

Q5) ... Enlist its Causes and Suggest Measures to address

Answer

Pakistan is confronted with a 'poly crisis' according to Maleeha Lodhi which spans economic, social, and political spheres. These challenges are limiting the state and burdening the people on all directions. However our economic and energy crisis can be linked to a few systemic reasons.

# 1 Background of the Crisis

## a) Economic Challenges

Pakistan currently faces, over 130 billion USD in external debt while maintaining a fiscal deficit of over 6%. The present budget of the Centre has less revenue than the total interest and debt payable. Pakistan is thus forced to get more debt to pay for its expenditures such as salaries putting it in a 'debt trap'. This is in addition to the low foreign reserves due to poor exports, just over \$20 billion in FY 23-24.

## b) Energy Crisis

Pakistan's energy system is under strain, with the average residential unit price at 70+ PKR per unit.

in 2024. A ageing transmission line, inefficient DISCOs, and outdated Centralized purchase System have compounded these woes. Industry in Pakistan is having to contend with over 15 Cent per Kw compared to under 8 Cents in the region. This is making our industry uncompetitive.

## 2 Reasons Behind the Poly-Crisis

a) Political instability contributing to poor planning

Pakistan has seen only ~~one~~<sup>no</sup> PM PM completing their term. Only two governments have completed their term, despite instability. Political instability leads to short term planning, and being concerned with protecting power over policy. The IPP agreements of the 1990s were short term mindset driven, using imported fuel that has led to high energy prices

and a loss of foreign reserves.

## b) Lack of Political Will to Take Harsh Measures

Consecutive governments have failed to take the necessary measures to rectify the economy. Consecutive governments kick the can down the road to keep their supporters happy. Since 2008, Pakistan has seen external debt nearly quadruple. Despite this governments failed to take necessary reforms such as taxing 'Sacred Cows' in agri and real estate. Subsidies were continued, problems ignored.

## c) Pakistan's Security Dilemma

Pakistan has lost over \$130 billion and 70,000 lives according in the war on terror according to former Prime Minister Khawaja Abbasi.

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The US provided Pakistan with \$30 billion in assistance, 15.4 billion of which went directly to Military Operations. Moreover the Security Situation as of late has prevented FDI, with the Dasu Dam attack on Chinese engineers in 2024 being a latest Scare.

## D) Politicization of Institutions

Political appointees, favours over merit have destroyed our internal administrative and bureaucratic Structures. This has made it an inefficient State where Success is determined in some part by Connections, and red-tape is created for others. This has led to a negative business environment, lack of Policy direction, and a game of Musical Chairs as governments come and go.

### 3 Solutions to the Poly Crisis

#### a) Charter of Democracy

Pakistan first needs Political Stability in order to enact long-term Policies instead of IMF Stabilization. Having politicians agree on an end to Constitutional adventurism and respect for the Mandate will allow for Smooth transitions of Power

#### b) Charter of Economy

Politics, a Short term Creature cannot be imposed Completely on the long-term economic Policy of the State. Thus an agreement of parties to stay out of economic interference by empowering a depoliticized class of professionals and bureaucrats

to guide the economy is an imperative  
This will help bring in FDI and  
Stability in the Nation's Monetary  
and fisical policies

## C) Privitization

The government cannot sustain  
or effectively manage industry.  
Over 1 trillion PKR is going to  
subsidize the industry without any  
respite in price hikes. A private  
run energy sector far removed  
from politics, under a new framework  
of pricing will allow for success.  
More over 750 billion PKR per  
annum can be saved by privatizing  
loss making SOEs, which is  
a figure covering all Military  
pensions.

## D) Development in Marginalized Communities

Provisions in the form of Scholarships, developmental <sup>funds</sup> jobs, Security, and employment must be provided in KPK and Baluchistan, where over 80% of terrorist attacks occurred in 2024. 'Operation 'Azme Istenkham' and its social aspects must be implemented to end terror. This will create an environment where FDI can be brought in and CPEC Phase 2 can be reenergized.



