

# PAKISTAN



## COUNTRY RISK REPORT / APRIL 2020

Maria Jose Moya, Irene Maspons, Ana Victoria Acosta



Universidad  
de Navarra

© 2020

*Pakistan: Country Risk Report*

By Maria Jose Moya, Irene Maspons, Ana Victoria Acosta

Center for Global Affairs & Strategic Studies

University of Navarra

Law School–International Relations

Campus Pamplona: 31009 Pamplona

Campus Madrid: Marquesado Sta. Marta 3, 28027 Madrid

<https://www.unav.edu/web/global-affairs>

*Cover: Artistic image of a Pakistani Rupee [Pixabay]*

## TABLE OF CONTENTS

COUNTRY BRIEFING .....	4
ACRONYMS .....	5
EXECUTIVE SUMMARY.....	6
<b>1. ECONOMIC OUTLOOK.....</b>	<b>7</b>
<b>SWOT Analysis.....</b>	<b>7</b>
<i>Pakistan’s Macroeconomic Picture .....</i>	<i>9</i>
<i>China Pakistan Economic Corridor (CPEC) .....</i>	<i>15</i>
<i>Booming Population v. Pakistan’s Shortage of Resources .....</i>	<i>19</i>
<i>Operational Risks for Foreign Companies Investing in Pakistan.....</i>	<i>22</i>
<b>2. POLITICAL OUTLOOK .....</b>	<b>27</b>
<b>SWOT Analysis.....</b>	<b>27</b>
<b><i>Political Stability.....</i></b>	<b><i>28</i></b>
The Future of Pakistani Politics .....	28
Secularism and Islamism .....	29
The Armed Forces.....	30
<b>Short-term Forecast of Pakistan’s Political Future .....</b>	<b>31</b>
<b>3. SOCIAL OUTLOOK .....</b>	<b>33</b>
<b><i>Social Stability .....</i></b>	<b><i>33</i></b>
Pakistan’s Ethnic Dilemma (short-medium forecast).....	333
Water Shortages .....	35
The Pashtuns .....	36
Poverty in Relation to Inequality .....	37
<b>4. SECURITY OUTLOOK .....</b>	<b>40</b>
<b><i>Jihadism .....</i></b>	<b><i>40</i></b>
Terrorism in Pakistan (short-medium forecast).....	40
National Action Plan (NAP).....	42
<b><i>Organized Crime.....</i></b>	<b><i>43</i></b>
Flawed Financial System.....	43
<b><i>Corruption and Transparency (short- medium forecast).....</i></b>	<b><i>45</i></b>
Pakistan’s Future Role as an Outlet for Illicit Trafficking and Shady Transactions .....	46
<b>5. INDO-PAKISTANI RELATIONS.....</b>	<b>49</b>
<i>Background .....</i>	<i>49</i>
<i>Scenario Analysis .....</i>	<i>51</i>
<b>6. CONCLUSION .....</b>	<b>53</b>
BILIOGRAPHY.....	54

## COUNTRY BRIEFING



### Basic Data

#### General characteristics

**Official name:** Islamic Republic of Pakistan

**Capital:** Islamabad

**Prime Minister:** Imran Khan

**Surface:** 881.913 km<sup>2</sup>

**Borders:** bordered by India to the east, Afghanistan to the northwest, and Iran to the west, while China borders the country in the northeast.

**Language:** Punjabi, Sindhi, Siraiki Pashtu, Urdu (official) Balochi, Hindko, Brahui, English (official), Burushaski.

**Currency:** 1 Pakistani rupee (Pre\$) = 0,0057 euro

**GDP per capita:** Pakistan is the second largest economy in South Asia after India. Pakistan's GDP grew by 5.8% in 2017-2018. Today, the country's GDP per capita is 4927.90 US dollars.

**Religion:** majority Muslim (96,3%) along with other religions such as Christian and Hindu.

**Form of government:** federal system of government with a bicameral legislature: The National Assembly and the Senate.

**Administrative division:** the country is divided in four provinces: Sindh, Punjab, Khyber Pakhtunkhwa, and Balochistan.

### Political Situation

#### Internal Politics

Imran Khan, the current Prime Minister of Pakistan, was elected on 18 August 2018 following his party's victory during national elections in July of the same year. The Electoral Commission of Pakistan has declared the Prime Minister's party, Tehreek-e-Insaf (PTI), winner in the National Assembly with 149 of the 342 seats. This is due to the great support received by minor parties, granting them the control of 180 votes on the floor, more than the outgoing Pakistan Muslim League-Nawaz (PML-N). Prime Minister Khan won because of his strong anti-corruption platform and his promising policies to reduce poverty, which has been a major constraint for Pakistan's population since the country's independence in 1947.

#### Foreign Policy

Pakistan's foreign policy consists on a historically challenged relation with India encircled within the conflict of the disputed region of Jammu and Kashmir. The country has been working along with the United States and other Western countries in order to reach the stabilization of Afghanistan. At the same time, it has a long-standing close relationship with China grounded on economic interests.

**ACRONYMS**

**AML/CFT:** Anti-Money Laundering and Countering Financing of Terrorism Act

**APG:** Asia Pacific group

**APS:** Army Public School

**B&R:** Belt and Road Initiative

**BOT:** Balance of Trade

**BISP:** Benazir Income Support Program

**BITs:** Bilateral Investment Treaties

**COPHC:** China Overseas Ports Holding Company

**CPEC:** China-Pakistan Economic Corridor

**CRM:** Customer Relationship Management

**DB:** Doing Business

**EFF:** Extended Fund Facility

**EHPs:** Early Harvest Projects

**EU:** European Union

**FATA:** Federally Administered Tribal Areas

**FATF:** Financial Action Task Force

**FDI:** Foreign Direct Investment

**FY:** Fiscal Year

**GDP:** Gross Domestic Product

**GSP+:** Generalized System of Preferences

**IWT:** Indus Water Treaty

**IMF:** International Monetary Fund

**ISI:** Inter-Service Intelligence

**JUI-F:** Jamiat Ulema-e-Islam

**MQM:** Muttahida Qaumi Movement

**NANC:** National Anti-Narcotics Council

**NAP:** National Action Plan

**OPEC+:** Organization of Petroleum Exporting Countries and other major oil producers

**PM:** Prime Minister

**PML-N:** Pakistan Muslim League

**PPP:** Pakistan People's Party

**PRR:** Pakistan Raises Revenue

**PTI:** Pakistan Tehreek-e-Insaf

**PTM:** Pashtun Tahafuz Movement

**RUSI:** Royal United Services Institute

**SAARC:** South Asian Association for Regional Cooperation

**UNODC:** United Nations Office on Drugs and Crime

**WB:** World Bank

## **EXECUTIVE SUMMARY**

The government of Prime Minister (PM), Imran Khan, was slowly moving towards economic, social, and political improvements, but all these efforts might be hampered by the recent outbreak of the COVID-19 virus since the government must temporarily shift its focus and resources to keeping its population safe. Additionally, high logistical, legal, and security challenges still generate an uncompetitive operating environment and thus, an unattractive market for foreign investment in Pakistan.

Firstly, in relation to the country's economic outlook, Gross Domestic Product (GDP) was expected to gradually recover around 5% in the upcoming years. However, according to latest estimates, this growth will suffer a negative impact and fall to around 2%, straining the country's most recent recorded improvements. On the other hand, in the medium to long-term, Pakistan will benefit from the success of the China-Pakistan Economic Corridor (CPEC), which is a strategic economic project aiming to improve infrastructure capacity in the country. Pakistan is also facing an energy crisis along with a growing demand from a booming population that hinder a proper economic progress.

Secondly, Pakistan's political future will be shaped by Khan's ability to transform his short-term policies into long-term strategies. However, in order to achieve this, the government must tackle the root causes of political instability in Pakistan, such as long-lasting corruption, the constant military influence in decision-making processes, the historical debate among secularism and Islamism, and the new challenges posed by the COVID-19 pandemic. Still, PM Khan's progressive reforms could represent the beginning towards a "*Naya Pakistan*" ("New Pakistan").

Thirdly, Pakistan's social stability is contextualized within a high risk of terrorist attacks due to its internal security gaps. The ethnic dilemma among the provinces along with the government's violent oppression of insurgencies will continue to impede development and social cohesion within the country. This will further aggravate in light of a current shortage of resources and the impacts of climate change.

In addition, in terms of Pakistan's security outlook, the country is expected to tackle terrorist financing and money laundering networks in order to avoid being blacklisted by the Financial Action Task Force (FATF). Nonetheless, due to a porous border with Afghanistan, Pakistan faces drug trafficking challenges that further destabilize national security. Finally, the turbulent Indo-Pakistani relation is the most significant conflict for the South Asian country. The disputed region of Jammu and Kashmir, a possible nuclear confrontation, and the increase of nationalist movements along the Punjab region, hamper regional and international peace.

## **1. ECONOMIC OUTLOOK**

*Despite previous improvements in Pakistan's macroeconomic picture, risks to the outlook remain high.*

- The real GDP Growth is estimated to fall 1.5% in 2020 and rise 2% in 2021.
- The country's public debt is expected to record 78.6% in relation to its GDP by the end of 2020.
- Due to money laundering, the Pakistani Rupee devalued, and inflation rate reached 13% in relation to its GDP in January 2020. However, it is estimated that it will level off to approximately 5% in the next four years.
- The government's overall fiscal balance is estimated to reach -9.2% and as a result, budget deficit is expected to be higher than the previously estimated -2.4%.
- Unemployment rate is expected to reach 4.5% of the country's labor force at the end of 2020.
- The failure to meet the IMF objectives could hinder future external financing. In addition, a potential blacklisting by the FATF could result in the freezing of Pakistan's capital flows and lower investment opportunities.

### **SWOT Analysis**

#### *Strengths*

- Due to its strategic location, Pakistan can become the entry/exit point from central Asia to the Indian Ocean.
- Pakistan is a rich country in terms of natural resources such as coal and copper. Also, agricultural products like cotton and rice make up most of the country's revenue. Major exports include textiles and leather goods.
- Pakistan's close relationship with the Gulf countries guarantees their gas and petroleum supply.

*Weaknesses*

- Corruption remains a major obstacle to companies operating in Pakistan.
- Legal discrepancies between policy frameworks in relation to Foreign Direct Investment (FDI) increment uncertainty.
- Pakistan's circular debt with China and the IMF.
- Declining investment levels due to high political and social insecurity.
- Pakistan suffers from a huge macroeconomic instability.
- Pakistan has been rated among the ten top countries most vulnerable to the impacts of climate change.
- Weak health care infrastructures.

*Opportunities*

- Bilateral Investment Treaties (BITs) offer legal protection to foreign investors.
- As inflation is expected to drop, the cost of doing businesses will reduce as well.
- The CPEC is exploiting an unexplored market and creating new job opportunities.

*Threats*

- The outbreak of COVID-19 pandemic is causing significant economic turmoil and social instability.
- Pakistan is currently facing a public debt burden that is expected to keep rising.
- Pakistan might be unable to pay its debt with China, causing a constraint in the CPEC.
- New competitors in the textile sector such as Bangladesh, Vietnam and Turkey.
- If Pakistan does not meet the established requirements set by the FATF by June 2020, the country might end up in the organization's blacklist.
- The constant threat of conflict between Pakistan and its neighbors utilizes a great deal of resources, further damaging their ability to grow business.
- Rapid population growth may generate constraints in the economy due to a possible shortage of non-renewable resources.

*Note: Short-term states for 24 months; mid-term states for 2-5 years.*



## *Pakistan's Macroeconomic Picture*

### *GDP*

The onset of the pandemic has dramatically altered Pakistan's economic outlook for 2020 and 2021. After the spread of the virus, the country's GDP is expected to fall from 2.35% to -1.5% during the current year<sup>1</sup>. This contract in the average growth rate reflects the devastating effects of the pandemic and a temporary slowdown given stabilization policies adopted by the current government<sup>2</sup>.

Pakistan's GDP growth was 5.53 % in 2018 after adjusting for inflation<sup>3</sup>. As reported by the planning commission of Pakistan, the economy was targeted to grow by over 8% between 2018 and 2025 with single-digit inflation<sup>4</sup>. However, in order for this to happen, Pakistan needs to be able to balance between averting the health crisis and keeping the economy afloat, while expecting to rely on the benefits of the CPEC project and an export led growth strategy. According to the IMF, if this comes to fruition, the GDP of Pakistan will likely show an increase. Nonetheless, its increase is not proportional to the country's fast-growing populations.

### *Inflation*

Pakistan's inflation rate reached 13% in relation to its GDP in January 2020, the highest rate seen in the last twelve years. This was driven by the second-round impact of exchange-rate pass-through to domestic prices<sup>6</sup>. In light of the pandemic, more disruptions in the supply of consumption goods could enhance the domestic prices upward<sup>7</sup>. Additionally, the inflation rate rose to its peak due to the impact of the government's misaligned economic policies including overvalued exchange rate.

<sup>1</sup> International Monetary Fund. 2020. *Regional Economic Outlook: Middle East and Central Asia*. Washington D.C: International Monetary Fund.

<sup>2</sup> Ibid.

<sup>3</sup> International Monetary Fund. 2019. *International Monetary Fund*. October.

<sup>4</sup> Government of Pakistan . 2020 . *Pakistan 2020 One Nation - One Vision*. Pakistan : Ministry of Planning .

<sup>5</sup> International Monetary Fund. 2019. *International Monetary Fund*. October.

<sup>6</sup> World Bank. 2019. *World Bank Organisation*. October 21.

<https://www.worldbank.org/en/country/pakistan/overview>.

<sup>7</sup> International Monetary Fund. 2020. *Regional Economic Outlook: Middle East and Central Asia*. Washington D.C: International Monetary Fund.

The WB estimates that it will level off to approximately 5% in the next four years<sup>8</sup>. Apart from addressing the various impacts of the current crisis, the Pakistani government has to implement fast responses considering the current high inflation rate to meet the WB projections.

The lowest inflation rate was in 2016, with a percentage of 2.86%. Nonetheless, during the next five years, there appears to be a clear upward pattern in the percentage of inflation. From 2018 to 2019 there was a sudden increase of 3.93% to 7.34%<sup>9</sup>. As a consequence, due to the instability of the inflation rate, the country has been facing the perpetuation of poverty and unemployment.

### *Unemployment rate*

The outbreak of COVID-19 is causing significant economic turmoil and social instability while worsening the already high unemployment rate. According to the WB, Pakistan's labor force has increased significantly, reaching 75 million people in 2019<sup>10</sup>. From 2010 to 2015, the unemployment rate of Pakistan recorded a consistent flow range between 5.6% and 6% in relation to the country's labor force. In 2019, it registered a sudden fall reaching a rate of 4.1%<sup>11</sup>.

As the population in Pakistan is expected to grow at a rate of 2.5%, the unemployment rate is likely to increase as well. This is due to the country's literacy rate, which in 2017, was 59% of the total population<sup>12</sup>. Within this 59%, approximately 60% were unemployed<sup>13</sup>. Furthermore, the youth unemployment rate is higher than that of the average population<sup>14</sup>, recording 6.01% in 2019<sup>15</sup>. In 2018, 64% of Pakistan's population was younger than 30 and 29% were between the ages of 15 and 29<sup>16</sup>. These proportions are most likely to increase and despite measures to address education

<sup>8</sup> World Bank. 2019. *World Bank Organisation*. October 21.

<https://www.worldbank.org/en/country/pakistan/overview>.

<sup>9</sup> International Monetary Fund . 2019. *International Monetary Fund*. October.

<sup>10</sup> International Monetary Fund. 2019. *IMG Executive Board Completes the First Review of Pakistan's Extended Fund Facility*. Press Release No. 19/477, Washington D.C: International Monetary Fund.

<sup>11</sup> International Monetary Fund. 2020. *World Economic Outlook, April 2020*. Washington D.C: International Monetary Fund.

<sup>12</sup> International Monetary Fund. 2019. *International Monetary Fund*. October.

