016 cyber-crime bill (Prevention of Electronic Crimes Act, 2016) was passed and potentially has a far-reaching impact on restricting online communications, with critics arguing that its vague wording allows prosecution for moralistic rather than security reasons.

Early in 2015, Sabeen Mahmud, a human rights activist and founder of a civic space cafe in Karachi, hosted a debate on Balochistan with prominent activists and was assassinated in a targeted killing shortly thereafter. This prompted condemnation and shock from numerous well-known intellectuals and cultural personalities.

The abduction of five bloggers early in 2017 raises additional fears of intimidation of those expressing themselves online. In an interesting twist, popular religious television host Aamir Liaqat was accused of hate speech and banned by PEMRA in January 2017 after he suggested that the disappeared liberal bloggers had blasphemed. Four bloggers returned home in late January 2017 amid Human Rights Watch concerns of government involvement and official denials.
3 | Rule of Law

The power struggle between the institutions of state (military, professional civil bureaucracy) compared to the institutions of government (elected representatives, judiciary) has historically shaped democratic development in Pakistan.

According to the constitution, political authority is divided between the legislature, the executive and the judiciary. However, in practice, this division is not strictly upheld in Pakistan. The parliament is generally the weakest state institution. The judiciary has played an important role often in legitimating military rule (as in the judicial validation of Ayub Khan’s military coup), but also in challenging civilian and military leaders (most prominently in the 2007 refusal of Supreme Court Chief Justice Iftikhar Chaudhry’s refusal to resign when pressured to do so by military coup leader Pervez Musharraf, a showdown that energized a lawyers’ protest movement and was eventually followed by Musharraf’s resignation). Prominent issues in the period under review have been the use of military courts under the National Action Plan, accusations of selective military activity for political purposes, and the judicial inquiry into allegations of corruption that emerged with the leaked Panama Papers that show large financial holdings and transfers among members of the prime minister’s family. There is an open question over whether a growing judicial populism and activism, termed “overreach” by some, might weaken civilian government.

The judiciary has been assertive in Pakistan in recent years, with the Chief Justice challenging President Musharraf over the “disappeared” in Balochistan. His refusal to step down when challenged and the lawyers’ movement in his favor eventually precipitated the downfall of Musharraf. Subsequently however, the activism of the judiciary has been criticized for being politicized rather than independent.

In the wake of terrorist attacks in Peshawar, in December 2014, military courts were empowered by parliament through the 21st Amendment to the constitution to try civilians from January 2015 to February 2017. The government argued that civilian courts would be too intimidated to try accused terrorists. The military court activities are secret, speedy and convicts do not have the right of appeal. The Supreme Court dismissed a challenge to the constitutionality of the secret courts in 2015. Terrorism courts have in some cases apparently snared common criminals. The secret military courts law has been allowed to expire in January 2017; the courts convicted 274 persons, sentenced 161 individuals to death, 12 of whom have been executed and 169 have been given jail terms (mostly life sentences), with criticism from rights groups. The International Commission of Jurists called for the military courts not to be renewed, and instead urged judicial reforms in the ordinary criminal justice system for greater effectiveness in terrorism-related cases.
Corruption and office abuse are common phenomena in Pakistan and they mostly go unpunished. While, there have been some success stories regarding the National Accountability Bureau (NAB), there have been allegations of politically selective pursuit of corruption cases. In 2015, the Sindh PPP accused the NAB of targeting it to the exclusion of other groups. In 2016, a stay order was issued against several corruption enquiries that had been pending with NAB and accountability courts against Prime Minister Nawaz Sharif and other members of his family. The prime minister criticized the NAB for what he described as “harassment” of government officers. In response, the Pakistan Institute of Legislative Development and Transparency also expressed concern over the possible rollback of independence and effectiveness from the prime minister’s warning to NAB, saying that Mr. Sharif had threatened the bureau.

Known as “Panamagate,” the Panama Papers leaks raised questions about the offshore holdings of high-level politicians, government figures, their families and associates, and even a member of the judiciary. A judicial inquiry was under way at the end of the review period into offshore holdings of Prime Minister Nawaz Sharif’s family as well as large cash transfers to the prime minister from family members.

While the constitution grants civil rights, in practice these rights are frequently violated. According to the Secretary General of the Human Rights Commission of Pakistan, past inquiry commissions have found evidence of security agency involvement in disappearances and called for accountability. The issue gained renewed attention in January 2017 when five bloggers critical of the security services disappeared – not from Balochistan or conflict-ridden areas in the northwest, where disappearances often do not receive much national or foreign attention – but from elsewhere in the country. These disappearances followed (although were not authorized by) 2016 legislation restricting freedom of expression online.

A rapid rise in executions has some human rights groups concerned. According to the Human Rights Commission of Pakistan, there have been 427 executions since December 2014. Apparently, Pakistan also has the largest number of persons on death row in the world. In some cases, the condemned individual was allegedly a minor when the crime was committed. Further, in 2015, the Rangers and police noted that they had killed 696 suspected terrorists in “encounters,” a term usually understood to mean extra-judicial killings.

Widespread problems of forced child labor, with an estimated 12 million child laborers in Pakistan, and the practice of honor killings continue, as seen in the murder of social media star Qandeel Baloch. According to the Human Rights Commission of Pakistan’s report, there were 987 honor crimes in 2015, with 1,096 female victims and 88 male victims. The problem was exacerbated by the legal ability of the victim’s family to pardon the killer, who is usually also from the family. A bill passed in 2016...
requires a mandatory imprisonment but still allows a pardon in cases of capital punishment.

4 | Stability of Democratic Institutions

The period under review saw mixed efforts to implement the devolution that had been pledged in the 1973 constitution. The 18th constitutional amendment was an attempt to craft a balanced federal structure in Pakistan, and gave more institutional power to the provinces. However, the provinces are still unable to shoulder the full responsibilities given to them under the 18th amendment. Further, critical bodies for coordinating provinces and the center in shared governance, such as the Council on Common Interests and the National Security Council, remain largely dormant. Internal security in the provinces has a dominant military component with the National Action Plan’s counterterrorism measures, which has caused friction with political authorities in Sindh particularly.

There were local government elections in much of the country in 2015. However, provincial authorities have often resisted devolving power and resources to the local level. This has particular significance in Punjab, the most populous province with 101 million estimated population in 2015, which makes centralized government ineffective in some places.

A push and pull continues between the judiciary and the political leadership, most famously in the “Panamagate” revelations of offshore holdings by prominent leading figures in the country, including the prime minister’s family. A judicial inquiry was under way at the end of the period under review.

Despite recurrent bouts of military dictatorships in Pakistan, commitment to democratic institutions and norms remains the ideal of most people, associations and civic organizations. The present setup has a hybrid form, with military dominance in internal security and foreign policy decision-making. The National Security Council should function as a consultative body between the elected representatives and the military. Instead, most decisions appear to be made with ad hoc consultation between the COAS and prime minister. Opposition parties sometimes call for military intervention in political processes; there were calls for outgoing COAS Raheel Sharif to intervene in politics in late 2016. However, he stepped down at the end of his term and was replaced by a new COAS. In October 2016, the Pakistan Tehreek-e-Insaf (PTI) leader Imran Khan threatened to shut down Islamabad with a direct action unless the prime minister was held accountable for allegations of corruption arising from the Panama Papers; the threat was withdrawn when a judicial inquiry into the Panama Papers began. Both the COAS turnover and the lack of a direct action are not necessarily signs of democratic commitment, as the decisions were the result of strategic calculus.
With the holding of local body elections in 2015, there are mixed prospects for local government. One perennial worry is the cooptation of local government by elites, given the elitist bias of policy-making at other levels. In a country where party affiliations revolve primarily around personality, personal loyalty and patronage, it was unsurprising that the local government elections produced wins for people affiliated with the PML-N, the political party in charge of both the federal and Punjab provincial governments.

5 | Political and Social Integration

Political parties and the party system in Pakistan are weak, internally undemocratic (with some exceptions, such as Jamaat-e-Islami and the PTI), and personality centric, centered on an individual or dynasty and sometimes splitting along the lines of personal rivalries for leadership. The three major political parties with nationwide representation are the Pakistan Muslim League-Nawaz (PML-N), Pakistan Tehreek-e-Insaf (PTI), and the Pakistan People’s Party (PPP). There are important policy differences between the parties and in their bases of support, with the PML-N securing more urban support.

