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## **WHERE IS PAKISTAN HEADED IN 2022?**

Webinar Summary Report

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### **Acknowledgements:**

The Webinar “**WHERE IS PAKISTAN HEADED IN 2022?**”

held on 27th February 2022 at 5pm IST was organised by The Current and Strategic Affairs Forum (CASA). We would like to thank our panelists for their comprehensive analysis and candidly expressing their views:

Ambassador Dr TCA Raghavan  
Former High Commissioner to Pakistan

Mr Amit Bhandari,  
Senior Fellow Gateway House, Mumbai

Dr Tara Kartha,  
Distinguished Fellow  
Institute of Peace and Conflict Studies, New Delhi

Moderator:

Mr Manoj Mohanka,  
Core Committee, CASA

We would also like to thank the many other distinguished attendees including many senior veterans, business leaders, professors, think tank researchers, contributors, analysts and others who took time out of their busy schedules to

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attend and shared their inputs with views, including some very relevant Q&A and comments during the Webinar.

We would like to thank Lt Gen Gautam Moorthy, PVSM, AVSM, VSM, ADC (Retd), Former DG Ordnance Services, Col Ravi Nair (Retd) of CASA Core Committee for coordinating and compiling the summary of the Webinar and Mr Mahadevan Shankar of CASA Core Committee for moderating and coordinating in organising the Webinar.

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## **WHERE IS PAKISTAN HEADED IN 2022?**

### **INTRODUCTION**

CASA held its 23<sup>rd</sup> webinar titled as above on 27 Feb 2022 from 5pm to about 6.30 pm. There was good participation from around India and also two distinguished guests from Pakistan and some from Australia including our HC who also listened in.

As usual General Gautam Moorthy, PVSM, AVSM, VSM (Retd) kicked off the webinar in his usual catchy style by explaining why CASA despite the global focus on the Russian-Ukraine war chose to hold this seminar on Pakistan. Pakistan's single minded focus on its one point agenda of Kashmir has made itself akin to an almost dysfunctional state. He recalled the words from a distinguished commentator from Pakistan who in 2007 had opined that Pakistan ran on the 3As- Allah, Army & America. The last may have been replaced by China as events in the recent past have shown. Gen Moorthy then went on to give brief introductions of our distinguished panellists- Dr Ms Tara Kartha, a well known writer, analyst and commentator on strategic issues who is also a member of CASA; Mr. Amit Bhandari, a renowned thinker, writer, financial expert and economist and Dr TCA Raghavan, IFS, who among many distinguished posts he had held in his long career in the Foreign Service was also was our HC in Islamabad till his retirement in 2015. With that Gen Moorthy handed over the floor to Shri Manoj Mohanka, the moderator for the day's discussions. Shri Manoj has been a founder member of CASA and is also a distinguished member of its Core Committee.

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Shri Manoj Mohanka introduced the topic for the day's discussion posing a number of questions which he hoped that the panellists would answer during their talk and in the subsequent Q&A session. Using his vast knowledge of global finance and economy, he dissected Pakistan's 265 billion USD economy pointing out the many minuses and the few pluses that it had. He also emphasised on Gen Moorthy's points and added that while recent official statements from within the Pak Govt indicated a desire for normal trade & commerce with India, Pakistan is also known to sponsor or aid 55 terror groups that operate to destroy the Indian state. Further, in the foreign policy domain, Shri Manoj Mohanka also mentioned that till recently Pakistan had very close relations with the US. Then it switched partnership to China. Now it is seeking to tie up with both China and Russia for developmental assistance and military hardware. Shri Manoj's poser to the panellists was whether this was an indication of astute pursuance of self interest by Pakistan or did it indicate a policy that is adrift? Is a Naya Pakistan on the way in 2022? With that he invited the first speaker of the day Dr Ms Tara Kartha to take the floor.