<sup>13</sup> Mahmood, Tahir, Amjid Ali, Noureen Akhtar, Muhammad Iqbal, Sadia Qamar, Hafiz Zafar, Nasir Abbas, and Iram Sana. 2014. «Determinants of Unemployment in Pakistan: A Statistical Study.» *International Journal of Asian Social Sciences* 1163-1175.

<sup>14</sup> Ibid.

<sup>15</sup> World Bank. 2019. *Labor force, total - Pakistan*.

<sup>16</sup> Ahmad, Shakeel. 2018. *Unleashing the Potential of a Young Pakistan*. Human Development Reports, Washington DC: United Nations Development Program.

and population growth, the long-lasting effects of the pandemic will further hamper the possibilities for Pakistan to tackle unemployment in the medium term. However, these estimations may be masked by considerable underemployment in the informal sector<sup>17</sup>.

### *Public Debt*

In 2018, Pakistan recorded a public debt of 71.69% in relation to its GDP and this year it reached 78.6%. This is the result of the federal government borrowing money to cover years of budget deficit, which up until 2019, rose up to 8.8% of the country's GDP<sup>18</sup>. Some of the principal reasons for Pakistan's growing debt are low revenues, high external debt, and currency devaluation.

During FY 2018-2019, the country's domestic debt was 50.8% of the total public debt while external debt was 27.6%<sup>19</sup> and in March 2020, it recorded 42%<sup>20</sup>. Although some of Pakistan's external debt has been postponed due to the current crisis, the country's public debt is expected to record 78.6% in relation to its GDP by the end of 2020<sup>21</sup>. It is projected that, despite measures taken by the government's fiscal policy to reduce financial risks, the debt is expected to increase<sup>22</sup>. According to the IMF, before the pandemic, Pakistan's external debt was expected to increase up to 40.9% in 2021<sup>23</sup>, concerning a risk for the country's whole macroeconomic stability<sup>24</sup>.

### *Trade Balance*

Pakistan has been recording trade deficits since 2003 mainly due to high imports of energy, especially refined petroleum<sup>25</sup>. Despite administrative measures and subsidies to exporters, it has

<sup>17</sup> International Monetary Fund. 2019. *IMG Executive Board Completes the First Review of Pakistan's Extended Fund Facility*. Press Release No. 19/477, Washington D.C: International Monetary Fund.

<sup>18</sup> Plecher, H. 2020. *Statista*. 13 February. <https://www.statista.com/statistics/572781/literacy-rate-in-pakistan/>.

<sup>19</sup> Younus, Uzair. 2019. «Pakistan's Debt Policy has Brought us to the Brink. Another Five Years of the Same is Unsustainable.» *Dawn*, November 16.

<sup>20</sup> News Desk. 2020 «Pakistan's Current Account Deficit Decreases by 71 Percent in FY20.» *Link News*, March 18.

<sup>21</sup> Rana, Shahbaz. 2019 «Pakistan's Debt to Rise to Over 78% of GDP.» *The Express Tribune*, October 16.

<sup>22</sup> Trading Economics. 2020. *Trading Economics*. <https://tradingeconomics.com/pakistan/external-debt>.

<sup>23</sup> International Monetary Fund. 2019. *IMG Executive Board Completes the First Review of Pakistan's Extended Fund Facility*. Press Release No. 19/477, Washington D.C: International Monetary Fund.

<sup>24</sup> Younus, Uzair. 2019. «Pakistan's Debt Policy has Brought us to the Brink. Another Five Years of the Same is Unsustainable.» *Dawn*, November 16.

<sup>25</sup> Trading Economics. 2020. «Pakistan Balance of Trade».

been recording a weakening growth in exports<sup>26</sup>. This is due to poor governance, low productivity, high cost of production, obsolete technology and a decrease in global demand following the COVID-19 pandemic<sup>27</sup>.

Furthermore, demand and supply shocks through trade, tourism and remittances could severely curtail trade, affecting Pakistan's domestic production and business<sup>28</sup>. However, the current account balance witnessed an improvement from -5.0% to -1.7% during the FY 2019-2020. In 2020, it is expected to improve with the average deficit shrinking to 4.9% of the region's GDP, despite lower tourism receipts and remittance flows<sup>29</sup>.

Looking forward, the Balance of Trade (BOT) is likely to diminish. In the first half of the current FY, Pakistan's trade deficit narrowed over 30% to \$11.6 billion<sup>30</sup> as the importations are to remain reduced in the short-term due to the country's import compression policy and the implications imposed by the pandemic.

### *Fiscal Deficit*

The government's overall fiscal balance is estimated to reach -9.2%<sup>31</sup> in 2020 as a consequence of an increased health-related expenditure to manage the spread of the virus. As a result, budget deficit is expected to be higher than the previously estimated -2.4% by the IMF<sup>32</sup>.

Pakistan recorded a budget deficit equal to 8.9% of the nation's GDP in 2019, it has been recorded as the highest level in the last three decades<sup>33</sup>. In projection to the future, as oil prices remain low since the outbreak of COVID-19 in the absence of a new production agreement among Organization of Petroleum Exporting Countries and other major oil producers (OPEC+), fiscal

<sup>26</sup> Rana, Shahbaz. 2020. «Pakistan's Trade Deficit Contracts over 30% to \$11.6b.» *The Express Tribune*, January 7.

<sup>27</sup> Siddiqui, Hussain Ahmad. 2019. «Pakistan's Exports Keep Declining in Absence of Long-term Vision .» *International The News*, November 9.

<sup>28</sup> International Monetary Fund. 2020. *Regional Economic Outlook: Middle East and Central Asia*. Washington D.C: International Monetary Fund.

<sup>29</sup> Ibid.

<sup>30</sup> Rana, Shahbaz. 2020. «Pakistan's Trade Deficit Contracts over 30% to \$11.6b.» *The Express Tribune*, 7 January.

<sup>31</sup> International Monetary Fund. 2020. *Regional Economic Outlook: Middle East and Central Asia*. Washington D.C: International Monetary Fund.

<sup>32</sup> International Monetary Fund. 2019. *International Monetary Fund*. October.

<sup>33</sup> ANI/Islamabad. 2019. «Pakistan's Fiscal Deficit Rises to Highest Level in Three Decades.» *Khaleej Times*, August 28.

deficit might improve. However, due to the impact of lower growth on tax revenues and scaled-up spending, growth would only be marginally higher<sup>34</sup>.

(Figure I) MACROECONOMIC FORECAST

	Gdp Growth	Inflation	Fiscal Deficit	Unemployment	Public Debt	Trade Balance
2019	3.3%	6.7%	-8.8%	4.1%	76.73%	-\$2,044 million
2020	-1.5%	11.1%	-9.2%	4.5%	78.6%	-\$1,932 million
2021	2.0%	8.0%	-6.5%	5.1%	76.1%	-\$1,800 million

*Note: Public Debt and Trade Balance indicators are prior to the COVID-19 pandemic.*

*Data source: International Monetary Fund (2019), World Bank (2019), CEIC Data (2019), CEIC Data source (2019), and International Monetary Fund (2020).*

### *The Future of the IMF bailout*

On July 2019, the IMF approved a \$6 billion bailout package under the Extended Fund Facility (EFF) to help “return sustainable growth” to Pakistan’s economy<sup>35</sup>. The last visit of the IMF to Islamabad, on February 3-13, can be described as a success due to the considerable progress made in advancing reforms and continuing with sound economic policies<sup>36</sup>.

However, the evolution of the IMF bailout depends on Pakistan’s continued capacity to meet the standards set by the programme. Some of the implications not only involve painful economic adjustments, but also can have a political dimension that could shake up things in the country. Pakistan is supposed to slash subsidies and exemptions by increasing revenues and cutting

<sup>34</sup> International Monetary Fund. 2020. *Regional Economic Outlook: Middle East and Central Asia*. Washington D.C: International Monetary Fund.

<sup>35</sup> Shahid, Kunwar Khuldune. 2019. «The IMF Takeover of Pakistan .» *The Diplomat*, July 18.

<sup>36</sup> International Monetary Fund. 2020. *IMF International Monetary Fund*. [https://www.imf.org/external/datamapper/NGDP\\_RPCH@WEO/BGD/EGY/PAK](https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/BGD/EGY/PAK).

expenditures. Nevertheless, this cannot be expected on a short-term estimation due to the increased government spending and the diminished returns on revenues.

Additionally, according to the IMF, “a comprehensive plan for cost-recovery in the energy sectors and state-owned enterprises will help eliminate or reduce the quasi-fiscal deficit that drains scarce government resources”<sup>37</sup>. This could compress the budget of the Pakistani middle-class, creating an even higher economic distress level which can initiate a feeling of aversion from the citizens and thus, the rise of instability in the country.

Looking forward, the success of the IMF bailout will depend on Pakistan’s ability to implement the IMF’s conditions without causing any constraint to the people of the country. Nonetheless, due to the Covid-19 outbreak, the IMF has decided to give a one-year debt relief to Pakistan as the country grapples the crisis<sup>38</sup>. If PM, Imran Khan, is able to achieve this, the future of the bailout will continue to follow an advantageous path. It is expected that, even if on medium-term estimations, the bailout will present some challenges for the Pakistani government, this will not impede the progress of the programme since continued improvements are anticipated from Pakistan.

### *Pakistan’s Debt Towards China*

Pakistan’s total external debt and liabilities increased by \$31.6 billion dollars between the FY of 2015 and 2018, attaining \$96.7 billion by October 2018. In 2019, the external debt rose to its peak reaching a total of \$111 billion dollars, 31.1% of Pakistan’s GDP<sup>39</sup>. The government must repay China more than double the amount it owes the IMF. On the other hand, about one fifth of the external debt which is estimated around US\$19 billion is owed in regard to the CPEC projects. However, Pakistan’s debt with China not only consists on the CPEC projects, but also on all the commercial loans of which Pakistan owes \$6.7 billion dollars.<sup>40</sup> Additionally, the debts must be paid over the next three years in accordance to IMF directions.

<sup>37</sup> Sareen, Sushant. 2019. *7 Implications of IMF Programme for Pakistan*. Observer Research Foundation.

<sup>38</sup> Jamal, Umair. 2020. "Pakistan Gets Unexpected Economic Relief in a Time of Global Crisis." *The Diplomat*.

<sup>39</sup> Mangi, Faseeh. 2019. «Pakistan Owes China More Money than it Owes the IMF.» *AlJazeera*, October 3. <https://www.aljazeera.com/ajimpact/pakistan-owes-china-money-owes-imf-191003104027694.html>.

<sup>40</sup> Anwar, Dr Talat. 2019. *CPEC and Pakistan’s Debt Burden*. Opinion, *The News International*.

One of the implications of the IMF programme is that, in order for Pakistan to continue receiving loans, the government must pay the debts to its lenders in the time frame established, in this case to China. This said, the South Asian country does not have the resources to repay this debt on time. Even though the Pakistani government has been imposing incentives and policies to re-boost the economy, it can be expected that, on the short term, those policies will not have a steep effect in regards to the country's external debt.

According to IMF implications, the Pakistani government needs to achieve an agreement with China in order to reschedule and re-profile Chinese loans. This is due to the fact that the country must reduce the debt burden on the economy. Although the CPEC has the potential to transform the Pakistani economy, the project is far from over and the costs will keep on rising. As a consequence, it can be forecasted that Pakistan will continue to reschedule its debts several times before it is over.

On the medium-term, it can be foretold that negotiations will take place, but unfortunately this could mean swapping debt with the project's equity. Moreover, taking into account the recurrent trends that have been creating instability in the country and the current situation of the economy, it can be inferred that, on a long-term estimation, Beijing's interests will prevail over Pakistan's. This could mean that China will eventually end up with most of the revenue of the CPEC.

### *China Pakistan Economic Corridor (CPEC)*

The CPEC provides an excellent opportunity for improving the economic and security situation in Pakistan. However, such an outcome cannot be taken for granted, there are some important steps that Pakistan must comply in order to catch up with the project.

The CPEC is a strategic economic project aiming to increase regional connectivity for the economic development of Pakistan and China. The economic corridor covers China's Xinjiang Uygur Autonomous Region and the whole territory of Pakistan. It is not only expected to benefit Pakistan and China, but also to have a positive spillover effect on other neighboring countries by enhancing the geographical connectivity between Pakistan and other central Asian countries. Due to

enhancement in electricity generation capacity and investment in other production sectors of the economy, power outages will enhance Pakistan's GDP growth rate in a 7.5% by 2030<sup>41</sup>. Consequently, approximately two million jobs will be available in the job market. On the other hand, Pakistan's vision 2025 also projects rapid urbanization (50–60%) and a high GDP growth rate (8%) by 2025<sup>42</sup>.

Moreover, the CPEC is a major and pilot project of the Belt and Road Initiative (B&R), which is “one of President Xi Jinping's most ambitious foreign and economic policies”.<sup>43</sup> Additionally, this project will connect the Gwadar port, located in the province of Balochistan, with the Chinese northwestern region. Apart from the building of efficient road infrastructure, the CPEC also seeks to lay foundations for the development of regional cooperation, boost up the economic growth, diversify investment opportunities and trade, promote industrial, financial and agricultural cooperation, while achieving political stability and modernizing the energy sector<sup>44</sup>.

Initially, the CPEC implied an investment from China of US\$46bn, which was later extended to US\$62bn<sup>45</sup>. The original blueprint of the project was expected to complete twenty-two projects by 2020, which corresponded to the early harvest projects (EHPs). These projects are essential as they are the starting point and the basis for the development of the other two phases that compose the CPEC. By December 2019, thirteen out of the twenty-two EHPs have been completed, whilst nine are under construction <sup>46</sup>.

Even though the CPEC has slowed down during the last 2 to 3 years, on the long-term, both China and Pakistan will perceive the profits of the project if Pakistan can manage to pay its respective debts. Macroeconomic conditions have also been improving; thus, it's expected that the economy will continue to grow with the future CPEC profits. During the last five years, Pakistan's GDP

<sup>41</sup> Faisal Mehmood Mirza, Nishat Fatima, Kafait Ullah. 2019. «Impact of China-Pakistan Economic Corridor on Pakistan's Future Energy Consumption and Energy Saving Potential: Evidence from Sectoral Time Series Analysis.» *Elsevier* 34-46.

<sup>42</sup> International Monetary Fund. 2020. *IMF International Monetary Fund*.  
[https://www.imf.org/external/datamapper/NGDP\\_RPCH@WEO/BGD/EGY/PAK](https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/BGD/EGY/PAK).

<sup>43</sup> Cai, Peter. 2017. *Lowy Institute*. March 22. <https://www.lowyinstitute.org/publications/understanding-belt-and-road-initiative>.

<sup>44</sup> CPEC. 2020. *China Pakistan Economic Corridor*.

<sup>45</sup> Gong Sen, Melissa Leach and Jing Gu. 2019. «The Belt and Road Initiative and the SDGs: Towards Equitable, Sustainable Development.» *IDS Bulletin Transforming Development Knowledge* Vol.50 No. 4 .

<sup>46</sup> Government of Pakistan. 2020. *China Pakistan Economic Corridor*.



grew and by 2019, it reached 5.8%. Additionally, Pakistan's annual FDI grew from USD 650 million to USD 2.2 billion and the per capita annual income rose from USD 1,334 to USD 1,641<sup>47</sup>.

Moreover, the CPEC is entering a new key stage, where its objectives are directly related to the interests of PM Imran Khan. The second phase consists on industrializing Pakistan to spur mass job creation and improve deteriorating economic competitiveness. The new Pakistani government gives priority to the development of people's livelihood and aims to shape Pakistan into a welfare state<sup>48</sup>. In order to meet Pakistani interests, the CPEC's second phase has gradually shifted from energy and transportation infrastructure into industrial cooperation and park construction.

However, China's B&R initiative has exacerbated the current economic crisis of Pakistan. In the following years, the Pakistani and Chinese government must consider that, in order for the project to be successful, they must face old challenges that have not been overcome yet, plus those new ones emerging from the CPEC construction.