The Islamic parties have followers mostly in urban areas and in the Khyber Pakhtunkhwa. The PML-N is the exclusive preserve of the Sharif family. The PPP has had a hereditary chairmanship since its inception, it is headed by the Bhutto family from Larkana. Elections are a peaceful means of regime change. However, most elections in Pakistan are manipulated in one way or another. This can be seen in political victimization, pressurizing the population, the intimidation of polling staff and the use of state assets and administration. However, electronic media, educated young voters, and a massive campaign by the PTI to highlight the issues of rigging and bad governance have brought an overall change to Pakistan’s politics.

In addition, there are several regional parties based on ethnicity, such as the Awami National Party (ANP), Muttahida Qaumi Movement (MQM) with a stronghold in Karachi, and the Balochistan Nationalist Party (BNP). In the period under review, a military crackdown on extortion and other criminal and terrorist activities in Karachi took place amid allegations that it selectively targeted MQM workers. MQM leader Altaf Hussain, who lives in London, issued an inflammatory speech criticizing the military in August 2016. This led to a serious rupture in the MQM, with MQM leader Farooq Sattar calling for a clean break from its outside links, his being “sacked” from the party by the London-based leadership in Oct 2016, and the creation of an MQM-Pakistan faction led by Sattar. Earlier in 2016, prominent MQM figure and former Karachi mayor Mustafa Kemal had broken away and formed his own new party, Pak Sarzameen.
There are many interest groups in Pakistan that work at different levels and in different capacities. However, independent, well-organized and effective associations such as the Citizen Police Liaison Committee, Lawyers for Civil Rights or the Women’s Action Forum, have arisen only in the last two decades. In addition, religious groups work to ensure that the curricula in schools include enough material on Islamic teachings. Civil society organizations are reaching both policy-making circles and poor people to transform the prevailing conditions. They are also involved in advocacy and awareness campaigns. According to a USAID report on civil society sustainability in Pakistan, there were no reported cases in 2015 of local civil society organizations being harassed by the state. However, most CSOs operating in remote areas with critical security issues, such as the Federally Administered Tribal Areas (FATA), had their no-objection certificates (NOCs) revoked, preventing them from working in these areas. In 2015, the Federal Interior Ministry issued new rules requiring NGO registration; these allow for permission to be revoked for those INGOs “working against Pakistan’s strategic, security, economic or other interests.” Human Rights Watch has criticized this expansive potential vetting as a tool for repressing voices critical of the government or military and for undermining humanitarian efforts. According to Human Rights Watch, during 2016 there were credible reports of the new NGO policy being used to harass and impede the work of international humanitarian and human rights groups. In March 2016, three Islamabad-based human rights groups had to stop work for not complying with regulatory requirements. As well, according to Human Rights Watch (HRW), numerous NGOs, particularly in Punjab province, were intimidated, harassed, and in some case had their offices sealed.

Electronic media and new means of wireless communication have made civil society organizations increasingly vocal, although a new cybercrimes law might result in more restriction. It should also be noted that new public interest groups (for example, those involved in environmental, health or gender issues) have to compete with conservative interest groups like the clergy and the military establishment, which use new media for their own purposes. In general, interest groups address only a limited range of concerns, usually those affecting the urban population. The interests of the majority of the population are scarcely accounted for, except by clan-based political entrepreneurs or religiously motivated groupings with dubious democratic credentials.

According to PILDAT’s Report on Public Opinion on Quality of Democracy in Pakistan, a national survey-based report published in 2016, the majority of the respondents (54%) remain confident and optimistic about the quality of democracy in Pakistan by the end of the third year of the currently elected federal and provincial governments, June 2015 to May 2016. This number was 58% at the end of the second year, June 2014 to May 2015 and 55% at the end of the first year, June 2013 to May 2014. This polling data indicates that the majority of the public’s outlook regarding the overall quality of democracy in the country has remained consistently positive.
during the three years up to May 2016. At the provincial level, all provinces except Sindh polled above 50% approval.

Much of the question of approval of democracy hinges on the state of civil-military relations. The Armed Forces of Pakistan are the most trusted of any government institution, as seen in their 76% approval rating in PILDAT’s poll for 2015 to 2016. COAS Raheel Sharif was called “the most popular man in Pakistan” by PTI’s Imran Khan in 2015. In July 2016, banners had appeared in major cities calling on the general to impose martial law and impose a government of technocrats. In November 2016, banners appeared in Rawalpindi calling on Raheel Sharif to contest the 2018 elections and to have the wait period before a retired government officer can enter politics to be reduced from two years to one. Support for military intervention draws on disillusionment with the civilian leadership and the comparative public prestige and relative approval of the military. The reverse can also take place: during the review period, there were also thinly veiled efforts by opposition political figures to question the military’s legitimacy and status. A letter written to the Rangers warning that the paramilitary force was acting beyond its authority was made public, and followed by a press release from the Rangers detailing corruption at different levels of the Sindh government. Such friction serves to potentially undermine the overall approval of democracy.

In Pakistan, social capital is fairly weak. Nevertheless, different organizations, associations, welfare foundations, family networks and caste structures (biradri) are examples where social capital was readily available, such as during recent major disasters, where people typically rush to help victims. However, there is still a dearth of cooperation among people on different issues, and trust remains a critical issue. In addition, some NGOs also provide social capital and work for the collective benefit of the people. A lack of mechanisms of accountability for philanthropic and charitable donations hampers the further development of this sector. Like many formal organizations in Pakistan, formal or officially acknowledged rules matter less than personalities, and as a result trust is typically vested in individuals with a reputation for saintly or selfless devotion to the public welfare. Efforts to institutionalize mechanisms for transparency and accountability may allow for social capital to be tapped more effectively. The Edhi Foundation is a case in point; started by Abdul Sattar Edhi with few resources, the foundation grew to become the largest private ambulance network in the world, while providing various other social services as well. Edhi passed away in 2016, and his son who assumed leadership of the organization fears a drop in philanthropic donations.
II. Economic Transformation

6 | Level of Socioeconomic Development

Pakistan has important strategic endowments and potential for economic development but it faces significant economic, security and governance challenges in realizing socioeconomic development. However, the statistics conceal important provincial variations, with central and northern Punjab in particular performing better than national averages.

There is significant poverty in Pakistan, with 36.9% of the population living below the poverty line in 2013. Pakistan has shown slow but steady improvement in its Human Development Index, reaching 5.38 in 2014, ranked 147 out of 187 countries that year. The Gini Index for 2013 was 30.7, indicating inequality that is significant but below (i.e., less unequal) than the global average of 40.

The Gender Inequality Index for 2015 was 0.546, and has shown incremental improvement over several years. Yet, gender disparities persist in the economic, health and education sectors. 22.3% of the labor force in 2014 was female, according to World Bank Development Indicators; this percentage has also seen incremental improvement every year since 2004, when it was 16.8%. Pakistan’s total adult literacy rate is 56.4% but there is a significant gender gap, with male literacy at 69.6% and female literacy at 42.7%.

