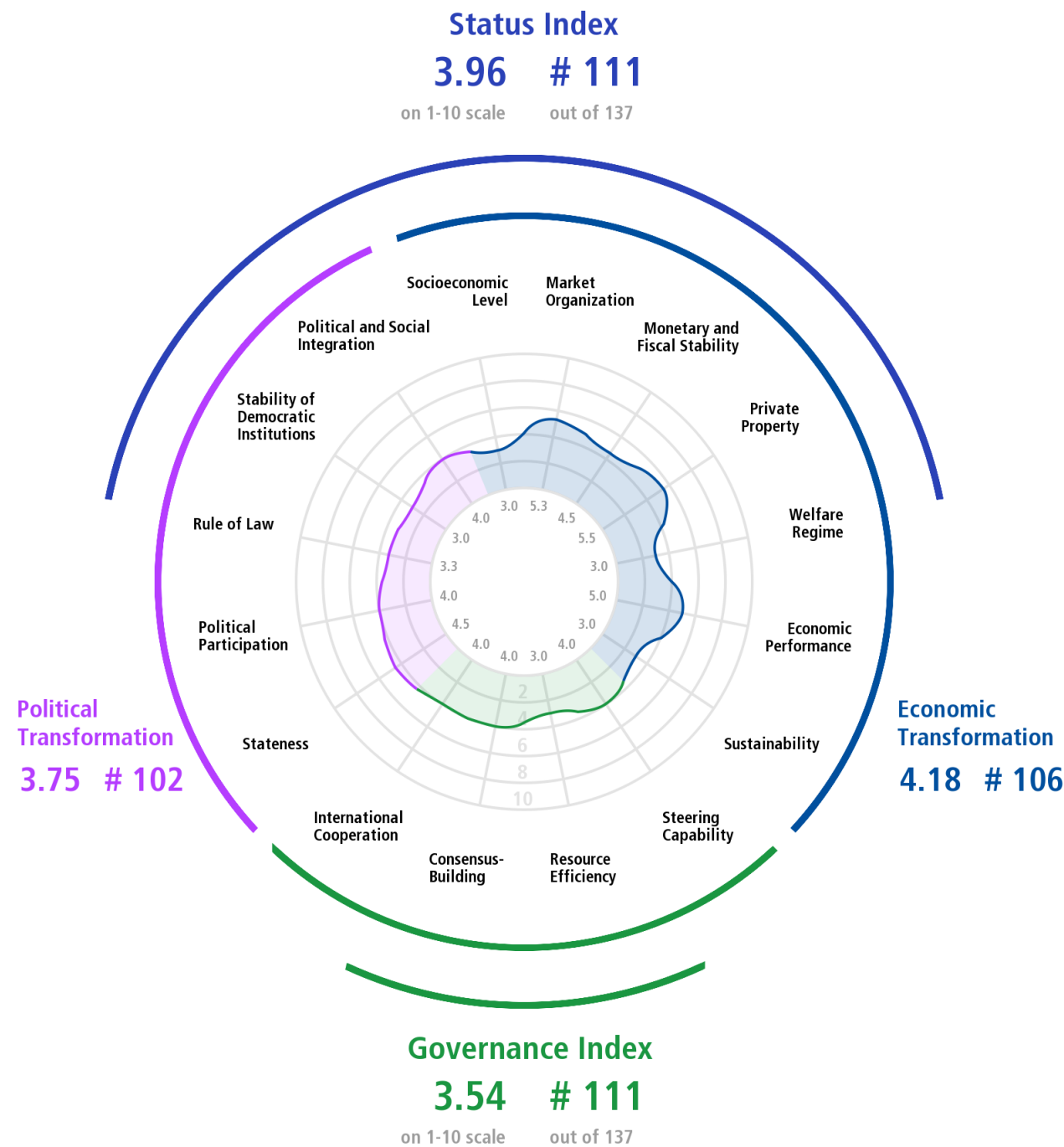


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Pakistan



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Key Indicators

Population	M	212.2	HDI	0.560	GDP p.c., PPP \$	5544
Pop. growth ¹	% p.a.	2.1	HDI rank of 189	152	Gini Index	33.5
Life expectancy	years	66.9	UN Education Index	0.407	Poverty ³	% 34.7
Urban population	%	36.7	Gender inequality ²	0.547	Aid per capita \$	11.0

Sources (as of December 2019): The World Bank, World Development Indicators 2019 | UNDP, Human Development Report 2019. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

Executive Summary

The most important event in Pakistan during the period under review was the 2018 general election. This was the third general election in a row in which rival civilian individuals and parties contested each other at the ballot box for seats in the legislatures and the chance to form a government. Moreover, it was the second consecutive transfer of power from one elected civilian government to another. The 2018 general election saw Imran Khan's populist-leaning party, the Pakistan Tehreek-e-Insaf, become the largest national party in terms of popular votes as well as seats in the National Assembly, and marked the second consecutive democratic transfer of power. However, the military establishment retains enormous influence and is the country's most powerful political actor, dominating security policy and foreign relations and engaging in interventions that put significant pressure on civilian authorities. The election process featured the deployment of a massive number of security personnel and was mostly peaceful – no small feat in a populous country threatened by ethnic and sectarian militancy and foreign intrigue. However, opposition figures and the Pakistan Institute of Legislative Development and Transparency regarded the election as unfair in important ways. There was pressure from the establishment on some candidates; the incumbent prime minister was charged with corruption and disqualified by the Supreme Court in 2017, and was ultimately forced to resign and jailed two weeks before the polls; and thousands of other members of his party were accused of corruption. In addition to the pre-poll rigging, there is evidence of post-poll rigging as well, with party workers excluded from the count at polling stations.

The newly formed Pakistan Tehreek-e-Insaf (PTI) government's agenda focuses on anti-corruption, poverty alleviation and reducing tax evasion, particularly among the wealthy. However, the party has nevertheless recruited long-serving politicians and has obtained expressions of support from the military establishment. On a positive note, the period under review saw Pakistan solidify its position as a regional leader in the inclusion of transgender persons, as a law barring discrimination was passed in 2018 and several transgender persons ran for elected office. In the period under review, the National Action Plan was successful in reducing the number

of terrorist attacks in the country, but the parallel system of military courts (which expired in 2016, was renewed in 2017 until January of 2019, and may be renewed again) continues to be criticized on human-rights grounds.

During the period under review, Pakistan showed improvement in some of the World Bank's Doing Business indices. Several major state-owned enterprises (SOEs) that were slated for privatization were exempted from the process. Pakistan's low cash reserves led it to seek significant financing from Saudi Arabia, the United Arab Emirates and China – the latter tied to the \$60 billion China-Pakistan Economic Corridor (CPEC) that has promised to turn the port of Gwadar in Balochistan into a significant regional commercial transit point (although the CPEC is of longer-standing duration). Although the new government formed by national cricket star and anti-corruption populist Imran Khan's Pakistan Tehreek-e-Insaf (Pakistan Justice Movement) party had promised to end the "begging-bowl culture," it is likely that Pakistan will pursue another IMF bailout, and as of the time of writing, had indeed appeared to have commenced initial conversations in this direction.

History and Characteristics of Transformation

Since Pakistan came into existence in 1947, its political history has been shaped by the conflict between democratic forces and the military over the nature of political system; the conflict between and among different ethnic groups over the issues of provincial autonomy; and the conflict between religious groups and the secular elite over the role of religion in state and society.

Until 1971, state-consolidation efforts suffered from policy contradictions since the Bengalis, who formed the majority of Pakistan's population, were socioeconomically, electorally and culturally discriminated against. Moreover, working in a strategic relationship with the military, the civil bureaucracy exerted significant independent power after the assassination of the prime minister in October 1951. In the context of the Cold War security alliances with the United States, Pakistan's non-elective institutions transformed the country into a security state that viewed India as a Hindu-majority enemy. This strategic vision was instrumentalized by the military when it directly intervened in politics in October 1958. In December 1971, following a brutal civil war followed by Indian intervention, Eastern Pakistan emerged as the sovereign nation of Bangladesh.

After 1971, Zulfikar Ali Bhutto, whose People's Party had won the majority of seats in West Pakistan in the 1970 elections, attempted to transform the country. For instance, under his guidance, principles of economic nationalization were realized at the cost of private property rights. In addition, the prime minister attempted to bring the military under civilian control. This backfired following the 1977 election, when the military led by General Muhammad Zia-ul-Haq declared martial law and later hanged Bhutto. Zia pursued a policy of Islamization at the state level, and Bhutto's nationalization project was reversed. Although the general died in an air crash in 1988, his policies were continued through the 1990s. Between 1988 and 1999, four elected governments were arbitrarily dismissed by presidents who had strategically allied with the

military. The military under General Musharraf ruled Pakistan until 2008. However, Pakistan's political and economic problems were aggravated due to the short-term nature and scope of these policies. In 2008, the country returned to electoral politics and civilian prime ministers. The sequence in which an elected civilian government completed a full term in office before peacefully transferring power to another elected government in 2018 could be said to be a step forward in the democratic transformation. However, a number of institutional weaknesses with regard to national politics, the economy and the state continue to undermine Pakistan's ability to effect substantial change.