Regarding Pakistan, one of the country's most significant challenges is the instability of the economy followed by security threats and regional geopolitics. Additionally, the recent change of government, that took place in August 2018, rose challenges to the country's strategy toward the development of the CPEC. In addition, as a consequence of Pakistan's ongoing circular debt, it obtained a \$6 billion bailout from the IMF in 2019<sup>49</sup>. In order to complete the CPEC project, the Pakistani government must reduce the debt burden on the economy and start negotiations with China in regard to it.

This said, it is projected that on the medium-term, the CPEC project will enhance Pakistan's economy by providing jobs, income, and opening a window for exports and imports. However, this will only be achieved if Pakistan manages to catch up on its several debts or at least reaches an agreement with China.

<sup>47</sup> China Pak Golf Estates Firm. 2020. *2020: An exciting year for CPEC*. January 20.

<sup>48</sup> Tang Mengsheng, Li Jingfeng. 2019. «CPEC: Progress and Prospects.» *China Economic Net*, September 5: 1-7.

<sup>49</sup> Prasso, Sheridan. 2020. «CPEC – China's Most Ambitious Project in Pakistan has Become a Corridor to Nowhere.» *The Print*, March 2.

On the other hand, China is scaling back its ambitions in regards to the CPEC as it is threatened by a trade war against the U.S. Its economic growth has slowed to the lowest rate in three decades. The picture is getting worse as an epidemic that originated in China, denominated *Coronavirus* or COVID-19, threatens to cause further delays and cutbacks<sup>50</sup>.

### *Port of Gwadar*

The Gwadar Port is one of the four major areas of the CPEC. It is expected to balance the business volume between the two international sea ports in Pakistan: Karachi and Qsami Port. The Gwadar Port will deepen the approach channels to a depth of 14 meters from the current 12.5meter depth. This will enable the docking of larger ships with a deadweight tonnage of up to 70,000<sup>51</sup>. Additionally, it seeks to expand the port's capacity to up to 400 million tons of cargo per year. The long-term plan for the Gwadar Port requires a total of 100 berths to be developed by 2045<sup>52</sup>.

Currently, Karachi remained the single largest contributor to the national economic output. However, according to Zhang Baozhong, the China Overseas Ports Holding Company (COPHC) chairman, it is expected that in 7 years, 47,000 jobs will be created, and its annual sales will be USD 1 billion<sup>53</sup>. Although the port of Karachi is located at a strategic point, in recent years it suffered physical limitations due to the national and international growth in demand while being the only port operating in the region. Due to this, Karachi has experienced a rapid growth over the past few years. In addition, Gwadar port will become a gateway for Pakistan and the region while developing into a world–class maritime hub.

Seaports provide a vital link between a country and the outside world. The Gwadar port, along with the CPEC, can be the channel for Pakistan to expand its own objectives along the Indian Ocean Rim<sup>54</sup>. Thus, Pakistan must take advantage of its position at the very crossroads of the Arabian Sea to become a regional trade hub. However, in order For Pakistan to become the entry/exit point, it

<sup>50</sup> Kirk Lancaster, Michael Rubin. «What the COVID-19 Pandemic May Mean for China's Belt and Road Initiative.» *Council on Foreign Relations*, March 2020.

<sup>51</sup> Gwadar Port Authority . 2020. *Vision and Mision Gwadar Port*.

<sup>52</sup> Logistics Capacity Assessment. 2017. *Logistics Capacity Assessment*. October 25.

<sup>53</sup> Press Trust of India . 2019. «Chinese firm vows to make Gwadar more valuable than Karachi within 7 yrs.» *Business Standard* , October 9.

<sup>54</sup> Malik, Hasan Yaser. 2012. *Strategic Importance of Gwadar Port*. Vol. 10, Journal of Political Studies .

must catch up with the CPEC first. In addition, it has to meet all the phases of the project and avoid more debts with the IMF. Through international logistic nodes such as Gwadar port, Karachi and Peshawar, Pakistan serves as a way to transport products from western China to Countries in the Middle East and the Indian Ocean.

### *Booming Population v. Pakistan's Shortage of Resources*

#### *Medium-term Forecast*

“One of the biggest challenges of Pakistan is its booming population, which is the origin of many other problems”<sup>55</sup>. Currently, Pakistan is ranked as the fifth most populous country, with a population of 219 million people, based on a World meter elaboration of the latest United Nations data<sup>56</sup>. During 2020, Pakistan's population is projected to increase by 4 million and reach 220 million people at mid-year. Thus, the population is expected to reach approximately 338 million by 2050. It is important to note that the life expectancy rate has been increasing in the last few years as well and it is expected to keep rising in the following years. Currently, the life expectancy rate lies at the age of 67.79 years. As a consequence, this demographic evolution will have far-reaching repercussions on the world's total population and on the lives of the Pakistanis.

People from rural areas are not being provided with clean drinking water, education, employment opportunities, or modern healthcare facilities, making the shift from rural areas to cities necessary<sup>57</sup>. PM Imran Khan has called the issue an “urgent matter”. However, the failure to translate ambitious claims into progress on the ground could mean that population growth will continue to be an issue for Pakistan in future years<sup>58</sup>.

In South Asia, Pakistan is one of the countries which has the highest birth rates. In this sense, if Pakistan does not control its booming population, it will soon develop housing crisis, unavailability

<sup>55</sup> Dunya News. 2018. «Pakistan's Booming Population is a Challenge to the New Government.» *Dunya News*, August 26.

<sup>56</sup> World o Meter. 2020. «Pakistan's Population.»

<sup>57</sup> Bokhari, Farhan. 2019. «Imran Khan needs to take full charge of Pakistan.» *Opinion*.

<sup>58</sup> Ibid.

of food, breathing problems, and poor lifestyle for its inhabitants<sup>59</sup>. However, it can be inferred that even if the birth rate slows, it is estimated that Pakistan's population could double again by midcentury. This can result in catastrophic pressures on water and sanitation systems, swamping health and education services, and leaving tens of millions of people jobless, increasing their vulnerability for criminal networks and violent Islamist groups<sup>60</sup>.

Furthermore, stress caused on the environment and on natural resources is leading to faster degradation, rising vulnerability to climate change, threats to food security, and most importantly, a critical decline in per capita water availability<sup>61</sup>. As an example, diminishing water resources are expected to exacerbate tensions between the provinces of Pakistan.

Pakistan is not resilient to climate change, even worse to its long-term implications. Climate change affects Pakistan's economic and food security and risks aggravating existing anti-state grievances. In addition, these conditions are expected to attract criminal organizations and terrorist groups as there is evidence that terrorist groups leverage from environmental disasters to gain popular support.

The government of Pakistan has made a call of action on the alarming population growth in the country. As a result, the Supreme Court constituted a Task Force in 2018 to formulate a mechanism in order to minimize it. Nonetheless, no significant improvement can be noted and thus, the situation is not likely to change in the next few years. Additionally, Pakistan is hard-pressed for energy resources while facing a growing demand from a booming population. The country's energy mix is made of 64% fossil fuels, 27% hydropower, 9% renewables and nuclear power<sup>62</sup>. This energy crisis can be traced back to the last four decades.

The Energy sector of Pakistan is under-developed due to inadequate planning, supervision, and management. The main problem comes from the gap between energy supply and demand. As a

<sup>59</sup> Dunya News. 2018. «Pakistan's Booming population is a challenge to the new government.» *Dunya News*, August 26.

<sup>60</sup> Constable, Pamela. 2017. «'A disaster in the making': Pakistan's population surges to 207.7 million.» *The Washington Post*, September 9.

<sup>61</sup> Ministry of National Health Services Regulations and Coordinations Government of Pakistan. 2018. «Investing in Sustainable Population Growth.» Islamabad.

<sup>62</sup> Amil, Sadia. 2019. «Energy Crisis in Pakistan.» *The Nation*.

consequence, energy generation cannot be balanced with the ever-increasing demand and the constructive economic progress<sup>63</sup>. In the next five years, Pakistan needs to achieve equilibrium in its energy triangle for a sustainable energy equation and in order to do so, an integrated power sector planning approach is needed. The approach includes: forecasting demand, adding generation capacity, improving transmission and distribution systems, bringing costs down and ensuring sustainability<sup>64</sup>.

Furthermore, the Pakistani government is committed to the improvement of the country's world economic forum energy transition index (ETI), which is currently 46%. As a first step to achieve this, the government developed an "Indicative Generation Capacity Expansion Plan" (IGCEP), that runs until 2040<sup>65</sup>. According to the World Economic Forum, "the aim is to optimize energy producing costs in order to ensure the adequate generation is added at a least-cost basis to meet future energy demands"<sup>66</sup>. Also, the IGCEP indicates the government's objective to boost the energy mix and reduce costs for its citizens. It must be taken under consideration that this can be a window of opportunities for investors who can benefit from investment-friendly policies and invest within the provision of sustainable, affordable energy as well as earning respectable returns<sup>67</sup>.

Local resources, although abundant, do not seem to be utilized to their full capacity. For instance, local coal makes up just 0.1% of the power generation mix. For this reason, the IGCEP is committed to increase the sustainability Pakistan's energy mix on local production rather than on imported energy. Furthermore, by 2040, hydro-generation will have a 40% share, while renewables and local coal will have 16% and 25% respectively. The dependency on imported fuel, including imported coal and R-LNG, will be reduced from the present figures of 7% and 23% respectively to 5% and 6%<sup>68</sup>.

<sup>63</sup> OECD Green Growth Studies. 2011. «Energy.»

<sup>64</sup> United Nations Publications. 2008. *Achieving Sustainable Development and Promoting Development Cooperation*. New York: Department of Economic and Social Affairs Office for ECOSOC Support and Coordination .

<sup>65</sup> Majid, Ayla. 2019. «Can Pakistan Make its Energy Sector Greener, Cheaper and More Reliable? The Government Thinks So.» *World Economic Forum*.

<sup>66</sup> Ibid.

<sup>67</sup> Kouser, Shahzad, Abudl Subhan , y Abedullah. 2020. «Uncovering Pakistan's Environmental Risks and Remedies under the China-Pakistan Economic Corridor.» *Environ Sci Pollut Res (Trend)*.

<sup>68</sup> Majid, Ayla. 2019. «Can Pakistan Make its energy Sector Greener, Cheaper and More Reliable? The Government Thinks So.» *World Economic Forum*.

On the other hand, it is also fundamental for Pakistan to reduce electricity losses, which currently stand at 18.3% for distribution losses and 2.4% for transmission losses. This is important because those losses contribute to Pakistan's circular debt. The government is also making out-of-the-box financing solutions by working with key energy stakeholders to reduce the fiscal burden<sup>69</sup>.

In addition, as mentioned above, the CPEC could play a key role in Pakistan's achievement of its energy needs within the next five years. The investment is directed towards the construction of power projects to produce 17045 MW of electricity in Pakistan. As a result, the project aims to utilize existing energy resources and tackle the energy crisis. CPEC related economic activities will boost energy consumption at the aggregate and the sectoral level in Pakistan's economy. Moreover, substantial energy savings can be harnessed to bridge the widening energy supply and demand gaps. Although the energy related projects under CPEC will help reduce the prevailing energy shortages, their environmental impacts can't be ignored as most of the electricity to be produced in these projects is based on coal related technologies<sup>70</sup>.

### *Operational Risks for Foreign Companies Investing in Pakistan*

Pakistan has been facing challenges affecting its economy since its independence in 1947. The country has a great potential for investment, but many investors have been reluctant to do so due to current security and political uncertainties. Apart from the consequences that arise from corruption, Pakistan faces other risks such as legal discrepancies, integrity risks, policy uncertainty, a challenging tax system, and an inability to reach proper human capital standards.

#### *Integrity Risk (30/35)*

The Pakistani textile industry is well known for its widespread informality and its use of subcontracts to avoid labor regulations<sup>71</sup>. Due to this, Pakistan's textile sector cannot reach its full potential yet and, if the issue is left unattended, it may never reach it. It can be forecasted that investing in the country might be a high risk for the integrity of a business. Companies fear

<sup>69</sup> Jorgic, Drazen. 2019. «Pakistan Says Curbing Power Sector Debt, Seeks Energy Investors.» *Reuters*.

<sup>70</sup> Kouser, Shahzad, Abudl Subhan, y Abedullah. 2020. «Uncovering Pakistan's Environmental Risks and Remedies under the China-Pakistan Economic Corridor.» *Environ Sci Pollut Res (Trend)*.

<sup>71</sup> Jenkins, Matthew. 2018. *Integrity Risks for International Businesses in Pakistan*. Transparency International.

infringing foreign bribery laws and partnering with firms who are not compliant on child labor, environmental and integrity issues<sup>72</sup>.

It is estimated that there are millions of workers in Pakistan who are victims of exploitation and abuse. The primary responsibility for protecting the rights of workers rests on the hands of the Pakistani government because too often labor inspectors and other authorities are overstretched or complicit, and let abuses persist. In addition, the process of certification of compliance with labor, safety and environment standards are overshadowed by corruption<sup>73</sup>.

#### *Legal risks (15/35)*

There are several inconsistencies among the legal regulations of FDI in Pakistan. The legal framework of 2013 is often described as a mere “attraction document” since the Foreign Private Investment Act of 1976 and the Protection of Economic Reform Act of 1992 are the policies that actually administer the investment related matters in the country<sup>74</sup>. This leads to an increasing legal insecurity that reduces investment in Pakistan as foreign investors perceive it as a risky affair<sup>75</sup>.

Moreover, in light of international law, Pakistan offers legal protection to those investing in the country through BITs. However, existing investors have complained of not receiving real protection in relation to expropriation risks and political violence. This is because Pakistan’s BITs often include clauses in which investment laws are less accommodating or even silent<sup>76</sup>. Also, the duration of court proceedings for resolving commercial disputes regarding the breach these BITs is between 3 to 5 years. Investors have stated that this as a financial burden that weakens the credibility of the government since they lack contract enforcement<sup>77</sup>.

#### *Operational requirement risks (20/35)*

<sup>72</sup> Ibid.

<sup>73</sup> Ibid.

<sup>74</sup> State Bank of Pakistan. 2018-2019. *Annual Report 2018-2019: The State of Pakistan's Economy*. Annual Report, State Bank of Pakistan.

<sup>75</sup> Malik, Mahnaz. 2010. *International Law Protections for Foreign Investments in Pakistan*. Karachi: Overseas Investors Chamber of Commerce and Industry (OICCI).

<sup>76</sup> State Bank of Pakistan. 2018-2019. *Annual Report 2018-2019: The State of Pakistan's Economy*. Annual Report, State Bank of Pakistan.

<sup>77</sup> Ibid.

There is an issue regarding a gap between *de jure* and *de facto* in relation to operational requirements in Pakistan. There is no standard operating procedure to correctly address complaints of businesses, forcing them to rely on personal contracts and face major risks regarding corruption and bribery<sup>78</sup>. In 2017, multinational corporations categorized policy uncertainty as the fourth most important barrier for not investing in Pakistan<sup>79</sup>.

The investing climate is further challenged by the lack of aftercare mechanisms through Investor Tracking/Customer Relationship Management (CRM)<sup>80</sup>. These are significant for investment retention since they facilitate the start-up process, enhance the company's contribution to the local economic development, and boost FDI for the whole country. Nonetheless, it seems important to mention that the Pakistani Board of Investment (BOI) is currently working towards the building of these services<sup>81</sup>.

#### *Unfavorable Tax Risk (15/35)*

The tax system in Pakistan has a complex nature as there is perception and incidence of corruption. In addition, its cumbersome documentation processes have led businesses to stay off and evade taxes. "This tax system is not attractive and secure to investors due to a lack of fairness, adequacy, simplicity, transparency, and administrative ease, which imply a high risk"<sup>82</sup>.

Pakistan tax authorities have been unable to maintain the main compensation to provide tax relief to investors and maximize revenue mobilization. Therefore, one of the key problems of enforcing taxes in Pakistan is a huge informal economy. Consequent to this, Pakistan authorities have developed a project to raise revenue, simplify the tax regime and strengthen tax and custom administration. If Pakistan Raises Revenue (PRR) program succeeds, it is possible that in the long-term, the current tax environment will change.