<table>
<thead>
<tr>
<th>Economic indicators</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP (M)</td>
<td>231218.6</td>
<td>244360.9</td>
<td>271049.9</td>
<td>283660.0</td>
</tr>
<tr>
<td>GDP growth (%)</td>
<td>4.4</td>
<td>4.7</td>
<td>4.7</td>
<td>5.7</td>
</tr>
<tr>
<td>Inflation (CPI) (%)</td>
<td>7.7</td>
<td>7.2</td>
<td>2.5</td>
<td>3.8</td>
</tr>
<tr>
<td>Unemployment (%)</td>
<td>6.2</td>
<td>5.6</td>
<td>5.9</td>
<td>5.9</td>
</tr>
<tr>
<td>Foreign direct investment (GDP %)</td>
<td>0.6</td>
<td>0.8</td>
<td>0.6</td>
<td>0.8</td>
</tr>
<tr>
<td>Export growth (%)</td>
<td>13.6</td>
<td>-1.5</td>
<td>-6.3</td>
<td>-4.8</td>
</tr>
<tr>
<td>Import growth (%)</td>
<td>1.8</td>
<td>0.3</td>
<td>-1.6</td>
<td>12.4</td>
</tr>
<tr>
<td>Current account balance (M)</td>
<td>-4416.0</td>
<td>-3616.0</td>
<td>-1602.8</td>
<td>-</td>
</tr>
</tbody>
</table>
### Economic Indicators 2013 - 2016

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>Public debt</strong></td>
<td>63.9</td>
<td>63.5</td>
<td>63.3</td>
<td>67.6</td>
</tr>
<tr>
<td>as % of GDP</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>External debt</strong></td>
<td>$57,881.5</td>
<td>61,146.7</td>
<td>65,757.4</td>
<td>72,697.5</td>
</tr>
<tr>
<td>in $ M</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total debt service</strong></td>
<td>$6,920.4</td>
<td>4,731.1</td>
<td>3,761.3</td>
<td>4,219.6</td>
</tr>
<tr>
<td>in $ M</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net lending/borrowing</strong></td>
<td>-5.2</td>
<td>-6.6</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>as % of GDP</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Tax revenue</strong></td>
<td>11.2</td>
<td>10.0</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>as % of GDP</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Government consumption</strong></td>
<td>11.0</td>
<td>10.8</td>
<td>11.0</td>
<td>11.8</td>
</tr>
<tr>
<td>as % of GDP</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Public education spending</strong></td>
<td>2.5</td>
<td>2.5</td>
<td>2.6</td>
<td>-</td>
</tr>
<tr>
<td>as % of GDP</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Public health spending</strong></td>
<td>1.0</td>
<td>0.9</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>as % of GDP</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>R&amp;D expenditure</strong></td>
<td>0.3</td>
<td>-</td>
<td>0.2</td>
<td>-</td>
</tr>
<tr>
<td>as % of GDP</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Military expenditure</strong></td>
<td>3.5</td>
<td>3.5</td>
<td>3.5</td>
<td>3.6</td>
</tr>
<tr>
<td>as % of GDP</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Sources (as of October 2017): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

### 7 | Organization of the Market and Competition

Although Pakistan has a long tradition of market economy, competition is still poorly regulated. The national currency is not freely convertible. Investor protection remains deficient and competition laws are insufficiently enforced. Competition laws date back to the 1970s, when Pakistan promulgated the Monopolies and Restrictive Trade Practices (Control and Prevention) Ordinance. In 2007, the government of Pakistan introduced new legislation, the Competition Ordinance 2007, to overhaul its competition regime. It was enacted in 2010. The Global Competitiveness Report 2016-2017 ranks Pakistan 122 out of the 138 countries on the index. The overall trend line since 2012-2013 is flat.

Competition is also distorted because of corruption and the special role of the military, which is the largest entrepreneur in many fields. Because of this special status, the military is, for instance, allowed to take land for reasons of national security. Corruption has shaken the confidence of investors to do business in the country. Powerful businessmen and companies flout competition laws in Pakistan for their personal benefit. Weak institutional systems and lack of transparency support special interest groups at the expense of small and medium-sized enterprises. However, on a positive note, the GCI for 2016-2017 ranked Pakistan 116th in macroeconomic environment, a noticeable improvement, and 75th in innovation with a slight upward shift in its trend line. The 2016-2017 GCI also listed some problematic areas that are discouraging businessmen. Prominent among these were
corruption, crime and theft, tax rates, access to financing, government instability and an inefficient bureaucracy.

Pakistan has historically had a high concentration of economic power and market controls in the hands of the most prominent 22 families and the military. The Competition Commission of Pakistan (CCP), created in 2007 as an anti-trust body, has struggled to effectively stop price-fixing and other market manipulations, although it has issued about 100 orders since its creation totaling over PKR 26 billion in fines. In most cases, violators obtain court stays to avoid paying penalties, significantly weakening the impact of the CCP. For example, the Pakistan Poultry Association (PPA) was fined PKR 100 million in 2016 for price fixing – after the PPA did not pay a similar fine in 2010 for similar violations.

A major regulatory body in Pakistan is the cabinet’s Economic Coordination Committee (EEC). As described by the Policy Research Institute on Market Economy in a 2016 working paper, the ECC was formed as an emergency wartime measure in 1965 amid the suspension of foreign assistance and has existed until now. The ECC is generally chaired by the finance minister/advisor to the prime minister for finance, and includes economic ministers who are directly nominated by the prime minister as well as special invitees representing the State Bank, the SEC, Planning Commission and Investment Board. All decisions of the ECC are required to be ratified by the federal cabinet under the Rules of Business. However, a present exemption means that now the ECC decision, once taken, becomes final.

The ECC often plays the role of setting industrial and trade terms, and engages in numerous ad hoc interventions in markets, and thus has been a key body in economic governance. A benign view is the ECC interventions seek to address market failures. Yet there is real potential for distorting price signals and for selective interventions to support favored enterprises and sectors. The ECC’s power has grown without effective parliamentary oversight or normal bureaucratic filtration, and the decision-making process lacks transparency. State-owned enterprises approach it for bailouts, subsidies are granted to sugar imports allowing it to stay artificially competitive, and sovereign guarantees allow the persistence of circular debt in the power sector.

In response to a senator’s inquiry in 2016, Pakistan’s Defense Minister provided a list of nearly fifty commercial entities under the administrative control of military foundations, in such sectors as housing developments, energy, and industrial and agricultural inputs and consumer goods. While prior research has alleged special privileges for military foundations in commerce, it is unclear whether this has changed substantively during the review period.

Pakistan is a WTO member and provides at least MFN treatment to all except two WTO Members, India and Israel. The weighted mean tariff rate was 9.53% in 2015, according to the World Bank. Since 2012, imports from India are conducted on the basis of a negative list of about 1,200 products that cannot be imported. This change
from a previous more restrictive positive list has resulted in a significant boost to bilateral trade.

Although India granted Pakistan MFN status in 1996, trade between the two countries, often engaged in saber-rattling, proxy clashes or outright conflict, has never really normalized. Early in 2014, Pakistan and India had agreed to allow greater trade through the land route, with a liberalized visa policy for businessmen. Official trade in 2012-2013 fiscal year was barely $2.5 billion, compared to a potential $10 billion. Total annual official trade between the two countries was $2.5 billion in 2015-2016, whereas annual unofficial trade is estimated to be nearly $15 billion. There is concern about the impact of Indian goods on Pakistan’s industry. Tensions between the two countries during the review period resulted in only a marginal decline in the value of bilateral trade in 2015 and a mixed trend for the export of Indian commodities to Pakistan in 2016, according to the Indian Commerce Minister.

In 2015, Afghanistan’s President Ashraf Ghani made trade deals with Pakistan part of broader cooperation between the two countries on intelligence sharing regarding Taliban insurgency in both countries. The goal was to improve bilateral relations and boost Afghanistan-Pakistan trade from $1.6 billion in 2015 to $5 billion by 2017. It would have allowed Pakistan to ship goods beyond Afghanistan into Central Asia. However, the agreements, which included reducing tariffs and granting each other preferential trade status, stalled and were shelved in 2016. The key sticking point was whether the agreement would allow Indian goods into Pakistan, as well as mutual suspicion of foot-dragging on elements of the deal.

A WTO review from 2015 concluded that Pakistan, while demonstrating resilience in a difficult environment, needed more fiscal consolidation, infrastructure expansion and trade liberalization. One issue was that Pakistani exporters pay less income tax, which was seen as a subsidy. The predictability of Pakistan’s trade regime has been reduced due to the use of frequent ad hoc special regulatory orders.

In October 2015, Pakistan ratified the WTO’s new Trade Facilitation Agreement (TFA), making it the 51st WTO member to do so. The TFA will come into force once two-thirds of members ratify it. According to WTO estimates, the TFA has the potential to increase merchandise exports by one trillion U.S. dollars annually, with half the gains going to developing countries, and to reduce member countries’ trade costs by 14.3%. The new environment of protectionist rhetoric in the United States may affect trade, but as of the end of the review period, the full implications are uncertain.

