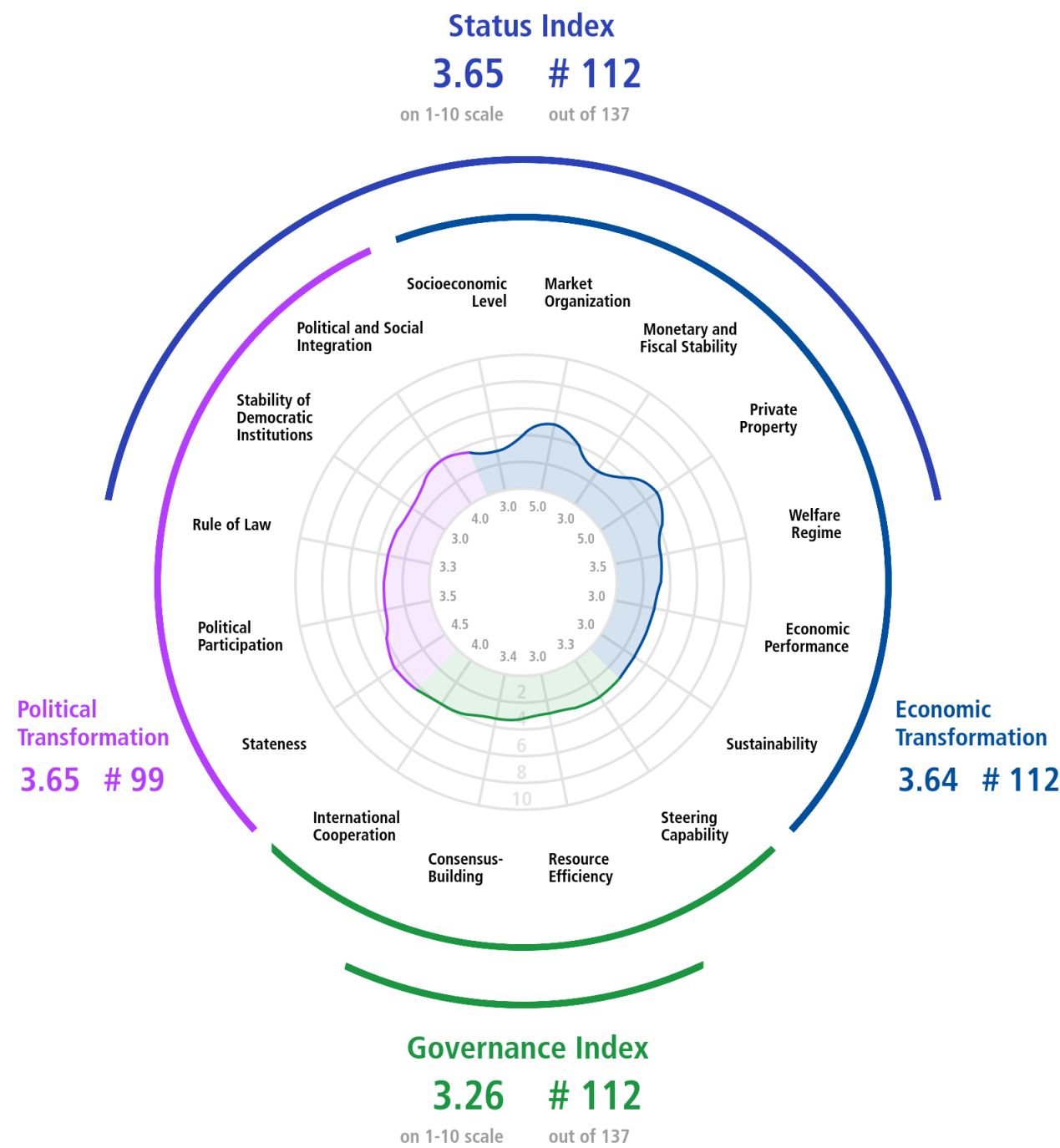


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Key Indicators

Population	M	235.8	HDI	0.544	GDP p.c., PPP \$	6437
Pop. growth ¹	% p.a.	1.9	HDI rank of 189	161	Gini Index	29.6
Life expectancy	years	66.1	UN Education Index	0.392	Poverty ³	39.8
Urban population	%	37.7	Gender inequality ²	0.534	Aid per capita \$	11.7

Sources (as of December 2023): The World Bank, World Development Indicators | UNDP, Human Development Report 2021-22. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.65 a day at 2017 international prices.

Executive Summary

Throughout the period under review (2021 – 2022), Pakistan faced significant challenges on both the political and economic fronts. After years of claiming to be on the “same page” as Pakistan’s powerful military establishment, the Pakistan Tehreek-i-Insaf (PTI) government that came to power in 2018 was ousted in April 2022 by a vote of no confidence in the parliament. The vote was initiated by the Pakistan Democratic Movement (PDM), an alliance of parties that includes the Pakistan Muslim League Nawaz (PML-N), the Pakistan People’s Party (PPP) and the Jamaat-i-Ulama Islam (JUI). However, the vote was only able to succeed after the Muttahida Quami Movement (MQM) defected from the ruling coalition to support the PDM. At the time, it was clear that the success of the vote could be attributed to the military establishment’s withdrawal of support for the PTI. Differences had emerged between the two erstwhile partners over the direction of Pakistan’s foreign policy, the appointment of armed forces personnel and the economic performance of the PTI government when then-army chief General Qamar Javed Bajwa announced a policy of political “neutrality” that was widely interpreted as a signal that the PTI no longer enjoyed the military’s support.

In the aftermath of the PTI’s ouster, its leader – former Prime Minister Imran Khan – claimed that his government had been toppled by a regime change conspiracy orchestrated by the United States, and carried out by General Bajwa and the PDM. Khan asserted that the United States had wanted him removed due to his desire to pursue an independent foreign policy. While evidence supporting this theory remained questionable, it resonated with the PTI’s supporters and fueled the party’s increasingly forceful calls for new elections. Throughout 2022 and into 2023, Imran Khan and his party organized protests against the PDM government and General Bajwa (who retired in November 2022), challenging the former’s legitimacy and mobilizing support in anticipation of general elections. In response, the PDM, led by Shahbaz Sharif, brother of the former prime minister and PML-N leader, Nawaz Sharif, has refused to commit to holding elections. The PDM has resorted to various delaying tactics, while simultaneously attempting to suppress the PTI leadership through court cases, and arbitrary arrests and disappearances.

This political instability occurred within the context of an escalating economic crisis that brought Pakistan to the brink of default in the first half of 2023. Rising international commodity and fuel prices, high debt repayment levels, and lackluster economic performance have all contributed to a balance-of-payments crisis that has seen Pakistan's foreign currency reserves dwindle. This situation was further exacerbated by misguided policy decisions, such as subsidizing petrol and artificially boosting the value of the rupee. The PDM government is currently negotiating a bailout with the IMF, while Pakistan also grapples with double-digit inflation and the economic impact of record flooding in 2022.

Levels of violence in Pakistan have remained relatively low compared to the decade from 2008 to 2018. However, there has been a steady increase in terrorist activity following the return to power of the Taliban in Afghanistan in 2021. This resurgence has been accompanied by the return of the Tehreek-i-Taliban Pakistan (TTP), a violent militant outfit responsible for perpetrating numerous terrorist attacks in Pakistan over the past decade.

History and Characteristics of Transformation

Since achieving independence from British rule in 1947, Pakistan's history has alternated between democratic and authoritarian rule, with a powerful military establishment exerting significant influence over the country's politics. The most recent episode of military rule in Pakistan ended in 2008 with the overthrow of General Pervez Musharraf. However, the military continues to wield power behind the scenes, protecting and expanding its economic interests and pursuing its broader goals. Regional security objectives are pursued by attacking civilian politicians, parties and movements that pose a threat through the manipulation and co-optation of the media, courts and allied political elites.

Pakistan has been wracked by serious ethnic cleavages. In 1971, the eastern part of the country seceded to become Bangladesh after years of economic exploitation and political marginalization. The western part of the country, which was dominated by ethnic Punjabis and to a lesser extent migrants from India called Mohajirs, occupied prominent positions within the country's bureaucracy. In contemporary Pakistan, these ethnic divisions continue to be significant, with the people of Balochistan, Sindh and Khyber Pakhtunkhwa (KP) expressing discontent with the state. The political landscape of the region continues to be dominated by Punjabi interests. Ethno-national movements that stem from these grievances persist to the present day, as observed in Balochistan and KP.

Pakistan's economy has always comprised powerful landed elites, many of whom were able to transition to industrial production between the 1960s and the 1980s. These entrenched elites enjoy close connections to the state and are able to extract rents through their influence over the political process. This has meant that the state has largely failed to undertake structural reforms aimed at reducing elite privilege and has repeatedly had to rely on foreign aid to make up for its inability to grow and tax the economy.

The state has a long history of intervening in the economy, as evidenced by the nationalization of industries under the government of Zulfikar Ali Bhutto between 1972 and 1977. Although subsequent governments have exhibited a commitment to free markets, the state remains a significant source of employment and patronage, particularly through its management of large public enterprises. The bureaucratic structure Pakistan inherited from colonial rule was relatively powerful and autonomous in the years following independence. However, it has become archaic and inefficient, and has been compromised by party politics and the influence of powerful social interest groups.

Pakistan has long maintained hostile relations with India. The main bone of contention is over the status of Kashmir – a disputed territory to which both countries lay claim. Of considerable economic and strategic importance to both countries, the region has been the cause of three wars. Numerous smaller conflicts have arisen between Pakistan and India. Historically, Pakistan has relied on the United States for economic and military assistance. However, in recent years, Pakistan's close relationship with China has led to increased cooperation between the two countries.

Pakistan has always sought to define its identity in religious terms, emphasizing Islam as a source of national cohesion and citizenship. This has meant that successive governments, as well as the military, have used Islam as a legitimating ideology. Historically, this has led to the emergence of powerful religious parties and political movements in Pakistan, with many assuming a more violent and extremist orientation in recent years. The central role played by Islam in Pakistan's public life has also facilitated discrimination and violence directed toward the country's religious minorities.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

The Pakistani state's monopoly on the use of force is contested by terrorist organizations, sectarian groups, ethno-nationalist insurgencies, and criminal gangs involved in the smuggling of goods and narcotics. Much of the violence perpetrated by these actors is concentrated in the province of Balochistan – where separatist groups, such as the Balochistan Liberation Army (BLA), often attack security personnel and non-Baloch citizens – as well as in former Federally Administered Tribal Areas (FATA) along the border with Afghanistan, which were formally merged into the KP province following the passage of the 25th amendment to the constitution in 2018. Implementation of the merger, however, remains slow.

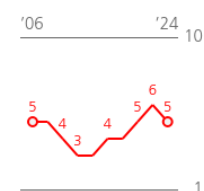
In the early 2000s, Pakistan's status as a frontline state in the war on terror saw the country grapple with the challenges posed by militant and terrorist groups that orchestrated acts of violence across the country. Repeated military operations targeting these organizations – most recently as part of the National Action Plan, which was initiated in 2015 – have reduced terrorist violence. However, the withdrawal of the United States from Afghanistan in 2021 and the return to power of the Afghan Taliban have arguably created the conditions for groups such as the Tehreek-i-Taliban Pakistan (TTP) to regroup and relaunch their campaign against the Pakistani state. According to the South Asia Terrorism Portal, there were 424 incidents of terrorism with 214 civilian deaths in 2021 and 630 incidents in 2022 with 229 civilian deaths.

Terrorist attacks continue to take place in 2023. In January, a mosque attached to the provincial police headquarters was bombed by the Jamaat-ul-Ahrar, a faction of the TTP, killing 101 people. In February, the TTP took responsibility for an attack on the police headquarters in Karachi that left four people dead.