## Q4) Federal Structure of Pakistan best Suits...

### 1 Introduction

Pakistan follows a federal system of governance which empowers the federating units i.e. provinces in the system. This allows provinces the ability to manage their own affairs, while the centre looks after central concerns such as foreign relations, monetary and fiscal policy and certain revenue and regulation matters. Compared to a presidential system which concentrates power in the centre. The federal system is more effective in Pakistan considering the nation's characteristics.

## 2 Suitability of Federal Form Of Governance

### a) Diverse Nature of Nation

Pakistan consists of a multi ethnic and linguistic populace confined mostly to their provinces. The nature of social relations, and styles of governance are thus unique in each province. The rural politics of Sindh differs to the dynamics of KPK. Thus a federal form of governance empowers units to create governing structures more in line with the local people, their needs, and life styles. Imposing governance through a presidential system will thus fail in fully addressing their needs.

## b) Provincial Politics and Representation.

Apart from few exceptions, Politics in Pakistan is defined on the provincial level. Parties such as the BAP, PPP, or PML-N gain the majority of their vote share from their home province, forming a government with around 33 to 35% of the popular vote as outlined by Maleeha Lodhi in her book 'Pakistan, Search For Stability'. Thus a presidential form of governance is unlikely to satisfy the people of provinces where the ruling party is not from.

## c) Presidential System and Rise of Ethno-Nationalism

History has shown that imposition of rule, and the dissatisfaction

this Causes can lead to ethnic Strife. Malafide actors and foreign entities are quick to take advantage of these Sentiments for their own ambitions. A federal System preserves provincial identity within the Nation, preventing public anger from being exploited.

## D) Historic Failures of Presidential System.

Mirza, and then Ayub Khan's One Unit Policy failed to effectively manage inter-provincial relations effectively. The System also could not redress Bengali grievances which played a role in the events of 1971. A provincial System and the autonomy afforded, keeps tensions lower.

### 3 Potential Improvements to Improve Governance and Sustainability of Federal System.

#### a) Devolution to local Governments

As inscribed in the 18<sup>th</sup> amendment, the government and federating units should work towards a true devolution of powers. This empowerment of local government will improve service delivery and representation.

#### b) Revenue Collection of Provincial Units

Instead of simply spending allocated money, provinces should make more effort to fund their budgets to relieve pressure on federal government. Improvement could be made in real estate and property taxes alongside

agriculture.

## c) Revisiting NFC Award

The federal government cannot sustain receiving less than 43% of the revenue pool. The recent budget shows the federal government is paying more interest than allocated revenue of the pool. Alongside provincial revenue measures, more funds need to be retained with the federal government.

Q6) Elusive political Stability is Pakistans ...

"Pakistan only requires political stability for economic growth"  
- Ishrat Hussain

### 1 Introduction

The lack of political stability has been a hallmark of Pakistani politics since the death of Quaid e Azam Muhammad Ali Jinnah. No elected PM has been able to complete their 5 year term, and only 2 governments from 2008 to 2018 have finished their tenure. This has led to disastrous consequences that have compounded to create the 'Poly Crisis' we face today.

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## 2 The Consequences of Political Instability

### A) Poor Governance

The inability of governments to spend time on addressing structural issues, due to the focus on fending off political conspiracies means ineffective and neglected governance. It creates a reactive instead of proactive system that only reacts to a financial or security crisis when it is already too late.

### B) Short Termism

Given that a government is too busy with political matters, and is unsure whether they will be able to complete a 5 year tenure, they focus on short term solutions to issues to generate voter satisfaction and



improve Short term Success. Prioritization of fuel based Power generation in the 1990s led to exacerbating Pakistan's Water Crisis by ignoring dams and has led to high Cost and depletion of foreign reserves.

### C) Politicization of Institutions

A Nation is built on the Strength of its institutional Structure. In an Uncertain Political environment the institutions were politicized to protect ruling parties. This devastated impartiality and efficiency with loyalty over merit. This has led to a drop in Service delivery.

