

Topic: Pakistan's persistent economic crises have all been rooted in a governance crises

Outline:

① **Introduction:**

The vague division of authority and flawed policies have entangled Pakistan in deep economic crises, in the form of prolonged fiscal deficit and balance-of-payments problems. Therefore, the overhaul of governance and ^{the} revitalization of institutions is the need of the hour.

② **Governance and Pakistan:**

i) The basic idea of governance

ii) Historical context of governance in Pakistan

③ **Causes of perennial Governance Crises in Pakistan:**

i) Political instability and lack of rule of law

ii) Power imbalance between institutions

iii) Myopic formulation of fiscal and monetary policies

iv) Protectionist policies protecting local businesses

v) Lack of meritocracy in the recruitment process

vi) Widespread corruption in the provision of public services

④ **Economic Implications of Deep-Rooted Governance in Pakistan:**

i) Fiscal mismanagement

ii) Poor status of External account

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iii) Dependency on bilateral and multilateral donors

iv) Devaluation of national currency

v) Unprecedented inflation

vi) Low Foreign Direct Investment (FDI)

vii) Closure of local businesses

⑤ Pathway towards the promulgation of good Governance leading to Economic Prosperity:

i) clear division of authority

ii) Indifferent implementation of the constitution

iii) Transparency in dealings

iv) Accountability of individuals and institutions

v) Long-term policy focusing on social prosperity

vi) Delivery of ^{quick} Justice

⑥ Conclusion*

Islamic republic of Pakistan, since independence, has been grappling with myriad challenges emanating from political instability and economic tumult. These challenges have halted the real prosperity at the grass root level. This needs immediate resolution. An overview of the economically prospering countries proves that good governance is the backbone of sturdy economic skeleton. However, in Pakistan's case this skeleton have been laid bare to vulnerabilities. The vague division of authority and flawed policies have entangled the country in deep economic crises in the form of prolonged fiscal deficit and balance-of-payments problems. Therefore, the overhaul of governance ^{the} and revitalization of institutions is the need of the hour.

Before discussing the root major causes of governance crises in Pakistan, it is imperative to understand the basic concept of governance. Governance means ensuring education, health and security after a consensus based policy formulation among and between institutions and individuals, in the power corridor. According to UNESCO International Bureau of Statistics, "Governance refers to structures and processes that are designed to ensure accountability, transparency, responsiveness, rule of law, stability, equity and inclusiveness, empowerment and broad based participation." Similarly, as per UNDP, the World Bank, the OECD Development Assistance Committee (DAC) and other organisation define governance as the exercise of authority or power in order to manage a country's economic, political, and administrative affairs. In the light of these definitions, it is apparent that governance means fulfilling public services

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efficiently and effectively. Thus, those countries following the concept of governance in true spirit are leading the rest of the world.

However, when one explores the history of Pakistan, it is clear that it paints a picture of instabilities, in the form of clash between federal and provincial governments. It also offers unfortunate colours of military takeovers soon after the completion of its first decade ^{of inception}. The country after its inception does not ^{have its} come up with a constitution ^{for 9 years} to run the affairs of country, while, on the other hand, India constitutes its own constitution within four to five years. Moreover, the persistent threat from the India's and Afghanistan's bordering areas have left little room for the government to solely focus on its internal matters. Due to this negligence, the country experiences separation of east Pakistan, Bangladesh. This unstable history of Pakistan shows that if today the country is in dire need of economic reforms, it is because of the persistent bad governance practiced by the successive governments.

On the basis of above discussion, it is necessary that to unearth causes behind the bad governance rampant in the country. Therefore, upcoming few paragraphs would explore the perennial causes of bad governance.

The first major impediment in the path of efficient fulfillment of public services is the political instability and lack of rule of law. The country has experienced four martial laws, and a few glimpses of democratic governments in between speak volumes. Moreover, none of the democratically elected governments ^{has} completely fulfilled its tenure until

2008. This blend of governments has never let the power holding authorities to work for the betterment of general public. Every government has pleased its patrons, those who helped in them in ^{owning} power. This appeasement has cost the country a sever blow of lawlessness. The ~~F~~ feudal lords, the bureaucracy, the military establishment, and the common people all experience different laws. These entities, owing power, have always misused the law for their personal interests. Resultantly, the country has always carried a blotch of bad governance due to political instability and weak laws.

The second major reason behind governance crises, ^{countries} which the ^{have} ^{always} ^{been} facing, is the power imbalance between different institutions. The country of Pakistan have three major branches the Judiciary, legislature, and Executive body, along with the military establishment. These power corridors have always intruded in one another's areas of authority. Christopher Jeffreyote in his book Pakistan a Hard Country discuses that how the General Kiyani, ^{in 2008,} warns President Asif Ali Zardari of another Martial law if he does not reinstate Shahbaz Sharif back as Chief Minister (CM). Similarly, the current on-going happenings in the country in the form of thrashing the constitution by not conducting elections within ninety days by Election Commission of Pakistan ordered by ^{ex} Chief Justice of Supremet (CJP). All of these evidences prove that institutions are not following the constitution. They are fighting with one another. This has deeply impacted the citizens, of the land of pure, due to a power imbalance between institutions.