Question
Score

Monopoly on the
use of force

5



Notions of citizenship in Pakistan have historically been defined in terms of religion. Islam plays a significant role in public life, with actors inside and outside government making use of religious appeals to pursue social and political goals. Mainstream parties such as the PTI and the PML-N often cite their commitment to upholding Islamic law when campaigning. Islamic organizations, ranging from non-violent parties (e.g., the Jama'at-i-Ulama Islam, JUI) to hard-liners (e.g., the Tehreek-i-Labaik Pakistan, TLP) to violent extremist outfits (e.g., the Ahle Sunnat Wal Jama'at, ASWJ), also employ Islamic idioms to question the state's legitimacy, and to justify the coercive and non-coercive measures they aim to impose on society.

The state's own historical reliance on Islam as a legitimizing ideology has meant that it often concedes space to religious groups, at the expense of religious minorities across the country. Among others, Hindus, Christians and Ahmadis experience considerable discrimination on the basis of their faith. Religious discrimination is also enshrined in the country's legislation. For example, all non-Muslim citizens of Pakistan are barred by law from holding the office of president and are generally excluded from the highest offices of the state, bureaucracy and military.

Pakistan's emphasis on Islam as a source of citizenship and identity has led to the delegitimization of alternative forms of identity rooted in ethnicity and language. In 1971, the marginalization of Bengalis in former East Pakistan was one of the factors that led to the creation of Bangladesh. Furthermore, ethno-nationalist movements demanding greater provincial autonomy and cultural recognition exist or have existed in Balochistan, Sindh, KP and Gilgit-Baltistan. While the power of these movements has declined in recent decades due to state coercion and political co-optation, ethno-national sentiment remains prevalent in these provinces. In Balochistan, separatist outfits, such as the BLA, continue to wage war against the state.

According to the 1973 constitution, Pakistan is an Islamic Republic, the laws of which must be enacted in accordance with Shariah law. While this principle is not always followed in practice, there are significant law and policy fields that are influenced by orthodox interpretations of Islamic doctrine. Institutions such as the Council of Islamic Ideology (CII), an advisory body comprised of religious scholars that provides opinions on the validity of and compatibility with religion in proposed legislation, and the Federal Shariat Court (FSC), a constitutional court that rules on whether Pakistani laws adhere to Islamic principles, have historically played a role in shaping certain legislative outcomes. In a notable 1989 judgment, for example, the FSC declared land reforms to be un-Islamic. The CII ruled against the use of DNA as primary evidence in rape cases in 2013, lobbied against new laws that would have criminalized child marriages and domestic violence against women in 2016, and deemed the Transgender Persons (Protection of Rights) Act of 2018 to be "inconsistent with Islamic principles" in 2022.

Blasphemy remains a criminal offense in Pakistan, punishable by death. The low burden of proof required to register a case of blasphemy against someone has led to the law being used to settle disputes and target religious minorities, including Shi'ite Muslims. In February 2023, for example, the National Assembly of Pakistan passed

State identity

5

'06 '24 10



No interference of religious dogmas

3

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a new bill further strengthening the blasphemy law by extending its provision to “blasphemy” committed against the companions of the Holy Prophet. This measure deliberately aimed to criminalize statements about historical religious figures who, while revered by many Sunni Muslims, are sometimes criticized by Shi’ites.

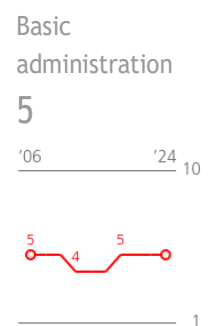
Political leaders also continue to invoke religion to acquire legitimacy and build support. In 2022, former Punjab Chief Minister Chaudhry Parvez Elahi repeatedly invoked the Finality of Prophethood – a religious doctrine used to justify discrimination against the Ahmadi sect – in his public pronouncements. While describing his legislative goals, Finance Minister Ishaq Dar vowed to follow Islamic principles by creating an interest-free economy (an issue that has been raised repeatedly since the 1980s). Furthermore, leaders of rival parties routinely accuse each other of blasphemy.

The state’s track record of providing basic services remains patchy at best. This is illustrated by Pakistan’s relatively poor values on social indicators, which are evidence of a deficient state infrastructure that – plagued by corruption, and a lack of resources and capacity – fails to deliver on its responsibilities. According to the Pakistan Economic Survey, the country’s literacy rate was 63% in 2021/2022, up from 60% in 2019/2020. Data from UNICEF shows that the mortality rate of children under five declined slightly from 67.2 per 1,000 live births in 2019 to 63.3 per 1,000 live births in 2021. According to the World Bank World Development Indicators 2022, only 75.4% of the population have access to electricity, 90.1% have access to at least a basic source of water, 35.8% have access to an improved water source, and 68.4% have access to at least basic sanitation.

Parts of the country lack communication and transport infrastructure, depriving citizens of connectivity, and alternatives to traveling long distances for medical care and other services. The state’s limited ability to provide public services to its citizens has been further illustrated in the aftermath of record floods in 2022, which affected 33 million people and more than 12% of the country’s total area. At a time when Pakistan confronts serious economic challenges, the state has been largely unable to address the needs of those affected by the floods.

Pakistan’s administrative challenges can be seen in the country’s relatively low tax-to-GDP ratio. At just 9.2% in 2021/2022, it is one of the lowest ratios in the region, symptomatic of the state’s inability to effectively assess and tax its citizens. Most of Pakistan’s tax revenue is derived from indirect sources, such as the general sales tax. Meanwhile, widespread corruption and the existence of a large informal economy mean that wealthy individuals and organizations have historically been able to evade taxation.

Pakistan’s ability to deliver public services at the local level continues to be hamstrung by several factors. The clientelist nature of politics in the country means that elected officials prefer to engage in targeted service delivery that benefits their supporters rather than adopt more universalistic and programmatic approaches that



would help all of their constituents. Rent-seeking and corruption remain rife in the bureaucracy and among the political elite. Significantly, power remains concentrated in the hands of the federal and provincial governments, with very little administrative or fiscal devolution to local governments that might be more responsive to the developmental needs of Pakistan's citizens.

2 | Political Participation

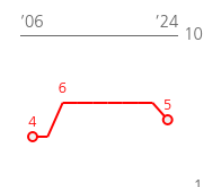
Elections in Pakistan have historically been marred by widespread irregularities, allegations of manipulation and disputed results. While all adults over the age of 18 have the right to vote, registering as a voter can sometimes be an onerous process as it requires the possession of a national identity card provided by the National Database and Records Administration Authority (NADRA). In 2022, the Free and Fair Election Network (FAFEN) estimated that up to 20 million eligible voters were not registered with the Election Commission of Pakistan (ECP), 80% of whom lacked ID cards. Similarly, levels of voter turnout and registration tend to be lower among women than among men. In the last general elections in 2018, the gap in turnout between men and women stood at 9.1%, with 11 million fewer women than men voting.

In Pakistan, there are few legal barriers to registering a political party or contesting an election as a candidate. In practice, however, while there are thousands of “independent” candidates and dozens of smaller parties contesting elections in constituencies across the country, electoral contests remain dominated by a small number of large political parties, such as the PML-N, PTI and PPP. These, in turn, tend to select candidates from a pool of “electable” local elites who possess the economic and social power needed to mobilize voter blocs.

Elections in Pakistan are administered by the ECP, which is headed by a chief election commissioner appointed following a consultative process involving the government and opposition parties. However, the ECP relies on the provincial bureaucracies to conduct elections on polling day, staffing polling booths with government employees drawn from education departments and the police. This has allowed incumbent provincial governments to use their control over the bureaucracy to influence and manipulate electoral results on polling day, leading to allegations of vote rigging. The disputed nature of elections in Pakistan is exacerbated by the ever-present interference of the military establishment, which is widely believed to influence electoral contests by fostering candidate defections, controlling polling staff and imposing other constraints on the conduct of elections. Indeed, the PTI government that was voted into power in 2018 was labeled “selected” by the opposition amidst claims its victory had been engineered by the military.

Free and fair elections

5



Pakistan's military establishment continues to exercise a tremendous amount of power over questions of policy and governance, playing the principal role in shaping Pakistan's foreign policy as well as issues related to its internal security. Pakistan's civilian leadership, including the prime minister, regularly meets with the country's chief of army staff and head of the Inter-Services Intelligence (the main intelligence agency). In these meetings, matters pertaining to international and domestic affairs are discussed, while former military officers have been appointed to key posts in government. This can be seen as a de facto consultation of the military in the political process.

The PTI's ouster in 2022 was arguably a result of the military's dissatisfaction with the government, as discord emerged between the PTI and military over Pakistan's relationship with the United States, and the extent of the prime minister's authority to appoint personnel, such as the head of the ISI. By the same token, the PDM government that succeeded the PTI was arguably cobbled together and is being kept in place due to support and patronage from the military establishment.

Within the civilian arena, propertied elites drawn from the landowning and industrial/commercial classes continue to dominate electoral politics, using their position to evade taxation and receive preferential treatment with regards to business and other economic opportunities. According to the UNDP's Human Development Report for 2020, elite privilege in Pakistan – in the form of subsidies and other benefits – amounted to \$17.4 billion, or 8% of GDP.

The Pakistani constitution gives individuals the right to associate, although this right is subject to restrictions imposed by the government in the name of national security. The degree to which these rights are upheld varies in practice. During the period under review, the country has seen the continued imposition of restrictions and constraints upon associational life, particularly when it assumes a political motivation that challenges the power and legitimacy of the state. The Pashtun Tahafuz Movement (PTM), a peaceful Pashtun nationalist movement protesting the repressive policies that accompanied Pakistan's military campaign against Islamist groups in the northwest, continues to be banned by the state. One of its leaders, the legislator Ali Wazir, was released from prison in February 2023 after four years in jail, while others remain incarcerated.

Article 19 of the Pakistani constitution guarantees freedom of speech to all citizens, albeit subject to restrictions that may be imposed in the name of national security and Islam. These qualifications on the right to free speech and expression have been reproduced in legislation like the Prevention of Electronic Crimes Act of 2016 (PECA), which has granted the government extensive powers to investigate and prosecute individuals for online speech, and which has been increasingly used to stifle dissent in recent years. In August 2021, the journalists Amir Mir and Imran Shafqat were arrested by the Federal Investigation Agency (FIA) for allegedly criticizing the military on social media, and PECA was also invoked in the arrest of journalist Mohsin Baig in February 2022. In these cases, ministers in the PTI government lodged complaints that led to these arrests.

Effective power to govern

3

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Association / assembly rights

3

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Freedom of expression

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After its ouster in April 2022, the PTI found itself on the receiving end of these attacks. The residence of the head of the PTI's social media wing, Arsalan Khalid, was raided by the police in April 2022, while former minister Shahbaz Gill was arrested in August 2022 for making statements against the military on TV. Similar allegations were made against Senator Azam Swati when he was arrested in October 2022 and, in February 2023, against a young PTI supporter, Sikander Zaman, who was sentenced to three years in prison for posting a tweet critical of the military. The powers of the FIA to investigate and arrest people under PECA were further enhanced by the PDM government in November 2022.

In addition to PECA, which has been used as a pretext for suppressing free speech and prosecuting critics of the state, the government makes use of the Pakistan Telecommunications Authority (PTA) to regulate and control the electronic media. At present, the government blocks access to an estimated 900,000 websites around the world, some of which are banned for hosting political, social and religious content. The government retains the power to arbitrarily restrict access to websites for various reasons. In 2022, Pakistan received a score of 26 out of 100 on Freedom House's Internet Freedom Index.

The restrictions on free expression in Pakistan are not limited to the internet. For example, a conference, which was due to be held at Lahore University of Management Sciences in March 2021 on the legacy of Bangladesh's 1971 liberation war, was canceled by the host university after the university was pressured by the government to do so. In October 2022, the pro-PTI journalist Arshad Sharif was murdered under mysterious circumstances in Kenya, with members of the PTI suggesting he had been killed for criticizing the military establishment. In its 2022 report on press freedoms, Reporters without Borders ranked Pakistan 157 out of 180 countries, representing a decline of 12 places from its ranking in 2021.