### **Dr (Ms) Tara Kartha**

Thanking Shri Manoj Mohanka and all members of CASA for having invited her, Dr (Ms) Tara Kartha, got on into her "stand-off" analysis of Pakistan right away without any Pak bashing as she termed it. She observed that Pakistan was our neighbour and stability there was important to us. She had also heard it said that the people of Pakistan would have preferred it had the US made the investment in CPEC making it the UPEC- for the longest time there had been a section within the policy establishment in Washington that had held that US investment in Pakistan would have kept China away from South Asia. Many in Pakistan too had actively peddled

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the same idea. Reacting to the observation of Pakistan and its 3 A's, Ms Tara was of the view that today the first 'A'-i.e. the Army, appeared more powerful than ever. Answering her own rhetorical question, she stated that the Army appeared more powerful only because the PMO in Pakistan, especially PM Imran Khan had come off worse in a few recent run ins between him and the Army establishment personified in the person on the present COAS, Gen Qamar Bajwa. The first notable incident related to the tussle between them over the appointment of the chairman, CPEC Authority in Aug last year with the Special Assistant to the PM (SAPM) Khalid Mansoor replacing Lt Gen (Retd) Asim Saleem Bajwa. Again 'after days of slugfest' as quoted by the Dawn newspaper on 26 Oct 2021, Lt Gen Nadeem Ahmed Anjum was named by the Govt as the new DG ISI replacing Lt Gen Faiz Hameed. The PMO announcement stated that the new DG was selected after interviews of all the candidates. However, it was common knowledge that Imran Khan would have preferred that Gen Hameed had continued as the DG ISI till Nov this year when Gen Bajwa would have retired at the end of his extension period of 3 years. She added that despite the announcement, the new DG ISI has not met the PM as yet. In the context of the Pakistan Supreme Court having passed serious strictures on the Pak Naval Chief, Dr Tara held that the courts in Pakistan had never spared the Pak armed forces in the past and such rulings are par for the course- nothing much really comes out of them though. Having made her point regarding the weakening of the Pak civilian establishment led by PM Imran Khan vis a vis the Army establishment, Dr Tara moved on to her views on the second of the three 'A's'- Allah.

Meaning no disrespect to any religion, she stated that in popular lexicology the word referred to the religious parties and the mullahs and imams who led them in their non-religious activities in the sphere of politics. She expected their influence to grow further in 2022 and religious

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fundamentalism seems to have acquired a life of its own. She briefly touched upon the many religious parties like the TLP, LET, JEI etc citing the example of Saad Hussain Rizvi, the current leader of the Tehreek-e-Labbaik Pakistan (TEL). Many main stream politicians are flirting with the extreme far right views of such religious leaders in a bid to secure their vote banks. However, Dr Tara was sanguine that the religious fundamentalists are unlikely to get the kind of support from the public to garner seats in the legislatures and give them their desire to play king makers. During the year, as parties prepare to contest elections next year, we would see an apparent rise in fundamentalism in Pakistan. Turning to the third 'A', America, Dr Tara observed that military aid/supplies from the US to Pakistan had plummeted to near zero following the Taliban takeover in Kabul. However, Pakistan continues to be in receipt of considerable funds from the US from other Govt or non governmental bodies. The US still needs Pakistan and knowing this Imran Khan had expressed his desire to act as a bridge between the US and China. The US is yet to take up the offer as currently Pakistan is viewed with deep suspicion by the Biden administration. She stated that India must leverage this distrust of Pakistan to its own advantage. Even in Afghanistan there is a pro and anti Pakistan division within the Taliban ranks. A section wants to take charge of the country and move on free from tutelage to Pakistan. This is another fissure that India needs to exploit for its gain. The flip side is that any US-India cooperation is leveraged by Pakistan playing on the fears and phobias of China and gets for itself top of the line military hardware from the Chinese like fighter planes, guns, tanks, drones and the latest corvettes. Thus India needs to guard against adding to China's imagined fears by being less demonstrative of its growing ties with the US. Turning next to terrorism, Dr Tara spoke of the 42% rise in terrorist incidents within Pakistan during 2021- a spurt after the Taliban victory in August last year. She had quoted the Pakistan based Institute of Peace