Economic prosperity results from far-sighted economic policy making. However, in Pakistan's case

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Successive governments have made fiscal and monetary policies fulfilling their own political agendas. For instance, the government of Pakistan in 2019 comes into a four years loan program with International Monetary Fund (IMF). As per IMF 2022 report, the country fulfilled IMF's conditions till 2021. In 2022 they detracted and changed policies for personal gain. This is ^{not} happened for the first time, every government has done this. The result ^{happens to be} a temporary respite, while paving ^{the} path for longer-term consequences. Similarly, every successive government has taxed the already tax-paying class, while protecting or giving special treatment to the real estate, the agricultural and the retail sector of the country. This has pushed the middle class to fall into the poor class of the country. The self-centred policies have brought on economic consequences harshly hitting the common man.

Another cause of bad governance in Pakistan leading to economic crises is the protectionist policies, for the protection of local businesses, adopted by successive governments. These policies exist in the form of tariffs and non-tariff duties on foreign businesses. Foreign businesses need ease of doing business. However, business owning politicians also act as a hurdle against ^{for} offering the required conducive environment. For instance, the last coalition government harshly restricted the import of raw materials, spare parts, while at the same time ^{do} not allowing the foreign businesses to export to take out their earnings, owing to lack of foreign reserves. This indirectly protected ~~a~~ the local businesses and have been protecting them, one way or another. This protectionism leads to lack of innovation, competition

and exploitation of general public. Thus, bad policies in business sector governance have led to little productivity and economic consequences.

One of the major characteristics of good governance is ensuring merit in every affair ~~of~~ related to public. However, despite being Islamic republic the country have always ^{been} home to nepotism and favouritism. For instance, in all the major ministries, the serving chairmen are happened ~~to be~~ ^{the} retired ~~generals~~. The new chairman of National Data ^{base} and Registration Authority, (NADRA) is Lieutenant General Muhammad Meini Afsar. Instead of bringing in a military personnel, it was necessary to enstate a person having previous experience credentials. Similarly, the power sector of the country today is if in the circular debt, it is because of the ~~its~~ non-competent personnel in decision making. This neglect of merit and justice has stalled the growth of different sectors, while skillful people are unemployed. Hence, the country, as pit ^{has} ~~low~~ ^{been} in the past, ^{is} still home to blotches of bad governance.

Corruption is the root cause of every evil in the society. Unfortunately, being one of the causes of bad governance, it is practised expansively in every institution of Pakistan. First, ~~to~~ every politician once fulfills his tenure is always summoned by Federal Board of Revenue (FBR) against corruption charges. Recently, the last Chief Minister of Sindh has been summoned by the National Accountability Bureau (NAB) against eight ~~million~~ billion corruption in the public projects. New Zealand consistently ranks high in transparency and low in corruption, getting 1st place ^{among} 180 countries on Transparency International's Corruption Index 2022. While, Pakistan gets

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place at 140th. This shows and proves the widespread corruption in the country. Non-professional people while dealing with national affairs will commit mistakes, and the country would ^{be in} economic crises due to corrupt practices.

As per ~~Newton's~~ Newton's third ~~to~~ Law of Motion, "there is always reaction to an action, but in opposite direction." So, is the case of bad governance. Owing to the practices as mentioned above, leads to the exploitation of economic ^{con}sequences as per demand of the topic.

As discussed above, myopic and self-centred policies always bring bad consequences. The country has always faced fiscal deficit, more expenditures, lower revenues. There are dozens of evidences which prove the prolonged practice of fiscal mismanagement leading to economic crises. For example, as ~~the~~ per the World Bank (WB) report on Pakistan Public Expenditure Review 2023, despite devolution of ~~or~~ responsibilities to the provinces after 18th amendment, federal government is bearing ^{some of} those responsibilities. Higher Education Commission (HEC) on provincial level is the responsibility of provincial governments. However, federal government is bearing those expenditures by paying them 70 billion rupees ^{per year}. This is just the tip of the ice berg. This report has highlighted horrendous mismanagement of the state revenues resulting in fiscal deficit. Thus, the prolonged fiscal deficit has led to inefficiency resulting in economic crises.