### D) Trust Deficit and Lack of Co-operation for National Interest

As a result of political leg pulling parties struggle to trust one another. This leads to a failure to enact policies in the larger national interest. Poor province to province and Centre relations leads to ineffectual policy on the national stage and limits collective good: The Sahiwal Coal Power Plant, located hundreds of miles away from Karachi port is an example.

### 3 Ground Realities of Political Instability.

#### A) Energy Crisis

Agreements made to further vested interests of provincial home have led to increased energy costs in the case of Shoh Sahiwal Coal Power, and Quaid e Azam Solar Plant.

## B) Financial Mismanagement

The long drawn out privatization proceeding, and the failure of SOEs can be attributed to political insecurity and overstaffing to satisfy certain electorates in the case of PIA, and Pakistan Steel. Billions, over 750 Billion, is incurred in SOE losses every year.

## C) 'Sacred Cows' and Failure to increase Tax

The failure to tax industries such as agriculture and real estate can be attributed to political insecurity of governments who fear being toppled as a result. Despite contributing to nearly 40% of GDP, agri generates 1% of taxes. This leads to more debt to subsidize the elite and 'rentier' sectors.

## D Breakdown of Law and Accountability

Corruption has been a product of weak institutions 'de fanged' and politicized impacting their ability to police the system. The legal process has degenerated to simply acting in accordance to vested interests, or used against political rivals. This has complicated the business environment and eroded public confidence.

## CONCLUSION

Political instability has contributed to the breakdown of law and order, public trust, financial prudence, long term policy, and governance in the country. However steps to reform through a charter of democracy and economy has the power to put the nation back on the right path.

## Q2) DISCUSS THE EFFECTIVENESS OF IMF PROGRAMS AND SUGGEST SOLUTIONS TO DEPENDENCY

At present Pakistan is considering entering into its 24<sup>th</sup> IMF program to stave default. The sheer number of programs but consistent decline in economic figures suggests Pakistan's inability to benefit. This requires a look at the systemic challenges within the economy and the IMF's effectiveness in Pakistan.

### 1) IMF'S HISTORICAL ROLE IN PAKISTAN

#### a) Politicized Programs

The IMF has been a product of the Bretton Woods Conference and

provides its largest benefactor, the U.S. a Virtual VETO in fund disbursement. As Pakistan closely aligned herself to the U.S. in the Ayub Era, funds from the IMF trickled in. This support was most greatest when Pakistan played a role in the Afg Afghan Wars of the 80's and post 2001. At times of bonhomie with the U.S., IMF terms were lenient, asking next to little structural reform for aid. However a greater deal of requirements were seen in times of poor US - Pak relations. Offering 'free money' without much in the way of reform for political clout accentuated the economic crisis we see today.

## b) Role as a Stabilizer

The IMF's primary aim is to help Nations facing fisical and BoP

deficits by Supporting austerity, liberalism and deregulation within the recipient Nation. The IMF therefore was never supposed to play the role of economic advisor for long-term structural reform and growth. This responsibility lied with the government.