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

Pakistan's state monopoly on the use of force is contested by terrorist organizations, armed sectarian outfits, nationalist insurgents, armed drug traffickers and extortionists. Such organizations and outfits normally operate from the Federally Administered Tribal Areas (FATA), which include South and North Waziristan. During the period under review, a legal process to incorporate the FATA into the Khyber Pakhtunkhwa province was begun. Violent non-state actors also appear to have recruitment and training centers in major cities such as Lahore, Karachi, Quetta and Peshawar.

The incidence of terrorist attacks and related fatalities continued to decline during the review period as a consequence of the crackdown on banned violent organizations under the National Action Plan (initiated in 2015). According to the Pakistan Institute of Peace Studies, the number of terrorist incidents in Pakistan decreased by 29% in 2018 as compared to 2017, while the total in 2017 represented a decrease of 16% compared to 2016, even though lethal large-scale terrorist violence has clearly not been eliminated altogether. In November 2018, for example, armed Balochi separatists attacked the Chinese consulate in Karachi. On the same day, a suicide bomber killed 25 people at a crowded market in Orakzai in northwestern Pakistan.

The notion of state identity is contested and vague in Pakistan, particularly around the implications of Islamic orientation for constitutional arrangements and governance. The 1973 constitution declares Pakistan to be an Islamic republic. It states that laws should be in accordance with Shariah law. This has enabled pro-Islam political parties such as Jamaat-e-Islami to question the state's reliance on Western model of parliamentary democracy, and to legitimize their own existence in an extremely polarized society. The identity-driven discourse intensified following 9/11. Pro-religion political parties and Islamist militant organizations such as Tehrik-i-Taliban Pakistan have resorted to coercive means to compel society and the state to follow their rigid interpretation of Islam both in letter and spirit. In addition, separatist forces in Baluchistan and Sindh have launched left-oriented political movements to ensure their cultural and political identity.

Question
Score

Monopoly on the
use of force

5

'06 '20 10



1

State identity

5

'06 '20 10



1

The 1973 constitution declares Pakistan an Islamic republic. It states that the laws in Pakistan should be in accordance with the Shariah. However, Shariah law in fact has little influence on lawmaking in Pakistan. Most of the laws follow the British model and the conventional practices in the subcontinent. The areas where the Shariah has heavily influenced the judicial practices in Pakistan include blasphemy laws (which prohibit blasphemy against any recognized religion) and the Hudood Ordinances. While Muslims have been charged with blasphemy for injuring the sentiments of followers of other religions, the mob violence associated with blasphemy charges tends to arise when the accusations are made against religious minorities such as Ahmadis and Christians. Although no one has been executed under the blasphemy law, accusations of such behavior have notoriously led to lynchings and riots, vigilante violence that has recurred despite condemnation by traditional religious authorities.

The government generally has a poor record of protecting religious minorities and religious freedom, particularly amid vigilante social mobilizations against vulnerable individuals accused of blasphemy (even when those individuals have been acquitted by courts). During the period under review, Asia Bibi, a Pakistani Christian woman, was accused of blasphemy after a petty dispute over the drinking water she obtained from a well. Amid massive protests, she sought to leave the country. She was acquitted of the charge, ultimately even by the Supreme Court. However, as of the time of writing, she had not yet been allowed to leave Pakistan. In another high-profile incident, Atif Mian, an Ahmadi (officially considered a non-Muslim minority) and an economic adviser to Prime Minister Imran Khan, stepped down under pressure from the religious right. In December 2018, a man serving a life term for blasphemy was released after the Supreme Court overturned his conviction.

The bureaucracy's service-delivery record is very poor. In 2015, 64% of Pakistanis had access to sanitation, according to the World Bank's Development Indicators; this was up from 62% in 2014 and has followed an upward yearly trend of one to two percentage points each year since 2005. The World Bank also indicates that 91% of Pakistanis had access to a water source in 2015, a percentage similar to that of past years. Despite efforts to decentralize the national administration, the government has made little effort to reform the district administration or to provide it with sufficient funds to upgrade health, education and other basic facilities. On the other hand, the 2017 census (the first since 1998) was a major step during the period under review. Compared to most United Nations member countries, which hold a census every 10 years, Pakistan did not hold a census between 1998 and 2016. The census can be politically contentious, potentially affecting revenue distribution and political representation of the various provinces and is a basic administrative prerequisite.

No interference of religious dogmas

3

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3

1

Basic administration

5

'06 '20 10

5

4

5

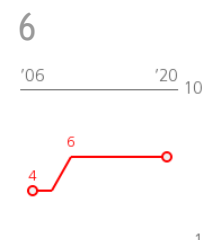
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2 | Political Participation

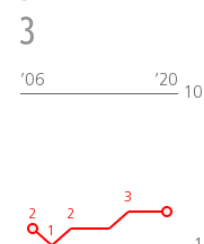
The 2018 general elections took place following ballots in 2008 and 2013, and were significant, as they were the occasion of the second consecutive democratic transfer of power in Pakistan's history. According to the Free and Fair Elections Network, election day itself was mostly peaceful, overseen by as many as 811,491 personnel deputed to serve in various functions, and by as many as 371,000 armed forces personnel at 85,317 polling stations with a total of 242,088 polling booths, established within 272 National Assembly and 577 Provincial Assembly constituencies. The only major violent incidents were an explosion outside a polling place in Quetta that killed 31 people, and a clash between rival groups in Swabi that killed one political-party worker. Voter turnout was 53.3% within the National Assembly constituencies as a whole; it was highest in Punjab (59%) and lowest in Balochistan (39.6%). The October 2017 Election Law, the first major electoral reform since 1970, had implemented changes intended to improve the credibility of electoral processes. According to Democracy Reporting International, while the law attracted controversy and opposition, including legal efforts to block it, the law gave the Election Commission of Pakistan greater financial autonomy, better defined the scope of caretaker governments, included elements designed to improve women's participation rates, and provided for a citizen complaints process. According to the Pakistan Institute of Legislative Development and Transparency's report on the 2018 general election, the polling processes showed marked improvement compared to the 2013 general election. However, in comparison to the 2013 election, there were decreases in the scores given to the pre-polling and post-poll phases, with an overall decline from 57% in 2013 to 52% in 2018, reflecting pressure put on voters and candidates by the security forces and intensified post-poll rigging.

The military is still widely regarded as the country's key arbiter of defense, security and foreign policy, despite the civilian supremacy asserted by the formal constitutional documents. One of the major institutional mechanisms intended to coordinate relations between civilians and the military has been the National Security Council, founded in 2013. The National Security Council (NSC) is described in its own regulations as "the principal decision-making body on national security," a function that potentially encroaches on the powers of the Federal Cabinet, and further has only an executive order backing it, rather than legislation. Even under these conditions, the National Security Council has had relatively few formal meetings, while ad hoc and less formal contact between members of the civilian and military leadership ranks have been more frequent, suggesting that the institutional mechanism has been sidelined or has not been fully utilized. In 2018, after the Financial Action Task Force placed Pakistan on a "gray list" for its lack of control of money laundering and terrorist financing, the NSC met and resolved to recalibrate its foreign policy by implementing a greater regional focus (presumably to ensure alternative external financing if existing sources were curtailed). The period under

Free and fair elections



Effective power to govern

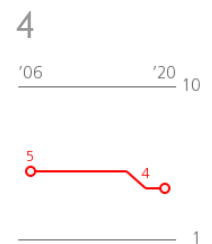


review saw some muted efforts to institutionalize civil-military relations through the Cabinet Committee on National Security and other standing committees. Prime Minister Imran Khan's incoming government, alleged by the opposition to have benefited from military support in the pre-election period, has not taken an assertive position on effective civilian supremacy.

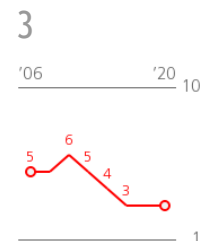
The 1973 constitution grants association rights to individuals, subject to the restrictions imposed by law in the interest of the integrity of the state and its territories. In most parts of Pakistan, the freedoms of association and assembly are upheld to a reasonable degree. However, gatherings of the PTM, a Pashtun nationalist movement, have been banned or disrupted, and several of its leaders have been taken into custody. While Pakistan has a large number of vital civic associations, the government has demonstrated an increasingly heavy-handed attitude toward NGOs, particularly those with international connections. For example, in November 2017, Pakistan's Ministry of Interior informed about 30 INGOs that their registration had been rejected. The Pakistani Humanitarian Forum said the work of these INGOs benefits 34 million people. Eighteen of these INGOs were ordered closed in October 2018, while the appeals of the other INGOs remained in process as of the time of writing.