In much of 2014, Moody’s had described Pakistan’s banking outlook as negative. In November 2015, Moody’s changed Pakistan’s banking system rating to “stable.” The rate of non-performing loans declined from 11.4% in 2015 to 11% in 2016, but at the same time, the bank capital to assets ratio declined from 8.4% to 7.5%.
In October 2016, this stable outlook was maintained in view of a “strengthening economy” and “high liquidity buffers.” The IMF’s 2016 report found that the performance of the banking sector had improved, as reflected in higher profitability, strengthened liquidity indicators, robust capital adequacy, and declining (though still substantial) non-performing loans (NPLs). Further, the Deposition Protection Corporation Act to establish deposit insurance has been enacted in August 2016, with steps taken to strengthen the framework for NPL recovery, and to reinforce the regulatory and supervisory framework. The State Bank of Pakistan (SBP) worked in 2016 with three small undercapitalized banks to bring them into regulatory compliance; one bank received a partial capital injection and is in the process of raising additional equity, a second, publicly-owned, bank is in the divestment process, and a third bank is seeking to merge with a larger entity. Larger structural reforms for enhancing and protecting central bank autonomy, however, have not been implemented.

8 | Currency and Price Stability

Pakistan saw a significant reduction in inflation, from 7.2% in 2014 to 2.5% in 2015 and continued reductions in 2016. Remittances continue to be a substantial source of foreign exchange inflows, helping fund the trade deficit and comprising about 7% of GDP in FY2015.

According to the IMF report in 2016, there is a need to further strengthen central bank autonomy in Pakistan. In August 2016, the SBP developed an action plan to address recommendations of the 2013 Safeguards Assessment. While the action plan helps clarify the SBP’s objectives, enhancing its financial autonomy and limiting its scope for providing credit to the government, it does not address 2013 Safeguards Assessment recommendations in institutional autonomy, governance, and personal autonomy of SBP board members.

Foreign exchange reserves reached $18.1 billion at end-June 2016, and will continue increasing to $20.8 billion in FY2016-17. A less sanguine view from the Social Development and Policy Center asserts that a rise in foreign exchange reserves over the period in review is entirely due to external borrowing, from multilateral/bilateral assistance, bond flotation and IMF Extended Fund Facility. This raises concerns about future external debt sustainability, and by implication, upcoming pressure on monetary policy.

Public debt increased by about 2.5% of GDP over the course of the IMF’s Extended Fund Facility program and remains high at about 65% of GDP (430% of revenue) as of end-June 2016, well above the emerging market average. The $6.6 billion IMF Extended Fund Facility, announced in 2013, was supposed to help address deficit and payments issues. The IMF report toward the end of this program finds largely satisfactory results, with Pakistan’s economy improving in resilience and in growth.
prospects, and the fiscal deficit declining by 2.5% of GDP in the EFF period. The fiscal deficit (excluding grants) has declined from 8.5% of GDP in FY12 to 5.4% of GDP in FY15.

One concern is the need for stronger intergovernmental fiscal policy coordination, given the extent of revenue and expenditure devolution in Pakistan. The new Fiscal Coordination Committee, which includes the federal and provincial finance secretaries, plans to hold quarterly meetings and monitor budget implementation, and it is too early to judge effectiveness.

According to the World Bank Development Update for Pakistan in April 2016, the Federal Board of Revenue (FBR) during the first half of fiscal year 2016 showed robust growth of 18%, only marginally lower than the 20% growth required to meet the FY16 revenue target of PKR 3,104 billion. This revenue growth was made more remarkable given that tax collection during Q1FY16 stood at just PKR 600 billion, well below target, after which the government adopted quick remedial measures to correct the shortfall.

The trend of debt servicing as percentage of net federal revenue receipts increased from 53% in 2007-2008 to 62% in 2014-2015 and then to 73% in the first nine months of 2015-2016, which indicates that only 27% of the net federal revenue (NFR) is left for all other expenditures. Pakistan’s heavy defense expenditures and security challenges add to the problem: combined, the expenditure on debt servicing and defense as percentage of NFR was 82% in 2007-2008 and 94% in 2014-2015, and has risen to 105% in 2016. This makes it harder to spend on development, which would ideally be the primary purpose of borrowing, and raises additional questions about future debt servicing capacity.

9 | Private Property

Article 24 of the 1973 constitution states that “No person shall be compulsorily deprived of his property save in accordance with law.” However, in 2014, Pakistan had ranked 86 out of 97 countries in the International Property Rights Index. In 2016, Pakistan ranked 121 out of 128 countries globally and 18 out of 20 in the Asia and Oceania region. In South Asia, Pakistan was only ahead of Bangladesh. Land distribution in Pakistan is highly skewed as 64% of land is owned by 5% of landlords. 15% of land is owned by 65% of small landholders. Corruption is rife in the lower courts and the district administration, where property cases linger on for years. The military occupies valuable property in prime locations in different cities and has compulsorily acquired land in other areas. Foreigners, particularly from the Middle East, own large swaths of land in South Punjab and Balochistan.
According to the IMF’s 2016 report, Pakistan’s business climate is weak. Based on an action plan adopted in 2014, some measures were taken in FY2015 to improve the business climate, such as reduced procedures for paying taxes, pilot alternative dispute resolution mechanisms, and a new National Financial Inclusion Plan to foster credit provision to small and medium enterprises (SMEs) and marginalized social segments. The pace of reforms was slower than other countries, helping explain why Pakistan’s World Bank Doing Business ranking fell to 138 in 2016 from 2015. The IMF Report notes that from 2015 to 2016, “lengthy procedures and high costs for opening a new business and paying taxes, limited access to credit notably for small and medium enterprises (SMEs), complex border trading requirements, constraints in accessing electricity and weak contract enforcement continue to weigh on Pakistan’s business climate, which ranks below the South Asia average and comparator emerging markets countries.”

Efforts have been underway to restructure and attract private sector participation in public sector enterprises as a way to restore financial viability and reduce fiscal costs. Pakistan International Airlines (PIA), once holding a stellar reputation, is now seen as woefully inefficient. 2016 saw a heated debate over the possible sale of a significant share of PIA. Amid widespread strikes and political opposition, the government retreated from planned privatization transactions early in 2016. PIA, Pakistan Steel Mill (PSM), and several energy enterprises are slated for either private participation (i.e., PIA for which legislation requires that government retain majority control) or possible privatization (i.e., PSM based on bidding by June 2017). The experience suggests political obstacles to selling public sector enterprises and the future of possible sell-offs is unclear or not likely.

10 | Welfare Regime

A number of social safety programs exist in Pakistan but the majority of the population is at risk of poverty. Social safety programs include the Benazir Income Support Program (BISP), Bait-ul Mal, and the Pakistan Poverty Alleviation Fund (PPAF). Pakistan Bait-ul Mal has very limited funds to help orphans and widows. Foreign donors such as the World Bank, the Asian Development Bank (ADB), the Department for International Development (DFID) and individual countries donate large sums of money to social safety nets in Pakistan.

In absolute numbers, there has been an increase in the social safety net’s main program, the BISP. Initiated in 2008, the BISP provides unconditional cash transfers to the poorest, and conditional cash transfers to support primary school attendance. According to the IMF, enrollment in the Benazir Income Support Program has increased by 1.5 million families in the three-year period of its Extended Fund Facility (which ended in 2016), and stipends were raised by 50%. The impact of
conditional transfers is more limited as the size of the transfer is low compared to the cost of schooling.

There is some dispute over whether poverty incidence is falling or increasing. Economic Survey 2016 says poverty incidence is falling. But the Social Development Policy Center Analytical Brief rejects this, pointing to discouraged workers and other indicators to suggest that poverty incidence is increasing.

Another notable development during the period under review is the death of Abdul Sattar Edhi, whose foundation grew to become a major supplier of emergency relief and ambulance services. While the Edhi Foundation continues to function, it is unclear whether it will continue to receive the level of charitable contributions it obtained during Edhi’s lifetime.

Pakistan is a patriarchal society and has low upward mobility. Lack of mobility applies to class, caste, religion and gender. The military is one of the few organizations in the country where promotion on merit is practiced, although there are still very few officers from Balochistan or the rural areas of Sindh. Discrimination against women is endemic. The World Bank’s World Development Indicator lists Pakistan’s literacy rate as 56.4%, but there is a large gender differential: male literacy is 69.6% while female literacy is 42.7. The Gender Parity Index for gross enrollment ratio shows that girls are disadvantaged relative to boys at the primary level (0.9) and secondary level (0.8) but advantaged at the tertiary level (1.1). According to World Bank Development Indicator, females accounted for 22.3% of the labor force in 2014, having increased incrementally from 16.8% in 2004. The Islamic law of inheritance, which gives property rights to women, is not fully observed. In most parts of the country, women are deprived of education and job opportunities. Minority rights are not respected by the majority and the state has failed to protect their rights. In addition, the economic conditions of Christians and Hindus are below the national average. In one positive development, a Hindu Marriage Bill was passed in 2015 setting rules for registering marriage and divorce in the Hindu community. This move potentially increases the legal recourse available to Hindu women in the case of civil disputes related to remarriage.