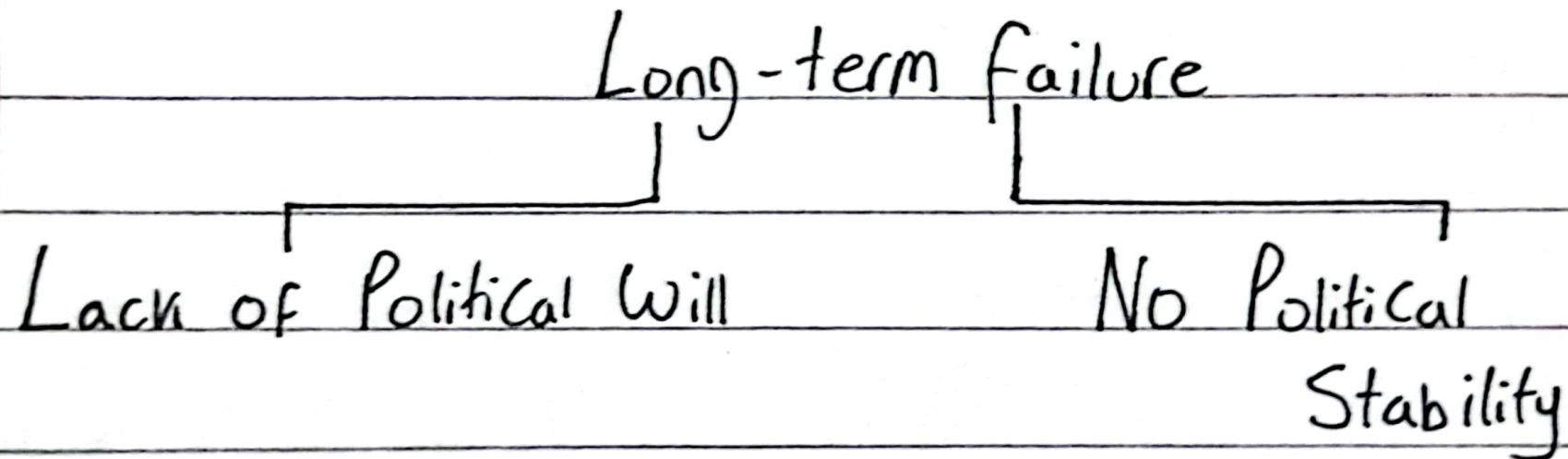
### c) Recent IMF Programs

Pakistan post 2017, was forced to enter into a new IMF program to stave off default. However the government was unable to complete the program ending IMF support. Eventually a new political interim setup came to enforce a IMF Standby agreement by enforcing austerity and increasing taxes. The newly elected government now again seeks IMF help to stabilize the economy, appease foreign investors and allies.

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## 2 WHY IMF PROGRAMS FAIL TO PRODUCE LONG TERM CHANGE





## a) Lack Of Political Will

One Major Contributor to economic Malaise is the failure of political parties to take measures that impact their electorate and support. Systematic reforms for long-term economic success such as taxing real-estate, agriculture and certain industries contribute to an unsustainable economy. Only when forced by the IMF to enact change do the power centres go after 'Sacred Cows'. This creates fundamentally unequal growth.

## b) No Political Stability

The 1990s laid bare the instability of Pakistani political structure. 4 governments came

and went in less than 10 years.

Thus political forces were more focused on gaining support and fighting political intrigue than rectifying economic issues. The IPP arrangements of the 1990s reflect this

short term approach, where electricity was needed quick and easy. This dependency on foreign sources of fuel contribute to our present energy crisis. Thus no political force was able to craft long-term policies and focused on the short term due to fear of being booted out of office.

### 3) HOW TO END IMF DEPENDENCY

~~a) Charter of Democracy~~

a) Charter of Democracy

As proposed by numerous political parties, a Charter of Democracy is the only solution to the political leg-pulling that has characterized our political history. Ishrat Hussain has stated that "... a government completing its term will be enough to solve our economic woes". Bringing in political stability through these means will allow for peaceful transitions of power without the fear of vengeance

or Political Weakness promoting  
'Constitutional adventurism' or the  
'Doctrine of Necessity'.

## b) Charter of Economy

The agreement of the fundamental principles of running the economy and its de-politicization will be fundamental in ending political weakness and inconsistency that has resulted in poor economic planning. Allowing, similarly a de-politicized bureaucratic team will allow politicians to focus more on social, welfare, and legislative issues, which they are more effective at effectively implementing. Consistent economic policy will also promote business growth, and foreign direct investment by inspiring confidence.

# Conclusion

Implementing of robust political agreement of the rules of the game will allow for effective implementation of IMF Stabilization policies. Building upon this with long term systemic policy will be the only path to reducing dependency on the IMF.