Article 19 of the 1973 constitution grants freedom of speech and expression to every citizen of Pakistan. Electronic media and new means of wireless communication have given civil society organizations an increasingly stronger voice, although a new cybercrimes law might result in more restrictions. The blasphemy laws bar Ahmadis from using Islamic terminology and symbols and preaching their faith. Blasphemy laws are used as a pretext to persecute religious minorities, particularly Christians and Ahmadis. According to an Amnesty International Report, the blasphemy laws and their implementation violate Pakistan's obligation to respect and protect the right to freedom of opinion and expression, as set out in Article 19 of the International Covenant on Civil and Political Rights. Reporters Without Borders ranked Pakistan at 147 out of 180 countries on the issue of press freedom in 2016, the lowest rank in South Asia. In 2017 and 2018, this rank was raised to 139 out of 180 countries, just below India's rank of 138th. However, this does not reflect a more liberal situation for journalists; if anything, the situation has worsened. In 2015, the Pakistan Electronic Media Regulatory Authority (PEMRA) established a guiding code of conduct identifying topics the media was restricted from addressing during its live coverage, such as security operations, hostage standoffs, terrorist attacks and hate speech on religious issues. The 2016 Cybercrime Bill (Prevention of Electronic Crimes Act, 2016) will have potentially far-reaching impact with regard to restricting online communications, with critics arguing that its vague wording allows prosecution for moralistic rather than security reasons. In March 2017, Prime Minister Nawaz Sharif described blasphemy as an unpardonable offense, and a blogger critical of Islam was detained under blasphemy charges. The abduction of five bloggers early in 2017 raises additional fears that those expressing themselves

Association / assembly rights



Freedom of expression



online will be subject to intimidation. Four of these bloggers returned home in late January 2017, amid Human Rights Watch concerns of government involvement, met with official denials. Heavy-handed tactics by state and non-state actors such as militants can pressure media organizations to engage in self-censorship. In the lead-up to the 2018 general election, there was a crackdown on the media. Geo Television, a major network, was taken off the air in April 2018, and Dawn (Pakistan's oldest English-language newspaper) saw its distribution disrupted in May 2018. Geo reportedly agreed to self-censor and abide by strict guidelines, and other media reduced their coverage of PML-N rallies. In some cases, journalists were also abducted, resulting in self-censorship by much of the media.

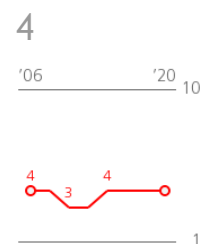
3 | Rule of Law

According to the constitution, political authority is divided between the legislature, the executive and the judiciary. However, in practice, this division is not strictly upheld in Pakistan. The judiciary has historically played an important role both in validating military regimes (for instance, in the decision accepting Ayub Khan's government in 1958) and in resisting the military establishment (most prominently in the resistance to the Pervez Musharraf regime in 2008). In the Pakistan Institute of Legislative Development and Authority's report on the 2018 general election, the four parameters receiving the lowest scores were the neutrality of caretaker governments, the independence of the judiciary, the neutrality of the security apparatus, and the presence of undue pressure on the formation of governments. Finally, the armed forces are still beyond the authority of either the government or the parliament.

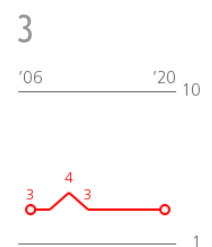
Pakistan's judiciary has historically played an important role both in validating military regimes and in resisting the military establishment. A number of incidents of judicial activism have taken recent prominence; for example, a court ordered the government in 2016 to enforce its own climate policy through the creation of a climate commission, and in 2018, the Supreme Court's chief justice led the effort to establish a donor fund for two proposed dam projects. In its assessment of the 2018 general election, the Pakistan Institute of Legislative Development and Authority assigned one of its four lowest scores to the parameter of an independent judiciary. In July of 2018, Justice Shaukat Aziz Siddiqui of the Islamabad High Court said that the military intelligence service was interfering with the judiciary and had pressured judges not to release convicted ex-Prime Minister Nawaz Sharif ahead of the vote. In addition, the justice said, the timing of the convictions of Sharif and his daughter, just 10 days before the election, was politically motivated.

The village Panchayat system continues to function as a parallel justice system in some areas of South Punjab, Sindh and Baluchistan. It continues to deliver informal justice, in some cases very harshly.

Separation of powers



Independent judiciary



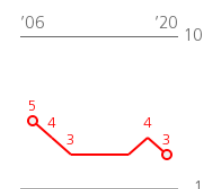
Extrajudicial killings in staged police “encounters” gained particular attention during the period under review. In January 2018, the Pashtun Tahafuz Movement protested the alleged extrajudicial killing of a Pashtun individual in Karachi. In January 2019, a family and their neighbor traveling in a car were killed by police; the official narrative of a counter-terrorist operation was publicly challenged by other witnesses. The continuing use of anti-terrorism courts (ATC), originally set up in the aftermath of the 2014 high-casualty attack on a military school in Peshawar, remains controversial. In December 2014, military courts were empowered by parliament through the 21st amendment to the constitution to try civilians from January 2015 to February 2017. The process of subjecting civilians to military trials has been criticized by the international community, but the government has argued that civilian courts would be too intimidated to try accused terrorists. The military-court activities are secret, speedy and convicts do not have the right of appeal. The Supreme Court dismissed a challenge to the constitutionality of the secret courts in 2015. Terrorism courts have in some cases apparently tried cases involving common criminals. The law establishing the secret military courts was allowed to expire in 2017, but the courts were renewed, then expired in January 2019, and were at the time of writing operating under a three-month extension pending a decision on their longer-term status.

The 2018 general election was a major event in the period under review. The balloting was particularly important as the second consecutive transfer of power through the medium of general elections. However, suspicion regarding the supposed neutrality of the powerful military remains. The present institutional setup has a hybrid form, with the military dominating in internal-security and foreign-policy decision-making. The National Security Council is ostensibly meant to function as a consultative body between the elected representatives and the military. Instead, most decisions appear to be made through ad hoc consultation between the Chief of Army Staff (COAS) and the prime minister.

The period under review saw mixed efforts to implement the devolution that had been pledged in the 1973 constitution. The 18th constitutional amendment of 2010 was an attempt to craft a balanced federal structure in Pakistan and gave more institutional power to the provinces. However, the provinces remain unable to shoulder the full responsibilities given to them under this amendment. In addition, key bodies officially responsible for coordination between the provinces and the center, such as the Council on Common Interests and the National Security Council, remain largely dormant. Internal security in the provinces has an overwhelmingly military component, particular with regard to anti-terrorism initiatives such as the National Action Plan and the Radd-ul-Fasaad (Elimination of Discord) operation. The 18th Amendment included a plan for local government structures and elections. Local government elections were held through much of the country in 2015; these produced mixed prospects for local governments, given the continuing operation of patronage ties and efforts by provincial and national political figures to exert influence at the local level.

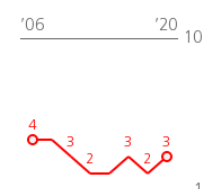
Prosecution of office abuse

3



Civil rights

3



4 | Stability of Democratic Institutions

The 2018 general election was a key event in the period under review. This was important given its role as the second consecutive transfer of power through general elections, and thus a milestone. However, the ostensible neutrality of the powerful military continues to be a subject of suspicion. The Pakistan Institute of Legislative Development and Transparency's (PILDAT) pre-poll scorecard, an assessment based on the evaluations of a collection of prominent persons in Pakistan (as well as the considered expert opinion provided by PILDAT), characterized the pre-poll situation as "unfair" (a three on a four-part scale, the lowest rating being "highly unfair"). The Election Commission of Pakistan (ECP) was seen as having fulfilled its functions relatively well, but the perceptions of unfairness were blamed on factors outside the ECP's control. These other factors were reflected in critical (thus low-scoring) perceptions of the neutrality and independence of the judiciary and military with respect to candidates, the perceived influence of the state and vested interests on private and state-owned media, and bias in the process of investigating corruption by public officials.

The period under review also saw mixed efforts to implement the devolution that had been pledged in the 1973 constitution. The 18th constitutional amendment of 2010 was an attempt to craft a balanced federal structure in Pakistan, giving more institutional power to the provinces. However, the provinces remain unable to shoulder the full responsibilities given to them under the 18th amendment. Further, key bodies intended to coordinate between the provinces and the center, such as the Council on Common Interests and the National Security Council, remain largely dormant. Internal security in the provinces has an overwhelmingly military component, particular with regard to anti-terrorism initiatives such as the National Action Plan and the Radd-ul-Fasaad (Elimination of Discord) operation. The 18th Amendment included a plan for local government structures and elections, and local government elections were held across much of the country in 2015. However, provincial authorities have often resisted devolving power and resources to the local level and have sought to maintain traditional top-down patronage networks. The value of devolution in highly heterogeneous Pakistan has not yet been realized.