In 2009, the Supreme Court called for the recognition of third gender persons, including those with intersex identity, and sought steps to ensure opportunities for employment and education. Some local governments responded; for example, in Karachi, with an employment program for tax collectors. Amid an increase in attacks on transgender women in 2016, the Khyber Pakhtunkhwa provincial assembly unanimously passed a resolution calling on the federal government to guarantee voting rights for transgender women. In some cases, the lack of recognition of third gender identities has led to the denial of medical care at facilities that have only male and female wards.
Article 20 of the 1973 constitution of Pakistan stated that “every citizen shall have the right to profess, practice and propagate his religion.” However, in actual practice, Christians, Hindus and Ahmadis often cannot profess and propagate their religion. The education system in Pakistan is an obstacle to realizing the objective of equal opportunity in job sectors as it imparts education in either the English or Urdu medium. The Urdu medium graduates find it difficult to compete with the English medium graduates in almost all walks of life.

11 | Economic Performance

The Asian Development Bank asserts that GDP growth in Pakistan accelerated in the fiscal year ending June 30, 2016, to 4.7%, up from the 2015 (4%) and 2014 (4.1%) rates, and projects further increase to 5.2% in fiscal year 2017. The growth acceleration in 2016 is due to the impact of the government’s macroeconomic and structural reform program, sharply lower oil prices and improved security. It outdid an earlier growth forecast despite a major crop failure. ADB raises the projection for growth in FY2017.

These figures been contested. The GDP growth rate has been overstated by the PBS, according to the Social Policy and Development Center. According to the SPDC brief on the state of the economy, the GDP growth rate in 2015 to 2016 is likely to be 3.1%, rather than the 4.7% reported by PBS. Further, this is the third consecutive year in which GDP growth has been exaggerated. The growth rate has been overestimated in 10 out of 18 economic sectors for 2015 to 2016.

PBS data is far more sophisticated than the “poetry” that was once used to describe statistics in other developing economies. The presence of thoughtful independent think tank analysis in Pakistan of output strength is valuable for providing and independent assessment and thus contributing to increasing transparency and credibility of estimates of output strength.

The net inflow of investment to Pakistan in 2015 was small, at 0.4, compared to 0.8 in 2014. The major focus in terms of future investment is the estimated $46 billion China Pakistan Economic Corridor. Pakistan’s current account balance, while still negative, showed significant improvement in 2015 over 2014. Public debt in 2015 (63.6% of GDP) was down slightly from 2014 (63.7%) and has hovered in the 63% to 64% range since 2012. Unemployment declined slightly from 6% to 5.9% in 2015.

The State Bank of Pakistan’s first quarter report for FY2017 stated that that there is stable growth momentum, supported by strong growth in corn, cotton and sugarcane output in the period, which suggests successful continuing recovery of the agricultural sector, although manufacturing was subdued.
12 | Sustainability

Pakistan is among the top ten countries affected by climate change. The last five flood events (2010-2014) resulted into monetary losses of over $18 billion with 38.12 million people affected.

In September 2015, acting on a lawsuit brought by a farmer against the Federation of Pakistan on the 2012 National Climate Policy and Framework, Lahore’s High Court ordered Pakistan to act on climate change, created a Climate Change Commission and ordered several government ministries to nominate a focal person on climate change. This is a notable and pioneering judicial action in the world of climate change policy; the court cited constitutional commitments to democracy and justice and well as international principles of equity, intergenerational justice, sustainable development and the precautionary principle.

UNDP’s Climate Public Expenditure and Institutional Review of Pakistan in 2015 shows that the total estimated federal climate-related expenditure remained between 5.8 and 7.6% of total federal expenditures. While fiscal space remains tight, Pakistan’s 2016 INDC document asserts that an augmented allocation for climate-related activities has been made in the federal budgets of 2015 to 2016 and 2016 to 2017, with key initiatives including interest-free loans to farmers for installation of solar tube wells, abolishing tax duty for import of solar equipment, promoting other renewable technologies in meeting the country’s energy needs and ambitious plans of afforestation. The 18th constitutional amendment devolved the environmental ministry to the provinces. However, due to limited funding, the ministries at the provincial level can have little effect in the environmental policy at the practical level.

Pakistan’s dependence on hydropower has shrunk from 45% in 1991 to 28% in 2015. Thermal power, largely dependent on fuel imports, has risen sharply. Pakistan’s official goal is to reduce dependence on imported coal, gas and oil to 60% by 2025, from the present 87%. The goal is to raise renewables to 10% of total energy mix (excluding hydropower). Pakistan has a broad wind corridor with an estimated capacity of 50,000 megawatts. Beginning operation in 2013, the Zorlu Wind Power Project contributes 50 MW to Pakistan’s grid, and is the first privately financed and owned wind farm in the country. In practice, Pakistan will need significant technology transfer and external financing. The Quaid-e-Azam Solar Power Park was built by a Chinese company in Punjab and started selling electricity to the national grid in August 2015. In its pilot stage, the project aims to provide 100 MW, and has a completion target for 2017 with the goal of one Gigawatt of production. However, there is skepticism and concern about the environmental impact on wildlife and water needed to clear solar panels.
Pakistan’s education system is highly fragmented. It is divided into Urdu and English mediums, but the latter are out of reach for most but the members of the elite. There is also a flourishing Madrasa education system. Pakistan under-spends on education in comparison to other countries, budgeting 2.2% of its GDP against an international minimum standard of 4%, according to the Economic Survey of Pakistan 2015-2016. The net enrollment rates in education are the lowest in South Asia.

Pakistan’s spending on research and development has been meager, the lowest in South Asia as percentage of GDP.

Female exclusion, especially among the rural poor, is dire. The GEM Report places Pakistan among a small group of countries with extreme disparities such that the poorest rural women have obtained less than a year of schooling. The Gender Parity Index shows women to be disadvantaged at the primary education level, with a score of 0.9, and the secondary level, with a score of 0.8, although they are advantaged at the tertiary level with a score of 1.1. The gap between rates of male literacy (69.6%) and female literacy (42.7%) is stark, with women well below the overall literacy rate of 56.4%.
Governance

I. Level of Difficulty

The structural constraints on governance in Pakistan are fairly high. This includes economic obstacles such as foreign debt, fiscal deficit, the persistent deficit in the balance of payments, scarcity of foreign exchange reserves, the rapidly growing population, and low levels of technology. Sociocultural obstacles that hinder transformation include illiteracy, conservatism, and the caste system.

Other issues adding to political instability in Pakistan and hindering economic progress include the war on terror, the Balochistan issue, targeted killings in Karachi, and sectarianism.

Finally, Pakistan is among the top ten countries affected by climate change. In 2015, Glacial Lake Outburst Floods in Chitral and Gilgit-Baltistan, as well as flash floods mainly affecting Khyber Pakhtunkhwa and Punjab, killed hundreds and caused extensive damage to houses, crops, and infrastructure. The worst heat wave in at least a decade hit southern Pakistan in June 2015, reportedly killing over 800 people, according to USAID.

Pakistan is home to a vast array of national and international NGOs that play their part in education, health care, policy advocacy, and other sectors. Many such entities play several roles simultaneously. The fortunes of these organizations are dependent on the political condition of the country. These organizations influence pro-poor policies and affect social change. Civil society organizations in Pakistan are active in culture and recreation, education and research, health, social services, environment, housing, and civil rights advocacy. Many charity and philanthropic organizations also exist in Pakistan. They run schools and hospitals, thus filling the vacuum created by the state because of its limited capacity.