3 | Rule of Law

The constitution of Pakistan mandates a formal separation of powers between the judiciary, legislature and executive, although this division is often blurred in practice. Historically, Pakistan's judiciary has played an ambivalent role, both legitimizing military rule (e.g., in 2000, when it validated the coup that brought General Musharraf to power) and resisting it (in 2008, when the courts and legal community took the lead in opposing General Musharraf's regime). More recently, the Supreme Court rejected attempts by the PTI government to dissolve the National Assembly on the eve of a vote of no-confidence that was scheduled for April 2022.

In a 2022 report on legislative performance in Pakistan, the Pakistan Institute of Legislative Development and Transparency (PILDAT) noted that, while the parliament had engaged in lawmaking, legislative activity had declined by 8% compared to 2021. As noted in the report, the PTI government that ruled from 2018

Separation of powers

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to 2022 preferred to rule through executive fiat, making use of presidential ordinances to pursue its political agenda instead of negotiating with opposition parties. Since April 2022, this process has only been exacerbated by the PTI's withdrawal from parliament altogether. Legislative activity under the current PDM government has come to a de facto gridlock, while the provincial high courts and Supreme Court continue to entertain a variety of petitions pertaining to fresh elections. Coupled with the continued lack of control exercised by the civilian government over the military establishment, this suggests that considerable power is exercised by the executive in coordination with the military, with the judiciary playing – once again – an increasingly interventionist role in political matters.

In the past decade, Pakistan's courts have played a more activist role in Pakistan's politics, using the power of judicial review to overturn legislation passed by parliament and to intervene in affairs traditionally seen as the domain of the executive. Between 2018 and 2022, the political role of the Supreme Court in particular was brought into question as it was seen as being sympathetic to the ruling PTI government. The argument that the Supreme Court is politicized often receives credence from the manner in which it hears cases. The power to appoint judges to preside over cases rests exclusively with the chief justice, and recent years have seen the repeated appointment of judges viewed as being pro-PTI to adjudicate cases involving the party. Meanwhile, judges who are seen to be critical of the military establishment, such as Qazi Faez Isa, have been sidelined.

At lower levels, the judiciary continues to be characterized by a lack of resources, leading to high levels of corruption and a massive backlog of an estimated two million cases. Bar associations and other legal bodies have emerged over the last decade as powerful interest groups in society, and often come into conflict with the police and other groups.

Parallel justice systems built around local tribal norms also continue to operate throughout the country. While the decisions taken by these informal "courts" do not have the means to sanction officials, they are often viewed as a legitimate forum for dispute resolution and access to justice.

Holders of public office in Pakistan are largely able to break the law and engage in corrupt practices with impunity. Mechanisms for accountability remain limited and were further weakened in August 2022 when an amendment to the National Accountability Ordinance restricted the National Accountability Bureau (NAB) to only investigating cases of corruption involving sums of PKR 500 million or more.

Historically, the NAB and other accountability institutions have been used as tools of political persecution. Anti-corruption was one of the pillars of the PTI's electoral campaign. Serving this goal, the NAB and the FIA were used to investigate, arrest and prosecute opposition leaders, including Shahbaz Sharif, Miftah Ismail, Shahid Khaqan Abbasi and Hamza Shahbaz, between 2018 and 2022. However,

Independent judiciary

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Prosecution of office abuse

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significantly, no charges of corruption were ever proven in court. Since its ouster in April 2022, the PTI's leadership has been on the receiving end of similar campaigns. Most prominently, former Prime Minister Imran Khan has been accused of corruption for misappropriating gifts he received as head of state. The Election Commission of Pakistan disqualified Khan from holding public office until 2023, and the case continues to be investigated by the NAB. The PTI has also been embroiled in a case related to funding it allegedly received from overseas, which violated the Elections Act. As has been the case in the past, both of these instances are widely believed to be no more than tools to persecute opposition politicians, with calls for accountability failing to reflect genuine interest in systemic measures to tackle corruption at all levels of government and across partisan political lines.

Torture and preventive detention remain a part of Pakistan's policing and security landscape. In 2010, Pakistan ratified the Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment. Furthermore, in August 2022, the National Assembly passed the Torture and Custodial Death (Prevention and Punishment) Act, which criminalizes the use of torture. Nonetheless, torture remains rampant in practice.

Citizens are subject to trial by military tribunals, empowered through vague anti-terror laws that are wide-ranging in their application. Pakistan also continues to witness the enforced disappearance of activists and individuals, who are allegedly kidnapped by the military and intelligence agencies. While legal efforts continue to be made to recover these missing people, attempts to hold the government accountable for these acts have thus far foundered in the courts and in parliament, mainly through standing committees and special commissions occupied with the cases.

Ethnic minorities experience discrimination, particularly in Balochistan, where ongoing military operations have seen an increase in surveillance and restrictions on the freedom of movement of local people. The same was the case in the former FATA, where rights abuses perpetrated during military operations against violent Islamist groups underpinned the rise of the PTM.

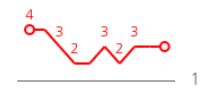
Pakistan continues to witness discrimination against women and sexual minorities. For example, homosexuality is criminalized, and the transgender community faces increasing violence.

In terms of privacy and freedom of expression, laws like PECA continue to be used by agencies such as the FIA to conduct far-reaching and often opaque investigations into the activities of dissidents, activists and citizens.

Civil rights

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4 | Stability of Democratic Institutions

In 2022, the Economist Intelligence Unit classified Pakistan as a “hybrid regime” in its Democracy Index. Despite the existence of formally democratic institutions, such as regular national elections, political parties and a parliament, the country’s powerful military establishment exerts tremendous de facto power. In April 2022, the military’s withdrawal of support for the PTI government resulted in an opportunity for the opposition to successfully oust Prime Minister Imran Khan through a vote of no confidence in the parliament. While the vote itself was constitutional, there is little doubt that it would not have succeeded without the military’s tacit support.

While Pakistan’s next general elections are scheduled for the summer of 2023, there is considerable uncertainty surrounding when they will actually be held. The PDM government currently in power lacks electoral legitimacy, and the military continues to play a key role in shaping governance in key areas, such as foreign policy and economic management. These problems are compounded by the absence of effective local governments, particularly in Punjab, where the local governments have been dormant since 2019 (despite a constitutional requirement to elect and empower new local governments). Historically, the federal and provincial governments have hesitated to devolve power to the local level, and this remains the case even in areas where local governments currently exist.

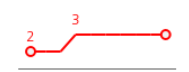
Lastly, the Supreme Court of Pakistan is seen as an increasingly partisan institution, with individual judges increasingly associated with various political parties and agendas. Historically, the Supreme Court played a role in legitimizing the military’s interventions in politics. While it has arguably been able to carve out a more independent role for itself since the ouster of General Musharraf in 2008, the period under review has seen the court, headed by Chief Justice Umar Bandial, come to be associated with partisan support for the PTI, following a string of legal decisions that have been seen as favoring the PTI at the expense of its political rivals.

During the period under review, Pakistan witnessed a further increase in political polarization, which had already increased over the previous decade. Accusations of the military establishment’s involvement in rigging the 2018 general elections widened the gulf between the PTI and opposition parties, such as the PML-N and PPP. This divide has only been deepened by the PTI’s ouster in April 2022. Indeed, the PTI claimed that its removal from office was the result of an organized conspiracy, in which the military establishment coordinated with the United States and the PML-N. The party has since walked back parts of the claim. The PTI has spent much of 2022 and 2023 protesting against the PDM and elements within the military establishment, questioning the legitimacy of the government and institutions like the Election Commission of Pakistan. Nonetheless, there is little evidence to suggest that the military has withdrawn from the indirect role it has played in

Performance of
democratic
institutions

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Commitment to
democratic
institutions

3

'06 '24 10



Pakistan's politics in recent years. While the PTI and other parties remain formally committed to strengthening democracy, the possibility that they will maintain their partnerships with the military persists.

5 | Political and Social Integration

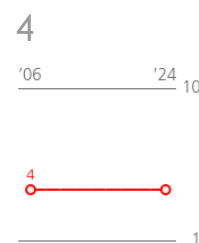
Mainstream political parties in Pakistan are weak, lacking organizational capacity, internal democracy, clear ideological identities, and programmatic platforms based on the aggregation and articulation of popular demands. Repeated periods of military rule in Pakistan have impeded the development of the party system and fostered an environment in which powerful local leaders are able to position themselves as viable electoral candidates, by leveraging their economic and social resources, as well as their connections to the state. This permits them to mobilize vote blocs through the provision of patronage to clients in their constituencies. Particularly in the countryside, electoral competition often involves little more than contests between these entrenched local elites, as they defect from one party to another depending on the broader political environment. Parties lack organizational roots in communities, particularly in the absence of consistent local government elections. As a result, dynastic politics remains the main point of entry into electoral politics in mainstream parties.

Over the years, the party system in Pakistan has fragmented along provincial lines. The PPP enjoys a virtual monopoly over politics in Sindh. An exception is the city of Karachi, where it competes for influence with the MQM representing ethnic Mohajirs, the religious Jamaat-i-Islami (JI) and, more recently, the PTI. In Balochistan, electoral politics is dominated by ethno-national parties like the Baloch National Party (BNP). Elections are more competitive in KP and Punjab. The PTI has emerged as the dominant party in KP after displacing the Awami National Party (ANP), and the PTI and PML-N enjoy roughly equal levels of support in Punjab. Voter volatility is often determined by the shifting allegiances of local leaders overseeing patronage networks. There, electoral choices are shaped more by alliances between local leaders and various parties rather than by ethnic identity or religious ideology.

In addition to these provincial/ethnic cleavages, religion remains a potent source of political organization and polarization. Parties such as the JI and the JUI-F make explicit appeals to Islam in their electoral platforms, while hard-line parties such as the TLP have emerged as significant electoral players after campaigning on the emotive issue of blasphemy.

In recent years, the emergence of a growing middle class and urbanization have weakened the hold of traditional landed elites on electoral politics, with service delivery and party performance increasingly influencing voter choice. Furthermore, according to the Election Commission of Pakistan, an estimated 10 million new

Party system



voters will be eligible to vote in 2023, and voters aged 18 to 35 will comprise almost half of the total electorate. This growth in younger voters has been accompanied by the increasing importance of the internet and social media as tools for campaigning and mobilizing political support.

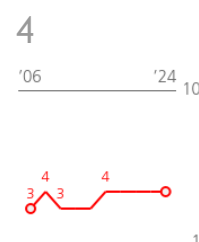
Civil society in Pakistan is characterized by a variety of different interest groups. These include chambers of commerce and industry associations that represent entrenched economic elites, politicized professional bodies (e.g., associations of lawyers, doctors, journalists and teachers), non-governmental organizations engaged in both service delivery and advocacy work and relatively marginal activist organizations (e.g., student collectives and trade unions). Organizations based on religious and ethnic identity can also be found, although religious organizations tend to receive greater state support and patronage than ethnicity-based ones.

The power exercised by these different groups varies. Local traders' associations, present in markets across the country, remain a powerful source of urban electoral support for parties like the PML-N and PTI. Professional associations, such as the provincial bar associations and the Young Doctors Association, regularly mobilize their members to engage in acts of protest and to negotiate concessions for their members. Bar associations, in particular, have gained greater importance in recent years due to the informal influence they wield when it comes to the appointment of court judges. These groups have clientelist relationships with political parties, trading support and street power for access to state patronage and the perks of high office.