<sup>78</sup> Ibid.

<sup>79</sup> Ibid.

<sup>80</sup> Ibid.

<sup>81</sup> United Nations UNCTAD. 2020. *Investment Policy Hub*. <https://investmentpolicy.unctad.org/international-investment-agreements/countries/160/pakistan>.

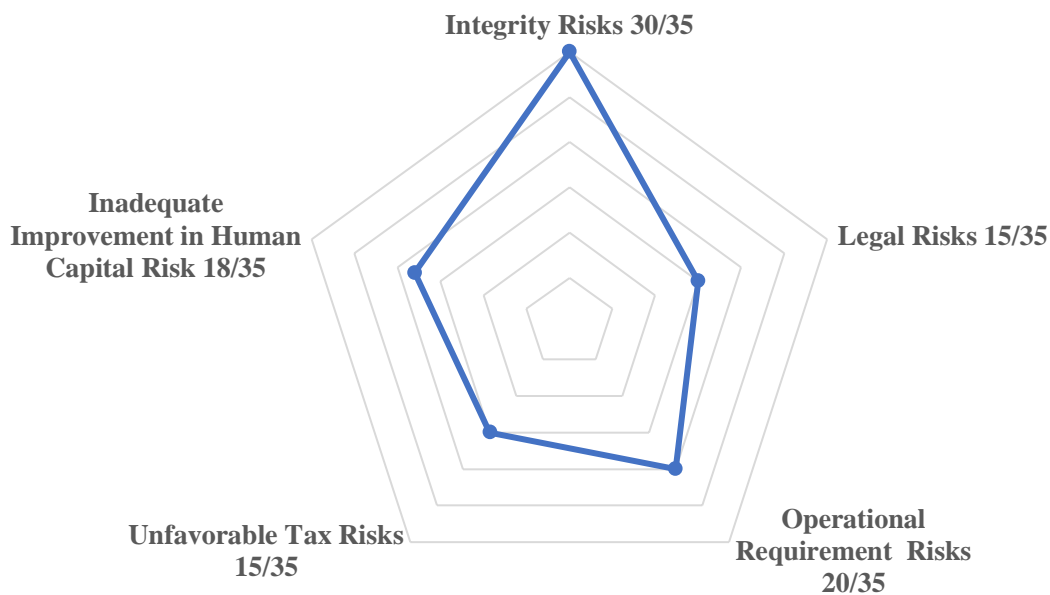
<sup>82</sup> State Bank of Pakistan. 2018-2019. *Annual Report 2018-2019: The State of Pakistan's Economy*. Annual Report, State Bank of Pakistan.



*Inadequate Improvement in Human Capital Risk (18/35)*

The lack of quality and adaptability of the labor force are determinant factors that suppress investment regarding human capital and competitiveness in Pakistan<sup>83</sup>. This is due to the fact that businesses seek a labor force that possess adequate skills in order to increase productivity and thus, profitability. Pakistan's illiteracy rate, the inability to reach a proper human capital standard, the low skill-sets, and productivity of the economy's labor force constraint foreign investment<sup>84</sup>.

**(Figure II) INVESTMENT RISK FOR FOREIGN COMPANIES**



Source: Author's elaboration

Note: 35 = Highest risk. 0 = Lowest risk.

Moreover, it seems that because of its high population, its cheap labor force, and its strategic geographical position, Pakistan could stand as an attractive country for FDI. However, due to its corruption and its macroeconomic instability, it still remains the least attractive country in South

<sup>83</sup> Ibid.

<sup>84</sup> Ibid.

Asia. This said, for progress to be actually achieved, Pakistan should initiate a series of reforms in order to start its path towards becoming an attractive country for FDI.

Despite the operational risks seen in the graph above, in 2019, Pakistan's Doing Business (DB) ranking witnessed a jump of 11 points. Even more encouraging, in the DB ranking of 2020, Pakistan has been included in the list of Top-20 improvers across the globe. All the actions mentioned above go hand in hand with the government's focus on shrinking the size of the informal economy in Pakistan. However, more needs to be done towards achieving a more attractive investment climate as this would improve substantially the doing business and capital formation environment in the country<sup>85</sup>.

<sup>85</sup> Jenkins, Matthew. 2018. *Integrity Risks for International Businesses in Pakistan*. Transparency International.

## 2. POLITICAL OUTLOOK

- Family subjectivity will no longer rule politics in Pakistan.
- In order for Imran Khan to finish his term in a stable way, he must implement structural reforms in order to transform his short-term policies into long-term strategies.
- Military Expenditure in Pakistan is expected to reach 13 billion dollars by the end of 2020, reflecting the Armed Forces' influence in politics.
- The struggle between Islamists and Seculars is expected to increase over the upcoming years if the PM fails to stabilize Pakistan's economy and democracy.

### SWOT Analysis

#### *Strengths*

- The country's federal structure grants provinces autonomy on certain matters.
- Pakistan's electoral system provides for a clear balance of power.
- The Khan administration is committed to tackle long-lasting corruption.
- Khan's progressive and cooperative approach to politics and his close relation with the Armed Forces.

#### *Weaknesses*

- Armed forces influence in politics and decision-making.
- Khan's party, PTI, currently holds a slight majority in the National Assembly, which may impede him to pass certain laws.
- Failure to comply with fast economic growth policies.
- Radicalized groups threaten social and political stability.

#### *Opportunities*

- The victory of the PTI has shown that Pakistan has moved beyond dynastic politics.
- Intense patriotism.
- Pakistan's possible removal from the FATF's grey list provides an opportunity to move away from others' perception that Pakistan is compliant with terrorism in the region.

#### *Threats*

- The increase of anti-government protests.

- Failure to complete the CPEC project and possible loss of the IMF bailout could cause a collapse in the economy.
- Climate change, illicit trafficking, and the changing geo-strategic interests from the U.S and China.
- Lack of political cohesion amidst the current global crisis.

### *Political Stability*

#### *The Future of Pakistani Politics*

In August 2018, Imran Khan became Pakistan's new PM after being elected by a majority of members in the National Assembly. This marked a precedent for the future of family dynasties ruling in Pakistan and for politics in its entirety.

The most notable aspect of this election was the establishment of a new political party in the government, the PTI. The PTI directly expressed its opposition towards corruption and the lack of justice, which has been present since Pakistan's independence. The PTI defeated the country's two main family dynasties: the Pakistan Muslim League (PML-N), led by Shehbaz Sharif, and the Pakistan People's Party (PPP), led by Bilawal Bhutto Zardari<sup>86</sup>.

The victory of the PTI has shown that Pakistan has moved beyond dynastic politics, at least for now. It is a clear indicator of a shift away from dynastic politics and a diffusion of social control within the Pakistani society. This is also due to an anti-corruption sentiment along contemporary South Asia<sup>87</sup>. It is clear how the lack of unity within the opposition and the judicial problems facing some of its leaders have helped consolidate this new government.

Moreover, Khan's victory supposes that power can no longer be the closely guarded prerogative of a political elite. This means that there are new players in control through which society can be

<sup>86</sup> CountryWatch. 2020. *Pakistan Country Review 2020*. Country Review, United States of America : Country Watch.

<sup>87</sup> Kapur, Saloni. 2018. «The electoral victory of Imran Khan: diffusing the dynasties of control in Pakistan?» *South Asia LSE*.

better heard, and most importantly, family subjectivity will no longer rule politics. It is expected that Khan's term will be a transition from a centralized to a diffused power structure.

On the other hand, in November 2019, thousands of anti-government protesters gathered in Islamabad to express their discontent with the current Khan administration. They demanded for the PM to resign due to concerns of a slow growing economy that has mostly affected Pakistan's low and middle-income population<sup>88</sup>. Imran Khan has failed to stabilize the economy and growth has been stifled. Pakistan's economic growth rate fell from 5.5% in FY18 to 3.3% in FY19<sup>89</sup>. Even if the protests did not escalate to confrontation with the Pakistani military, they were a clear indicator of the population's opinion towards the government. In order to safeguard social stability and prevent future protests to breakout, the government must work towards improving its economic policies in relation to what the Prime Minister guaranteed before his elections.

### *Secularism and Islamism*

Since its creation more than 50 years ago, Pakistan has been trapped within a crisis of identity and an ethnic dilemma, which has led the country to a social and political insecurity. Even though Mohammad Ali Jinnah founded Pakistan seeking a secular state, the 1973 Constitution declared Pakistan as a Federal Republic to be known as the Islamic Republic of Pakistan, recognizing Islam as the predominant religion of the state<sup>90</sup>. Hence, "a country grounded on religious nationalism laid the base for a new form of Jihadism and a rise in sectarianism, which are still a matter of conflict"<sup>91</sup>.

Islam is the cornerstone of Pakistan. However, this varies depending on the political actor involved. When addressing secularism and Islamism in Pakistan, the following question arises: "Islam: territorial ideology or political religion?"<sup>92</sup>. The different views of Islam have generated a struggle between secularism and Islamism. On the one hand, secularism is the idea by which Pakistan was founded, while the latter is the ideology that currently persists within Pakistan. One of the consequences of this debate is the recurrent political instability in the nation.

<sup>88</sup> Aljazeera. 2019. «Five things to know about Pakistan's anti-government protests.» *Aljazeera*, November 6.

<sup>89</sup> The Economic Times. «What is Imran Khan's Real Problem?» *The Economic Times*, October 2019.

<sup>90</sup> Barcelona Centre for International Affairs . 2012. "Pakistan: Country Profile ." *CIDOB International Yearbook* .

<sup>91</sup> Humeira Iqtidar, David Gilmartin. «Secularism and the State in Pakistan.» *Modern Asian Studies*, 2011: 491-499.

<sup>92</sup> Jaffrelot, Christophe. 2015. «Islam: Territorial ideology or political religion? .» *The Pakistani Paradox*, 437-450. New York : Oxford University Press.

The struggle between secularism and Islamism will continue to be a matter of conflict in Pakistan. Moreover, protests by the population and leftist groups such as Jamiat Ulema-e-Islam (JUI-F) are expected to increase over the upcoming years if the PM fails to stabilize Pakistan's economy and democracy<sup>93</sup>. Left-wing political parties and Islamists are the most interested ones in destabilizing the government. This represents a threat to the stability of Khan's governance and its likelihood to remain in power until the end of his term by 2023.

As a consequence, this instability will worsen the conflict between seculars and Islamists. Even though Imran Khan is not a secular leader, his ruling and policies have shown liberal characteristics that align with secularist views. This is mostly due to the fact that the PTI is considered as a center-right political party<sup>94</sup>. Pakistan will always remain an Islamic state, and the struggle between both depends on who is in power. Thus, if the prime minister complies with his promises and carries them out by implementing the expected policies, this could determine if politics will be stabilized in the future.

In addition, in order for Imran Khan to finish his term in a stable way without the interference of Islamists and protests, he has to implement structural reforms in order to transform his short-term policies into long-term strategies. It is expected that in a medium-term the situation will improve and alleviate because of the CPEC program and the bailout of the IMF.

### *The Armed Forces*

Pakistan has been severely criticized due to its vast political instability. This is due to the lack of peaceful transitions of power, the inability of a government to stay in office, and the significant influence of the Armed Forces over politics and institutional developments. The Pakistani military has played an influential role in mainstream politics as it has taken over power from civilian governments on four different occasions. In total, military or military-backed civilian regimes have been in power for half of the years of the country's existence<sup>95</sup>.

<sup>93</sup> Aljazeera. 2019. «Five Things to know about Pakistan's Anti-government Protests.» *Aljazeera*, November 6.

<sup>94</sup> Alia Chughtai, Asad Hashim. 2018. «Pakistan elections 2018: The Major Political Parties .» *Al-Jazeera*, July.

<sup>95</sup> Barcelona Centre for International Affairs. NA. *Political System and State Structure of Pakistan*. Barcelona : Barcelona Centre for International Affairs.

The influence of the military extends far beyond its constitutional role even in times of civilian rule. For example, although the PM denied a lockdown, the Armed Forces stepped in, and enforced a lockdown with military checkpoints in some cities<sup>96</sup>. This is a clear example of the military's influence in Pakistan. Therefore, this evidently hampers the possibility of Pakistan eventually demilitarizing politics. The military high command has on occasions acted as a mediator between the government and other state actors, and also between political leaders. Therefore, this evidently hampers the possibility of Pakistan eventually demilitarizing politics.

Even though an increased military spending usually has consistent negative impacts on a country's economic growth, Pakistan has prioritized its military expenditure. It is expected that the military expenditure will reach 13 billion dollars by the end of 2020<sup>97</sup>, reflecting the Armed Forces' influence in politics.

Additionally, Pakistan's Armed Forces have the control over nuclear weapons and a partial control of the country's foreign policy. The military also has its own economic interests in Pakistan, which it clearly seeks to protect. Therefore, they will eventually support "policy making environments" that will "multiply their economic opportunities"<sup>98</sup>.

### **Short-term Forecast of Pakistan's Political Future**

In the following table, there are three possible scenarios regarding the future of Pakistani politics on a short-term basis. The most likely estimate refers to the government's unsatisfactory improvements in relation to the country's economic and social stability. The best-case estimate reflects a positive progress following fruitful policies implemented by the government. Finally, the worst-case estimate would involve PM Khan's resignation due to a failure of the policies, increasing the discontent among the population.

<sup>96</sup> Press Trust of India. 2020. "Pakistan Deploys Army to Enforce Lockdown as Coronavirus Cases Rise to 875." Business Standard.

<sup>97</sup> Trading Economics. *Trading Economics*. 2019. <https://tradingeconomics.com/pakistan/military-expenditure>.

<sup>98</sup> Siddiqa, Ayesha. 2018. *Inside Pakistan's Military Economy*. Military Inc.

**(Figure III) THREE POINT ESTIMATION**

Three-point estimation provides three possible scenarios on a short-term, one of which is the most likely estimate, another is the best-case estimate and the last one is the worst-case estimate. There are possible consequences for each of these cases, and their probability measured in percentage (%).

	Anti-government protests	Involvement of the Armed Forces	Economic Growth	Corruption	Popularity of other political parties
Unsatisfactory Improvement (Most likely estimate)	65%	45%	20%	70%	50%
Fruitful Policies (The best-case estimate)	25%	35%	55%	50%	30%
Khan’s Resignation (The worst-case estimate)	90%	60%	10%	80%	79%

Source: Author’s elaboration.

Note: 0% means almost impossible; 50% means possible and 100% almost certain.

Critical/Beneficial

In this sense, it is evident that, on a short-term, the country would not be able to fully witness the effectiveness of the policies implemented by the Khan administration. Moreover, the country’s current instability situation could hamper any attempt of improvement. However, despite government’s willingness to tackle the country’s main issues, the population still expresses discontent through protests and manifestations, further destabilizing the future of Khan’s term. On the other hand, many of the promises made for improving the economy and governance remain unfulfilled<sup>99</sup>.

<sup>99</sup> Khalique, Harris. 2019. “Opinion: Imran Khan – One Year of Stumbling Ineptitude.” *DW*, August 18.



### 3. SOCIAL OUTLOOK

- The relation among the four Pakistani provinces is most likely to deteriorate due to a struggle around water shortages.
- Pashtun representation within the Pakistani Armed Forces is of approximately 15% to 22% among officers, despite that the ethnic group constitutes only 15% of the country's overall population.
- The progress in poverty reduction has been overshadowed by a general perception of worsening well-being and rising inequality.
- The number of out-of-school children in Pakistan is the 2nd highest in the world.
- In the long-term, it can be expected that poverty and inequality in the country improves.
- The current global crisis might have devastating effects on the country's social resilience.

#### *Social Stability*

##### *Pakistan's Ethnic Dilemma (short-medium forecast)*

Long periods of military rule have deprived Pakistan of adequate democratic mechanisms in order to reconcile political and economic differences among its provinces<sup>100</sup>. In a short to medium-term, this intra-national conflict may intensify due to a shortage of resources. In addition, protests carried out by nationalist movements may further destabilize social security as the government continues to violently oppress insurgencies.