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Studies, whose web site has now been banned. The Pakistan establishment is currently not too worried about it as they are more focused on the Baloch and Pashtun insurgency. As the year progresses this may change and terrorism and terrorist acts of wanton attacks, destruction of human lives and properties could show a huge rise. Reminded of her time running out, Ms Tara made a brief mention on the economy of Pakistan. She observed that the rupee value was in a constant fall while prices of fuel, energy, food supplies etc were steadily rising. It was a wonder as to how the State Bank of Pakistan continues to report steady increases in foreign remittances. On the foreign policy front Ms Tara was of the view that Pakistan's 'Islam Model' has not worked with most of the Islamic countries staying away from supporting it against us, with only the odd Turkey takes its side for its own reasons. Being alienated from the US is pushing Pakistan dangerously into the Chinese camp and Pakistan becomes an even more deadly foe for us than what it was. Already Pakistan's decision making capacity seems impaired due to the over reliance on China. With that Ms Tara rounded off her introductory talk.

Shri Manoj Mohanka, while thanking her for the numerous facets of her talk, said that he tended to disagree with her on the question of the importance of religious parties and hoped that she would take it up in the Q&A session later. He then proceeded to invite the second speaker, Shri Amit Bhandari to take the floor and give his insights on Pakistan's economy.

**Mr Amit Bhandari**

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Mr Amit Bhandari after thanking CASA for the invitation to speak on the webinar straightaway launched into a historical background of how his work with research in Gateway House on CPEC a few years ago had equipped him to understand the Pak economy better. His work involved about 70 CPEC projects, and involved looking into their financial and management structures etc. All details of his research are available on the Gateway House web site.

Proceeding to the current indicators of the Pak economy, his first observation was on the passage of the Pak budget in Jan this year that had withdrawn many tax exemptions and provided autonomy to the State Bank of Pakistan presumably imposed by the IMF as a condition for restoration of the disbursement of the Pak financial loan package. Hence there was bound to be an all round increase in prices in Pak in the year ahead. That local media had reports of the Pak Govt exhorting the public to donate their sovereign gold holdings to the state treasury was also indicative of the dire financial distress of the govt. Replying to Dr TaraKantha's observation of the mystery of the increasing foreign remittances, Mr Bhandari attributed this due to the variations between the official exchange rates and hawala rates. As per published data, Pak had exported goods worth 25 billion USD and imported 56 billion USD worth in the FY 2021 (June to July). The shortfall was met via inward remittances. This year the situation seems worse in the first 6 months of FY 2022 & hence the largely unsuccessful attempts to seek more loans from China and others. By going to the IMF for the 23rd time Pakistan had to make disclosures of its foreign debt was 91 billion USD- which for a country of Pakistan's stage of development was quite high. Of this 18 billion USD was owed to China due to CPEC related projects. Mr Bhandari's examination of CPEC projects indicated that most of them were financially unviable. He cited examples from the Pak power sector and Gwadar Port projects.



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Talking about inflation, Mr Bhandari predicted that for various reasons it would get worse as the year progressed. Prices of food, fertilisers and energy have gone up 2 to 3 times in the international markets, especially following the crises in Ukraine. Being a low income country, these price rises would impact Pakistan more than other relatively better off economies. Taking up a specific example, Mr Bhandari compared the consumption trend of energy between India and Pakistan. Unlike India, Pakistan by exploiting the once plentiful supply of natural gas from the Sui fields, built up a gas based economy for power generation and transport sectors. India on the other hand used the far lesser quantity of its domestic gas to feed its fertiliser industry and relied on oil for its transport sector and coal for its power generation supplemented by hydro and nuclear power plants. With the local gas supply from Sui dwindling, Pakistan has to depend more and more on imported LNG. The Ukraine crisis has pushed up gas prices in the spot markets from around 6 to 8 USD to nearly 30 USD now. Because of lack of gas supply, power generation was adversely impacted leading to closure of many textile mills and hence to a drop in one of the most important export commodities of Pak-Textiles. The situation was well illustrated when Mr Bhandari cited the example of last Dec when Pak had contracted for supply of LNG at 15 USD per BTU but the supplier diverted the shipment on the high seas and sold it at hefty profit to European buyers- even bearing the 3 USD penalty. Lower gas supplies or supply at higher cost from abroad is pushing up urea prices that in turn raises fertiliser prices. Govt schemes to subsidise the commodity for its farmers has resulted in smuggling and illegal sales on the high seas etc. Hence the situation on the food front, the fertiliser and transport sectors will worsen further as the war in Ukraine continues. Mr Bhandari's research into CPEC indicates that though initially touted as a connectivity project it has mostly led to construction of power plants across the country- mostly coal fired but with some hydel and renewable