Moreover, the country have never been extravagant in its foreign reserves due to flawed policies. External account balance have never been stable in the country's history. For instance, the government of Pakistan had \$23 billions in its foreign reserves in April 2022. While in April 2023 the reserves were hovering over between \$6 to \$8

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billions shows the instability in the exports and imports of the country. This unstable scenario ^{has} leads to a situation where country is expected to be defaulting very soon. Furthermore, lack of foreign reserves kills the impetus of foreign investors to invest in the country. This leads to reduced economic activity, and hence resultant unemployment and inflation. Thus, due to volatility in the balance-of-payments account the country have been in a state of perennial economic crises.

This lack of fiscal management and balance-of-payments crises have compelled the country to knock^{on} the doors of bilateral and multilateral donors. Pakistan becomes member of International Monetary Fund (IMF) in 1958, and is one of the largest loyal customers of this institution with highest borrowings among others. Similarly, as per International Development Association (IDA) the country have been the largest borrower in the current fiscal year, amounting to \$3 billion. Not only this, Pakistan has always sought support of bilateral donors and friendly countries like China, the UAE, and Saudi Arabia. This is happening due to fiscal deficit and balance-of-payment problems. Hence, the country's foreign debt is increasing day-by-day, and as per the predictions of World Bank, by 2027 the country's debt will be 87.3% of GDP. These evidences show the grave economic situation resulting in inflation and poverty, due to the self-centred myopic policies of the successive governments.

Another implication of bad governance on economic front is the constantly deteriorating currency of the country. In April 2022, the value of PKR as per SBP (State Bank of Pakistan)

against ~~the~~ Dollar was 178. Since then dollar is appreciating against rupee and is now hovering over 250 ~~to~~ rupees against one dollar. This depreciation in currency ^{have} happened due to manipulation in the exchange rate and handicapped transaction system. Hence, the country is facing hardest times in managing foreign purchases. Moreover, foreign investors are reluctant to invest in the country due to fluctuating currency against dollar. Resultantly, poor policies consequences have led to economic crises and ^{being} ~~borne~~ by the general public.

It is also staggering to see the unprecedented inflation ~~due~~ to bad governance. Inflation happens when ~~a~~ demand is greater than supply of the commodities.

This is happening in Pakistan, due to import restrictions, recently removed, the country's inflation reached the highest levels never happened in the past. Going back in history, ^{as per SBP} from 1972 to 1976 country's inflation was 10 to 22pc, and from 1993 to 1997 it was between 10 to 15pc. ~~From~~ However, it has been around one year that inflation in the country is over 25pc.

Another reason for inflation is the maximum payment goes into debt servicing which is increasing day-by-day.

Inflation is making it hard ^{for common men} to meet ~~the~~ both ends meet, people's living standard is deteriorating, and suicide cases are increasing all over the country. Poor policies being followed since decades, ^{which are undoubtedly} ~~and~~ perfectly fit for the prosperity of elite class of the country, have pushed the country into the chronic economic crises.

Foreign Direct Investment (FDI) happens when a foreign investor directly invest in already established start-up, or opens-up a completely new business in the company. FDI too have been

always volatile in the history of the country. For instance, in FY22, FDI in Pakistan was 2.6+ billion, while in FY21 it was \$2.15 billion. This shows foreign investors invest as per the existing situation. For the last one year, the country have been breaking all the previous records of bad governance. Security threats are rampant, political instability is at its highest. In short, there is complete uncertainty regarding the future state of affairs. Investors require conducive environments for their business operations. Unfortunately, due to negligence and self-centred policies the country have always failed to attract foreign investment. This has reduced foreign reserves, economic activity and job opportunities. Hence, due to uncertainty the country is receiving low FDI worsening the economic crises.

One of the building blocks of good governance is taking care of local businesses and those operating from outside in the local environment. During the last year, of the last democratic government, the country was at the verge of economic default, owing to low foreign reserves. The multilateral donors had estimated only one month of reserves to keep the country running. In order to avoid any such happening the government completely restricted the import of raw materials and other goods except necessary items. Businesses need raw materials for business. Due to those restrictions, several businesses decided to windup their local operations. For instance, Shell Company Limited decided to close their operations due to import restrictions. Not only this, foreign businesses were facing severe problems in receiving exchanges from the local commercial banks. This

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scenario created shortage of goods, and hence, the country's inflation rate have been over 25% ^{for the last one year} harshly hitting medium and local classes. Thus, due to short term gains the country has once again become the victim of bad governance exacerbating economic situation of the country.

There is, indeed, no iota of doubt ~~of doubt~~ that the country is in deep economic crises in the form of skyrocketed inflation and unprecedented poverty level. This scenario permits an authority to unearth the possible outways - to overcome the economic crises ^{after} for bringing in paradigm shift in the governance structure of the country.