Pakistan is composed of four main provinces: Punjab, Balochistan, Khyber Pakhtunkhwa, that includes the formerly known Federally Administrated Tribal Areas (FATA), and Sindh. The 18<sup>th</sup> amendment of the constitution granted provincial autonomy to all four Pakistani provinces in 2010<sup>101</sup>. Still, this failed to truly satisfy their ethnic demands. Due to Pakistan's multi-ethnic and multi-lingual characterization<sup>102</sup>, each province has substantial violent secular movements that later affect the whole country and pose risks to national integrity<sup>103</sup>.

<sup>100</sup> Cheema, G. Shabbir. N.A. «Intra-State Conflicts and Development Strategies: The Baloch Insurgency in Pakistan.»

<sup>101</sup> Ahmar, Moonis. 2018. «Conflict Over New Provinces.» *Daily Times*, April 27.

<sup>102</sup> Ibid.

<sup>103</sup> Feyyaz, Muhammad. 2011. «Ethnic Conflict in Sindh.» *PILDAT*.

The majority of the provinces believe that the conflict is mostly due to the supremacy of Punjab within the federation. The argument behind this allegation is that the division of Punjab, the biggest province in terms of population, will diminish some of its influence while also solve the ethnic divergence and strengthen the country<sup>104</sup>. Still, “the very demand to redraw the provincial map of Pakistan will open a *Pandora’s box* and unleash violent conflicts”<sup>105</sup>.

Substantial periods of growth have not benefited all provinces equally, especially Balochistan and Sindh<sup>106</sup>. Due to an unequal distribution of resources, Balochistan has been marginalized both in economic and political terms. Currently, the province suffers from a lack of basic services and pronounced poverty that have further alienated it and proliferated resentment<sup>107</sup>. As a result, the Baloch separatist movement still protests for the control of provincial resources and more political autonomy<sup>108</sup>.

Additionally, ethnic divisions among the Mohajir and the Sindhi in Karachi present a challenge for social stability in Pakistan<sup>109</sup>. On the one hand, the Muttahida Qaumi Movement (MQM) still daunts Pakistani politics as it threatens to continue its protests against the government for the rights of the Mohajiris<sup>110</sup>. On the other, the Sindhi demand more provincial autonomy and express their resentment towards Punjab<sup>111</sup>. Furthermore, Pakistan must prevent that Sindh becomes another FATA in the long term as the province’s instability has provided a gateway for organized crime and terrorist activities. “Ensuring stability in Sindh is key to tackling the security situation in Karachi and in preventing the spread”<sup>112</sup> of violence among the region.

<sup>104</sup> Roofi, Yasmin, y Khawaja Alqama. 2013. «Ethnic Dilemma in Pakistan and Division of Punjab: End or Beginning of the New Era of Conflict.» *Journal of Politics and Law* 156-162.

<sup>105</sup> Ahmar, Moonis. 2016. «The Dynamics of Pakistan's Intra-national Security: The Role of the New Provinces.» *India Quarterly* 16-29.

<sup>106</sup> Cheema, G. Shabbir. N.A. «Intra-State Conflicts and Development Strategies: The Baloch Insurgency in Pakistan.»

<sup>107</sup> Hashmi, Waleed. 2018. «Fierce and Warlike: Could the Baloch Separatist Movement Remain Pakistan's Longest Insurgency?» *Small Wars Journal*.

<sup>108</sup> Rizwan, Muhammad, Muhammad Waqar, y Muhammad Arshad. 2014. «A Wave of Contemporary Insurgency in Balochistan.» *IOSR Journal of Humanities and Social Science* 97-105.

<sup>109</sup> Bennet Jones, Owen. 2002. *Pakistan: Eye of the Storm*. New Haven: Yale University Press.

<sup>110</sup> Sabih, Muhammad. 2020. «MQM-P Warns Sindh Govt of Protests.» *The Nation*, March 15.

<sup>111</sup> Ibid.

<sup>112</sup> Yusuf, Huma, y Syed Shoaib Hasan. 2015. *Conflict Dynamics in Sindh*. Washington D.C: United States Institute of Peace.

Pakistan's insurgencies might still be active in a short to medium-term if the government continues to oppress nationalist groups with more violence<sup>113</sup>. Instead it must reach out to the various ethnic groups of the country without trying to coerce them into the will of the central government<sup>114</sup>.

### *Water Shortages*

Apart from the “disparities in income and access to services [that] have led to political alienation and on-going intra-state conflict”<sup>115</sup> among the Pakistani provinces, their relation is most likely to deteriorate due to a struggle around the lack of non-renewable resources, particularly water. The primary reason for water conflict in the country is the huge gap between supply and demand due to an exponentially increasing population<sup>116</sup>. Accordingly, as previously stated, population growth is estimated to reach 338 million people by 2050. Apart from the direct use of domestic consumption, this means that more people require more food, and more food requires more water to irrigate crops.

The per capita availability of water in Pakistan fell significantly between 1990 and 2015 from 2,172 to 1,306 cubic meters per inhabitant<sup>117</sup>. These numbers are predicted to become scarcer by 2030<sup>118</sup> as population continues to grow. Additionally, a weak water infrastructure that limits storage capacity worsens the water availability situation.

As a result, “water has acted as a catalyst of tension among the administrative units”<sup>119</sup> of Pakistan. Apart from an overall scarcity in the whole country, certain alienated provinces such as Balochistan blame Punjab for their lack of water availability. Despite water distribution regulations recognized by the *Water Apportionment Accord* of 1991, the federal government still favors Punjab<sup>120</sup>.

<sup>113</sup> Hashmi, Waleed. 2018. «Fierce and Warlike: Could the Baloch Separatist Movement Remain Pakistan's Longest Insurgency?» *Small Wars Journal*.

<sup>114</sup> Bennet Jones, Owen. 2002. *Pakistan: Eye of the Storm*. New Haven: Yale University Press.

<sup>115</sup> Cheema, G. Shabbir. N.A. «Intra-State Conflicts and Development Strategies: The Baloch Insurgency in Pakistan.»

<sup>116</sup> Ranjan, Amit. 2012. «Inter-Provincial Water Sharing Conflicts in Pakistan.» *Pakistaniaat: A Journal of Pakistan Studies* 102-122.

<sup>117</sup> Hassan, Maheen. 2016. *Water Security in Pakistan: Issues and Challenges*. Islamabad: Maryah Printers.

<sup>118</sup> Khan, Salman, Farhan Khan, Yiqing Guan, y Zeeshan Khan. 2020. «Urbanizing World: The Case of Pakistan's Capital.» *Water*.

<sup>119</sup> Ranjan, Amit. 2012. «Inter-Provincial Water Sharing Conflicts in Pakistan.» *Pakistaniaat: A Journal of Pakistan Studies* 102-122.

<sup>120</sup> Hassan, Maheen. 2016. *Water Security in Pakistan: Issues and Challenges*. Islamabad: Maryah Printers.

Currently, Punjab has access to 41% of water and water withdrawals are 63% of the country's total, reflecting withdrawals exceeding availability by a 20%<sup>121</sup>. In the medium term, for an already water-stressed country such as Pakistan, this is certainly not sustainable. Punjab's *elite* behavior towards the other provinces has led to resource conflicts that can only be aggravated in light of the phenomenon of climate change.

Pakistan has been rated among the top ten countries most vulnerable to the impacts of climate change. As global temperatures will rise, rainfall patterns will be altered and thus, the probability of floods and droughts increases<sup>122</sup>. Consequently, this mismanagement of precipitation will also affect the availability of water for each province and widen even further the demand-supply gap, worsening tensions among them.

### *The Pashtuns*

Currently, estimates indicate that Pashtun representation within the Pakistani Armed Forces is of approximately 15% to 22% among officers and between 20% to 25% among the rank and file<sup>123</sup>, despite the fact that the ethnic group constitutes only 15% of the country's overall population<sup>124</sup>. In projection to the future, this overrepresentation may persist since Pakistan cannot afford any backlash from its tribal population<sup>125</sup> and the notable authority from part of the military might influence regardless of government opposition.

The Pashtuns, characterized as violent and warrior-like, make up the second largest ethnic group of Pakistan and are based in the province of Khyber Pakhtunkhwa, along the Afghan-Pakistani border. In 2016, the Pashtun Tahafuz Movement (PTM) was created on the basis of fighting for the rights of the Pashtuns. The PTM claims that following the rise of military operations in

<sup>121</sup> World Bank Group. 2019. *Pakistan: Getting More from Water*. Washington D.C: The World Bank.

<sup>122</sup> Khan, Salman, Farhan Khan, Yiqing Guan, y Zeeshan Khan. 2020. «Urbanizing World: The Case of Pakistan's Capital.» *Water*.

<sup>123</sup> Zargar, Haris. 2019. «Why Pakistan is Taking Pashtun Activism Seriously.» *New Frame*, June 21.

<sup>124</sup> Yousaf, Farooq. 2019. «Pakistan's "Tribal" Pashtuns, Their "Violent" Representation, and the Pashtun Tahafuz Movement.» *SAGE* 1-10.

<sup>125</sup> Zargar, Haris. 2019. «Why Pakistan is Taking Pashtun Activism Seriously.» *New Frame*, June 21.

Pakistan's tribal areas, the Pashtuns have been living in fear as innocent civilians had been killed and their properties destroyed<sup>126</sup>.

This said, due to the Pashtuns' previously mentioned overrepresentation, a significant number of the militants responsible for the group's grievances were ethnic Pashtuns themselves<sup>127</sup>. Nonetheless, there is no strong evidence indicating that this will have an effect on the Pashtun representation within the Armed Forces. The PTM demands for the Armed Forces to be held accountable for terrorism in Pakistan and as a result, the integrity and credibility of the army has been called into question<sup>128</sup>. The Pakistani army has therefore accused the PTM of being funded and supported by foreign powers in order to disregard its allegations<sup>129</sup>.

In January 2020, Manzoor Pashteen, the young leader of the PTM, was arrested in Peshawar on sedition charges. This has sparked more resentment among the movement and increased the violence of their protests<sup>130</sup>. In spite of the movement's resilience, the arrestment of Pashteen demonstrated that the government is oppressing the PTM and will continue to do so, especially because of the army's large influence in politics. The future of the PTM is indeed uncertain. However, its mobilization against the army may have an effect on other ethno-nationalist groups such as the Baloch and the Sindh<sup>131</sup>, further destabilizing the country's ethnic dilemma.

### *Poverty in Relation to Inequality*

<sup>126</sup> Yousaf, Farooq. 2019. «Pakistan's "Tribal" Pashtuns, Their "Violent" Representation, and the Pashtun Tahafuz Movement.» *SAGE* 1-10.

<sup>127</sup> Afzal, Madiha. 2020. «Why is Pakistan's Military Repressing a Huge, Nonviolent Pashtun Protest Movement?» *Brookings*, February 7.

<sup>128</sup> Ibid.

<sup>129</sup> Hashim, Asad. 2020. «Prominent Pakistani Rights Activist Manzoor Pashteen Arrested.» *AlJazeera*, 27 January.

<sup>130</sup> Afzal, Madiha. 2020. «Why is Pakistan's Military Repressing a Huge, Nonviolent Pashtun Protest Movement?» *Brookings*, February 7.

<sup>131</sup> Ramachandran, Sudha, Hamsini Hariharan, y Shibani Mehta. 2018. «Impact of the Pashtun Tahafuz Movement on Pakistan's Political Landscape.» *Takshashila Strategic Assessment*.

Even though the percentage of poverty in Pakistan has fallen substantially over time, monetary inequality has not deteriorated. Inequalities across and within the regions of Pakistan persist, and there is evidence that prosperity is not shared among the poorest segments of the population<sup>132</sup>.

The progress in poverty reduction has been overshadowed by a general perception of worsening well-being and rising inequality. During the past few years, it has been proven that inequality traps persist in the country, meaning that exclusion is transmitted across generations along with inequality of opportunities across space, and between boys and girls<sup>133</sup>. This points to a deficiency of equity and social justice in the process of socioeconomic development which, if left unattended, could harm both growth and social stability on the long run.

There is inequality between cities and rural areas of Pakistan. Besides a higher poverty risk, rural households also face a disadvantage on virtually all aspects of service delivery. Even within a province, inequality can be glaring. For example, Punjab may be among the most developed province, but persistent disparity abounds in southern Punjab.

The number of out-of-school children in Pakistan is the 2nd highest in the world; 82% of the richest attend school, while only 50% of the poorest do so. Unfortunately, the educational gap between rich and poor is increasing<sup>134</sup>. Also, Pakistan ranks last in women participation in the workforce among the South Asian Association for Regional Cooperation (SAARC) countries. According to government figures, the female labor participation rate is 18% compared to 71% for men. Even though some women work in the agricultural sector, 80% of these women are regarded as unpaid family workers<sup>135</sup>.

Looking forward, if not addressed in time, extreme inequality may generate grievances among the population. Due to this, it is crucial that the Pakistani government addresses this issue in order to preserve social stability. To tackle the inequality issue, a concerted effort must be made in order to provide a fairer economic regime and political system that perceives everyone equally.

<sup>132</sup> World Bank . 2019. *World Bank Organisation* . October 21.

<https://www.worldbank.org/en/country/pakistan/overview>.

<sup>133</sup> Kirmani, Nida. 2020. «The Spectre of Inequality.» *The news on sunday*, February 9.

<sup>134</sup> Ebrahim, Zofeen T., y Hussain Ali. 2015. «50 Shades of Inequality in Pakistan.» *Dawn*, May 14.

<sup>135</sup> Ibid.

Some policies have already been implemented by the government and they have been efficient to a certain extent. Pakistan established the Benazir Income Support Program (BISP), a flagship national safety net system. The program currently provides income support through monthly cash transfers of USD 15 to almost 4.8 million families (approx. 18 million people) of the poorest households for consumption smoothing as well as investments in human capital development<sup>136</sup>.

This said, it can be expected that on a long-term, poverty and inequality in the country might improve. However, as mentioned before, the government must recognize the importance of a development process based on inclusiveness and social justice as stated by Pakistan's Vision 2025, "development has to be of people, for people, and by people"<sup>137</sup>.

On the other hand, the current global crisis is also projected to worsen the already existing social and gender inequalities in Pakistan and disproportionately affect the poorer areas of the country<sup>138</sup>.

<sup>136</sup> APP. 2019. «BISP Set to Speedily Undertake Measures to Tackle Poverty: Sania.» *International The News*, April 22.

<sup>137</sup> World Bank . 2019. *World Bank Organisation* . October 21.  
<https://www.worldbank.org/en/country/pakistan/overview>.

<sup>138</sup> Jafri, Juvaria. 2020. "Coronavirus: How Pakistan is Using Technology to Disperse Cash to People in Need." *The Conversation*, April 1.

#### 4. SECURITY OUTLOOK

- There is no strong evidence indicating that the Pakistani Inter-Service Intelligence (ISI) will terminate its involvement in the promotion of radical groups throughout the region, especially to counteract India's presence in Kashmir
- In 2019, Pakistan managed to score only 32 points on the Corruption Perception Index (CPI).
- Approximately 43% of the Afghan opiates are trafficked through Pakistan. As a consequence, the free flow of narcotics has supported terrorism in the country.
- Pakistan made a high-level political commitment to work with the FATF and the Asia Pacific group (APG). Pakistan needs to complete its full action plan by June 2020.

#### *Jihadism*

##### *Terrorism in Pakistan (short-medium forecast)*

Despite the fact that terror attacks in Pakistan have decreased since 2014<sup>139</sup>, there is no strong evidence indicating that the ISI will terminate its involvement in the promotion of radical groups in a short to medium term. Nonetheless, a series of changes within the ISI, particularly the appointment of General Faiz Hammed as chief in 2019, may be of significant importance.

Since the Soviet invasion of Afghanistan in 1979, the ISI plays an ambiguous yet important role in the war against terrorism<sup>140</sup> as it is an imperative ally for the U.S. while also one of the most allegedly accused organizations for the propagation of terrorist groups across South Asia and the Middle East. After decades of offering military and financial support to the Taliban through the promotion of pan-Islamism for its own geopolitical interests, Chief Hameed seems to be a hopeful leader to counter terrorism in Pakistan<sup>141</sup>. His appointment as chief is “pivotal” to the domestic and regional future of the country<sup>142</sup>.