An increasingly heavy-handed attitude toward INGOs can be traced to Pakistani intelligence’s linking of Save the Children International to the covert American hunt for Osama bin Laden. Whereas previously INGOs had to register with the Securities and Exchange Commission for financial oversight, the policy announced in October 2015 requires INGOs to register with and obtain permission from the Ministry of Interior to ensure that they are not working against Pakistani interests (defined in an expansive way that further allows the Interior Ministry to revoke permission), and
includes provisions for geographic and other limits on INGO activity. The Federal Interior Minister was quoted as saying: “NGOs working against Pakistan’s strategic, security, economic or other interests will have their registration cancelled.”

Human Rights Watch has criticized this 2015 crackdown on INGOs as a tool for repression of voices critical of the government or military, and for undermining humanitarian efforts.

In 2015, the Global Terrorism Index ranked Pakistan 4th among countries most affected by terrorism, despite a decline of 48% in terrorist attacks, compared to 2014 (from 1,206 to 625 attacks). Compared to 2015, 2016 saw a decline of 28% in acts of terrorism (from 625 to 441 attacks, as reported by Pakistan Institute of Peace Studies (PIPS)). Pakistan faces multiple conflicts, including sectarian warfare, ethnic issues, the war on terror and inter-provincial disharmony. Sectarian warfare has claimed the lives of thousands of people. Many of the victims are from religious minorities such as Shi’ites, Christians and Ahmadis. According to the PIPS Security Report of 2016, much of the decline in terrorist attacks in 2016 can be explained by a reduction in nationalist attacks by groups in Balochistan and sectarian attacks: attacks by Islamist militants similar to the Taliban actually increased by over 10%.

II. Governance Performance

14 | Steering Capability

The PML-N came to office in 2013, promising to focus on the economy, domestic order and foreign relations. For the period under review, domestic order was dominated by the National Action Plan, a counterterrorism initiative launched after the terrorist attack on Peshawar army school in December of 2014. The implementation of this plan has led to a decline in overall terrorist attacks, but also affirmed the military’s role in domestic security. Further, the implementation of the NAP has been dogged by allegations of political selectivity, particularly in Sindh.

Pakistan became a signatory to Sustainable Development Goals in 2015. How this translates into governance remains to be seen.

On macroeconomic management, Pakistan was working toward performance targets and benchmarks associated with the IMF Extended Funding Facility. Pakistan has one of the lowest tax to GDP ratios in the world, at 11% in 2015. Significant efforts by the government have increased the tax to GDP ratio by 1.5 percentage points in only three years, but this is still short of the 15% tax to GDP ratio, which the 2009
National Finance Commission award had required the federal and provincial governments to achieve by 2014 to 2015.

There is concern, though, that the government’s resource mobilization strategy is based on further measures such as increased withholding and closing of tax exemptions, which further squeeze the taxpayer base, rather than through broadening the tax net. In terms of foreign investment and development efforts, much focus and fanfare were given to the plans for CPEC. Announced in April 2015, the China Pakistan Economic Corridor links Kashgar in China with the port of Gwadar in Pakistan. Billed as a potential game-changer, CPEC is a package of investment projects in energy and transport infrastructure, financed by China, estimated to total about $46 billion (about 16% of FY 2015-16 GDP). Some $28 billion of the total is allocated to “early harvest” projects over the next few years, with the remainder of the investments planned for up to 2030 or later. China’s share of FDI in Pakistan has grown to 54% in 2015-2016, up from 23% in the previous year. There has been some concern about provincial disparities in benefits from CPEC (specifically disproportionate benefits to Punjab), as well as the risk of increased external loan indebtedness, as well as worries among Balochi activists that they will be made a minority in their own province.

Policy implementation in Pakistan faces obstacles due to unclear or ambitious policy goals, a lack of political commitment, bureaucratic hurdles and the governance structure. The proper implementation of any policy requires financial, technical and human resources. Administrative inefficiency is also responsible for the government’s failure to implement its policies. According to reports from the Policy Research Institute of Market Economy published in 2016, a review of the implementation of 89 targets the government had set regarding economic revival and energy security shows there has been a failure to follow through on reforms regarding privatization and liberalization. The government claims the energy privatization process has only been delayed, with plans to finalize divestment in one major power sector enterprise and conduct initial public offerings (IPOs) for others in 2017. Circular debt in the energy sector has been notorious and persistent. Nevertheless, the government has succeeded in attracting investment in the energy sector and has improved energy security. Finally, in its election manifesto, the PML-N had promised to bring the informal economy into the tax net. However, it has failed to implement its policy in this regard (see also “prioritization”).

In Pakistan, the routines of policy-making do not enable innovative approaches. After Pakistan slipped in the 2016 Doing Business ranking, a new comprehensive country-wide strategy to improve the business climate was developed in early 2016. Suggesting an effort to learn from past experiences, the new strategy included short-term measures to ease the process of starting new businesses, paying taxes, trading across borders and facilitating access to credit. The import tariff structure was also simplified from five to four slabs. In July 2016, the government announced that
exports would grow with zero-rated facility for five export sectors, but the exports actually declined over six months when compared on a month-to-month basis with 2015 figures. The strategy proved ineffective in raising exports. According to an assessment by PRIME, declining textile exports led the government to announce a series of measures to be undertaken from January 2017 to January 2018. They include uninterrupted power supply, abolishing customs duty and sales tax on import of cotton man-made fiber other than polyester and sales tax on import of textile machinery. Part of the deal is that exporters have to show 10% increase in exports in 2017 to 2018, but PRIME points out that this might be gamed by exporters showing false increases. Substantive issues underlying the decline of textile and other exports include low productivity owing to poor quality of human resources, uncertainty in energy and artificial support from the government, amid a general lack of competitiveness in the business firms. Only the shift to increased energy security addresses these issues. It is unclear how much the government is willing to engage substantively with private think tanks offering academic analysis, versus simply doing what is politically expedient regardless of informed expert opinion.

15 | Resource Efficiency

Inefficient use of resources has been a persistent problem in Pakistan’s history, the result of corruption, mismanagement, and efforts by new administrations to halt initiatives of their predecessors. Political power and relations in higher bureaucracy play an important part in transfers and postings, with civil servants who take decisions unpopular with their political masters being transferred to undesirable locations. At the federal level, the civil services exam is conducted annually and is highly competitive. However, there are several departments at the federal and provincial level where recruitment is based on the preferences of the government in power.

An important consideration is the process of devolution, initially promised in the 1973 constitution but delayed until the 18th Amendment of 2010. Within the devolution process, a key move during the review period was the holding of local body elections in much of the country, mainly in 2015. However, provincial governments have been resistant to genuine devolution. For example, in Punjab, where the local body’s election process has dragged out over two years, there have been efforts to introduce a parallel structure more responsive to political direction from the provincial government. There are problems of administrative capacity at the local level, from planning to assessment to delivery. The promise of local government is better resource allocation, but one risk is simply more patronage and elite capture. Building effective local capacity is longer-term time-consuming work that may be beyond the political cycle and limited time horizon strategic calculus of an elected provincial government.
As of early 2017, Pakistan’s net public debt has risen about 35% during the PML-N tenure as ruling party. There is concern that plans for managing the debt are based on rosy and unrealistic scenarios, and the government will be applying again to the IMF for support. The government defended itself vigorously against accusations of “creative accounting” to hide fiscal mismanagement, challenging the critics’ numbers, arguing that it had reduced public debt vulnerabilities and suggesting that the criticism was tainted by partisanship.

A lack of policy coordination among different interest groups is a hallmark of Pakistani politics and a major cause of policy failure. Lack of coordination is visible in almost all spheres, be they economic, politics or foreign relations. The Ministry of Inter-Provincial Coordination (IPC) and the Council of Common Interests (CCI) are the major coordinating bodies between the center and the provinces. Neglect of CCI suggests the federal government has been relying more on ad hoc governance rather than functioning within formal institutional obligations. The growth of regulatory decisions by the Economic Coordination Committee sidelines more transparent channels that might improve policy coordination.

A major challenge is intergovernmental fiscal policy coordination particularly given the extent of fiscal devolution. The recent National Finance Commission (NFC) award and the 18th constitutional amendment grant 57.5% of most revenues to the provinces, along with devolution of spending responsibilities and sales taxation authority in services (in addition to existing taxation authority in agriculture and property). A newly established Fiscal Coordination Committee, comprising the provincial and federal finance secretaries, plans quarterly meetings to synchronize policy guidance and monitor budget implementation to achieve the government’s fiscal targets in 2016 to 2017. The need for policy coordination was urged by the IMF, and has formally been recognized, but its effectiveness remains to be seen.