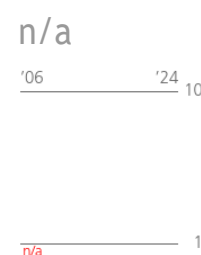
Less powerful groups, such as organizations that represent workers, students and low-level government employees, are often met with state repression and persecution when they articulate their demands. Consequently, they rarely have their grievances addressed through official action. Nonetheless, different interest groups also come together to share platforms and campaign for collective goals. For example, events such as the Student Solidarity March and the Aurat March have brought students, women, trade union members and even members of political parties together in recent years.

The limited polling that exists on the public perception of democracy in Pakistan suggests that there is a lack of trust and faith in democratic institutions. According to the 2022 Democracy Perception Index, even though over 75% of Pakistanis believe democracy is important, only 50% believe the country is actually democratic, and almost 40% believe the country needs more democracy. Furthermore, 73% of Pakistanis believe there is foreign interference in the electoral process, and around 20% believe elections are not free and fair. Similarly, a poll conducted by Gallup Pakistan in August 2022 suggested that people viewed the military more favorably than the democratic government (81.5% to 51.5%) and gave the military a slight edge in questions of governance. These findings are borne out by the World Values Survey. In 2018, 41.2% of respondents said that the military taking power from an incompetent government was an “essential” feature of democracy, and 93.2% of

Interest groups



Approval of democracy

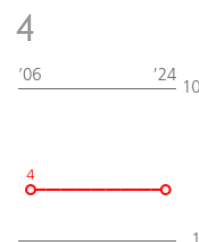


respondents had confidence in the armed forces compared to just 43.6% who had confidence in political parties. At present, there is no polling data available to suggest whether or not public perceptions of the military have shifted, following allegations the military engineered the ouster of the PTI government in April 2022.

In Pakistan, relationships of trust and reciprocity are underpinned by networks based on family, kinship, and participation in charitable and other civil society associations. According to the World Justice Project's 2018 report on the Rule of Law in Pakistan, 73% of Pakistanis expressed a high level of trust in each other. Yet, these networks also underpin clientelist political relationships, and often serve to reproduce local social hierarchies defined by caste, class and gender. Similarly, even where participation in civil society associations or NGOs (especially in response to disasters such as the floods in 2022) provides a basis for the development of social capital, this often happens piecemeal, with differential benefits accruing to groups and individuals depending on the opportunities for participation available to them.

Apparently, high levels of interpersonal trust in Pakistan, at least within relatively small networks of family and kinship, exist alongside considerable distrust and suspicion of authority and groups outside immediate social circles. Thus, it can be said that bonding social capital in Pakistan is high, while bridging social capital is very low. Data collected by the World Values Survey in 2018 suggests that 93.4% of Pakistanis somewhat or completely trust their families, and 77% somewhat or completely trust people from their neighborhoods. Yet, the same survey found that 75.9% of respondents felt that they had to be "very careful" when deciding to trust other people. Similarly, only 31.4% of respondents felt they could completely or somewhat trust people belonging to different religious groups, and only 27.7% felt the same way about other nationalities.

Social capital



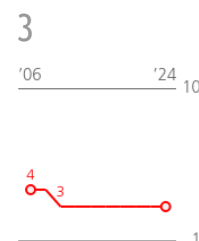
II. Economic Transformation

6 | Level of Socioeconomic Development

In 2022, Pakistan declined seven places to rank 161st out of 192 countries on the UNDP's Human Development Index. Pakistan's low levels of socioeconomic development are accompanied by comparatively high levels of inequality. Additionally, the World Bank reports that Pakistan's Gini Index was around 30 for 2018. However, it is widely acknowledged that this figure may be inaccurate because the wealthiest quintiles under-report their incomes in the relevant Household Integrated Economic Surveys. Instead, as stated by the UNDP in its Human Development Report for 2020, levels of inequality are demonstrated by the richest 1% of the population accounting for 9% of national income, while the poorest 1%

Question
Score

Socioeconomic
barriers



accounts for just 0.15%. Overall, the wealthiest 20% of the population accounts for nearly 50% of national income, while the poorest 20% accounts for only 7%. Furthermore, landowners, comprising only 1% of the population, own 22% of all arable farmland.

In 2021, the government reported that nearly 21.9% of the population lived below the national poverty line. However, the UNDP's Multidimensional Poverty Index, which measures deprivations in health, education and standards of living, estimated that, in 2022, 38.3% of the population was living in poverty, with an additional 12.9% vulnerable to poverty. According to the World Bank, 39.84% of the population lives below the lower middle-income poverty rate of \$3.65 per day, and 84.53% of the population lives below the upper middle-income poverty rate of \$6.85 per day in 2022.

Inequality in Pakistan is exacerbated by several additional structural factors. According to the Pakistan Institute of Development Economics, levels of poverty vary from province to province: 16.3% in Punjab compared to 40.7% in Balochistan. When comparing rural and urban areas, unemployment rates also differ, with a rate of 27.6% in Punjab compared to 10.7% in Balochistan. Pakistan also faces significant challenges in terms of its broader macroeconomic stability, considering the impact of both COVID-19 and natural disasters, such as the record-breaking floods of 2022. According to Relief Web, the poverty rate in Pakistan could increase by 2.5% to 4% in the absence of meaningful assistance to the vulnerable communities hit hardest by the flooding.

Gender-based inequality remains a significant structural burden on Pakistan's economy. According to the Gender Inequality Index, Pakistan scored just 0.534 in 2021. Additionally, in 2022, the Global Gender Gap Index ranked Pakistan 145th out of 146 countries in terms of gender parity. This ranking highlights the persistent exclusion of women from public life. Furthermore, Pakistan's female labor force participation rate was a mere 20.65% in 2021.

Economic indicators		2019	2020	2021	2022
GDP	\$ M	320909.5	300425.6	348262.5	376532.8
GDP growth	%	2.5	-1.3	6.5	6.2
Inflation (CPI)	%	10.6	9.7	9.5	19.9
Unemployment	%	4.8	6.6	6.3	6.4
Foreign direct investment	% of GDP	0.7	0.7	0.6	0.4
Export growth	%	13.2	1.5	6.5	8.4
Import growth	%	7.6	-5.1	14.5	15.6
Current account balance	\$ M	-8557.9	-650.9	-12283.1	-12129.1
Public debt	% of GDP	77.5	79.6	73.5	76.2
External debt	\$ M	107882.9	115695.3	130433.1	-
Total debt service	\$ M	11077.8	9877.1	12338.4	-
Net lending/borrowing	% of GDP	-	-	-	-
Tax revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	10.7	11.8	10.9	10.1
Public education spending	% of GDP	2.2	2.1	1.7	2.0
Public health spending	% of GDP	0.9	1.0	-	-
R&D expenditure	% of GDP	0.2	-	0.2	-
Military expenditure	% of GDP	3.3	3.0	2.9	2.6

Sources (as of December 2023): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

The regulatory environment in Pakistan is overseen by the Economic Coordination Committee (ECC), a body chaired by the finance minister with representation from the State Bank, the Securities and Exchange Commission, the Planning Commission, and the Board of Investment. The ECC has broad powers to intervene in the economy, often distorts price signals, and selectively favors certain enterprises and actors. In the recent past, this has included approving large bailouts for failing state-owned enterprises, such as Pakistan International Airlines, and the continued provision of subsidies to powerful politically affiliated commercial interests, such as sugar

Market
organization

3

'06 '24 10



1

producers. The military also has commercial interests in Pakistan, so its enterprises, such as the Frontier Works Organization, are often awarded lucrative contracts for construction and other projects.

There are no formal restrictions on the ownership or operation of businesses by foreign entities in Pakistan, with the exception of those based in India and Israel. However, doing so can often involve dealing with significant bureaucratic hurdles and corruption. The Securities and Exchange Commission of Pakistan (SECP) registers and regulates local and foreign businesses, although the implementation of its standards and regulations remains poor. While successive governments have sought to encourage foreign investment in Pakistan, outward investment – meaning Pakistanis investing abroad – is strictly regulated and discouraged.

Since 2018, the Pakistan Regulatory Modernization Initiative, under the Board of Investment, has sought to introduce reforms to facilitate business transactions in Pakistan by leveraging technology and reducing bureaucratic hurdles. These reforms aim to improve the registration process for new businesses, facilitate property acquisition and simplify tax payments. However, progress on implementing these reforms has slowed in 2022 due to broader political and economic challenges. Nevertheless, efforts to make improvements have not ceased.

Market competition in Pakistan is frequently distorted by seemingly arbitrary decisions made by leaders for political reasons. Government policy, such as Finance Minister Ishaq Dar's decision in 2022 to artificially inflate the value of the rupee, can introduce significant uncertainty into economic decision-making. At the local level, district administrators retain the power to “fix” the prices of essential commodities.

The informal sector in Pakistan is large. According to the International Labour Organization (ILO) in 2022, the informal sector accounts for 71.7% of non-agricultural employment.

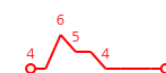
In 2019, Pakistan ranked 110th out of 141 countries in the World Economic Forum's Global Competitiveness Report. The country's Competition Commission is empowered by the Competition Act of 2010 to investigate and take action against monopolies, regulate mergers, prevent collusion aimed at distorting markets, and penalize deceptive marketing practices. Pakistan is also a member of the International Competition Network.

However, the CCP exercises very little regulatory power in practice. Pakistan's economy continues to be dominated by powerful rent-seeking actors who make use of their economic clout and state connections to obtain preferential treatment, including access to subsidies, tax relief and lucrative state contracts. According to the UNDP in 2020, “elite privilege” of this kind amounted to \$4.7 billion for the corporate sector alone, with another \$1.7 billion worth of privileges accruing to the

Competition policy

4

'06 '24 10



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military's commercial interests. Indeed, the military remains a powerful player in the corporate sector, guarding interests in a range of areas, including cement, fertilizer, real estate, construction, agriculture and dairy, among others. There is a lack of transparency regarding the military's economic affairs, which largely remain impervious to external scrutiny.

In 2022, the CCP imposed penalties on both the Pakistan Poultry Association and the Pakistan Sugar Mills Association for engaging in cartelization and collective price-setting. As has been the case in the past, these penalties have been contested in the courts, where the outcomes of these cases remain pending.

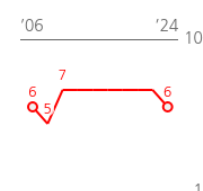
Pakistan has been gradually liberalizing trade over the past two decades. According to the World Trade Organization, Pakistan had a simple average most favored nation (MFN) applied tariff of 11.2% in 2021, down from 11.6% in 2019 and 23.1% in 2000. Nevertheless, these levels remain higher than those of other countries in South Asia and well above the global average. The persistence of high tariffs on imports can be attributed to a historical reliance on them as a revenue source, as well as a mechanism to protect local producers from foreign competition. Pakistan also imposes nontariff barriers to trade, often targeted at safeguarding the interests of rent-seekers in sectors such as agriculture.

In 2022, the PDM government, in response to a growing current account deficit, implemented stringent regulations on the importation of goods into Pakistan. Under these regulations, commercial banks were required to obtain authorization from the State Bank of Pakistan prior to engaging in any import transactions. These restrictions applied to both essential and nonessential goods, which adversely impacted local industries that relied on imported raw materials and machinery. The government's efforts to enhance exports were further impeded by its attempts to artificially inflate the value of the rupee, a measure that violated the conditions imposed by the IMF in exchange for financial assistance. However, in December 2022, the State Bank of Pakistan lifted the import restrictions, and the rupee has also undergone depreciation during the first half of 2023.

A 2020 report by the International Trade Centre notes that Pakistani exporters struggle to comply with trade-related regulations or procedures in Pakistan and abroad, often due to a lack of technical capacity for testing and product certification. Exports are also hampered by red tape and documentation requirements within Pakistan itself.