The country needs to overhaul the powers of democratic and undemocratic institution. The chequered history has never allowed any balance of power between the institutions controlling the strings of power. For this purpose judiciary has to play its role, the legislative body ~~has~~ ^{ve} to make policies focusing on the interests of the middle and lower classes. Unfortunately, myopic ~~not~~ mind-carrying politicians have always allowed non-democratic forces for gaining the authority of the country. This should not be happening any more. Military establishment will focus on security matters only, when it stops receiving help request from the politicians. Furthermore, polity of this country has to play its role in electing those who can work selflessly for the country. Every individual has to think for the country's betterment, then those who have the authority will face accountability. This is the essence of good governance, that everybody works within ^{ones} ~~his~~ ambit. Therefore, for ensuring economic prosperity, the design of governance should be renovated.

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If one reviews the reasons behind development and good standards of living in the Global North, it would find the rule of law being implemented in every nook and corner of ~~the~~ those countries. However, in Pakistan's case rules and their interpretation for different classes in the country ^{have always been practised} as the powerful are given special treatment of sacred cow, while the poor is bound to obey the constitution. For the last one year the country has seen breaking constitutions many a times by the powerful institutions. Everyone knows the delay in elections, which is undemocratic. It needs to be changed. A good governance offers ~~it~~ even playing ground to every individual and every institution. Therefore, ~~the~~ for overcoming economic crises the government will have to ~~take~~ ^{make} pain giving ~~it~~ decisions, by ensuring accountability, transparency and fairness in dealings.

As discussed earlier, the country's Corruption Perception Index have never been impressive, last year it ranked 140th out of 180 country on Transparency International's Corruption Perceptions Index 2022. Corruption leads to injustice, and injustice leads to haves and have nots. In the country of Pakistan, politicians who face corruption cases are get cleared from the such objections once they get into power. Resultantly, the plague of corruption have never been rooted out. For this purpose, the country needs to make National Accountability Bureau (NAB) an independent body. It should consist of personnel who works for according to the law, ~~but~~ not on the whims of the powerful. Similarly, for ensuring fairness educated and merit based recruitment should be the part and parcel of

the system. Otherwise, the rampant corruption due to bad governance will fuel the grave economic crises.

Furthermore, accountability ensures nobody is above the law. Everyone gets due treatment according to one's deeds. However, the country's accountability has always been in the shadow. Institutions are weak. They ~~are~~ ^{have always been} politicised. Institutions are run by those who can work for the democratic and under-democratic forces. Changes come from small steps. The Supreme Court of Pakistan needs to make accountable the Election Commission of Pakistan (ECP) for not holding provincial elections as per the constitution. Examples should be established, and precedence should be created. The country's economy and resultant its polity is grappling with dire situation. It is a time to change the mindset by ensuring equal treatment and punishments on equity basis. Otherwise, the country would be run on the stipulations of multinational donors affecting its economic sovereignty.

Since its independence, the country has been very unfortunate. Military takeovers, and then short spells of democratically elected governments have never allowed any ruler to do long-term policies. Those who comes into the government focuses on securing next term. The world has changed a lot, and ^{needs to be changed} should the governance of the country. All the political parties need to sign a Charter of Economy. That whatsoever happens, there will not be any change in the economic policies of the country. Self-centred ^{economic policies} have always marred the confidence of investors to invest and ensure economic prosperity. ~~Similarly~~ ^{That's} economic policies

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should be made ~~to~~ after consulting from the independent economic experts. There should be inclusivity and nation-wide consensus on economic policies. Therefore, by ensuring inclusive policy making the country will get back its protected economic skeleton.

Last but not the least is the quick justice of for everyone. As per weekly economists, supreme court is having over 50,000 cases still pending. This shows the worst governance and malfunctioning judiciary of the country. Unfortunately, judiciary too have been divided over political matters. It too has meddled in the economic matters of the country. The case of Rico Digi had almost offered a penalty of \$6 billion had the then chief justice of Pakistan taken further steps. Then, judiciary needs to be transparent and fulfill the demands of constitution, in true spirits. Moreover, investors always read the strength of the laws' institutions. They invest after assuring on-time delivery of justice, protection of property rights and resolution of conflicts. Therefore, for overcoming the perennial economic crises, the country needs to revitalize the judiciary, a basic building block of good governance.

To conclude the whole discussion, the economic crises in the country is not a recent happening for the first time. Since independence the country is grappling with crises after crises. A detailed scrutiny of the history reveals that the prolonged economic turmoil in the form of devalued currency, a pilestock of debt which is increasing day by day, and a never ending quagmire of fiscal mismanagement speaks volumes of the worst governance policies lingered on by successive governments.

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Corrupt practices have always been widespread. Nepotism and favouritism in recruitment and promotion of uneligible favourites have always been the benchmark of this country. These flaws in the governance have severely affected the socio-political and economic fronts. Therefore, it is incumbent upon the rulers of this country to start working towards putting the house in order by making selfless and far-sighted visionary policies. Lest, a time comes, when this deep-rooted economic crisis may sell the sovereignty of the country.