<sup>139</sup> Gannon, Kathy. 2020. «Terror Attacks Drop, but Pakistan's "Not out of the Woods".» *AP News*, January 30.

<sup>140</sup> Gregory, Shaun. 2007. «The ISI and the War on Terrorism.» *Studies in Conflict & Terrorism* 1013-1031.

<sup>141</sup> Basu, Nayanima. 2019. «Pakistan's New ISI Chief was Accused of Secretely Helping Imran Khan's Party in 2018 Polls.» *The Print*, June 18.

<sup>142</sup> Ibid.



Chief Hameed also counts with the support of Pakistan's Chief of Army Staff (COAS), General Qamar Javed Bajwa, whose term has been given a three-year extension until November 2022. Bajwa is renowned for his vision to make Pakistan a peaceful country through the cooperation of institutions for the war against terrorism<sup>143</sup>. Besides, he also seeks to build confidence between the government and the business community through the improvement of national security.

Nevertheless, the nature of the ISI remains *two-faced*<sup>144</sup>. The U.S. and other Western countries have repeatedly asked Pakistan to cease its involvement with extremists. Yet, it has failed to do so and as a consequence, several terrorist organizations, such as Al-Qaeda in the Indian Subcontinent, still have operating cells in Pakistan<sup>145</sup>. For the moment, Chief Hameed is also in "good company" of PM Khan's new interior minister and former military officer of the Pakistani Army, Brig Ijaz Shah, who has links with different jihadi groups like Lashkar-e-Taiba and Jaish-e-Mohammed (JeM) in order to keep conversations with the militants<sup>146</sup>.

Additionally, in February 2020, U.S. President, Donald Trump, signed a groundbreaking deal with the Afghan Taliban following a successful seven-day truce of reduction of violence. The agreement could represent the first part of a deal that will end almost two decades of conflict<sup>147</sup>. The Pakistani Foreign Ministry expressed its support for the peace talks, reflecting the country's enduring ties with the U.S.<sup>148</sup> However, with the Americans out of the picture, Pakistan now seeks an Afghan government that includes the Taliban in order to assure it is keen towards Pakistan and not India<sup>149</sup>, which could further destabilize the country. It is important to highlight that this agreement is the *tip of the iceberg* of a whole peace process yet to come and the deal still faces a series of challenges<sup>150</sup>. Intra-Afghan talks are crucial in order for actual peace to be achieved since political reconciliation within Afghanistan is key.

<sup>143</sup> Ali, Sana. 2019. «"The Bajwa Doctrine": Highlights from Gen Bajwa's 2016-19 Tenure as COAS.» *DAWN*, November 29.

<sup>144</sup> Gannon, Kathy. 2020. «Terror Attacks Drop, but Pakistan's "Not out of the Woods".» *AP News*, January 30.

<sup>145</sup> Ibid.

<sup>146</sup> Siddiqa, Ayesha. 2019. «New ISI chief Faiz Hameed a manipulator picked by army chief Bajwa to be his master's voice.» *The Print*, June 21.

<sup>147</sup> Kheel, Rebecca. 2020. «Five Things to Know About Emerging U.S., Taliban peace deal .» *The Hill*, February 23.

<sup>148</sup> Ibid.

<sup>149</sup> Maizland, Lindsay. 2020. «U.S.-Taliban Peace Deal: What to Know.» *Council on Foreign Relations*, March 2.

<sup>150</sup> Ibid.

On the other hand, the ISI has particular interests regarding the promotion of radical groups in Jammu and Kashmir. Even if the situation in other neighboring countries appears to be improving, Pakistan's biggest concern remains its standoff with India and there is no guarantee that the ISI will significantly change its behavior<sup>151</sup>.

Mirroring the ISI's strategy in Afghanistan, the organization has provided arming and training to terrorist groups in order to fight Indian forces in Kashmir<sup>152</sup>. The Pulwama attack of 2019 was a game changer in South Asia as Indo-Pak relations worsen to the point where the conflict escalated to a possible nuclear confrontation. Most importantly, it showed that India is no longer reluctant to respond to Pakistani attacks<sup>153</sup>.

Recently, the Kashmir conflict has worsened, and tensions remain high<sup>154</sup>, meaning that the ISI might continue to promote radical groups to counteract its opponent's presence in the region. In this sense, the threat to national security is imminent since, if Pakistan continues to attack Indian territory, India will not hesitate to respond<sup>155</sup>. Due to the ISI's strong influence within the Pakistani government and its decision-making processes, despite strong efforts of the government to counteract terrorism in the region, the country's history has proven that the organization acts upon geopolitical interests.

### *National Action Plan (NAP)*

The NAP was implemented in 2015 with the objective of tackling terrorism in Pakistan. It consists on 20 points released by the government following the Peshawar attacks of 2014<sup>156</sup>.

<sup>151</sup> Pandya, Abhinav. 2019. «The Future of Indo-Pak Relations after the Pulwama Attack.» *Perspectives on Terrorism* 65-68.

<sup>152</sup> Jaishankar, Dhruva. 2019. «Pakistan has no More Excuses for Supporting Terrorism.» *Foreign Policy*, February 15.

<sup>153</sup> Pandya, Abhinav. 2019. «The Future of Indo-Pak Relations after the Pulwama Attack.» *Perspectives on Terrorism* 65-68.

<sup>154</sup> International Crisis Group. 2020. *CrisisWatch February 2020 Asia*. International Crisis Group.

<sup>155</sup> Pandya, Abhinav. 2019. «The Future of Indo-Pak Relations after the Pulwama Attack.» *Perspectives on Terrorism* 65-68.

<sup>156</sup> Khan, Asad. 2019. *National Action Plan: Achievements and Limitations*. Issue Brief, Islamabad: Institute of Strategic Studies Islamabad (ISSI).

In 2018, terrorist attacks in Pakistan significantly decreased by a 29% from the previous year<sup>157</sup>. However, the NAP still faces a series of challenges as it must shift its short-term strategy into long-term goals<sup>158</sup>. Instead of entailing the root causes of terrorism in order to fight it, the NAP has been hampered by corruption and military interference that put into question Pakistan's stance on the matter and prompt social insecurity. As a result, Pakistan has been widely criticized by both the international community and its neighboring countries<sup>159</sup>. Nonetheless, the plan's still a meaningful first step, but in desperate need of transparency and accountability.

Moreover, following the plan's implementation, criticism towards Saudi Arabia's funding of terrorism in the madrasas also emerged<sup>160</sup>. Saudi Arabia is one of Pakistan's most important partners and the number one destination for Pakistani migrants <sup>161</sup>. In the medium term, as a consequence of terrorist violence, large flows of Pakistani refugees might still migrate to Saudi Arabia as a possible source of radicalization. This is relevant for the NAP because the plan requires for powerful countries to cooperate with Pakistan<sup>162</sup>. However, Saudi Arabia's behavior might threaten its effectiveness, especially with respect to the Saudi-Iran conflict<sup>163</sup>.

## *Organized Crime*

### *Flawed Financial System*

According to the Mutual Evaluation Report of APG: "Pakistan faces high risks of money laundering and terror financing and it needs to improve the understanding of these risks that are also emanating from various terrorist groups operating in the country"<sup>164</sup>. The APG released its

<sup>157</sup> Ibid.

<sup>158</sup> Khan, M. Sheharyar. 2015. "Review of National Plan: Challenges and Opportunities." *Pakistan Institute for Parliamentary Services*.

<sup>159</sup> Ibid.

<sup>160</sup> Sial, Safdar. 2015. *Emerging dynamics in Pakistani-Saudi relations*. NOREF - Norwegian Peacebuilding Resource Centre.

<sup>161</sup> International Organization for Migration, Regional Office for Asia and the Pacific. 2019. *Pakistan: Migration Snapshot August 2019*. Thailand: International Organization for Migration (IOM).

<sup>162</sup> Khan, M. Sheharyar. 2015. «Review of National Action Plan: Challenges and Opportunities .» *Pakistan Institute for Parliamentary Services*.

<sup>163</sup> Shahid, Kunwar Khuldune. 2020. «How Pakistan Plans to Cash in on Conflict in the Middle East.» *Haaretz*, January 12.

<sup>164</sup> Rana, Shahbaz. 2019. «Pakistan's FATF Compliance Poor: APG.» *The Express Tribune*, October 7.

report days before the FATF plenary meeting, which is in charge of deciding the future of Pakistan's status on the organization's grey list.

In February 2019, the FATF decided to place Pakistan on its "grey list" taking effect from June 2018. As a consequence, since June 2018, Pakistan made a high-level political commitment to work with the FATF and the APG to strengthen its AML/CFT regime and to address its strategic counter-terrorist financing-related deficiencies<sup>165</sup>. This political commitment has led to progress in a number of areas in its action plan, including risk-based supervision and pursuing domestic and international cooperation to identify cash couriers<sup>166</sup>. Nonetheless, Pakistan has still a long way before achieving its goal.

Currently, Pakistan has completed only 14 of 27 action items. The FATF strongly urges Pakistan to quickly complete its full action plan by June 2020. However, due to the outbreak of COVID-19 the FATF has extended its deadline until September<sup>167</sup>. If Pakistan fails to meet the deadline, the FATF will take action, which could include it calling on its members and urging all jurisdiction to advise their FIs to give special attention to business relations and transactions with Pakistan<sup>168</sup>. Moreover, this could mean that Pakistan would enter the FATF's blacklist.

Despite Pakistan's evident efforts, there are a lot of factors that strain the country's desire to leave the FATF's grey list. For instance, there is a strong nexus between organized crime and terrorist action. The country hosts a range of militant groups: nationalists, criminal, and terrorists. As a consequence, criminal activity in Pakistan provides room for a permissive environment for terrorist activity and facilitates the financing of terrorism.

However, progress in terms of tackling organized crime can be described as *sporadic* at best. Undoubtedly, the implementation of NAP has helped reduce the acts of violence and terrorism, but still much needs to be done. The current scenario calls for a shift in national action approach from the use of 'hard power to soft power.'

<sup>165</sup> Rana, Shahbaz. 2020. "FATF 'Recognises Pakistan's Efforts' to Fulfil Action Plan." *The Express Tribune*, February 21.

<sup>166</sup> APG Mutual Evaluation Report of Pakistan. 2019. «Pakistan's Measures to Combat Money Laundering and Terrorist Financing.»

<sup>167</sup> Haider, Mehtab. 2020. "FATF Extends Deadline to Pakistan." *The News International*, April 8.

<sup>168</sup> *Ibid.*

Today, for the government to achieve its goal and correct the flaws of its financial system, it must focus on two main aspects. First, Pakistan needs to examine what are the root causes that contribute to indoctrination and radicalization of individuals. Second, there is a need to understand the socio-economic grievances of the population and the areas that need to be addressed<sup>169</sup>. Furthermore, A re-evaluation of the NAP would enable the decision makers to address the weaknesses in the implementation of the original plan. Also, the government must review the strategy to achieve the desired target<sup>170</sup>.

In this sense, Pakistan must suppress all terrorist activities in the country. However, history has shown how government's measures have had a poor impact on this matter. For instance, despite the NAP's implementation in 2014, terrorism in Pakistan remains likely unchanged.

### *Corruption and Transparency (short- medium forecast)*

#### *Short-term evolution of corruption and transparency rates*

According to the Transparency International global report on the 2019 CPI, corruption in Pakistan maintains a strong grip as the country managed to score only 32 points and was ranked at the 120<sup>th</sup> spot among 180 countries. Pakistan witnessed a drop-in ranking by three places (117<sup>th</sup> in 2018) and also scored a point lower, as compared to 33 points scored in 2018<sup>171</sup>.

Pakistan's corruption and transparency rates are not expected to rise nor fall in the short-term estimations. However, with the recent outbreak of the COVID-19 pandemic, it can be estimated that corruption might increase in the country.

This is mainly due to the fact that policies implemented by PM Khan are not addressing the root causes of corruption in the country<sup>172</sup>. As a result, the government is neglecting many other corruption practices such as, bribing a police officer to get a driver's license made or to file a crime

<sup>169</sup> Ahmed, Sajjad. 2016. *A Twenty-point Recipe of Peace - the National Action Plan to Pakistan: Context, Analysis and Evaluation of Successes and Pitfalls*. Osaka: The International Academic Forum.

<sup>170</sup> Kamran, Sehar. 2019. «National Action Plan: Bigger Responsibilities Lie Ahead.» *The Nation*, June 3.

<sup>171</sup> Ahmed, Ashfaq. 2020. «Corruption Increases: Pakistan Slips Three More Places on Transparency International Ranking.» *World Asia*, January 23.

<sup>172</sup> Qaiser, Zara, y M Alfred Wu. 2019. «Can Imran Khan Really End Corruption in Pakistan?» *The Diplomat*, May 21.

report at a police station<sup>173</sup>. These corrupt practices are still widespread through Pakistan and it can be estimated that in the next few months they will be left unattended.

*Medium-term evolution of corruption and transparency rates*

PM, Imran Khan, has taken some important steps to tackle corruption, such as the establishment of an Assets Recovery Unit and the introduction of a whistleblower law. However, ensuring and monitoring the implementation of these steps and maintaining political neutrality are vital to increasing the effectiveness of Khan's anti-corruption drive<sup>174</sup>.

It may be too soon to assess the effectiveness of Khan's anti-corruption campaign on a medium-term estimation. So far, it has proven to be ineffective and may not tackle corruption in the country in the long run, even worse on the medium-term. Ending corruption requires institutional measures and reforms that prevent rampant corruption from occurring in the first place<sup>175</sup>. However, the government's anti-corruption policies currently do not address those concerns. Still, in accordance to the last CPI report, it may be possible that government's efforts could enhance.

*Pakistan's Future Role as an Outlet for Illicit Trafficking and Shady Transactions*

Pakistan is geographically vulnerable to drug trafficking, sharing a 2,430-km-long porous border with Afghanistan, the world's largest producer of illicit opium. Also, there is a large production of cannabis in the sub-region that is mostly trafficked from Afghanistan and then processed through the inaccessible areas of Pakistan's former FATA region<sup>176</sup>.

According to the United Nations Office on Drugs and Crime (UNODC) estimates, approximately 43% of the Afghan opiates are trafficked through Pakistan. Opiate processing on both sides of the Afghan-Pakistan border have created a trafficking network and, most importantly, a drug abuse problem in Pakistan since the early 1980s<sup>177</sup>. Around the border, drugs are just a part of an

<sup>173</sup> Ibid.

<sup>174</sup> Ibid.

<sup>175</sup> Ibid.

<sup>176</sup> ANI. 2017. «Drug Trafficking Main Source of Income for Terrorists in Pakistan.» *Outlook*, July 19.

<sup>177</sup> Office on Drugs and Crime Country Office, Pakistan. 2008. "Illicit Drug Trends in Pakistan."

intertwined illegal trade. People living on the frontier are familiar with the phrase "using drugs to foster terrorism." It is believed that guns and drugs are always near each other.

The free-flow of the narcotics has constantly supported terrorism in Pakistan. There are reports that suggest Pakistan's political class and the military may be in cahoots with the drug mafia<sup>178</sup>. Narcotics give a major fillip to terrorism as it is an expensive affair. The drug proceeds are laundered through numerous legal and illegal financial institutions and petty business enterprises<sup>179</sup>.

For instance, heroin from the Golden Crescent is extremely expensive. Therefore, the volume of money generated by these drugs is totally out of proportion. As a result, terrorists have successfully established links with drug traffickers to meet expenses for operating terrorism<sup>180</sup>.

Moreover, many researchers believe that Pakistan has made remarkable efforts to tackle the country's drug problem. Nevertheless, challenges remain, and illicit drugs continue to pose a serious threat to the health, safety and the well-being of the people.