Liberalization of foreign trade

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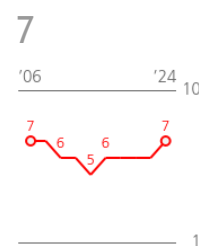


In the period under review, Pakistan was eventually removed from the Financial Action Task Force (FATF) “grey list” in August 2022 after submitting documentary evidence that it had taken action to rein in the financing of terrorism and control money laundering. Pakistan had spent much of the previous decade on the FATF’s watchlist, so exiting the grey list allows Pakistan to participate more fully in global financial networks and meet the conditionalities imposed by the IMF.

The State Bank of Pakistan, which operates independently of the government, is the main banking regulator in the country. Since the 1990s, in response to demands from international financial institutions but also due to the State Bank’s own policy goals, Pakistan has made significant progress in implementing the Basel Accords. Besides the formal banking sector, there is the Pakistan Stock Exchange (PSX), a capital market with 375 listed companies and a market capitalization of around \$27 billion.

The period under review has witnessed a decline in the share of Pakistan’s nonperforming bank loans, from 9.9% in September 2020 to 7.6% in September 2022. Moreover, the bank capital-to-assets ratio has also slightly decreased, from 5.8% in 2020 to 5.1% in 2021.

Banking system



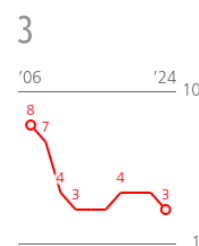
8 | Monetary and fiscal stability

During the period under review, Pakistan has experienced serious economic challenges, including record levels of inflation and the looming threat of default. In the space of a year, from March 2022 to March 2023, the rupee went from trading at PKR 177 per U.S. dollar to PKR 260 per U.S. dollar, contributing to a rapid rise in inflation. In January 2023, the State Bank of Pakistan estimated that the country’s real effective exchange rate was 92.8. The change in the rupee’s value can be attributed to several factors, but the primary factor is a balance-of-payments crisis exacerbated by looming debt repayments, rising global fuel and commodity prices, domestic political instability, and arguably misguided policy decisions aimed at subsidizing the cost of petrol for consumers and unsuccessfully attempting to artificially inflate the value of the rupee.

The significant devaluation of the rupee has had a profound impact on Pakistan’s economy. In February 2023, Pakistan’s Consumer Price Index rose by 38.4% compared to the previous year, marking the highest increase in decades. One of the conditions set by the IMF in exchange for aid in 2022 and 2023 was to initiate a decline in the value of the rupee. As a result of inflation, the State Bank of Pakistan has consistently raised interest rates.

The economic crisis has also affected Pakistan’s activity in global trade. Restrictions on imports resulted in a 32% decline in the trade deficit during the first half of the 2022/23 fiscal year. Additionally, exports experienced a 15.4% year-on-year decline in January 2023.

Monetary stability



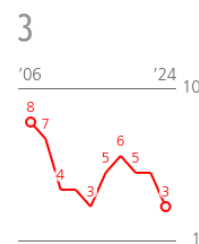
The period under review has witnessed a steep deterioration of Pakistan's fiscal position. Rising global fuel and commodity prices, high levels of debt repayment, crippling floods and devastation, and domestic political instability have brought Pakistan to the brink of default, with foreign currency reserves declining to just \$3.2 billion in February 2023, down from \$13.2 billion in December 2020. This is barely sufficient to cover 20 days' worth of imports. Austerity measures, such as restrictions on imports, have reduced Pakistan's current account deficit to just 0.2% in January 2023, a decline of 90% year-on-year. Nevertheless, Pakistan remains dependent on external financial support in order to avoid default. In February 2023, Pakistan was still negotiating with the IMF for the release of \$1.1 billion in critical funding, which had been part of a broader \$6.5 billion package negotiated in 2019 that stalled due to Pakistan's noncompliance with IMF conditions. This is the 23rd time Pakistan has turned to the IMF for financial assistance, more than any other country.

In recent years, Pakistan has been able to acquire funding from countries such as China, Saudi Arabia and the UAE. However, securing external assistance has become more challenging since 2022. In February 2023, Pakistan received \$700 million from the China Development Bank. Nevertheless, the country still faces significant external financing needs.

Pakistan's levels of debt have also continued to increase. According to the State Bank of Pakistan, the country's debt-to-GDP ratio reached 73.5% in 2022, up from 71.5% in 2021. In 2022, total external debt amounted to nearly \$89 billion, equivalent to 39.7% of GDP, compared to 34.5% in 2021. Pakistan's ability to sustain this debt has worsened during the period under review. External debt repayment obligations rose from \$8.4 billion in 2021 to \$13 billion in 2022, and the country is projected to pay \$23 billion in debt servicing in 2023. By 2025, Pakistan is expected to make repayments totaling \$73 billion.

Despite efforts in recent years to boost revenues through greater documentation and enforcement, the country's tax-to-GDP ratio stood at just 9.2% in 2022. Efforts to improve revenue collection continue to be impeded by difficulties in documenting Pakistan's large informal economy, as well as the constraints imposed by powerful, organized interest groups (e.g., traders' associations) and entrenched political elites.

Fiscal stability



9 | Private Property

The constitution of Pakistan protects private property rights, and laws exist to prevent individuals and businesses from being deprived of their property by the state without compensation. However, these laws are not always followed in practice. Poor monitoring, patchy documentation and weak enforcement mechanisms mean that individuals can be expropriated from their land by criminals, organized land-grabbers, and corporate developers – all of whom often work in collusion with state officials. While the threat of forcible expropriation remains real at the local level, particularly for individuals lacking paperwork or without connections to the bureaucracy that might validate claims to land, large-scale real estate and commercial developments are also often based on fraudulent and illegal activities.

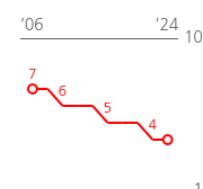
Military-run housing schemes across the country have been built on land forcibly seized from the former inhabitants, and newer developments such as the Ravi Urban Development project – designed to build new settlements along the river Ravi in the city of Lahore – are proceeding despite environmental objections and the forcible expropriation of local villagers from their homes. The often illegal and coercive practices that characterize the seizure of land in Pakistan can be juxtaposed with the demolition of informal settlements in Islamabad and Karachi in recent years, with “anti-encroachment” drives launched by the government leading to protests by the urban poor displaced amid these measures. Disputes over land ownership are among the largest sources of litigation in Pakistan’s lower courts, with hundreds of thousands of cases contributing to a judicial backlog compounded by inefficiency and corruption. In 2022, Pakistan was ranked 108th out of 129 countries in the International Property Rights Index.

Successive governments and all of Pakistan’s mainstream parties are committed to promoting private enterprise. However, the economy’s institutional framework bears the imprint of a long history of state intervention, coupled with rent-seeking by entrenched elite interests.

State-owned enterprises continue to play a significant role in the Pakistani economy, despite recent efforts to privatize them in order to enhance efficiency and financial viability. However, privatization remains a sensitive topic in the political arena, partly due to concerns about potential layoffs and because successive governments have utilized employment in state-owned enterprises as a means to dispense patronage to their supporters. According to data from the State Bank of Pakistan, public sector enterprises were burdened with a debt equivalent to 12.7% of GDP as of September 2022, with annual losses exceeding PKR 130 billion. The PDM government, along with its predecessors, has expressed a commitment to privatize state-owned enterprises and, in 2023, actively sought buyers interested in acquiring a majority stake in Pakistan International Airlines. Moreover, the government has enacted the Inter-Governmental Commercial Transactions Act of 2022 to facilitate foreign governments’ ability to purchase stakes in Pakistani state-owned enterprises.

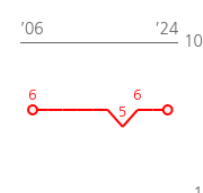
Property rights

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Private enterprise

6



10 | Welfare Regime

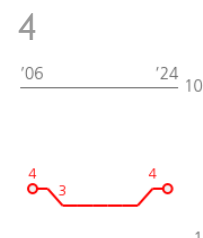
Pakistan has several welfare programs aimed at establishing a basic universal social safety net for its citizens. Government-operated schools and hospitals offer highly subsidized education and health care to the entire population. Additionally, organizations such as Zakat and the Pakistan Bait-ul-Mal utilize tax revenues to provide small cash transfers to approximately three million people throughout the country. Pakistan also has a contributory pension scheme, called the Employee Old Age Benefits Institution, which currently boasts over nine million enrolled individuals. Furthermore, the government utilizes the Pakistan Poverty Alleviation Fund to provide microfinance loans to its citizens. Through partnerships with NGOs and other private sector organizations, this fund has disbursed PKR 237.56 billion in loans between 2000 and 2022.

Nonetheless, the provision of effective public services in Pakistan is hamstrung by serious capacity constraints. According to the Pakistan Economic Survey for 2022, spending on health care amounted to 3% of GDP in 2020/2021 and spending on education to 2.4% of GDP in the same year. The net enrollment rate for primary school students stood at 67% in 2020/2021, and there was one doctor available for every 877 Pakistanis in 2022. In 2019/2020, there were only 0.98 doctors per 1,000 people, and the primary school enrollment rate was 68% in 2018. The inadequacy of public welfare services has led to the emergence of a large private sector in health care and education. Historically, the budgetary adjustments required by lenders to manage Pakistan's fiscal constraints have led to cuts to social services. This is likely to remain a characteristic of the country's political economy in the future.

While significant challenges persist regarding the provision of welfare in Pakistan, there are areas where progress has been observed. The Benazir Income Support Programme (BISP), initiated in 2008, is an unconditional cash transfer scheme for poverty reduction that primarily targets women. Renamed the Ehsaas program by the PTI government, the BISP was expanded in response to the COVID-19 pandemic, with coverage extended to an estimated 15 million families in 2021. During this period, the Ehsaas Taleemi Wazaif Programme was also introduced, offering stipends ranging from PKR 1,500 to PKR 4,000 to students every quarter. Currently, the program benefits over three million children.

In 2019, the PTI government launched the Sehat Sahulat Programme in the KP province, providing universal health insurance to citizens eligible for use in both public and private hospitals. Coverage was extended to Punjab in 2021, and the program was providing health insurance to an estimated 38 million households across the country by the end of that year. While questions remain about its sustainability – currently accounting for 30% of the government's expenditure on health care – it remains the most significant reform to health care provision in decades.

Social safety nets



Although the constitution of Pakistan prohibits economic discrimination, as well as other forms of discrimination based on gender, religion or other identities, the country continues to exhibit hierarchies based on class, gender, ethnicity, religion and caste. Individuals from underprivileged and marginalized communities encounter significant obstacles to upward social mobility, lacking access to high-quality education, health care and economic opportunities.

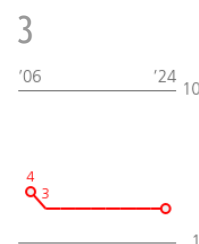
The World Economic Forum's Gender Gap Index ranked Pakistan 145th out of 146 countries for gender parity. This is reflected in discrepancies such as literacy rates, with the male literacy rate at 73.4% compared to just 51.9% for women. The women's labor force participation rate has also remained stagnant at around 20% over the last decade. While there are quotas of 17% representation for women in the national and provincial legislatures, candidates selected for these seats do not contest elections and are instead nominated by their parties – often based on familial connections. Women remain excluded from the upper echelons of politics. For example, only five members of Prime Minister Shahbaz Sharif's 81-member cabinet are women.

Religious minorities encounter widespread discrimination in Pakistan, as do citizens who belong to lower caste groups, notably former Hindu Dalits who have converted to Islam. Christians, Hindus and lower-caste Muslims are disproportionately employed in casual labor, sweeping, and sex work, and have limited opportunities for upward social mobility. Although there are no legal obstacles to minority participation in the economy de facto discrimination consigns them to subordinate roles in society.