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energy plants also thrown in. Initially Pak thought it was a good idea to use cheaper coal than costly oil or gas to generate electricity. However the opaque system of bidding for contracts kept foreign firms out and Chinese companies cornered all the projects. Comparing the cost of similar 1000 Kw projects in India with Pakistan, it was found that the Indian projects turned out to be far cheaper. Loans from Chinese sources were agreed upon at very high interest rates- typically a World Bank project would include loans at LIBOR+0.5% whereas the Chinese loans were agreed upon at LIBOR+ 4 or 4.5%! High upfront costs, excess capacity combined with high interest loans equalled to being a recipe for eventual financial distress for Pakistan.

Mr Bhandari agreed with Dr (Ms) Kartha that high energy prices would remain a major problem for Pak for the foreseeable future. As the Ukraine crises drags on, more and more European countries would turn to the spot markets, making purchases by countries like Pakistan more and more unaffordable. Turkey too is in a similar plight though at a much lower scale. Pakistan's continued presence in the FATF Grey List reduces FDI from other countries except China. The more China establishes itself in Pakistan's economy, the worse will it get for Pakistan to chart an independent course. Like India, Pakistan also lost an arbitration case involving copper mining where a huge fine has been imposed on it for throwing out the Western firm it had contracted to search for copper in the first place.

Shri Manoj Mohanka thanked Mr Bhandari for his talk and observed that may be the gas supply distress could be another reason for Imran Khan's visit to Moscow despite war clouds over Ukraine. He further wanted Mr Bhandari to inform all participants on the funds Pakistan needs to service its 91 billion USD foreign debt during the Q&A session. With that

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the floor was handed over to Dr TCA Raghavan for his diplomatic insights on Pakistan's year ahead.

## **Dr T C A Raghavan**

After thanking CASA for the opportunity given to him to have his say, Ambassador Raghavan outlined his approach to the topic in a manner that was different from the usual. Most discussions on Pakistan tended to follow a pattern that he likened to an analytical trap revolving around the three As whereby regardless of what was spoken in 1991, 1996 or 2022, they all appeared the same and nothing seemed to have changed. He emphasised that Pakistan has always been in a crisis of one kind or the other. Hence he wanted to focus on the internal politics in Pakistan- not of the personalised kind involving Imran Khan or Gen Qamar Bajwa or their bilateral equations. The Ambassador believed that Pakistan has changed a lot in the past two decades or so. The Army continues to be a major presence in all walks of life but the nature of that presence has changed. Today beyond personal equations it is about structural changes. In the past 10-15 years, civil-military relations have undergone drastic changes. The civil and the military have evolved as two separate institutions that are constantly jostling to gain ascendancy over each other. At times the jostling appears calmer and at other times more intense and destructive. For the Ambassador the longevity of IK's govt was the most important question- an important marker was coming up. Would Imran Khan's govt be the first in Pakistan's history to last its full mandate of five years? Will it be allowed to remain in office till August 2023 when elections are due? It is very difficult to deduce this from the miasma of rumours, facts and fancy theories that keep circulating in Pak both in the media and in drawing room chatter. However, the

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Ambassador is convinced of a general consensus within Pakistan that includes the Army to allow politics to take its own course without being interrupted. The military has realised that Pakistan is too complex an animal to run in the same linear fashion of the 80s and the 90s. The many political parties including the religious groups, social organisations and the judiciary are all in jostling to establish their ascendancy. As analysts we must understand this structural change. Much of this change has been attributed by the Ambassador to the substantial growth of the Pakistani middle classes, partially due to increased urbanisation and partly due to increased export of manpower to the Middle East.