Despite recurrent bouts of military dictatorship in Pakistan, commitment to democratic institutions and norms remains the ideal of many people, associations and civic organizations. Banned groups were allowed to participate in the elections; for example, a candidate in Balochistan linked to the militant sectarian Lashkar-e-Jhangvi group was allowed to stand for election, possibly as an establishment-favored counter to a Balochi nationalist candidate, who faced travel restrictions. The Jamaat-ud-Dawa, which is on the U.N. terror blacklist, was allowed to field candidates under a different party name. While elections have become a peaceful means of government change, balloting continues to be manipulated in one way or the other. The electronic

Performance of
democratic
institutions

3

'06 '20 10



Commitment to
democratic
institutions

3

'06 '20 10



media, educated young voters and the PTI in 2018 highlighted the issues of election rigging. However, the PTI's inclusion of well-established "electables" (patronage-system politicians who contribute their own vote banks and in some cases have been involved in corruption scandals) has somewhat tainted its image, as have allegations that the security apparatus favored the party, and permitted banned militant groups to mobilize politically in favor of the PTI.

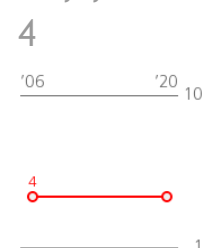
5 | Political and Social Integration

Political parties and the party system in Pakistan tend to be weak, internally undemocratic and personalistic, centered on an individual or dynasty, and sometimes splitting along the lines of personal rivalries for leadership. Yet there is room for significant development – surely the most important of which during the period under review was the rise of former sports celebrity Imran Khan's Pakistan Tehreek-e-Insaf (Pakistan Justice Movement, PTI) from a fringe actor to victor in the general election of 2018. The three major political parties with nationwide representation are the PTI, the Pakistan Muslim League-Nawaz (PML-N) and the Pakistan Peoples Party (PPP). The Islamic parties have followers mostly in urban areas and in the Khyber Pakhtunkhwa. The PML-N is the exclusive preserve of the Sharif family. The PPP has had a hereditary chairmanship since its inception; it is headed by the Bhutto family from Larkana, with Benazir Bhutto's son now a member of the national legislature. In addition, there are several regional parties based on ethnicity, such as the Awami National Party (ANP), Muttahida Qaumi Movement (MQM) with a stronghold in Karachi and the Baluchistan Nationalist Party (BNP).

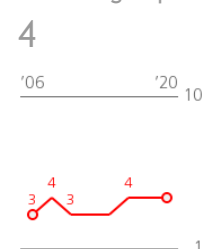
Pakistan has a vast array of associations and organizations representing the interests of different communities. These include trade unions, student unions, bar associations, peasant organizations, journalist unions and charity organizations. Welfare associations, both formal and informal, are a significant source of social support, often filling a governance vacuum or providing a social safety net. Such third-sector entities also play a prominent role in providing emergency services and health care.

Civil society organizations are reaching both policy-making circles and poor people to transform the prevailing conditions. They are also involved in advocacy and awareness campaigns. However, most CSOs operating in remote areas with critical security issues, such as the Federally Administered Tribal Areas (FATA), had their no-objection certificates (NOCs) revoked, preventing them from working in these areas. In 2015, the Federal Interior Ministry issued new rules requiring NGO registration; these allow for permission to be revoked for those INGOs "working against Pakistan's strategic, security, economic, or other interests." Human Rights Watch has criticized this expansive potential vetting as a tool for repression of voices critical of the government or military, and for undermining humanitarian efforts. In

Party system



Interest groups



2017, the Interior Ministry rejected the registration applications of 30 INGOs, and in 2018 ordered 18 of these to wind up their operations; the remaining INGOs' appeals were still being processed as of the time of writing. It should also be noted that new public interest groups (for example, involved in environmental, health or gender issues) have to compete with conservative interest groups such as the clergy and the military establishment, which use new media for their own purposes. In general, interest groups address only a limited range of concerns, usually those affecting the urban population. Some ethnically centered organizations work to secure the rights of their identity groups; for example, the Pashtun Tahafuz Movement, an organization founded in 2014 to protect the rights of ethnic Pashtuns, sought redress for the alleged extrajudicial killing of a Pashtun citizen in Karachi in January of 2018.

According to PILDAT's Report on Public Opinion on Quality of Democracy in Pakistan, a national survey-based report published in 2016, the majority of the respondents (54%) remain confident and optimistic about the quality of democracy in Pakistan. At the provincial level, all provinces except Sindh polled above 50% approval. Much of the question of approval of democracy hinges on the state of civil-military relations. The Armed Forces of Pakistan are the most trusted of any government institution, as seen in their 76% approval rating in PILDAT's poll for 2015 to 2016. In 2016, banners appeared in major cities calling on Chief of Army Staff Raheel Sharif to impose martial law and impose a government of technocrats. In November 2016, banners appeared in Rawalpindi calling on Raheel Sharif to contest the 2018 elections and to reduce the waiting period before a retired government officer can enter politics from two years to one. Support for military intervention draws on disillusionment with the civilian leadership and the comparative public prestige and relative approval of the military.

In Pakistan, social capital is provided by different organizations, associations, welfare foundations, family networks and caste structures (biradri). There have been certain examples in which social capital has been readily expressed, such as major disasters in which people have typically rushed to help victims. However, there is still a dearth of cooperation among people on different issues, and trust remains a critical issue. In addition, some NGOs also provide social capital and work for the collective benefit of the people. A lack of mechanisms of accountability for philanthropic and charitable donations hampers the further development of this sector. Like many formal organizations in Pakistan, formal or officially acknowledged rules matter less than personalities, and as a result, trust is typically vested in individuals with a reputation for saintly or selfless devotion to the public welfare.

Approval of
democracy

n/a

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n/a 1

Social capital

4

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II. Economic Transformation

6 | Level of Socioeconomic Development

Pakistan has important strategic endowments and potential for economic development. It has numerous and diverse resources, a young population, and untapped potential for trade. However, it faces significant challenges in realizing this potential. The net education-enrollment rates are the lowest in South Asia. Gender disparities persist in the economic, health and education sectors. A total of 34.7% of the population was living in poverty in 2015, according to the World Bank Development Indicators (down from 36.9% in 2013). Pakistan has shown slow but steady improvement in its Human Development Index scores, reaching 0.562 in 2017. This placed it in the second tier (medium human development), an improvement over its bottom-ranking low human development category in 2014 and earlier. However, the country's international ranking in the HDI has not changed that much; in 2017, it was 150 out of 189 countries. The country's Gini Index score for 2015 was 33.5, indicating a degree of inequality that is significant but below (i.e., less unequal) the global average of 42.5 (2013 average). The Gender Inequality Index score for 2017 was 0.541; this has shown incremental improvement, and thus diminishing inequality, in recent years. Pakistan's total adult literacy rate is 56.4%, but there is a significant gender gap, with the literacy rate among men being 69.6% and the literacy rate among women just 42.7%.

Question
Score

Socioeconomic
barriers

3

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Economic indicators		2015	2016	2017	2018
GDP	\$ M	270556.1	278654.6	304951.8	312570.1
GDP growth	%	4.7	5.5	5.7	5.4
Inflation (CPI)	%	2.5	3.8	4.1	5.1
Unemployment	%	3.6	3.4	3.2	3.0
Foreign direct investment	% of GDP	0.6	0.9	1.1	0.8
Export growth	%	-6.3	-1.6	-0.8	9.9
Import growth	%	-1.6	16.0	21.0	17.5
Current account balance	\$ M	-2776.0	-7094.0	-16927.0	-19191.3

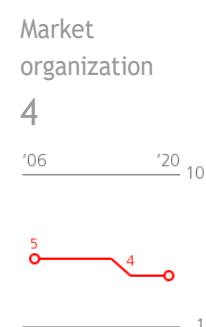
Economic indicators		2015	2016	2017	2018
Public debt	% of GDP	63.3	67.6	67.1	71.7
External debt	\$ M	66712.4	73093.2	86070.4	90957.4
Total debt service	\$ M	4111.1	4319.8	6879.5	6124.7
Net lending/borrowing	% of GDP	-	-	-	-
Tax revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	11.0	11.3	11.3	12.4
Public education spending	% of GDP	2.7	3.0	2.9	-
Public health spending	% of GDP	0.7	0.8	-	-
R&D expenditure	% of GDP	0.2	-	0.2	-
Military expenditure	% of GDP	3.6	3.6	3.8	4.0

Sources (as of December 2019): 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

According to the World Bank's Doing Business 2019 report it takes 10 procedures, 16.5 days and costs 6.8% of per capita GNI to start a business, which places Pakistan at rank 130 out of 190 countries. By these measures, Pakistan performs better than the global average with regard to the cost of starting an enterprise. Moreover, the cost of doing business in Pakistan has dropped significantly – in 2016, the cost was 12.5% of GNI, and was a few percentage points higher still in previous years. This suggests decreasing barriers to entry for businesses. According to ILO data, 83% of employment was informal in 2015.