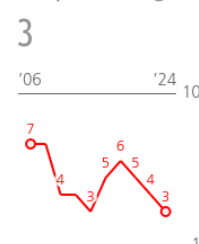
11 | Economic Performance

In 2022, Pakistan had a nominal GDP of \$377.3 billion, with the economy expected to grow at just 2% in 2022/2023. This signifies a decrease from a reported growth rate of 5% in 2021/2022. The relatively low growth rate reflects the serious macroeconomic challenges Pakistan has had to contend with, such as inflation and the economic damage caused by widespread flooding – the total cost of the damage and reconstruction is estimated to be around \$30 billion. Pakistan's fiscal deficit also increased to almost 9% of GDP in 2022. While the current account deficit has been significantly reduced over the course of the 2022/2023 financial year, the country faces serious economic headwinds as a result of its continuing balance-of-payments crisis. During this period of review, Pakistan received \$3.06 billion in FDI in 2021 and \$2.622 billion in 2022, with the decline reflecting Pakistan's broader political and economic challenges.

Equal opportunity



Output strength



Pakistan's per capita income increased from \$1,505 in 2021 to \$1,798 in 2022. However, the country still lags behind both India and Bangladesh in this regard. Inflation has remained high, reaching 25% in 2022 and rising to over 34% in January and February 2023 following the rapid devaluation of the rupee. The government reported an 11.5% increase in year-on-year revenue collection in November 2022, although total revenue collection fell short of the annual target. The unemployment rate also rose to 6.3% in 2021/2022.

12 | Sustainability

In 2022, the Environmental Performance Index ranked Pakistan 176th out of 180 countries, indicating a seven-place decline from its 2020 ranking. Recently, major cities in Pakistan have experienced a significant deterioration in air quality due to vehicular traffic, crop burning, coal-burning power plants and construction, not only within Pakistan but also in India and China. According to the 2022 Air Quality of Life Index, Pakistan is the fourth-most polluted country globally. Air pollution reduces the average Pakistani's life expectancy by 4.3 years and even seven years in the most polluted areas of the country. Despite the evident and obvious nature of this problem, successive governments have shown little willingness or ability to develop coherent frameworks to address the issue.

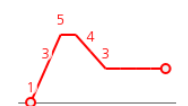
Per capita carbon dioxide emissions in Pakistan were just 0.99 tons in 2021, far below the global average of 4.69 tons. However, despite this, Pakistan has repeatedly been one of the states hardest hit by the implications of global climate change. In what has become an almost annual occurrence, Pakistan experienced record-breaking flooding in 2022. These floods affected 33 million people, covered over 12% of the country's area, resulted in nearly 2,000 deaths, displaced an additional 2.1 million people, and pushed approximately five million people into poverty. The combined economic losses and costs of reconstruction amount to an estimated \$30 billion.

Pakistan's Ministry of Climate Change is tasked with addressing environmental issues, but there is limited evidence to suggest that it has had a significant influence on policy. Although Sherry Rehman, the current minister for climate change, achieved some success by highlighting the issue of climate reparations for countries such as Pakistan at the COP27 conference in November 2022, there has been little tangible progress resulting from this proposal.

Environmental
policy

3

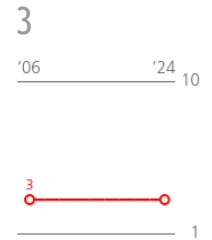
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In 2021, Pakistan scored just 0.342 on the UNDP's Inequality-Adjusted Education Index, ranking it 156th out of 191 countries. On the Global Innovation Index, it was ranked 87th out of 132 countries, and 113th out of 132 countries in the field of human capital and research. These indicators reflect Pakistan's relatively low levels of education expenditure, which have been well below the global average of 4% at just 2.4% of GDP in 2021. Additionally, the public education system is characterized by inefficiency and a lack of resources. Pakistan also has a parallel system of private education, which varies in quality and primarily benefits those who possess significant economic and social capital.

Expenditures on research and development remain low in Pakistan, estimated at just 0.2% of GDP per year since 2017. The country produces more than half a million college graduates annually, but the quality of their skills varies widely. Moreover, Pakistan also produces several thousand PhDs each year, yet research output remains insufficient and of relatively poor quality.

Education policy /
R&D



Governance

I. Level of Difficulty

Pakistan continues to face a number of structural constraints that impede its governance performance, with these challenges being exacerbated in 2022/2023 by ongoing political and economic crises. In addition to dealing with the prospect of potential economic default induced by rising global fuel and commodity prices, high levels of debt repayment, and poor economic planning, Pakistan must also contend with high inflation, lackluster export performance, an economy that has struggled to transition away from the production of agricultural goods and services, and the persistent influence of a small, rent-seeking military and civilian elite that impedes processes of reform. With 63% of the population aged between 15 and 33 in 2021, Pakistan struggles to provide its young people with the skills, training and opportunities required to fully participate in a changing global economic landscape. The persistence of high levels of poverty and forms of discrimination suggests that tens of millions are unlikely to experience much social mobility in the years ahead. While there have been some recent attempts to reform and expand the provision of welfare in Pakistan (e.g., through cash transfers and the provision of health insurance), the country's social indicators continue to lag behind those of similar countries and growth in per capita income has been relatively slow.

In this context, Pakistan faces severe environmental challenges, ranging from poor air quality to the impact of massive floods, with severe implications for the health and well-being of its population. The United Nations considers populations to be facing water scarcity when per capita availability dips below 1,000 cubic meters. In 2021, Pakistan fell below this threshold, with availability expected to fall to just 500 cubic meters by 2025. Matters are exacerbated by the fact that 97% of Pakistan's water is inefficiently employed for agriculture, resulting in up to 45% of this water being wasted.

Pakistan's governance is hampered by the persistence of discriminatory norms and practices, some endorsed by law, that exclude and marginalize large sections of society. Women experience widespread discrimination and violence in both the public and private spheres, and reformation efforts are often stymied by the backlash from more religious and conservative actors in society. Religious minorities, particularly Ahmadis, experience de facto exclusion from the higher echelons of government and the economy and are routinely subject to violence and intimidation.

Structural
constraints

8

'06 '24 10



1

Pakistan also has deep-rooted ethnic cleavages, with the economic and cultural marginalization experienced by Balochis, Sindhis, and Pashtuns fueling ethno-national movements and routine disputes over the division and allocation of national resources.

In 2022, Pakistan witnessed considerable political instability, as yet another democratically elected government was toppled and replaced, allegedly with the interference of the country's powerful military establishment. The resulting political instability has arguably impeded democratization in Pakistan, as well as weakened the development and consolidation of the country's democratic institutions.

Civil society in Pakistan is characterized by the existence of a diverse array of organizations and interest groups. These include NGOs; professional associations of lawyers, doctors and journalists; trade unions; industry groups representing commercial interests; religious organizations; and social movements that mobilize women, students, ethnic minorities and the country's working classes.

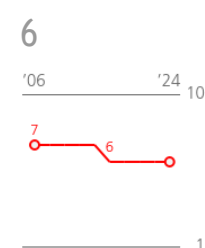
The power enjoyed by these different civil society associations varies. Economic elites benefit from their deep connections to the state, while religious groups have benefited from the state's historic reliance on Islam as a legitimating ideology. On the other hand, social movements that voice dissent or opposition to the state or entrenched interests, such as those of the military, are often met with repression and persecution. Investigative agencies such as the FIA and laws such as PECA are routinely used to harass and intimidate activists, while hundreds of individuals have gone "missing" in Pakistan over the past two decades.

While recent years have seen a decline in levels of religious conflict and terrorism in Pakistan, there has been a gradual resurgence of violent extremist organizations (e.g., the TTP, which has claimed responsibility for several high-profile attacks on law enforcement personnel in 2022 and 2023) during the period under review. This is arguably linked to the Taliban's return to power in Afghanistan, making it likely that Pakistan is to see a rise in levels of violence in the years ahead. According to the South Asia Terrorism Portal, there were 424 incidents of terrorism with 214 civilian deaths in 2021 and 630 such incidents in 2022 with 229 civilian deaths.

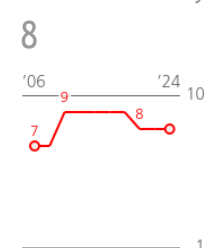
Political polarization has increased significantly as well, with supporters of the PTI and the PML-N engaging in confrontations on social media, television and occasionally even in public.

Religious minorities continue to face considerable violence and persecution in Pakistan. For example, Shi'ite Muslims have been targeted by sectarian Islamist groups aligned with the country's Sunni majority. The issue of blasphemy remains an emotive topic in Pakistan and has been used by groups such as the TLP to incite violence against the government, and the country's Ahmadi, Christian and Hindu communities.

Civil society traditions



Conflict intensity



Pakistan experiences considerable ethnic strife. Historically, ethnic Baloch, Sindhis and Pashtuns have protested the alleged economic and political dominance of Punjabis, who control the state apparatus. This has resulted in the emergence of ethno-national movements and insurgencies of varying intensity. At present, movements such as the PTM continue to engage in non-violent opposition to the state in KP and the former tribal areas, and militants associated with the Baloch Liberation Army and other groups continue their long-running violent insurgency in Balochistan.

II. Governance Performance

14 | Steering Capability

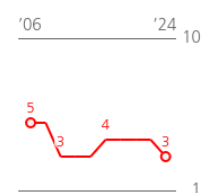
The circumstances that led to the ouster of the PTI government in April 2022 provide an interesting insight into some of the reasons why governments in Pakistan struggle to define and pursue long-term strategic priorities. Analyses of why the military establishment may have chosen to move against the PTI have tended to focus on the increasingly divergent interests of the two erstwhile partners. While the PTI, headed by Imran Khan, sought to chart a foreign policy that uncoupled Pakistan from reliance on the United States, the military reportedly wished to maintain that relationship. This may have been attributable to its reliance on U.S. hardware. The PTI also sought to exercise greater control over appointments within the military and other aspects of domestic policy over which the military wielded considerable influence, including holding politicians accountable for corruption.

The dissolution of the PTI government, and its replacement by the PDM, highlights how strategic decision-making in Pakistan is often hampered by competing institutional interests. The military establishment's attempts to maintain its dominant position within Pakistan have historically led to the weakening of the democratic process; the events of 2022 are arguably a part of this pattern. The ouster of the PTI government also derailed its attempts to pursue strategic objectives, such as holding public officials accountable for corruption, which it subsequently claimed had been thwarted by military opposition to these plans. Both the PTI and PDM resorted to populist economic measures, such as subsidizing the cost of petrol, in the interests of short-term electoral gain, despite the damage such measures did to the country's broader economic stability. Indeed, the PTI and PDM both fell afoul of the IMF as a result of these decisions, resulting in the suspension of funds that were to be disbursed to Pakistan as part of an aid package negotiated in 2019.

Question
Score

Prioritization

3



At present, amidst considerable political and economic turmoil, there is little evidence to suggest that the government is in a position to outline a coherent set of strategic objectives for Pakistan. Amidst the PDM government's so-far inconclusive attempts to stabilize the economy, as well as enduring uncertainty over when elections that could empower a new government with a fresh mandate will be held, there seems to be limited capacity to organize and prioritize policies moving forward. When it comes to policy implementation, the PTI government and the PDM government that has succeeded it have both been constrained by many of the impediments that have hampered previous regimes. Traditional political elites, drawn from the landowning and industrial classes, wield tremendous influence in parliament and act as veto players to reform in areas such as taxation, even as they use their influence to gain preferential access to economic opportunities. Furthermore, both governments have been unable to engage in any meaningful bureaucratic reform. While the PTI did convene a committee to chart a path forward for the process, its recommendations were ignored, and the bureaucracy remains hampered by a lack of capacity, nepotism and widespread corruption.