The future of Pakistan's role as an outlet for illicit trafficking of drugs depends on the success of the new National Anti-Narcotics Policy. Most importantly, the new policy has all the legal ingredients in order for it to succeed, except for the highest federal and provincial political will for implementation. Political will can be structured into drug control by setting up the National Anti-Narcotics Council (NANC)<sup>181</sup>. The NANC, which is proposed by both the 2010 and 2019 policies, has yet to be established. If established, it can pave the way for proactive demand-reduction activities in the country. However, it can be inferred that in the medium-term estimates there is not going to be a clear improvement in this issue. In regard to shady transactions in the country, it is important to note that the PM was elected on an anti-corruption platform and his vow to bring home billions of dollars in money stashed abroad. However, progress has been slow, and skeptics doubt any substantial money can be recovered<sup>182</sup>.

<sup>178</sup> ANI. 2017. «Drug Trafficking Main Source of Income for Terrorists in Pakistan.» *Outlook*, July 19.

<sup>179</sup> Ibid.

<sup>180</sup> Pasha, Tahir Anwar. 2019. «Current Problems in the Combat of Transnational Organizaed Crime (Pakistan Perspective).» *Resource material series No. 54*.

<sup>181</sup> Ibid.

<sup>182</sup> Reuters. 2019. «Pakistan Should Focus on 'hawala' Transfers to Stem Corrupt Fund Flows: report.» *Reuters*, May 22.

Pakistan should focus on preventing corrupt money leaving the country in the first place and urge focus on anti-money laundering measures by banks and money transfer firms operating in a largely cash-based economy. In order for Pakistan to accomplish big steps on impeding shady transactions, the country is expected to sharpen its focus on the money exchange and transfer companies. Special attention should be given to “hawala” money transfer businesses that work under a system that allows customers to rapidly move large sums across borders outside the scrutiny of regulators<sup>183</sup>. The problem with the money transfer system is that, although it is the preferred banking system of the Pakistani people, many businesses are unregulated. This means that once the money leaves Pakistan, it is hard to keep the track of it<sup>184</sup>.

The institute Royal United Services Institute (RUSI) expressed the significance of urging the central bank to “promote awareness among banks of red flags and risk indicators related to possibly illegitimate activities of registered exchange companies and activities of unlicensed hawala... operators.”<sup>185</sup> As previously mentioned, Pakistan is currently trying to avoid being blacklisted by the FATF, mainly because of the increasing instability this could suppose for the country. As a consequence, it is expected that on a medium-term estimation, Pakistan will pay special attention to shady transactions as it is one of FATF’s indications. It is because of this that improvement in this area can be clearly expected.

<sup>183</sup> Ibid.

<sup>184</sup> Ibid.

<sup>185</sup> Ibid.



## 5. INDO-PAKISTANI RELATIONS

### *Background*

Indo-Pakistani relations have been contextualized within a conflict that dates back to their independence in 1947. The British divided the empire by the line of religion, having one nation for the Muslims and another for the “rest”. After Partition, Muslims head towards Pakistan while Hindus and Sikhs in the direction of India, generating mass casualties and riots.

In particular, there was a princely state that was not integrated neither in India nor Pakistan, the disputed region of Jammu and Kashmir. The violent conflict around Kashmir is still active today and has contaminated the relationship between the two nuclear rivals in South Asia after so many years. In addition, as a result of Partition, the Punjab region was also divided between East and West Punjab, under the control of India and Pakistan respectively.

Following the construction of the Karachi Corridor in 2019, the beginning of a rapprochement between East and West Punjab is evident. In a long-term, despite the Punjabis cultural ties, both leaders would impede their unification based on their own geostrategic interests.

Moreover, one of the most prominent issues surrounding the delicate relationship between India and Pakistan is India’s threat to develop water management infrastructures over the western rives, originally allocated to Pakistan under the Indus Water Treaty (IWT) of 1960. Regardless of their bilateral agreement, India has expressed its intentions of cutting Pakistan’s water supply, which mostly supports the country’s agricultural belt in Punjab and Sindh<sup>186</sup>.

Currently, the two countries’ relationship is far from stabilizing. Kashmir remains a flashpoint, water disputes are on its peak, and in light of their nuclear capabilities, the conflict becomes more fragile as it risks regional and international peace.

<sup>186</sup> Qureshi, Waseem Ahmad. 2017. "Indus Water Treaty: An Impediment to the Indian Hydrohegemony." *Denver Journal of International Law and Policy* 45-72.

In the following table, there are three possible scenarios regarding the future of the Indo-Pakistani relations based on the issues mentioned above. Firstly, there is a possible escalation of the conflict. Secondly, under a liberalist approach, this scenario reflects the possibility of both countries reviving dialogue. Finally, the third scenario follows a realist theory in which the conflict escalates to a nuclear confrontation in projection to the next three to five years.

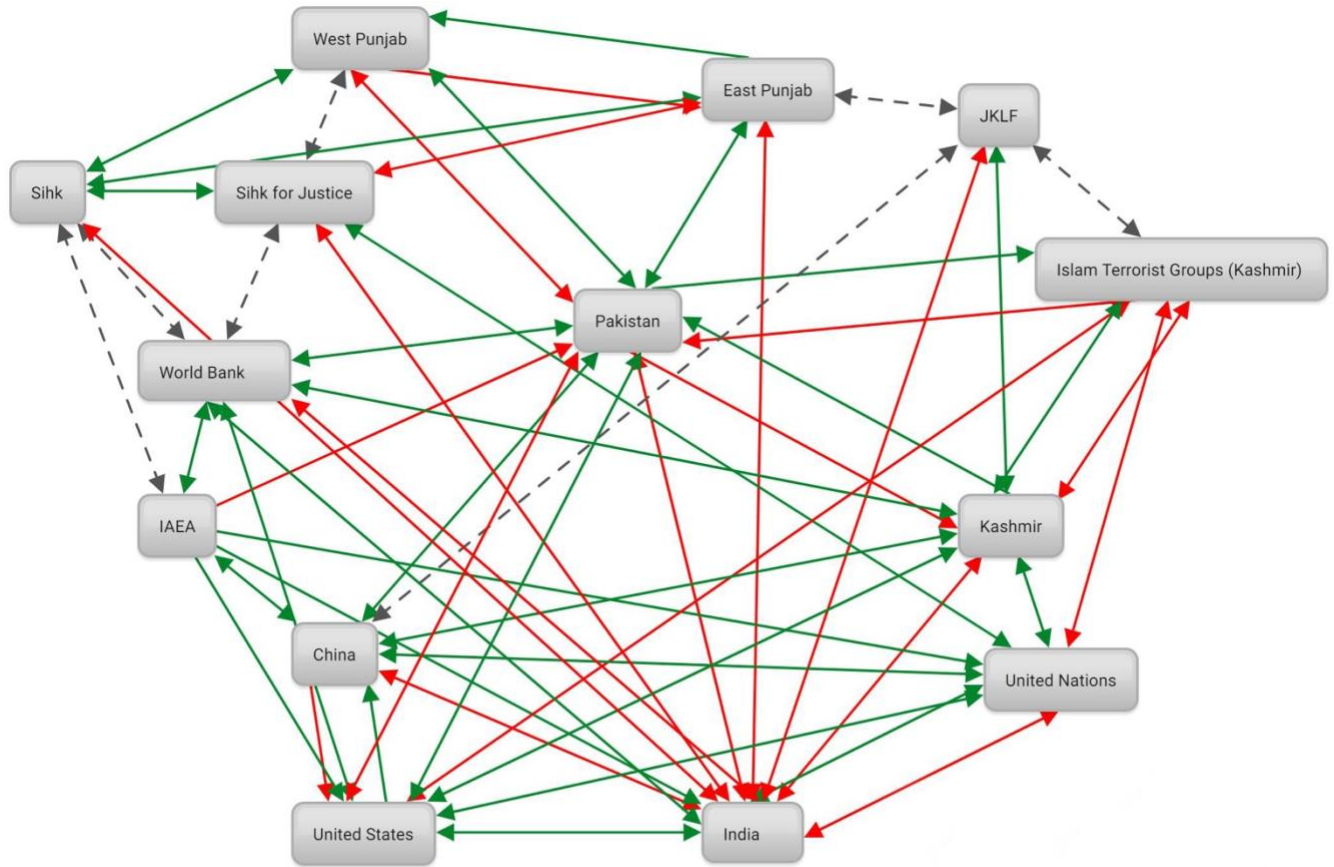
After implementing a strategic analysis approach and building a map of actors based upon their relation of cooperation or conflict (see figure IV), it can be inferred that the escalation scenario is the most likely to happen in a medium-term projection. This is mostly due to the direct and indirect influence from part of PM Modi's nationalist domestic and foreign policy in relation to the rest of the variables. This plays a key role in the Indo-Pakistani conflict since, despite PM Khan's progressive approach, the Indian leader refuses to revive dialogue. PM Modi's previous actions, such as the revocation of Article 370 in Jammu and Kashmir and his constant threats of building dams in the western rivers, reflect his behavior towards Pakistan will not have any substantial change in the medium-term.

Despite certain efforts from part of the Pakistani government, there is also no clear evidence that Pakistan will cease its involvement with radical groups, exacerbating PM Modi's nationalist actions. As a result of the previously mentioned, it is evident how Modi's actions will also have a direct effect on the increase of the region's nationalist movements.

Additionally, the COVID-19 pandemic has sparked more instability within an already volatile region. Violence between Muslims and Hindus might further destabilize the relationship between India and Pakistan as tensions rise amid a growing global crisis. However, despite speculations that the pandemic will change the dynamics of the conflict, it is certainly too early to make any confident predictions. In conclusion, Indo-Pakistani relations still remain in the hands of the countries' leaders' approach towards one another.

Scenario Analysis

(Figure IV) MAP OF ACTORS



Source: Author's elaboration

Cooperation/Conflict/Neutral

(Figure V) SCENARIO ANALYSIS

	ESCALATION	REVIVING DIALOGUE	NUCLEAR CONFRONTATION
<b>Booming population and susceptibility to climate change can lead to a shortage of resources</b>	<p>Due to an exponential population growth in the whole region, resources become scarcer, increasing the tension between both countries.</p> <p>PM Modi implements the Tulbul project, resulting in a violation of the Indus Water Treaty.</p> <p>This causes the UN to impose sanctions on India.</p>	<p>The Indus water treaty is no longer sustainable due to the population growth in both countries and the challenges posed by climate change.</p> <p>The treaty is renegotiated on the basis that Pakistan agrees to prevent any new terrorist attacks in the region. This is a window of opportunity for further negotiations on other matters.</p>	<p>PM Modi decides to implement the Tulbul project, and withdraws from the Indus Water Treaty with Pakistan. This leads to the start of a war based on resources between both countries.</p>
<b>Terrorism as a strategic tool in the conflict</b>	<p>As a result, Jaish-e-Mohammed performs a terrorist attack in one of the Indian military camps in Kashmir.</p> <p>Despite accusations from part of India, Pakistan denies any involvement in the attack.</p>	<p>In light of the recent removal of Pakistan from FATF's grey list on June 2020, it is evident that the country begins to shift its view towards terrorism as a strategic tool against India.</p>	<p>Pakistan decides to launch a terrorist attack on the Indian Parliament located in New Delhi. As a result, both sides mobilize and deploy their troops around the border between the countries and in the dispute area of Kashmir, especially in the Line of Control.</p>
<b>Narendra Modi's nationalist domestic and foreign policy</b>	<p>Following Modi's decision to revoke article 370, the discontent of the Kashmiri population towards India increases. This triggers more human rights violations and oppression from part of the military.</p> <p>Tension in the Line of Control rise as India threatens to cross the border into Pakistani territory.</p>	<p>Modi perceives a substantial change in terms of Pakistan's actions towards terrorism and opens to communicate with Pakistan once again on the Kashmir conflict.</p> <p>Pakistan agrees on bilateral negotiations and their disengagement from any terrorist actions. If violated, negotiations will automatically be interrupted.</p>	<p>Because of the great number of Indian casualties following the terrorist attack and the confrontations in the Line of Control, the Indian army decides to act on its own, crossing the border into Pakistan with tanks and other weaponry.</p>
<b>Growth of nationalist movements and insurgencies in the region</b>	<p>As a result of Modi's oppressive measures, nationalist movements rise.</p> <p>The UN sponsors a referendum in East Punjab as a consequence of the increased pressure by the protests of the Sikh for justice movement. Pakistan expresses support towards the referendum as a response to the human rights violations in Indian-administered Kashmir.</p>	<p>Social instability in the line of control increases as Pakistani insurgents disrupt the civil population and continue to cross into India administered Kashmir.</p>	<p>In light of the strengthening of insurgencies, both in East Punjab and Kashmir during the last years, their demands have grown.</p> <p>In East Punjab, the Sikh for justice movement decides to support Pakistan on its war with India. The JKLF movement continues its struggle towards independence by fighting against India in the Line of Control.</p>
<b>Religion as a trigger of conflict</b>	<p>Tension between the Muslim and Hindu increases in both countries, leading to more disparities between the leaders.</p>	<p>Since the nature of the Indian-Pakistani conflict has been contextualize within religion, it is unlikely that religion stops being a catalyzer for conflict. However, both countries seem to establish a basis to start communicating on future conflict resolutions.</p>	<p>Muslims and Hindus' nationalism grows, creating more social instability and increasing tensions between both religions in the region.</p>
<b>Imran Khans' progressive approach and soft power strategy</b>	<p>Khan expresses his concern over the lack of a mediator in the conflicts with India and calls for a UN intervention.</p> <p>India refuses once again and consequently; Pakistan continues its support to the insurgencies in East Punjab and India-administered Kashmir.</p>	<p>Following the inauguration of the Kartarpur corridor in 2019, Indo-Pakistani relations improve. As a consequence, the stability in East Punjab grows.</p>	<p>Pakistan does not change its "first use" policy because of the asymmetry between Indian and Pakistani conventional forces.</p> <p>Due to India's action, Pakistan decides to respond the invasion through the use of nuclear weapons.</p>
<b>Nuclear states fighting over geostrategic influence</b>	<p>After India threatens to cross the border, Pakistan decides to implement unconventional warfare including terrorism.</p> <p>This demonstrates how the conflict escalates to this point without the use of nuclear weapons.</p>	<p>Pakistan expresses its desire to follow India's path towards developing outer-space capabilities. Even if Pakistan cannot afford such a program on a medium term, both governments agree to a future exchange of information.</p>	<p>Both countries demonstrate that they do not abide by the current international framework on nuclear matters. Most importantly, neither of them are amenable to the IAEA.</p> <p>In order to maintain its status quo in the region and counterpart China, India abstains from using all its nuclear arsenal while Pakistan used in its entirety its strategic arsenal.</p>

## 6. CONCLUSION

In light of the previously mentioned, due to Pakistan's strategic location, it has the potential to become South Asia's premiere trade, energy, and transport corridor. This advantage alone makes Pakistan a possible marketplace filled with possibilities. However, Pakistan's economic capability has been overshadowed by a political and social instability that has generated insecurity within Pakistan and throughout the region.

Due to the government's willingness to tackle the main issues of the country, such as corruption and terrorist financing, Pakistan seems to be moving in the right direction. As a result, it is expected that in the long-term, the economy could gradually recover while improving Pakistan's whole macroeconomic picture and reducing its long-lasting instability. Nevertheless, this relies on Pakistan's ability to undertake the challenges posed by the COVID-19 pandemic and its devastating economic consequences.

In conclusion, in order for Pakistan to become an attractive market for foreign investment, the role of the state must be enhanced to fully develop the important segments of the economy, while improving substantially the doing business and capital formation environment of the country. If Pakistan achieves its long-term goals and builds a "*Naya Pakistan*"<sup>187</sup> around the reformation of the economy, it could finally turn into a low risk investment country.

<sup>187</sup> Hussain, Abid. 2019. "Imran Khan: A Year Facing Pakistan's Harsh Realities." *BBC*, August 25.