The Economic Coordination Committee (ECC) of the Cabinet functions as a major regulatory body in Pakistan. As described by the Policy Research Institute on Market Economy (PRIME) in a 2016 working paper, the ECC was formed as an emergency wartime measure in 1965, following the suspension of foreign assistance, and has continued to exist until the present time. The ECC is generally chaired by the finance minister or adviser to the prime minister for finance and includes economic ministers who are directly nominated by the prime minister along with special invitees representing the State Bank, the SEC, the Planning Commission, and the Investment Board. Originally, all ECC decisions were required to be ratified by the Federal Cabinet under the Rules of Business. However, a current exemption allows ECC decisions, once made, to become final. The ECC often sets industrial and trade terms, and engages in numerous ad hoc interventions in markets, and has thus been a key

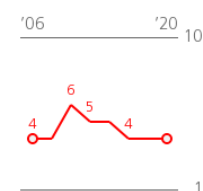


body in economic governance. Taking a benign view, one might say that ECC interventions seek to address market failures. Yet there is real potential for the distortion of price signals and for selective interventions supporting favored enterprises and sectors. The PRIME overview describes instruments such as exemptions, subsidies, government contracts, sovereign guarantees, tariffs and loans to state-owned enterprises. In the two years from 2013 to late 2015, the total monetary impact was at least PKR 750 billion, and may have been an order of magnitude larger, according to the PRIME report; for comparison purposes, annual federal expenditures on development projects total about PKR 700 billion. The ECC's power has grown without effective parliamentary oversight or normal bureaucratic mediation, and the decision-making process lacks transparency. State-owned enterprises approach it for bailouts, and subsidies are granted for sugar imports, allowing the sugar industry to stay artificially competitive. Sovereign guarantees allow the persistence of circular debt within the power sector. Under the new PTI administration, one of the early steps was to establish the new ECC, with Finance Minister Asad Umar presiding.

Competition laws date back to the 1970s, when Pakistan promulgated the Monopolies and Restrictive Trade Practices (Control and Prevention) Ordinance. In 2007, the government introduced new legislation, the Competition Ordinance 2007, with the aim of overhauling its competition regime. This was enacted in 2010. The Global Competitiveness Report 2016 to 2017 ranked Pakistan at 122 out of the 138 countries on the index. This ranking has since improved – in 2018, Pakistan's overall competitiveness ranking was raised to 107 out of 140 countries on the index. Competition is also distorted because of corruption and the special role of the military, which is the largest entrepreneur in many fields. Because of this special status, the military is allowed to requisition land for reasons of national security, for instance. Corruption has shaken the confidence of investors doing business in the country. Powerful businessmen and companies flout competition laws in Pakistan for their personal benefit. Weak institutional systems and a lack of transparency benefit special interest groups at the expense of small and medium-sized enterprises. The need for Chinese investment under the CPEC has let the needs of Chinese companies assume a greater priority than is given to local entities. However, on a positive note, the Global Competitiveness Report for 2016 to 2017 ranked Pakistan 116th in terms of its macroeconomic environment, a noticeable improvement, and the country's showing even improved to 103rd place in the 2018 ranking.

Competition policy

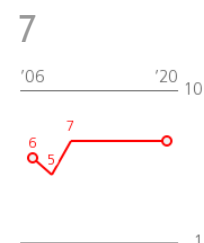
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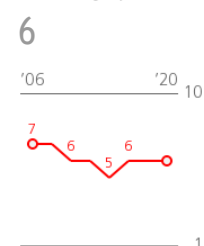
Pakistan generally has lower non-tariff barriers (NTBs) than India or China, but Pakistan's NTBs tend to protect low-growth industries, exclude some imports altogether instead of allowing them to compete on unequal terms, and apply bluntly to whole sectors rather than to more specifically targeted industries. Pakistan continues to rely heavily on expensive imports, especially oil, and the Chinese investments made through the CPEC program have markedly increased the external debt. Meanwhile, the country's exports tend to be low-value-added textiles. There is potential for export growth in information technology and in construction that could be further exploited. In his opening national address after his victory in the 2018 general election, Imran Khan called on overseas Pakistanis to invest in the country. The importance of improving the country's export performance is recognized. Pakistan's growth has been led by consumption and external capital financing. This has produced an unsustainable level of external indebtedness. As is widely understood, and as Finance Minister Asad Umar of the recently-formed PTI government stated in December 2018, Pakistan needs to develop a domestic-resource-led, productivity-led, export-oriented economy to shed the "begging bowl syndrome" that Prime Minister Imran Khan criticized as a candidate. In other words, the serving government recognizes the underlying need for change. However, political realities make such change difficult, and it remains to be seen whether the PTI government will be able to produce these results. Some steps will be politically painful, such as raising energy rates and devaluing the rupee, although the finance minister has asserted that these actions were under way even before the country sought an IMF bailout.

One major issue facing Pakistan's banking system is the Financial Action Task Force (FATF) requirement that the country rein in funding for militant groups. The FATF is an intergovernmental entity that sets money-laundering and terrorist financing standards for the global financial system. In June 2018, Pakistan was placed on the FATF watch list of countries with inadequate controls for the prevention of terrorism financing and money laundering. The decision followed a move by the United States (supported by Britain, Germany and France) in February 2018 to place Pakistan on the watch list. Pakistan has negotiated an action plan for the implementation of the FATF recommendations. In October 2018, a FATF delegation visited Pakistan, and reportedly expressed dissatisfaction with progress on the action plan, particularly on the rate of convictions for financial crimes, and on regulations covering donations to banned militant groups. Pakistan was previously on the FATF list in the 2012 to 2015 period, but this did not seem to affect its ability to secure external financing, as seen in the 2013 IMF bailout of \$6 billion and other funds raised from global debt markets in 2015. The strictness of FATF scrutiny this time will likely depend on the character of the diplomatic support Pakistan receives. Pakistan's recent crackdown on the Jaish-e-Mohammed jihadist group after the recent tensions between India and Pakistan are likely to help it in this regard. The likely impact of the FATF listing will be greater emphasis on due diligence in the banking and external-transactions sectors,

Liberalization of foreign trade



Banking system



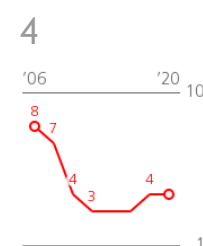
primarily with regard to greater scrutiny and monitoring by FATF. Banks will need to ensure compliance in order to maintain their usage of the SWIFT banking system. The overall effect will be higher transaction costs when engaged in external financial transactions, and possibly a more restrictive foreign-exchange regime. However, as of the time of writing, it appeared unlikely that the overall impact would be very severe. Pakistan has until September 2019 to implement the FATF requirements; a lack of action might result in more severe penalties, including possible U.S. sanctions on the Pakistani banking sector. One positive sign is the reduction in the share of non-performing bank loans from 10.1% in 2016 to 8.4% in 2017, continuing a trend from 2010. There has been little change in the bank-capital-to-assets ratio; this has fallen only slightly, from 7.8 in 2016 to 7.1 in 2017.

8 | Monetary and fiscal stability

Pakistan's cash reserves situation places the country in a quite vulnerable position, but there is a high probability of external financial support. The Pakistani rupee's real effective exchange rate continued its incremental decline in the period under review (from 123 in 2016 to 125 in 2017). The official position is that the rupee is freely traded, but the State Bank runs what is widely seen as a managed float; a 7% drop in the rupee's value late in 2018 was assumed by some observers to be the result of devaluation. Inflation stayed in the single digits in 2016 and 2017 (rising to 4.1% in 2017), a significant decline from levels in the teens in the previous decade. The inflation target for 2018 was 6%, and this was met. Yet the prospect of seigniorage-like money-creation policies remains, particularly if other sources of financing dry up. Pakistan's current-account deficit grew in 2018, with total foreign reserves dropping to \$7.8 billion in October 2018. As of the time of writing, pressure was increasing to avoid an external financing crisis by negotiating an IMF bailout (which would be the 13th such arrangement since the 1980s), with an associated currency devaluation deemed likely. Given this squeeze, Pakistan is making efforts to court investment from Saudi Arabia and the United Arab Emirates.