Coalition politics is also responsible for the lack of a coordinated approach toward different issues. As well, the absence of truly integrative national political parties contributes to the lack of policy coordination.

Efforts in Pakistan to fight the insurgents who pose a challenge to the very fabric of state and society are always undermined by lack of consensus between political leadership and the military. The civil-military disconnect always hinders a well-coordinated policy against the terrorists. In the period under review, political opposition leaders of the PPP and the MQM have made lightly-inflammatory, although vague, statements pointing fingers at the military, implying that the military has been engaged in political engineering in Sindh rather than focusing on security. The military responded with details of corruption in the Sindh government.
All major political parties in Pakistan have pointed to corruption as a major problem. In addition, the IMF’s 2016 report on Pakistan noted the need for combating money laundering with more coordination between government bodies such as the Financial Monitoring Unit and the Federal Board of Revenue. Despite small steps toward transparency and high-profile scandals attracting national attention, anti-corruption policy in Pakistan remains weak and politicized.

In 2016, the Panama Papers leak showed substantial offshore holdings of high-level politicians, government figures, their families and associates, and even a member of the judiciary. One senator who had several holdings along with family members is a member of the Tax Reform Commission set up by the government to check revenue leakage, broaden the revenue base and improve tax administration. This seemingly underlines the problem faced by anti-corruption policy, namely that the watchdogs and reformers are themselves implicated. The leak sparked the threat of a government shutdown by Imran Khan’s PTI; this was averted as a judicial inquiry into the extensive holdings of members of the prime minister’s family got underway. The release in 2016 of a tax directory of parliamentarians based on their income tax payments for the preceding year showed a wide disparity in taxes paid, and in some cases raised incredulity given the contrast with lavish lifestyle expenditures. The National Accountability Bureau, in charge of investigating corruption allegations, is itself suspected of using its powers selectively to settle political scores, taking directives from other power centers. In 2016, Prime Minister Nawaz Sharif criticized the NAB for “harassing” civil servants and threatened to reduce its power.

**16 | Consensus-Building**

Although democracy in principle and in constitutional terms is widely supported, military intervention in politics and the perception that democratic political parties are corrupt and elitist make this a fragile understanding. It is interesting to compare the period under review with the events of 2014, when the Pakistan Tehreek-e-Insaf (PTI) and Pakistan Awami Tehreek (PAT) parties led protests against the Nawaz Sharif government demanding his resignation and effectively caused a shutdown in Islamabad. In 2016, PTI threatened another street protest pushing for the prime minister’s resignation in the wake of corruption allegations from the leaked Panama Papers. Sequentially, the protest was averted when a judicial inquiry began into the allegations, closely followed by national media. But it is also the case that the PTI’s political calculus appeared to show that protest was not going to help its fortunes, as there was a lack of widespread support and a police crackdown. In 2014 the National Assembly united behind the government and resisted the demands of the protesters, partly because of recognition of the fragility of democratic rule. In 2016, it appears that protest politics aimed at forcing government resignations has lost the ability for sufficient mass mobilization. Throughout the PTI and PAT sit-ins, the military reiterated time and again that they would not to intervene in politics overtly. During
these sit-ins, there were widespread debates in political circles that the army wanted to control the government. In 2015, PTI chief Imran Khan called COAS Raheel Sharif the most popular man in Pakistan. In 2016, as COAS Sharif’s term was coming to an end, there were calls for military intervention or for a shortening of the term after which he could enter national politics. Yet there was an orderly transition to the next COAS with Raheel Sharif stepping down.

The government has been unable to develop consensus on the structural reforms that are necessary to uplift the economy. A push to privatize major state-owned enterprises has stalled or been delayed. Public protest and opposition stalled the effort to privatize the inefficient PIA, despite the reports of extraordinary cumulative and growing losses. In addition, political parties are unable to coordinate on widening the tax net to generate more revenue. Although there is a general consensus in Pakistan that corruption and mismanagement are the major reasons for the economic malaise in Pakistan, the previous and the present governments have failed to build consensus with respect to developing legislation on such issues. This is due to the pervasive elitism that has dominated Pakistani politics, instead of a broad social coalition representing the economic interests of the majority. These factors have prevented investment in needed tax reforms as well as effective transparency and accountability measures that would check corruption, improve the provision of public goods and promote inclusive growth.

The military has traditionally acted as a veto power and remains such in certain policy areas. One notion credited to General Pervez Musharraf is that to keep the military out of politics, they must have a voice in policy-making. Formalizing such voice is potentially problematic, particularly if it gives the military oversight over civilian rule, but it potentially also brings more democratic scrutiny to military activities, and most democratic systems have evolved some mechanism of regular military-civilian consultation. In 2016, military-civilian tensions emerged over the operation of militant groups fighting in India and Afghanistan, military counterterrorism in Punjab and oversight over CPEC. The PILDAT review covering June 2015 to July 2016 has emphasized the lack of institutionalization of the National Security Council as a consultative body between the military and civilian population, and also pointed out that the NSC mandate appears to encroach upon the authority given to elected representatives and the federal cabinet. Instead of an institutional channel, military-civilian consultation happens largely on an ad hoc basis.

As an ethno-federation, Pakistan suffers from an institutional design problem that supports ongoing conflict: the dominant ethnic group is united in a single core ethnic region that possesses clear superiority in population. The resentment towards Punjab among the other provinces, and the repeated failure to come up with ways to ensure a sufficient share of the national pie in response to perceptions of exploitation, has fed ethno-nationalism in the other provinces. For example, plans for CPEC, announced in 2015, attracted concerns from KP and Balochistan provinces that the
multi-billion dollar energy projects will be based in and provide disproportionate benefit to Punjab. Previous conflicts over mining rights featured Balochistan’s objection that it would receive only 2% of proceeds, compared to 48% to the federal government and 50% to China.

Pakistan lacks an effective mechanism to cope with a plethora of intra-state conflicts and rivalries. The Ministry of Inter-Provincial Coordination and the Council of Common Interests are the institutions at the federal level that try to resolve issues between the center and provinces. The issues of water distribution among the provinces, Kalabagh Dam and the distribution of financial assets between the center and the provinces need to be resolved. However, the government has failed to develop a consensus on these issues. So far, the judiciary has failed to play a meaningful role in the resolution of these disputes. In late 2016, the CCI met after a nine-month gap. Long-delayed plans for a census are under way, scheduled for March 2017. In theory, the census should be held every 10 years. In practice, provinces and stakeholders worry that changes in numbers will affect their seats in the National Assembly, job quotas and share of the divisible pool of financial awards. In January 2017, Senate committees also called for a permanent secretariat of the CCI to be created. If functional and autonomous, this move could create more capacity for the CCI, but this remains to be seen.

Pakistan’s civil society has historically played an important role in bringing public issues to fore, especially with respect to fundamental rights and gender equality. Furthermore, the vigor of self-organizing activity speaks to civic virtue and a social foundation for effective self-governance, as well as the courage of tenacious individuals. The issues taken up by CSOs have often made headlines in the mass media and sometimes prompt reactions by government functionaries. Owing to the poor state of law and order in the country however, the threats to CSOs have also grown with their strength. Activists have been assaulted and even killed, including dozens of polio workers in many parts of the country with war-ridden tribal areas. Khyber Pakhtunkhwa is becoming a dangerous zone for CSOs. Several foreign aid workers have had to flee the country after intimidation by militants. The state apparatus has also been accused of harassing civil society activists; in most instances security forces were accused of threatening their critics. There are structural constraints in the system that bar government officials from consulting civil society members or organizations on important policy matters. In 2015, prominent human rights activist Sabeen Mahmud was killed after holding a discussion on Balochistan in a cafe she ran as a space for civic deliberation. Early in 2017 five liberal bloggers were abducted separately but nearly simultaneously, leading to suspicions of involvement of state security services, although the government has denied this. These forced disappearances raised disproportionate national attention because they did not take place in Balochistan or a conflict zone, where such happenings attract less media attention. The NGO sector with international connections is now required to register with the Interior Ministry, and the interior minister made a vaguely worded
statement to the effect that activities contrary to Pakistan’s interests would result in permission being revoked. These developments have had a chilling effect on civil society participation during the review period.