## BILIOGRAPHY

- Afzal, Madiha. 2020. «Why is Pakistan's Military Repressing a Huge, Nonviolent Pashtun Protest Movement?» *Brookings*, 7 February.
- Ahmad, Shakeel. 2018. *Unleashing the Potential of a Young Pakistan*. Human Development Reports, Washington DC: United Nations Development Program.
- Ahmar, Moonis. 2018. «Conflict Over New Provinces. » *Daily Times*, 27 April.
- Ahmed, Ashfaq. 2020. "Corruption Increases: Pakistan Slips Three More Places on Transparency International Ranking." *World Asia*, January 23.
- Ahmed, Sajjad. 2016. *A Twenty-point Recipe of Peace - the National Action Plan to Pakistan: Context, Analysis and Evaluation of Successes and Pitfalls* . Osaka: The International Academic Forum.
- Alia Chughtai, Asad Hashim. 2018. "Pakistan Elections 2018: The Major Political Parties ." *Al-Jazeera* , July .
- Amil, Sadia. 2019. «Energy Crisis in Pakistan.» *The Nation*.
- ANI. 2017. "Drug Trafficking Main Source of Income for Terrorists in Pakistan." *Outlook*, July 19.
- ANI/Islamabad. 2019. "Pakistan's Fiscal Deficit Rises to Highest Level in Three Decades." *Khaleej Times*, August 28.
- Anwar, Dr Talat. 2019. *CPEC and Pakistan's Debt Burden*. Opinion, The News International.
- APG Mutual Evaluation Report of Pakistan. 2019. "Pakistan's measures to combat money laundering and terrorist financing."
- APP. 2019. "BISP Set to Speedily Undertake Measures to Tackle Poverty: Sania." *International the news*, April 22.
- Bank, The World. 2019 . "Military Expenditure (% of GDP)." Stockholm International Peace Research Institute ( SIPRI ). *Military Expenditure* .
- Barcelona Centre for International Affairs . 2012. "Pakistan: Country Profile ." *CIDOB International Yearbook* .
- Barcelona Centre for International Affairs. NA . *Political System and State Structure of Pakistan*. Barcelona : Barcelona Centre for International Affairs.
- Bokhari, Farhan. 2019. "Imran Khan Needs to Take Full Charge of Pakistan." *Opinion*.
- Brown, Oli. 2019. *Climate-Fragility Risk Brief: North Africa & Sahel*. Berlin: adelphi research gGmbH.
- Cai, Peter. 2017. *Lowy Institute*. March 22.  
<https://www.lowyinstitute.org/publications/understanding-belt-and-road-initiative>.
- Ceic Data. 2019. *Pakistan External Debt*. November .  
<https://www.ceicdata.com/en/indicator/pakistan/external-debt>.
- Cheema, G. Shabbir. N.A. «Intra-State Conflicts and Development Strategies: The Baloch Insurgency in Pakistan.»
- China Pak Golf Estates Firm. 2020. *2020: An exciting year for CPEC*. January 20.  
<https://www.cpicglobal.com/2020-an-exciting-year-for-cpec/>.
- Constable, Pamela. 2017. "'A Disaster in the Making': Pakistan's Population Surges to 207.7 million." *The Washington Post*, September 9.
- CountryWatch. 2020. *Pakistan Country Review 2020*. Country Review, United States of America : Country Watch.
- CPEC. 2020. *China Pakistan Economic Corridor*.<http://cpec.gov.pk/significance-potential/4>.

- CPEC Authority. 2020. *CPEC*. <http://cpec.gov.pk/energy>.
- Dunya News. 2018. "Pakistan's Booming Population is a Challenge to the New Government." *Dunya News*, August 26.
- Ebrahim, Zofeen T., and Hussain Ali. 2015. "50 Shades of Inequality in Pakistan." *Dawn*, May 14.
- Faisal Mehmood Mirza, Nishat Fatima, Kafait Ullah. 2019. "Impact of China-Pakistan Economic Corridor on Pakistan's Future Energy Consumption and Energy Saving Potential: Evidence from Sectoral Time Series Analysis." *ELSEVIER* 34-46.
- Feyyaz, Muhammad. 2011. «Ethnic Conflict in Sindh. » *PILDAT*.
- Financial Action Task Force. 2020. *Jurisdictions under Increased Monitoring*. February. <http://www.fatf-gafi.org/countries/d-i/iceland/documents/increased-monitoring-february-2020.html>.
- Folsom, Ralph H., Ralph B. Blake, and Ved P. Nanda. 1996. *European Union Law After Maastricht: A Practical Guide for Lawyers Outside the Common Market*. The Hague: Kluwer Law International.
- Gong Sen, Melissa Leach and Jing Gu. 2019. "The Belt and Road Initiative and the SDGs: Towards Equitable, Sustainable Development." *IDS Bulletin Transforming Development Knowledge* Vol.50 No. 4 .
- Government of Pakistan. 2020. *China Pakistan Economic Corridor*. <http://cpec.gov.pk/infrastructure>.
- Government of Pakistan . 2020 . *Pakistan 2020 One Nation - One Vision*. Pakistan : Ministry of Planning .
- Gwadar Port Authority . 2020. *Vision and Mision Gwadar Port* . <http://www.gwadarport.gov.pk/vision.aspx>.
- Haider, Mehtab. 2020. "FATF Extends Deadline to Pakistan." *The News International*, April 8.
- Hashim, Asad. 2018. "In Pakistan, Wounds of Peshawar School Attack Reopen Aach Winter." *AlJazeera*.
- Humeira Iqtidar, David Gilmartin. 2011. "Secularism and the State in Pakistan." *Modern Asian Studies*, 491-499.
- Hussain, Abid. 2019. "Imran Khan: A Year Facing Pakistan's Harsh Realities." *BBC* , August 25.
- International Monetary Fund . 2019. *International Monetary Fund*. October .
- International Monetary Fund. 2020. *IMF International Monetary Fund*. [https://www.imf.org/external/datamapper/NGDP\\_RPCH@WEO/BGD/EGY/PAK](https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/BGD/EGY/PAK).
- International Monetary Fund. 2019. *IMG Executive Board Completes the First Review of Pakistan's Extended Fund Facility*. Press Release No. 19/477, Washington D.C: International Monetary Fund.
- International Monetary Fund. 2020. *Regional Economic Outlook: Middle East and Central Asia*. Washington D.C: International Monetary Fund.
- International Monetary Fund. 2020. *World Economic Outlook, April 2020*. Washington D.C: International Monetary Fund.
- Iqbal, Nadeem. 2019. "How to Implement a Drug-control Policy." *International The News*, July 27.
- Jaffrelot, Christophe. 2015. "Islam: Territorial Ideology or Political Religion? ." *The Pakistani Paradox* 437-450. New York : Oxford University Press.
- Jafri, Juvaria. 2020. "Coronavirus: How Pakistan is Using Technology to Disperse Cash to People in Need." *The Conversation*, April 1.

- Jaishankar, Dhruva. 2019. «Pakistan has no More Excuses for Supporting Terrorism.» *Foreign Policy*, 15 February.
- Jamal, Umair. 2020. "Pakistan Gets Unexpected Economic Relief in a Time of Global Crisis." *The Diplomat*.
- Jamil, Sadia. 2019. "Energy crisis in Pakistan." *The Nation*.
- Jenkins, Matthew. 2018. *Integrity Risks for International Businesses in Pakistan*. Transparency International.
- Jorgic, Drazen. 2019. "Pakistan Says Curbing Power Sector Debt, Seeks Energy Investors." *Reuters*.
- Khalique, Harris. 2019. "Opinion: Imran Khan – One Year of Stumbling Ineptitude." *DW*, 18 August.
- Kamran, Sehar. 2019. "National Action Plan: bigger responsibilities lie ahead." *The Nation*, June 3.
- Kapur, Saloni. 2018. "The Electoral Cictory of Imran Khan: Diffusing the Dynasties of Control in Pakistan?" *South Asia LSE*.
- Kheel, Rebecca. 2020. «Five Things to Know About Emerging U.S., Taliban peace deal .» *The Hill*, February 23.
- Khan, Asad. 2019. "National Action Plan: Achievements and Limitations." *Issue Brief, Islamabad: Institute of Strategies Studies Islamabad (ISSI)*.
- Khan, M. Sheharyar. 2015. "Review of National Plan: Challenges and Opportunities." *Pakistan Institute for Parliamentary Services*.
- Kirk Lancaster, Michael Rubin. 2020. "What the COVID-19 Pandemic May Mean for China's Belt and Road Initiative." *Council on Foreign Relations*, March.
- Kirmanji, Nida. 2020. "The Spectre of Inequality." *The news on sunday*, February 9.
- Kouser, Shahzad, Abudl Subhan , and Abedullah. 2020. "Uncovering Pakistan's Environmental Risks and Remedies under the China-Pakistan Economic Corridor." *Environ Sci Pollut Res (Trend)*.
- Laskar, Rezaul H. 19. "Pak Fully Compliant with 1 of 40 FATF Recommendations, says Status Report." *Hindustantimes*, October 8.
- Logistics Capacity Assessment. 2017. *Logistics Capacity Assessment*. October 25. <https://dlca.logcluster.org/display/public/DLCA/2.1.3+Pakistan+Gwadar+Port>.
- Maizland, Lindsay. 2020. «U.S.-Taliban Peace Deal: What to Know.» *Council on Foreign Relatioins*, March 2.
- Malik, Hasan Yaser. 2012. *Strategic Importance of Gwadar Port*. Vol. 10, Journal of Political Studies .
- Malik, Mahnaz. 2010. *International Law Protections for Foreign Investments in Pakistan*. Karachi: Overseas Investors Chamber of Commerce and Industry (OICCI).
- Majid, Ayla. 2019. "Can Pakistan Make its Energy Sector Greener, Cheaper and More Reliable? The Government Thinks So." *World Economic Forum*.
- Mangi, Faseeh. 2019. "Pakistan Owes China More Money than it Owes the IMF." *AlJazeera* , October 3. <https://www.aljazeera.com/ajimpact/pakistan-owes-china-money-owes-imf-191003104027694.html>.
- May, John. 2013. *Pakistan's Demographic Challenges*. Central for Global Development.
- Ministry of National Health Services Regulations and Coordinations Government of Pakistan. 2018. "Investing in Sustainable Population Growth." Islamabad.
- Mourdoukoutas, Panos. 2019. *IMF Won't Stop China From Turning Pakistan Into The Next Sri Lanka*. Opinion, Forbes.



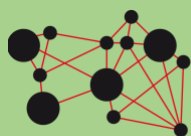
- News Desk. 2020 «Pakistan's Current Account Deficit Decreases by 71 Percent in FY20.» *Link News*, March 18.
- OECD Green Growth Studies. 2011. "Energy."
- Office on Drugs and Crime Country Office, Pakistan. 2008. "Illicit drug trends in Pakistan."
- Pandya, Abhinav. 2019. «The Future of Indo-Pak Relations after the Pulwama Attack.» *Perspectives on Terrorism* 65-68.
- Pasha, Tahir Anwar. 2019. "Current Problems in the Combat of Transnational Crime (Pakistan Perspective)" *Resource Material Series No. 54*.
- Prasso, Sheridan. 2020. "CPEC – China's Most Ambitious Project in Pakistan has become a Corridor to Nowhere." *The Print*, March 2.
- Press Trust of India . 2019. "Chinese Firm Vows to Make Gwadar More Valuable than Karachi within 7 yrs." *Business Standard* , October 9.
- Press Trust of India. 2020. "Pakistan Deploys Army to Enforce Lockdown as Coronavirus Cases Rise to 875." *Business Standard*.
- Qaiser, Zara, and M Alfred Wu. 2019. "Can Imran Khan Really End Corruption in Pakistan?" *The Diplomat*, May 21.
- Qureshi, Waseem Ahmad. 2017. "Indus Water Treaty: An Impediment to the Indian Hydrohegemony." *Denver Journal of International Law and Policy* 45-72.
- Rana, Shahbaz. 2019 «Pakistan's Debt to Rise to Over 78% of GDP.» *The Express Tribune*, October 16.
- Rana, Shahbaz. 2019. «Pakistan's FATF Compliance Poor: APG.» *The Express Tribune*, October 7.
- Rana, Shahbaz. 2020. "FATF 'Recognises Pakistan's Efforts' to Fulfil Action Plan." *The Express Tribune*, February 21.
- Rana, Shahbaz. 2020. "Pakistan's Trade Deficit Contracts Over 30% to \$11.6b." *The Express Tribune*, January 7.
- Ramachandran, Sudha, Hamsini Hariharan, y Shibani Mehta. 2018. «Impact of the Pashtun Tahafuz Movement on Pakistan's Political Landscape.» *Takshashila Strategic Assesment*.
- . 2020. "FATF 'Recognises Pakistan's Efforts' to Fulfil Action Plan." *The Express Tribune*, February 21.
- . 2019. "Pakistan's FATF Compliance Poor: APG." *The Express Tribune*, October 7.
- Jorgic, Drazen. 2019. "Pakistan Says Curbing Power Sector Debt, Seeks Energy Investors." *Reuters*.
- Reuters. 2019. "Pakistan Should Focus on 'hawala' Transfers to Stem Corrupt Fund Flows: Report." *Reuters*, May 22.
- Roofi, Yasmin, y Khawaja Alqama. 2013. «Ethnic Dilemma in Pakistan and Division of Punjab: End or Beginning of the New Era of Conflict.» *Journal of Politics and Law* 156-162.
- Sareen, Sushant. 2019. *7 Implications of IMF Programme for Pakistan*. Observer Research Foundation.
- Shahid, Kunwar Khuldune. 2019. "The IMF Takeover of Pakistan ." *The Diplomat*, 18 July.
- Sial, Safdar. 2015. *Emerging dynamics in Pakistani-Saudi relations*. NOREF - Norwegian Peacebuilding Resource Centre.
- Siddiq, Ayesha. 2018. *Inside Pakistan's Military Economy*. Military Inc.
- Siddiqui, Hussain Ahmad. 2019. "Pakistan's Exports Keep Declining in Absence of Long-term Vision ." *International The News*, 9 November.
- State Bank of Pakistan. 2018-2019. *Annual Report 2018-2019: The State of Pakistan's Economy*. Annual Report, State Bank of Pakistan.

- Statista . 2020. *Pakistan: Growth Rate of the Real Gross Domestic Product (GDP) from 2014 to 2024*. <https://www.statista.com/statistics/383729/gross-domestic-product-gdp-growth-rate-in-pakistan/>.
- Tang Mengsheng, Li Jingfeng. 2019. "CPEC: Progress and Prospects ." *China Economic Net* , September 5: 1-7.
- The Economic Times. 2019. "What is Imran Khan's real problem?" *The Economic Times*, October .
- Trading Economics. 2020. "Pakistan Balance of Trade."  
— . 2019. *Trading Economics*. <https://tradingeconomics.com/pakistan/military-expenditure>.
- United Nations Publications. 2008. *Achieving Sustainable Development and Promoting Development Cooperation*. New York: Department of Economic and Social Affairs Office for ECOSOC Support and Coordination .
- World Bank . 2019. *World Bank Organisation*. October 21.  
<https://www.worldbank.org/en/country/pakistan/overview>.
- World Bank Group. 2020. "Doing Business 2020: Accelerated Business Climate Reform Agenda Puts Pakistan Among Top 10 Improvers."
- World o Meter. 2020. "Pakistan's Population."
- Yousaf, Farooq. 2019. «Pakistan's "Tribal" Pashtuns, Their "Violent" Representation, and the Pashtun Tahafuz Movement. » *SAGE* 1-10.
- Younus, Uzair. 2019. «Pakistan's Debt Policy has Brought us to the Brink. Another Five Years of the Same is Unsustainable. » *Dawn*, November 16.
- Yusuf, Huma, y Syed Shoaib Hasan. 2015. *Conflict Dynamics in Sindh*. Washington D.C: United States Institute of Peace.
- Zargar, Haris. 2019. «Why Pakistan is Taking Pashtun Activism Seriously. » *New Frame*, June 21.





Universidad  
de Navarra



CENTER FOR  
**GLOBAL  
AFFAIRS**  
& STRATEGIC STUDIES