The Ambassador then turned to the growth in recent times of the religious factor in Pakistan's politics. Here, we as Indians, may sometimes fall victim to our own propaganda. Religious based parties or groups may align with main stream political parties-each confirmed its belief that it would dominate the other- but that did not mean that these religious parties were about to take over the Pakistani state. Today, following the Taliban take over of Afghanistan the situation may seem bad- yet it is nowhere near to what prevailed in Pakistan between 2007 and 2014. The TTP feels more empowered but it is unlikely to overpower the main stream political parties. There is a general sense of having achieved a great strategic victory in Afghanistan and it is important to understand why. They believe that by the Taliban takeover, the significant Indian presence in Afghanistan has been nullified. The down sides to the Taliban takeover like the Durand Line, Pashtun nationalism, refugee influx, etc are all compensated with this one fact of removing Indian influence in Afghanistan. Turning to Pakistan's external environment, the Ambassador agreed with the other panellists that the rising commodity prices because of the Ukraine conflict would severely impact Pakistan. However there is need to not exaggerate these problems in Pakistan's economy. Over the

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years, Pakistan has developed an expertise to live with constant economic crises and this time also they can be expected to manage as they have done in the past.

In conclusion, the Ambassador alluded to the lack of consensus within India on what is to be done with Pakistan and what would be the best way forward. To deal with this difficult neighbour who cannot be wished away or ignored, the default position has been to treat it as a security issue alone along the LOC/border etc. We need to craft a more innovative approach in 2022 to dealing with Pakistan beyond these security concerns.

### **Q&A Session**

After thanking Ambassador Raghavan, Shri Manoj Mohanka turned to the Q&A part of the webinar and posed the first question to him and wanted to know if the religious parties could ever rule in Pakistan. In reply, the Ambassador accepted that there appeared to be a logjam in Pakistan politics but he did not think that religious extremists or fundamentalists would ever take over Pakistan. The military and the mainstream political parties used these religious parties for their own purposes from time to time but would not allow them to gain political power in the country. Of this the ruling establishment in Pakistan of any shade of opinion was very firm and confident. Answering another question about the effectiveness of politically organised marches like the present one from Karachi to Islamabad in the back drop of rising prices and inflation etc, Dr (Ms) Kartha opined that the opposition in Pakistan was too badly divided. Her greater fear is that there is no need for extremist figures like Saad Rizvi to take over Pakistan. In a way he already has. The PM Imran Khan talks his language not just as rhetoric but he seems convinced of it.

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Both Nawaz Sharif and Imran Khan have at various times flirted with the religious extremists- with one difference. Imran Khan seems to believe in the right wing going by what he says.

The next question was again to Ambassador Raghavan where he was asked to comment on the role played by the army in getting Imran Khan into power and if because of that the latter has to perforce maintain close relations with the Army establishment to offset which he has turned towards the religious parties. In his reply, Ambassador Raghavan emphasised that any political party in Pakistan had to have good relations with the military and he compared Pakistan to Thailand and Myanmar in this regard. However, it is also a fact that that the political class, both in govt and in opposition, resents this influence of the military. Hence there is perpetual jostling between the two. A successful PM in Pakistan needs to have the skill to be able to strike a balance between the military and the civil society. Political survival skills are needed and ego clashes are to be avoided. Nawaz Sharif was removed precisely for his failure to maintain this balance. It remains to be seen as to how Imran Khan manages it this time around.