Funds from China constitute a major share of the country's external financing. The China-Pakistan Economic Corridor is supposed to total \$60 billion in investment, although the benefits to this are tempered by China's use of Chinese workers, and by concerns over Chinese influence over Pakistan and the country's future dependence on Chinese good will and strategic interests. In response to outsiders' concerns regarding Pakistan's indebtedness to China, Finance Minister Asad Umar asserted in 2018 that less than 10% of Pakistani foreign debt is owned by China; moreover, he said, the debt reflects a 30-year relationship between Pakistan and China, and that the primary difference relative to previous years is that most lenders before were Western banks. The likely implication is that the shift in concern has less to do with the macroeconomic soundness of Pakistani choices, and more to do with political concern over China's rising international role and the consequent erosion of Western

Monetary stability



financial power over Pakistan. Many other factors have also changed, but this interpretation reflects the tendency toward a political blame-game that underlies what might otherwise appear to be innocuous policy concerns and is also part of the rhetorical strategy of the various players in these economic-policy interactions.

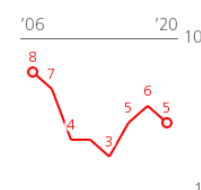
Pakistan's current-account balance remained negative in the period under review, pushing the incoming Pakistani government to pursue external financing from Saudi Arabia, UAE and China, as well as a likely IMF bailout. The country's public debt has grown incrementally, reaching 68% of GDP in 2017. The domestic debt incurred by Pakistan's public corporations grew by nearly 250% between 2013 and 2018. Pakistan's total external debt grew to nearly \$73 billion in 2016, with the debt-servicing burden just over \$4 billion in that year. Government consumption in both 2016 and 2017 totaled 11.3% of GDP.

Revenue generation is Pakistan's core economic-policy problem. Amid serious problems of public well-being, including malnutrition and low literacy rates, a tiny tax base makes for an ongoing slow boil of social challenges. Pakistan's tax system has undergone reforms in the last three decades, including changes to direct taxation (such as the introduction of withholding taxes, self-assessment in filing income tax returns, and a rationalization of income and corporate tax rates) and indirect taxation (introduction of a tax on services, rationalization of customs tariff structure, and efforts to introduce a value-added tax) policies. Yet Pakistan continues to number among the bottom 10% of countries with regard to its tax-revenue-to-GDP ratio, and a Pakistan-India comparison suggests that Pakistan's tax revenues are too low by at least 3% of GDP. According to the Pakistan Economic Survey 2017 to 2018, tax revenues total 13.7% of GDP, among the lowest such levels within the emerging economies. An overview from the Asia Foundation's Haris Qayyum notes that Pakistan's compliance costs are the highest in the South Asia region, while tax administration remains weak, as the Federal Board of Revenue has not devoted sufficient energy to organizational capacity building. Further reforms are needed for the country's well-being.

In a recent interview, Finance Minister Asad Umar described an effort to bring high-net-worth individuals into the tax net; he indicated that there was a large list of persons suspected of tax evasion, and that by targeting a subset of these, the government hoped the remainder could be convinced to pay their full share of taxes voluntarily. Previous efforts to increase direct tax revenues substantially have been stymied by administrative weaknesses and impediments, as well as political costs to incumbents. Pakistan's geopolitical situation has allowed it to draw on significant support from great powers such as the United States and now China, and this leaves fiscal stability vulnerable to changes in the geopolitical environment.

Fiscal stability

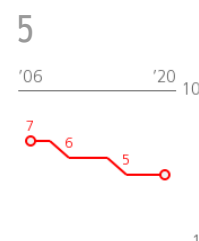
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9 | Private Property

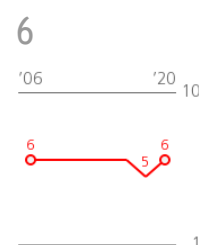
Pakistan's constitution protects property rights. Article 24 of the 1973 constitution states that "No person shall be compulsorily deprived of his property save in accordance with law." Islamic law also protects property rights. The 1979 Industrial Property Order protects local and foreign investments in industrial property in Pakistan against eminent domain without sufficient compensation. The Intellectual Property Organization, founded in 2005 as an autonomous government entity, became part of the Commerce Department in 2012 and is a central entity for intellectual property issues. In practice, land distribution in Pakistan is highly skewed, with 64% of land owned by 5% of landlords. A total of 15% of the country's land is owned by 65% of small landholders. Corruption is rife in the lower courts and the district administration, where property cases linger on for years. The military holds valuable properties in prime locations in different cities. Foreigners, particularly from the Middle East, own large swaths of land in South Punjab and Baluchistan. In 2014, Pakistan was ranked at 86 out of 97 countries in the International Property Rights Index. In 2018, Pakistan was ranked 121 out of 128 countries globally (the same as 2016) and 18 out of 20 in the Asia and Oceania region; within South Asia, Pakistan was ahead only of Bangladesh.

Property rights



The 1872 Contracts Act remains a main source of commercial contract law in Pakistan; the lower courts usually deal with civil and criminal matters, but there are also specialized courts and special tribunals for alternative dispute resolution. Although the judiciary is active, perceptions of weakness and inefficiency mean that foreign investors usually write international arbitration clauses into contracts. According to the IMF's 2016 report, Pakistan's business climate was weak. Based on an Action Plan adopted in 2014, some measures intended to improve the business climate were undertaken in fiscal year 2015, including a reduction in the procedures for paying taxes, a pilot program of alternative dispute resolution mechanisms and a new National Financial Inclusion Plan meant to make it easier for SMEs and marginalized social segments to obtain credit. The pace of reforms has been slower than in many other countries, which helps explain why Pakistan's ranking in the World Bank's Doing Business report fell to 138th place in 2016 from 136th in 2015.

Private enterprise



The military has amassed substantial land for its own personnel and has thus become a prominent factor in the land-owning class. Regardless of labels, an elitist bias in policy makes it hard for bottom-up efforts to transform entrenched governance patterns

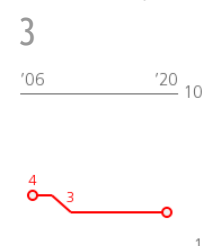
Efforts have been underway to restructure and attract private sector participation in public sector enterprises as a way of restoring financial viability and reducing fiscal costs. Pakistan International Airlines (PIA), which once had a stellar reputation, is now seen as woefully inefficient; it has one of the industry's highest ratios of

employees per plane, with more than 700 employees in the company per aircraft (as comparison, Emirates has around 220). Early in 2017, the company's management informed a Senate committee of PIA's stunning losses: accumulated liabilities totaling PKR 300 billion and additional losses of more than PKR 5.6 billion being added every month. PIA, Pakistan Steel Mill (PSM) and several energy enterprises are slated either for private participation (PIA, for which legislation requires that government retain majority control) or possible privatization (PSM, based on bidding in June 2017). The incoming PTI government has expressed an intention to overhaul the country's public sector companies, but late in 2018, it removed 14 state-owned enterprises from the privatization list, including PIA, Pakistan Railways and Pakistan Steel Mill. In November 2018, the Ministry of Finance "silently admitted" that 197 state-owned enterprises have become net-loss-making entities, creating a whopping collective deficit of PKR 44.77 billion in just one year.

10 | Welfare Regime

A number of social safety programs exist in Pakistan, but the majority of the population is at risk of poverty. There is some dispute over whether the incidence of poverty is falling or increasing. The Economic Survey 2016 says this statistic is falling. However, the Social Development Policy Center Analytical Brief rejects this conclusion, pointing to discouraged workers and other indicators to suggest that the incidence of poverty is increasing. Social security programs include the Benazir Income Support Program (BISP), Pakistan Bait-ul Mal, and the Pakistan Poverty Alleviation Fund (PPAF). Pakistan Bait-ul Mal has very limited funds to help orphans and widows. Foreign donors such as the World Bank, the Asian Development Bank (ADB), the Department for International Development (DFID) and individual countries donate large sums of money to social safety nets in Pakistan. In absolute numbers, there has been an increase in the social safety net's main program, the BISP. Initiated in 2008, the BISP provides unconditional cash transfers to the poorest and conditional cash transfers to support primary school attendance. According to the IMF enrollment in the Benazir Income Support Program has increased by 1.5 million families in the three-year period of its Extended Fund Facility (which ended in 2016), and stipends have been raised by 50%. The impact of conditional transfers is more limited, as the size of the transfer is low, compared to the cost of schooling. A state-run health insurance program was introduced under the previous administration at the end of 2015 and is designed to assist those living below the poverty line. Initially it applied mainly to parts of the Punjab and to Balochistan and FATA; however, in early 2018, it was expanded further to a total of 38 districts and had over 3 million persons enrolled. There has been some criticism of the program, describing the fundamental health care problem as one of an insufficient production of health care services for underserved populations, but a more systematic assessment of this health insurance program is needed. There has been rhetorical emphasis on poverty alleviation from Imran Khan's Tehreek-e-Insaf party, which came to office following the 2018

Social safety nets



election, with promises of 5 million new homes and a task force to promote the creation of 10 million new jobs. The new administration has additionally announced the construction of several homeless shelters. However, any comprehensive engagement with the housing crisis must address the underlying reality of the vast numbers of people currently living in informal housing, as well as those who have been evicted from informal housing and are living in refugee camps, along with the underlying causes of rapid urbanization. The PTI also proposed a much-derided “rural chickens” project, citing a similar initiative by Bill Gates elsewhere, as part of its poverty alleviation program; the Gates program has been criticized, but it remains to be seen what results the PTI program will hatch.