Sectarian differences and their apparent incompatibility has fed suspicion and strife in Pakistan, particularly in questions of political rights and governance. Considering the central role of intercommunal relations, there have only been weak efforts at promoting reconciliation, and a systematic policy does not seem to exist. Some piecemeal efforts have been taken during the review period. In July 2015, the Federal Minister of Interreligious Affairs and Harmony organized a conference in Karachi that brought together religious authorities from different groups, including Hindu, Parsi, Christian and Muslim figures, with each speaker stressing the importance of tolerance. A concluding declaration called for more meetings and for ways to reach the grassroots. The common perception is that a few extremists pull diverse communities apart, and that political parties have functioned more to serve a narrowly conceived understanding of their interests rather than the collective benefit of intercommunity harmony. A key question is the official response to hate speech. Early in 2015, there were several arrests in Punjab reportedly over hate speech charges. In its 2016 Security Report recommendations, the Pakistan Institute of Peace Studies has called for a national dialog forum to bring together diverse voices, and also to work on a plan for de-radicalizing and reintegrating militants. There has also been little systematic effort to engage grievances in Balochistan in particular, despite the 18th Amendment to the constitution in 2010, which feed ethno-nationalist militancy.

17 | International Cooperation

Pakistan is dependent on international community for financial support. Every year, it receives major sums of money from donors such as the IMF, the World Bank, the European Union, the United States, Saudi Arabia and other countries. Despite millions of dollars to upgrade its education and health sectors, the government has been unable to effectively redesign the basic structure of the education and health systems. Foreign donors always attach some conditions to aid flow. In Pakistan’s case, these include structural reforms, decentralization, opening up markets and widening the tax net. The October 2016 IMF report describing Pakistan’s use of the Extended Fund Facility from September 2013 through September 2016 is an instructive overview. Many criteria and benchmark targets have been met, and the IMF report judges Pakistan’s performance to be satisfactory.

Much of Pakistan’s use of assistance seems to be captured by elites. The large inflow of foreign funds and support has failed to make a difference in the lives of ordinary Pakistanis. CPEC investment, hailed by some as a game-changer, is viewed with suspicion by the marginalized, such as in Balochistan, who worry that the benefits
will accrue elsewhere and disempower them further. Widespread corruption among government officials leaves little incentive for the government to properly allocate aid resources in the country.

Pakistan has satisfactorily completed an IMF Extended Funding Facility and is now entering a period of post-program monitoring. The underlying questions of state bank autonomy and transparency in macroeconomic decision-making in such areas as exemptions and special regulatory orders continue to be an issue. Low bureaucratic filtration entities such as the Economic Coordination Committee affect Pakistan’s credibility. The fact that an established think tank like the Social Development Policy Center can dispute the Pakistan Bureau of Statistics growth figures in its 2016 economic review, and assert that they have been exaggerated for the third year in a row, for example, shows a possible credibility gap; at the same time, the fact that think tank reports exist could be an indicator of credibility if there were more institutional channels for transparency, deliberation and accountability in reconciling these divergences. The Pakistani news media, in view of the difficult environment for journalists, have often done an admirable job of reporting on the issues related to economic policy in particular. One question is how to translate this into meaningful governance improvement.

The picture is murkier in military aid and Pakistani cooperation in the war on terror, although this has been somewhat reduced over the period of the National Action Plan for combating terrorism. However, suspicion remains that the Pakistani crackdown is selective and not comprehensive. Amid some large-scale Taliban attacks in Afghanistan, the cross-border cooperation needed with Kabul has stalled. As well, India accused Pakistan of being a supporter of terrorism, blaming it for an attack in Jammu and Kashmir in September 2016. The formal workings of the National Security Council appear to be bypassed in favor of ad hoc meetings between the COAS and the prime minister.

The 19th SAARC summit was scheduled to be held in Pakistan in November 2016, but was cancelled when India announced that it would boycott the summit, claiming Pakistani involvement in an attack in Jammu and Kashmir. This was followed by Afghanistan, Bangladesh and Bhutan declining to participate, and eventually Sri Lanka also expressing reservations.

Over the period under review, the thought of a rapprochement with the Afghanistan government has largely faded. After Ashraf Ghani’s ascendance to power in Afghanistan, there were peace overtures, but Pakistan-brokered peace talks with the Afghani Taliban did not succeed in reducing insurgent violence there. Pakistani security officials have blamed handlers across the border for an attack in Quetta in August 2016. A trade deal with Afghanistan stalled over Pakistani concerns that India would be able to access Pakistani markets. According to UNHCR, over
200,000 Afghan refugees were repatriated in 2016 from Pakistan, as well as over 150,000 other undocumented Afghans, according to Human Rights Watch.

There have been concerns about the future of the Indus Waters Treaty. As tensions over attacks in Kashmir grew in 2016, the Indian Prime Minister threatened to divert Indus Waters and suspended talks of the Indus Water Commission. Amid reported Indian plans to build hydropower plants affecting three rivers that flow into Pakistan, the Pakistani foreign minister asserted that any interruption of water flow would break the treaty and could be taken as an act of war.

China’s One Belt One Road strategy for global reach includes the China Pakistan Economic Corridor, allowing energy supplies to reach China and goods to be sent to markets through the port of Gwadar. Some likened the investment plan for energy and infrastructure to a “Marshall Plan” for Pakistan. In a partial CPEC operationalization, Chinese goods left Gwadar for other markets in November 2016. CPEC would more strongly align Pakistan with China’s regional and global strategy, although it is arguable that it will increase competition with a growing U.S.-Indian axis.
Strategic Outlook

Even though the period in review provides a mixed set of signals, there are grounds for optimism for a fuller democratic transition and improved governance – and some reasons for caution. Perceptions of elitist bias in economic policy-making, and outright allegations of corruption, continue to swirl around the civilian government and other leading figures. As of January 2017, court proceedings are still under way investigating the Panama Papers revelations about foreign holdings of the prime minister’s family. An optimistic reading would be that this reinforces faith in an established institutional channel for examining serious allegations of malfeasance. A pessimistic reading would look at the long history of official investigations that became tainted as politically motivated, or dropped with shifting political winds. The prime minister threatened to retaliate against the National Accountability Bureau for “harassing government servants,” reducing the prospects for a stronger corruption watchdog in the future.

Another mixed area is the security situation. The National Action Plan has had a noticeable impact, reducing the number of terrorist attacks significantly. Yet the accusations, particularly from India, that the military continues to tolerate jihadis or act selectively in its crackdowns, have not been fully answered. Also, military courts for speedy trials of terrorism suspects have created a parallel system to civilian courts and have been accused of human rights violations. As of January 2017, the court’s term has been allowed to expire without renewal. But the civilian justice system remains insufficient and under-supported for the challenge of terror trials, and a spike in terrorist activity could lead to the military courts being reintroduced. New oversight and registration requirements for INGOs, justified on security and national interest grounds by the interior minister, have produced concern for the vibrant third sector. New electronic media rules and the abduction (and reappearance) of liberal bloggers raise concern for the future of civic activism and deliberation online.

While several macroeconomic indicators have improved and the IMF’s Extended Fund Facility benchmarks have mostly been met, the tax net has not widened, privatization efforts have stalled or faced delays and substantive needed shifts on central bank autonomy have not taken place. These are unlikely to change in the near future, because the political incentives are toward narrow benefits for elites rather than inclusive growth or the longer-term collective benefit. A major potential boost is expected from the $46 billion CPEC infrastructure investment from China, which will improve electricity supplies, build a road from Lahore to Karachi, and reap the benefits of Pakistan’s geostategic location as a port for maritime exports from China and the import of energy supplies. The CPEC serves China’s strategic goal of reducing exposure to the Malacca Straits chokepoint, and may also contribute to a closer Pakistan-China alliance against the growing U.S.-India axis. Finally, another key challenge for Pakistan will be to overcome its regional isolation, symbolized in the cancellation of the 2016 SAARC. A major wildcard as of January 2017 is the foreign policy of the new U.S. administration, which could shift the strategic environment in unexpected and possibly dangerous ways, particularly as it raises the risk of tactical miscalculation.