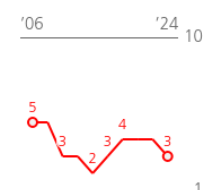
The government's limited capacity to implement policy has impacted Pakistan's economic performance since 2022. While the country was able to emerge from COVID-19 relatively unscathed compared to other countries around the world, electoral imperatives led the PTI government to abandon fiscal discipline in 2021/2022 and provide costly subsidies to the electorate, such as for fuel. These measures were continued by the PDM government, resulting in the suspension of an IMF aid program negotiated in 2019 and the worsening of the balance-of-payments crisis exacerbated by rising global fuel prices. In the absence of any meaningful attempts to reform the Pakistani economy, such as taxing the country's elite or investing in innovation, both the PTI and PDM governments have simply repeated the economic mistakes of their predecessors, relying on external financing to fuel unsustainable consumption-led growth at home.

While the PTI was partly successful in expanding welfare provision, these gains have been imperiled by Pakistan's broader fiscal challenges. While the reform efforts of the PDM government have arguably been motivated by a desire to fight for the party's political survival, there is abundant evidence to suggest that, as in the past, political instability has little impact on the continued power and influence wielded by traditional elites. Market manipulation by powerful actors in the sugar, cement, pharmaceutical and poultry industries continues unabated, and the PDM government, like the PTI before it, continues to provide incentives and support to elite interests engaged in real estate speculation.

Political polarization acts as an impediment to policy implementation. In addition to the tensions that have historically existed between provincial and federal governments controlled by rival parties, the animosity between the PTI, PML-N and PPP means that these parties have been unwilling to work together in parliament, and continue to attack each other through the courts, accountability institutions and in the media.

Implementation

3



In recent years, successive governments have been able to harness the advice of experts, academics and consultants from donor institutions to develop innovative welfare programs in Pakistan. The PTI had some success in expanding BISP during its tenure and, building on ideas that had been circulating since 2006, pioneered the Sehat Sahulat health insurance program. The PTI government also developed a platform for facilitating digital payments in Pakistan and worked toward improving the ease of doing business in the country.

However, outside of these areas of innovation, little improvement has been made to develop and introduce new ideas in other areas of governance. Much of the country's politics and policymaking continue to be oriented toward the logic of clientelist service provision overseen by traditional political elites who have emerged from the propertied classes. The structure of the bureaucracy is relatively archaic and inefficient, limiting the government's ability to engage in flexible thinking and policy learning.

15 | Resource Efficiency

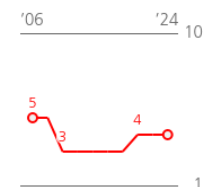
In its budget for 2022/23, the government allocated 28.5% of total expenditure to the military, civil administration (including salaries for government employees) and pensions (including military pensions). A further 12.2% of the federal budget was transferred to the provinces, out of which a significant percentage is generally spent on running the provincial administrations. Of the remainder, 41.2% was allocated to servicing debt, while investment in public infrastructure and development received 7.5%. Pakistan runs persistent fiscal deficits every year and remains reliant on external financing to meet its expenditure targets. According to World Bank data for 2021, Pakistan held \$130.43 billion in external debt stocks.

Given relatively high levels of corruption, as well as bloat due to the use of public employment to provide state patronage, a considerable amount of government expenditure on administration is wasted or poorly utilized. The military budget, for example, is never debated or subject to parliamentary scrutiny, and a considerable portion of it is used to fund perks and privileges for personnel in the armed forces. A further 6.9% of the federal budget has been allocated for subsidies, many of which are granted for political rather than economic reasons. In general, politically motivated appointments in the public sector continue to take place, such as in the judiciary or police, despite pledges by the PTI government to end this practice.

Other than the military budget, which remains impervious to scrutiny, the budgetary process is relatively transparent in that the budgets are presented for parliamentary debate. More often than not, however, the government's ability to set economic priorities is constrained by its commitments to donors such as the IMF. In February 2023, a supplementary finance bill was rushed through parliament with little to no debate, simply because its passage was a prerequisite for unlocking additional IMF funding.

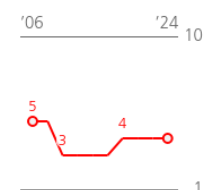
Policy learning

4



Efficient use of assets

4



Policymaking in Pakistan is shaped by the often contradictory imperatives of the different actors that exert influence on the political system. When formulating and implementing policies, the state has to mediate between the objectives of the potentially divided federal and provincial governments, the military establishment, entrenched industrial and landed elites with close connections to the corridors of power, local politicians whose influence is dependent on their ability to act as conduits to state patronage, public sector employees who remain an important political constituency, and associations of traders and professionals who can mobilize to pursue their interests. Mechanisms through which these competing interests can be aggregated and mediated are largely absent in Pakistan, and – wherever they do exist – they are often limited in their functionality. Instead, policymaking tends to be relatively fragmented and ad hoc, reflecting the needs and interests of those who happen to be in power, and often relies heavily on the continued presence and interest of senior leaders and officials.

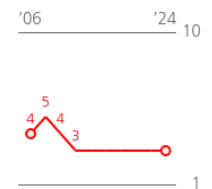
Institutions such as the Council of Common Interests and the Ministry of Inter-Provincial Coordination exist to help formulate policies through consultation with Pakistan's federated units. Increasingly, however, these forums have been eschewed in favor of centralized, unilateral decision-making by the federal government. Bodies such as the Planning Commission and the Economic Coordination Committee function as extensions of the executive rather than as a means through which to coordinate policies involving different actors.

Pakistan's main anti-corruption watchdog is the National Accountability Bureau (NAB), which was set up in 1999 through an ordinance passed by the dictator General Musharraf. Operating in tandem with accountability courts headed by High Court judges, the NAB has a mandate that covers the investigation of corruption by government officials and financial misconduct involving private firms and individuals. Over the years, it has been accused of pursuing a partisan political agenda, targeting opposition politicians and persecuting individuals by involving them in long-drawn-out investigations of alleged wrongdoing.

During its time in office, the PTI government, which had campaigned on an anti-corruption platform, prosecuted opposition politicians such as Nawaz Sharif and Shahbaz Sharif, incarcerating them and many of their allies as it tasked the NAB with investigating corruption allegations. Ultimately, none of these cases were ever proven in court and many were dropped after the PTI was removed from power, giving credence to the idea that the NAB remains little more than a tool through which governments engage in the persecution of their opponents. Similar to the PTI, the PDM has made use of the NAB and other investigation agencies to initiate proceedings against former Prime Minister Imran Khan, his wife and political leaders such as former Punjab Chief Minister Usman Buzdar since coming to power. The PDM government has amended the National Accountability Ordinance, curtailing the NAB's ability to investigate cases involving financial misconduct amounting to more

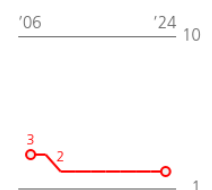
Policy coordination

3



Anti-corruption policy

2



than PKR 500 million. The PDM government has limited the NAB's powers to surveil those suspected of corruption without their knowledge. While these changes have been justified by claims to reduce the NAB's abuse to settle political scores, critics of the changes argue that the PDM government has greatly reduced the NAB's ability to investigate pending cases of corruption.

More generally, the workings of the state and its officials remain opaque and lack transparency, especially with weak enforcement of existing right to information laws. Matters such as public procurement are shaped by rent-seeking and nepotism, with no formal mechanism that enables public scrutiny of the process through which contracts are awarded. Spending by the state is generally subject to very little oversight. This is particularly the case for projects involving the military, although the PTI's recent criticisms of the military's involvement in politics have opened up the possibility of military personnel being held accountable for their actions.

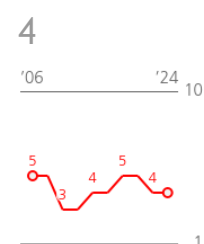
Legislators in Pakistan are expected to formally declare their assets before contesting in elections. While this is generally complied with, declarations tend to be fraudulent and misleading, and there is a lack of enforcement and investigation of legislators and public officials who are suspected of possessing undeclared assets and income.

There are also no formal limits on campaign financing in Pakistan. Consequently, electoral candidates tend to finance their own campaigns with no public disclosure or audit of their spending.

16 | Consensus-Building

The period under review has been marked by increasing political polarization in Pakistan, exacerbated by the ouster of the PTI government in April 2022. Given that the PTI had continually targeted its political opponents as being irredeemably corrupt, it refused to work with them in parliament, preferring to govern with executive ordinances while implicating rivals in corruption cases. This pattern has continued since April 2022. Upon being removed from power, the PTI chose to boycott the parliament and has taken to the streets to protest against the PDM government. In doing so, it questioned the neutrality of institutions such as the ECP, repeatedly criticized the military establishment for its interference in politics and has refused to cooperate with the government in any meaningful way until its demand for fresh elections has been met. In turn, the PDM government has leaned on the military establishment to ensure its political survival while simultaneously engaging in the persecution of the PTI. More broadly, repeated episodes of military intervention in politics, the lackluster performance of democratic governments and popular narratives of political corruption, which are often reinforced by the military and its allies, have all contributed to the cultivation of ambivalent popular attitudes toward democracy. For many citizens, the clientelist nature of service delivery often means that electoral politics is about little more than entering into bargains with potential

Consensus on goals



patrons, while ideology and programmatic politics play a limited role in voter mobilization. There is some evidence that repeated rounds of electoral competition have induced parties in KP and Punjab to take the concerns of voters more seriously and follow through with campaign promises that are subjected to more scrutiny than before. However, it is yet to be seen if this translates into more substantive democratic debates and practices.

All of Pakistan's major parties agree in principle on the need for a market economy, although their commitment to free markets is tempered by their acceptance of the historical role the state has played in the Pakistani economy. Attempts to privatize inefficient and unprofitable state-owned enterprises continue to flounder in the face of political pressure exerted by public sector employees. Furthermore, powerful interest groups continue to use their state connections to secure rents for themselves through subsidies, government contracts and preferential policies. Elite capture of the economy and its regulatory mechanisms can be seen in how subsidies and other privileges (e.g., tax breaks) flowing to the propertied elite consume \$17.4 billion every year, according to the UNDP. The military is a powerful economic actor in Pakistan with a wide scope of commercial interests in areas including construction, real estate and agriculture, often using its political muscle to distort the market in its favor.

Pakistan has had three instances of direct military rule since becoming independent in 1947, with the latest such episode ending in 2008. Even during periods of democratic rule, however, the military exercises tremendous power from behind the scenes, with Pakistan being classified as a “hybrid” regime by the Economist Intelligence Unit's Democracy Index. The ouster of the PTI government in April 2022, while engineered through a vote of no confidence in the parliament, was arguably made possible by the military establishment's withdrawal of support for the party. Since then, the PTI has been openly critical of the military, accusing former army chief General Qamar Bajwa of conspiring with the United States and local opposition parties to topple the PTI government.

While the PTI's attacks on the military have opened the possibility of a wider debate on the role the military has historically played in undermining democracy, there is little evidence to suggest this is likely to happen in the near future. A new military leadership, headed by General Asim Munir, has remained relatively insulated from criticism and appears to be working with the PDM government to pursue its political and economic goals.

Historically, there have been periods in which the power of the military establishment has been challenged, such as when military dictators were ousted in 1968, 1988 and 2007. In these instances, social movements involving student unions, workers and leftist political parties played a key role in mobilizing support for democratic reform. However, while actors such as these remain committed to democracy in the contemporary era, with organizations such as the Haqooq-e-Khalq Movement, the Democratic Students Committee and the Women's Action Forum continuing to oppose authoritarianism, their ability to influence politics remains relatively limited.

Anti-democratic actors

3

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In 2022, the Global Terrorism Index ranked Pakistan the 10th most affected country by terrorism, a slight improvement over its position in 2020 when it ranked 7th. Nonetheless, there has been a gradual uptick in terrorist violence in the period under review, as the resurgent Taliban government in Afghanistan has arguably facilitated the conditions for militant groups (e.g., the TTP) to reorganize in Pakistan's northwest. According to the South Asia Terrorism Portal, there were 424 incidents of terrorism with 214 civilian deaths in 2021 and 630 such incidents in 2022 with 229 civilian deaths.