Pakistan is a patriarchal society and has low upward mobility. Lack of mobility applies to class, caste, religion, and gender. The military is one of the few organizations in the country where merit-based promotion is practiced. Discrimination against women is endemic, with women in most parts of the country routinely deprived of education and job opportunities. For example, the literacy rate among women is 42.7%, while the rate among men is 69.6%. The Islamic law of inheritance, which accords property rights to women, is not fully observed. Minority rights are not respected by the majority. In addition, the economic conditions of Christians and Hindus are below the national average. Christians, Hindus and Ahmadis often cannot profess or propagate their religion. The Ahmadi community, because they are classified as being non-Muslim, are effectively denied the right to vote (as they have to complete a statement saying that they are non-Muslim to do so – Pakistan’s electorate being divided into Muslims and non-Muslims). The education system is conducted either in English or Urdu. Urdu-system graduates find it difficult to compete with the English-system graduates in almost all walks of life.

On the other hand, in May 2018, Pakistan passed legislation banning discrimination against transgender persons, thus guaranteeing rights to its 500,000 transgender citizens, including eunuchs, intersex persons and transvestites. The 2018 general election saw several transgender candidates stand for election.

In late 2018, Finance Minister Asad Umar directed the central bank to enhance financial accessibility for persons with disabilities. In January 2019, a two-week “camp” was held in Karachi to bring the provincial Department of Empowerment of Persons with Disabilities and provincial Health Department together with the federal agency that issues national identity documents, NADRA, to facilitate the issue of special national identity cards for persons with disabilities. The usual process for obtaining such special identification documents is arduous, time-consuming, and difficult to navigate, adding to the exclusion and marginalization of persons with disabilities. While a small step relative to the needs of an estimated 20 million persons with disabilities in the country, the effort nevertheless demonstrates a will to be pro-actively inclusive by improving access to education, employment, social protection, finance, and voting, and may have provided an example to be emulated elsewhere in the country.

Equal opportunity

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11 | Economic Performance

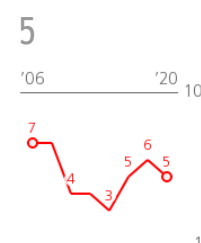
The period under review saw per capita GDP growth rise to 3.7% in 2017 (or 5.5% on a purchasing power parity basis, PPP), compared to a growth rate of 3.4% in 2016 (4.8% on a PPP basis). Recent years have seen persistent growth. However, there has been some worry about Pakistan's economy. One significant concern has been the current account deficit, which more than doubled between 2015 and 2016, and doubled again in 2017, partly as a reflection of the consumption-driven nature of growth in the country. It was widely reported that Pakistan's cash reserves were low, that it needed to take aggressive measures in order to attract external financing, and that a devaluation of the rupee might be necessary in order to address the situation. Inflation rates have generally remained low, at 4.1% in 2017 and 3.8% in 2016; while slightly higher than 2015, the inflation rate through 2017 remained well below the teens (as in 2010 and several years earlier). The official unemployment rate was 4% in 2017, although there has been dispute over whether rate this masks underemployment and discouraged workers.

Low rainfall levels and water shortages lasting many months in 2018 produced drought conditions in Balochistan and Sindh. In September 2018, the Sindh government declared substantial parts of southern Sindh to be "calamity areas" due to low rainfall during the monsoon season. Previous drought periods (1969, 1974, 1987, 2002), with the most recent droughts occurring in 2013-2015) have been associated with acute and chronic malnutrition.

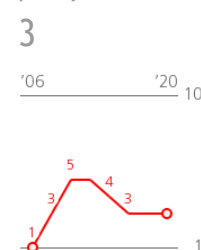
12 | Sustainability

More than 80% of the water supplied in Pakistan is considered unsafe, and water scarcity and water-borne diseases result in a loss of up to 1.44% of GDP. Projected water scarcity is a serious concern: a 2015 IMF report placed total annual availability of water at 191 million acre-feet (MAF); by 2025 demand is expected to rise to 274 MAF. One underlying issue is the country's rapid population growth; Pakistan's population has tripled since 1970. However, leakages, inefficiencies and corruption have also contributed to the growth in water scarcity. Dams, while important for water supply and hydropower, have their own eco-social costs. The Tarbela and Mangla dams in Pakistan, constructed after the Indus Waters Treaty with India in 1960, are two of the world's largest and generate substantial electric power, while contributing to the desertification of the Indus River delta in Sindh province. There is an inter-provincial politics aspect to advocacy for new dams – Punjab, Pakistan's largest province, containing 60% off the country's population, is predominantly agricultural, and requires great quantities of irrigation water. The projected melt of one-third of the Himalayan ice cap places additional future stress on water resources in Pakistan.

Output strength

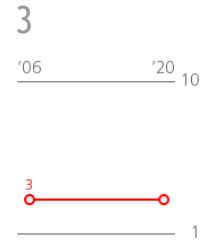


Environmental policy



Pakistan's education system is divided between English and Urdu instruction. A flourishing Madrasa education system also exists. Most children from the middle and lower-middle classes opt for Urdu-language schools, which are run by the government. The elite send their children to English-language schools, which are costly and out of reach for the majority of the population. Pakistan under-spends on education in comparison to other countries, budgeting 2.2% of its GDP for these purposes as compared to an international minimum standard of 4%, according to the Economic Survey of Pakistan 2015 to 2016. However, various assessments have identified other factors that complicate the picture, including the relatively high share of provincial budgets allocated to education, and the proportion of private spending on education. Education used to be a social service on the Concurrent List, which specifies functions that are provided and legislated upon by both the federal and provincial governments. With the 18th Amendment of 2010, education was devolved and is now the responsibility of the provincial governments. While there has been significant increase in nominal expenditures on education, the efficiency and value of this spending in real terms has been questionable. Pakistan's score on the U.N. education index has improved incrementally almost every year; in 2017 and 2016 this score was 0.411, just above the global average of 0.335. Pakistan's overall (i.e., aggregated national and subnational) expenditure on education in 2016 was 2.5% of the GDP, just above the 1.9% average. A 2014 UNESCO report found that 5.5 million Pakistani children are not in school, the second-highest such number in the world after Nigeria. Pakistan's spending on research and development has been meager, the lowest in South Asia as a percentage of the GDP.

Education policy / R&D



Governance

I. Level of Difficulty

A number of structural constraints impede Pakistan's political and economic development and transformation. These include economic, social, cultural, political and administrative obstacles, as well as the occurrence of ecological shocks that may increase in frequency and/or impact as climate change progresses. Economic obstacles include the high level of foreign debt, fiscal deficits, persistent balance-of-payments deficits, a scarcity of foreign-exchange reserves, the rapidly growing population and the country's low level of technological development.

Environmental threats such as floods, droughts and heatwaves can produce public health problems as well as economic shocks. Pakistan is among the top 10 countries most substantially affected by climate change. As one of the countries that are most vulnerable to climate change globally, the impact of floods, droughts and related problems such as soil degradation is likely to increase. The floods in 2013 played havoc with the economy at a time when it was still coping with the effects of 2010 floods. In 2015, glacial lake outburst floods in Chitral and Gilgit-Baltistan, as well as flash floods that mainly affected Khyber Pakhtunkhwa and Punjab, killed hundreds of people and caused extensive damage to houses, crops and infrastructure. A recent report predicted that one-third of the Himalayan icecaps would ultimately melt, suggesting an increased risk of flooding in Pakistan in the short and medium term, along with river-water shortages in the longer period.

The sociocultural obstacles hindering transformation include widespread illiteracy, conservatism and the caste system. Women are not allowed to work freely. Weak political administrative institutions hamper economic development and transformation. Other issues adding to political instability and hindering economic progress include the presence of ethno-nationalists (particularly in Baluchistan), violent non-state actors such as religious militants, and conditions of general insecurity.

There are many interest groups in Pakistan that work at different levels and in different capacities. However, independent, well-organized and effective associations such as the Citizen Police Liaison Committee, Lawyers for Civil Rights and the Women's Action Forum have arisen only in the last two decades. There are also many charity and philanthropic organizations in Pakistan. They run schools and hospitals, thus filling the vacuum created by the state because of its limited capacity. Still "civil" society traditions remain fairly weak outside of the main urban centers.