A question to Mr Amit Bhandari sought his opinion if the economy in Pakistan would improve this year. He was also reminded of the moderator's earlier question on hawala and the quantum of funds Pakistan need to pay out as interest servicing on its sovereign loans. In his reply, Mr Bhandari again cited the Indian example where India produced its electricity at its own plants using coal mined within the country. Pakistan on the other hand was dependent on Chinese built plants, fired with imported coal and oil. Thus Pakistan was more vulnerable to market changes as is now happening due to the crises in Ukraine. Power thefts being common to both countries the circular debt in Pakistan is more dangerous and may upset its economy as a whole. He foresaw the economic distress in Pakistan to worsen in 2022. Turning to hawala, he

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drew attention to the fact that unofficial exchange rates in Pakistan were above the official rates by 5 to 10%. Hence a lot of the inward flow especially from the Middle East which tended to increase with rise in this differential. Another reason could be that Afghan expats and foreign NGOs were routing their fund transfers to Afghanistan via banks in Pakistan. This may be another reason for the spurt in inward remittances in recent times. About debt servicing, Mr Bhandari said that in the last budget 36% of the total funds available went towards it. Together with appropriation's for defence, almost 80 to 85% of Pakistan's budget was consumed leaving very little for other developmental activities, health and education etc.

Turning to the recently announced National Security Policy, Dr (Ms) Kartha was asked to comment if the policy with its passing reference to Kashmir had contributed to the hoisting up of the Kashmir imbroglio or had it made no difference to the low intensity separatist activities there. She replied that there has been an increase in the vocalisation of demands on behalf of the Kashmiris with innumerable 'Kashmir Days' being held all across Pakistan. However actions on the ground of terrorist violence seems to have decreased. She welcomed any sign of rapprochement within Pakistan and hoped that the military too was on board in Pakistan on this. On the same issue Mr Raghavan opined that the Kashmir issue cannot be trivialised. Both India and Pakistan have articulated their national position based on a wide consensus within their countries. The Kashmir issue is not one for the armies to solve as these national positions have been deeply internalised in both countries. Here Shri Manoj Mohanka interjected to understand how both nations failed to solve the issue despite coming very close to doing so and whether vested interests in both countries had scuttled the deals. In reply, Ambassador Raghavan again cited the lack of a civil-military balance in Pakistan that could not over ride vested interests on both sides. The Pak

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military is very clear that Kashmir has to be settled by it alone on terms that it agrees with. That is the main stumbling block.

A question was then addressed to both Dr (Ms) Kartha and Ambassador Raghavan if the move to give provincial status to Gilgit-Baltistan would impact the legality of the CPEC passing through it. Dr Kartha was quite clear that making GB the 5<sup>th</sup> Province would not alter the status of the Kashmir problem. In effect China was building roads through areas where the ownership of the land was in question. Mr Raghavan stated that it was strange as to why Pakistan made a hue and cry over the recent administrative changes brought by India when all along it had ignored actions by us there. We are clear about our claims over the whole state of J&K irrespective of what countries that illegally occupy it may do till we re-establish our rights there. Pakistan had never agreed to any freedom demand from Kashmir but has always sought to amalgamate it within itself. The 'K' in Pakistan stands for Kashmir is an oft repeated claim in Pakistan.

Lastly Ambassador Raghavan was asked if it was possible for India and Pakistan to have benign relations like the Scandinavian countries or like the US and Canada. He was firm in his belief that such a situation was impossible in our context because of the constant state of misunderstandings and conflicts. We can only aspire to achieve a level of stability in our relations that takes into consideration our various differences. Could trade & commerce discourage wars? Despite border clashes, trade between India and China has not declined significantly. Mr Amit Bhandari opined that the military in Pakistan was not for any amity in relations that brought down its perks or clout. Civil society was not as yet strong enough to challenge the military on this. Dr Kartha stated that trade combined with connectivity could break the freeze in ties. Ambassador Raghavan asserted that trade could never be an independent



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factor in India-Pak relations. The problem is political and unless political solutions are found the tensions would continue.

The webinar was concluded on that note with both Shri Manoj Mohanka and Gen Moorthy thanking the panellists as well as all those who participated.

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