The prospect of renewed terrorist violence in Pakistan, reminiscent of the period between 2008 and 2018, has reignited debates over the role played by the military establishment and the PTI in facilitating the return of groups such as the TTP. The military establishment has long supported the prospect of a Taliban government in Afghanistan, with the former head of the ISI, General Faiz Hameed, being one of the first foreign dignitaries to visit the new government after their takeover. At the same time, former Prime Minister Imran Khan has often been accused of being sympathetic to the Taliban, claiming they “broke the shackles of slavery” by defeating the United States and expressing support for resettling former TTP militants in parts of Pakistan's former tribal areas.

The removal of the PTI government has further entrenched political cleavages, limiting the ability and willingness of political actors to build consensus across party lines.

Ethnic identity remains a salient cleavage within Pakistan and has been a source of considerable conflict throughout Pakistan's history. In KP, the PTM continues to rally support for a non-violent movement that seeks to hold the state accountable for the deaths and disappearances that have accompanied anti-terror operations in the former tribal areas. In Balochistan, groups such as the BLA continue to wage an armed campaign against the state in response to allegations of deprivation and marginalization. For their part, the government and military establishment have done little to defuse these tensions, preferring instead to repress the supporters of these movements, to arrest and persecute their activists, and to accuse them of being supported by foreign actors working against Pakistan's national interests.

The ability of civil society actors to influence the government and political leadership varies, depending on the nature of the organizations involved. Those representing economic elites, such as associations of industrialists and traders, and those working with international donor organizations, are closely connected to policymaking and have been able to influence the government regarding questions on a potential taxation reform and the provision of subsidies. Similarly, the state's historical reliance on Islam as a legitimating ideology and source of identity has allowed Islamist parties and organizations to play an agenda-setting role, impeding reform in areas such as women's rights and inducing the government to abstain from action aimed at reducing levels of discrimination and violence against religious minorities.

Cleavage /
conflict
management

3

'06 '24 10



Public
consultation

3

'06 '24 10



Professional associations of lawyers and doctors do not have as much influence on policymaking but have been able to use their organizational power to hold strikes, mobilize protests and wrest some concessions from the government.

As in the past, the period under review has witnessed the continued persecution and repression of activists and movements critical of the government and military establishment. While Pakistan has an often-combative media landscape, recent years have seen successive governments attempt to impose formal and informal curbs on the media by harassing journalists, making use of the PTA to discipline media outlets, and employing social media to disseminate propaganda and stifle dissent online. Both the PTI and PDM governments have engaged in these repressive measures, with the mysterious murder of journalist Arshad Sharif in Kenya in October 2022 being the most recent high-profile example of the dangers inherent to journalism in Pakistan.

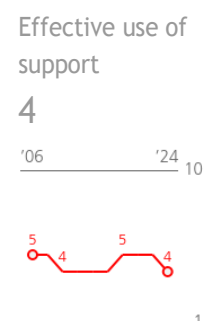
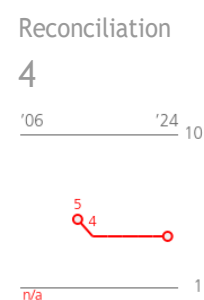
Pakistan's political leadership remains inimical to the idea of fostering reconciliation between the victims and perpetrators of past injustices. Discussions of the widespread atrocities committed by the Pakistani military during the secession of Bangladesh in 1971 remain absent from the public discourse, with a conference on this subject that was scheduled to be held at the Lahore University of Management Sciences in March 2021 canceled. The PDM frequently refers to the PTI's Imran Khan as "Imran Niazi" in an attempt to link him to General Niazi, who signed the documents of surrender in 1971. This suggests that historical reappraisal is not only absent in society but is also undermined by political actors.

Similarly, there is very little, if any, mention of the casualties of the military's campaigns against ethno-national movements in Balochistan in the 1970s and 2000s, Sindh in the 1980s, Karachi in the 1990s, and Khyber Pakhtunkhwa (KPK) in the 2010s.

17 | International Cooperation

Since securing independence in 1947, successive Pakistani governments have committed to developing Pakistan's economy through industrialization, while also providing welfare to its citizens. However, achieving these goals has proven to be difficult in practice. Pakistan remains reliant on large amounts of external assistance to fund its persistent fiscal deficits. It has turned to the IMF for bailouts on 23 separate occasions and is currently negotiating with the donor agency for the release of funds as part of a \$6.5 billion aid package agreed upon in 2019. In recent years, Pakistan has also received billions of U.S. dollars in bilateral aid from countries such as China, Saudi Arabia and the UAE.

IMF aid to Pakistan has always been associated with strict economic requirements, and conditions focused on liberalizing the economy and implementing broad fiscal reform. Historically, governments have struggled to meet these conditions, often due to the pervasive influence of elite interests that have resisted efforts to broaden



taxation, reduce rent-seeking and eliminate market distortions. Political considerations have also played a role. In the period under review, both the PTI and PDM governments chose to subsidize petrol, despite rising international prices, as part of misguided attempts to curry approval among the electorate. The absence of broader structural reform and the persistence of wide fiscal deficits have meant that successive governments inevitably end up returning to external donors without a sustainable, long-term development strategy.

The period under review has seen Pakistan experience a serious balance-of-payments crisis at a time when traditional bilateral lenders, such as China and the Gulf monarchies, have been reluctant to extend assistance to the country. This is partly a reflection of their own economic constraints but also a result of Pakistan's arguably muddled attempts to balance its relationship with geopolitical rivals such as China and the United States.

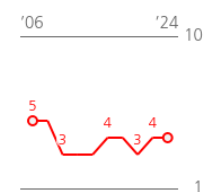
Pakistan's international reputation and credibility are still damaged but have improved in recent years. In the period under review, Pakistan was eventually removed from the FATF's grey list in October 2022 after a decade of scrutiny related to Pakistan's lax approach to regulating money-laundering and terror financing. While the FATF continues to monitor the situation in Pakistan, the country's removal from the watchlist is a positive development in terms of its international credibility.

While Pakistan is a signatory to numerous international treaties, it often lacks the domestic reforms necessary to comply with its international commitments. Nonetheless, there has been some small progress in a few areas. For example, the passage of the Torture and Custodial Death (Prevention and Punishment) Act in 2022 has finally brought Pakistan into compliance with its obligations under the Convention against Torture and Other Cruel, Inhuman, or Degrading Treatment or Punishment, which Pakistan signed in 2010.

In 2019, Pakistan's international credibility was damaged after the World Bank's Center for Settlement of Investment Disputes awarded the Tethyan Copper Company (TCC) \$6 billion in damages after the Pakistan government terminated a contract that had given it the right to extract copper from the Reko Diq copper mines. However, the TCC – the shares of which in Reko Diq are now owned by a Canadian company, Barrick Gold – managed to reach an out-of-court settlement with the Pakistani government in 2022 after renegotiating their contract. This negotiation was given legal cover by the Foreign Investment (Promotion and Protection) Bill of 2022, which was passed to protect foreign investors such as Barrick Gold from the kind of judicial scrutiny that led to the TCC's contract being canceled in the first place. While this raises questions about the transparency of foreign investments in Pakistan going forward, the years of negotiation that went into resolving the dispute, and the legal measures taken to prevent similar issues from arising in the future, will boost Pakistan's international credibility.

Credibility

4



Pakistan played a crucial role at COP27, in its role as president of the G-77, in negotiating for a loss and damage fund for countries at the frontline of climate change impacts. The commitment to lobbying for the fund came in the wake of devastating floods in 2022.

Perhaps more significantly, however, Pakistan reneged on commitments made to the IMF when both the PTI and PDM governments chose to subsidize the cost of petrol and artificially inflate the value of the rupee in 2022. While these decisions were driven by political and electoral considerations, they worsened Pakistan's balance-of-payments crisis and led to the IMF freezing the disbursement of aid to the government.

Pakistan's relations with India remain largely frozen, following India's 2019 incorporation of the disputed territory of Kashmir as a "union territory." Pakistan continues to highlight India's worsening human rights record at international forums and cross-border communication between the two countries, including cultural and sports exchanges, remains limited.

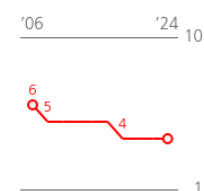
In 2021, the Taliban returned to power in Afghanistan following the withdrawal of the United States from the country. Pakistan, which had been accused of supporting the Taliban, quickly recognized the new regime and maintains close ties with it, providing it with aid and assistance, and advocating for it at international forums. The Taliban's return has also had implications for Pakistan's internal security. While Pakistan's military establishment has long viewed the Taliban as a source of strategic support against rivals such as India, the ideological affinity the Taliban have for groups such as the TTP has helped the latter to regroup and mount attacks in Pakistan. This remains an ongoing point of contention between Pakistan and Afghanistan.

Pakistan continues to maintain close ties with China, relying on it for economic, military and diplomatic assistance. Pakistan is still working with China on the China-Pakistan Economic Corridor. However, concerns over project costs and the terms of financing have led to a slowdown in the pace at which it is now being undertaken.

Pakistan remains a member of regional and international organizations, including the South Asian Association for Regional Cooperation (SAARC) and the Organization of the Islamic Conference (OIC). However, its participation in these forums has been shaped in recent years by the conflict with India.

Regional cooperation

4



Strategic Outlook

At the start of 2023, Pakistan faces a number of difficult challenges. The government has begun implementing measures to comply with the conditions attached to the desperately needed International Monetary Fund (IMF) bailout. However, these policies are likely to have a rapid and significant impact on a population already reeling from the effects of record flooding, COVID-19 and political instability. Double-digit inflation, which reached 34% in January 2023, was an inevitable consequence of the rapid devaluation of the rupee. Furthermore, additional measures aimed at increasing revenue – such as a 1% increase in the general sales tax, and the imposition of punitive taxes on a range of goods and services – will likely lead to a difficult period of adjustment for the vast majority of Pakistanis living in poverty or close to it.

At the same time, there is little evidence to suggest that either the Pakistan Democratic Movement (PDM) or the Pakistan Tehreek-e-Insaf (PTI) have developed meaningful plans for structurally reforming the economy, despite IMF demands. Politically connected economic elites and institutions, such as the military, which have their own commercial interests, continue to influence policymaking. Thus, regardless of which government emerges from the 2023 elections, the cycle of economic crisis that has characterized much of Pakistan's history is likely to be repeated.

Political polarization in Pakistan is likely to worsen in 2023 as the antagonism between the PTI and the PDM deepens. It could be argued that free and fair elections represent the best mechanism through which to bring some stability to the country's politics. While elections are formally scheduled for August 2023, questions remain over the extent to which the integrity of the electoral process can be ensured and whether they will even be held in a timely manner. Matters are further complicated by the PTI's decision to directly name and confront the military establishment for its involvement in politics. Although this is a necessary step toward deepening democratization in Pakistan, it risks provoking an even greater military pushback that would ultimately undermine the democratic process. This risk is especially prominent given that factions within both the PDM and PTI remain willing to work with the military establishment to secure their political interests.

Finally, even as the country grapples with the need to provide welfare and economic opportunities to a young population marked by poverty, and divided along ethnic and religious lines, Pakistan will have to contend with the mounting challenges posed by climate change and environmental degradation. In particular, the country will have to devise strategies for dealing with the looming threat of water scarcity, toxic levels of air pollution and the effects of climate change-induced natural disasters, such as flooding. While these issues have not appeared to be a significant priority for successive governments, they will ultimately require Pakistan to work with its neighbors to address shared concerns over water and air quality. Pakistan will have to build on the initial steps taken at COP27 to lobby for climate reparations, working to acquire and effectively use aid from the Global North to mitigate the effects of climate change.