Structural
constraints

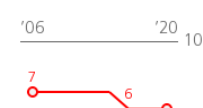
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Civil society
traditions

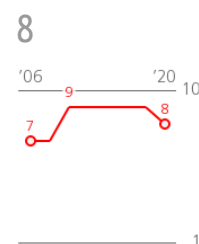
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Pakistan is highly divided along ethnic lines and faces multiple conflicts, including sectarian warfare, ethnic issues, the war on terror and inter-provincial disharmony. Sectarian warfare has claimed the lives of thousands of people. Many of the victims are from religious minorities such as Shi'ites, Christians and Ahmadis. In the period under review, the Pashtun Tahafuz Movement mobilized in protest against the extrajudicial killing of a Pashtun man. Appeals to language group, ethnicity and sect can lead to the rise of social movements; examples include the Muttahida Qaumi Movement (originally created to assert the interests of Urdu-speaking Pakistani migrants from India in Partition), Jeay Sindh (a Sindhi ethno-nationalist group), the Balochistan Liberation Army, and sectarian groups such as the Labbaik group and other Sunni and Shia militant groups. The country's northwestern sections have been home to long-standing efforts to resist and confront the central government's authority, from the Pir of Manki Sharif in Pakistan's early days, to the Sufi Mohammad movement in the Swat valley, and the various groupings of the Taliban in Pakistan, among others. In addition, the civilian and military commitment to implement the CPEC program in provinces such as Balochistan, and the unwillingness to engage the local population, has inflamed local tensions. Yet despite these substantial tensions, there has been a relatively stable electoral process since 2008, with three general elections in a row producing civilian governments (though with allegations of unfairness in the most recent general election).

Conflict intensity



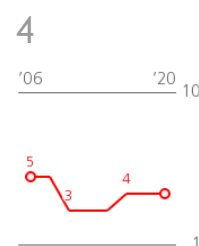
II. Governance Performance

14 | Steering Capability

In his first national address after winning the national election, Prime Minister Imran Khan expressed the aspiration of creation an Islamic welfare system, reducing poverty and slashing the country's high debt levels. Showing a personal commitment to austerity, he chose to live in a modest home rather than use the lavish premier residence and reduced his official servants from several hundred to just two. He called on overseas Pakistanis to invest in the country, and for the rich to pay their share of taxes – a tall order given the very small portion of the population that pays direct taxes. He also spoke of the need to address the country's high maternal and infant mortality rates, to help the 22.8 million children not in school, and to respond to the grave threat of climate change. Following the release of the prime minister's "100 Days Agenda" in December 2018, the Ministry of National Food Security and Research (MNFSR) unveiled a PKR 82 billion plan for the agriculture sector, with the expressed aim of enhancing crop yield; improving water efficiency, livestock and fisheries development; and creating agro-markets with the overall objective of helping small farmers and reducing rural poverty, all to be implemented within two

Question Score

Prioritization



or three years. This is part of the broader PKR 200 billion package for the agriculture sector managed jointly by the federal and provincial governments.

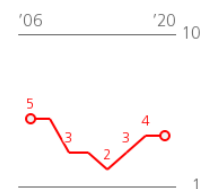
In terms of the normative framework of the BTI, Pakistan's stated anti-corruption and poverty-alleviation efforts both align with a transition toward a constitutional democracy. The agricultural package seeks to improve agricultural markets and is probably closer to a liberal model embedded in a social safety net than to a stark neoliberalism that would eliminate all state transfers.

Khan campaigned on promises to pursue anti-corruption policies, but about one-third of his party's candidates are "electables" – that is, long-lived politicians with their own vote banks, some of whom have also been subject to corruption allegations. This potentially compromises the government's actual ability to cut down on corruption. Allegations by Khan's ex-wife that he engaged in drug use and libertine behavior were dismissed by his supporters as a ploy by the PML-N. The PML-N, incumbents for the first part of the period under review, suffered when Prime Minister Nawaz Sharif was forced to resign on charges of corruption, and as thousands of other party members faced corruption charges. Although the use of corruption charges has long been a selective political weapon in the country, allowing powerful actors to alter outcomes, the charges and evidence presented do suggest significant corruption at high levels, all of which make prioritization a difficult task.

Policy implementation in Pakistan faces obstacles due to unclear or ambitious policy goals, a lack of political commitment, bureaucratic hurdles and the governance structure. The proper implementation of any policy requires financial, technical and human resources. Administrative inefficiency is also responsible for the government's failure to implement its policies. The power sector continues to incur so-called circular debt, and the quantity of domestic debt accrued by public corporations grew by almost 250% between 2013 and 2018. Finance Minister Asad Umar recognizes the central problem of revenue generation, and has asserted that the new government has separated "revenue administration" from "tax policy," has used data analytics to ferret out tax evasion, and has identified a large list of high-net-worth individuals suspected of tax evasion. The planned strategy is to make an example out of some big fish in this pool, and then expand the net, encouraging others to pay their share of taxes voluntarily. Political concerns have been a major barrier to substantive tax reform in the past, as government officials rely on support from a class that largely underpays its share of taxes. The use of long-standing "electable" politicians with reputations for corruption to swell the ranks of the incoming PTI government casts some cloud over the future of the ambitious tax collection plans. The PTI "mini-budget" in 2018 did not raise taxes on those making less than PKR 200,000 a year; this was partly seen as an effort to retain the party's voter support, but may also indicate that the government will not be too regressive in its tax extraction efforts. The one policy that has been implemented at least in part is the China-Pakistan Economic Corridor, largely as the result of civilian and military

Implementation

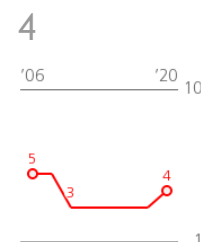
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agreement. Although the Khan administration is cooler toward this plan than were his predecessors, the military's commitment to it will ensure its delivery.

There is some worry that the PTI government, by courting and drawing substantially on established politicians with corrupt reputations, is hamstringing its own policy agenda. Nevertheless, any party's support coalition almost inevitably needs the support of local ward bosses in the rural areas to win, thus constraining its ability to implement policy. The problems involved have less to do with dogmatism among leaders than with the pragmatic realities of an elitist, patronage-based society. This is not to say that significant steps have not been taken. This has included short-term measures easing the process of starting new businesses, paying taxes and trading across borders, and facilitating access to credit. In 2018, the ruling PML-N made history by presenting the sixth consecutive budget by a civilian government. It also broke from the past by moving from development spending to current expenditures and by introducing an unprecedented number of business incentives (somewhat marred by the accusation that this amounted to a giveaway to a cabinet official's de facto constituency).

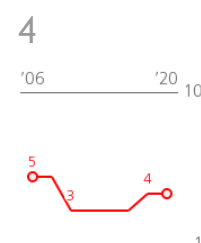
Policy learning



15 | Resource Efficiency

In the first part of the period under review, Prime Minister Nawaz Sharif was forced to resign on charges of corruption, and thousands of other PML-N party members additionally faced corruption charges. While corruption charges have often been a selective political weapon in the country, allowing powerful actors to alter outcomes, the charges and evidence presented do suggest significant corruption at high levels. New Prime Minister Imran Khan campaigned heavily on anti-corruption promises. In his first national address after winning the national election, Khan expressed his aspiration to create an Islamic welfare system, reducing poverty and slashing high debt levels. Showing his personal commitment to austerity, he chose to live in a modest home rather than the lavish premier residence and reduced his official servants from several hundred to just two. He additionally called on overseas Pakistanis to invest in the country, and for the rich to pay their share of taxes – a tall order given the very small portion of the population that pays direct taxes. He also spoke of the need to address high maternal and infant mortality rates, help the 22.8 million children not in school, and respond to the grave threat posed by climate change. However, as discussed in the status index, there are concerns about the unsustainable levels of external debt, which have been increased rather than decreased by the CPEC program.

Efficient use of assets



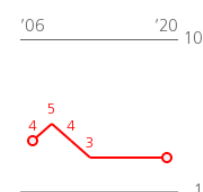
Pakistan's policy-making environment is characterized by entrenched patronage networks and an elitist bias, whereby broadly well-framed policy initiatives are undermined by exemptions, special licenses and inadequate or selective enforcement. The rural vote banks delivered by local ward bosses produce a persistent set of "electable" politicians drawn from an established, wealthy subset of the population, a situation that has led some analysts to describe Pakistan as a feudal society. While the rise of new media, business interests and above all the military apparatus have all complicated the simple label of "feudalism," it remains the case that that narrow distributional coalitions and opaque trust networks interfere with policy-making and policy coordination. In the period under review, the fact that the populist Pakistan Tehreek-e-Insaf party, despite its anti-corruption focus, chose to recruit from the electables for a significant portion of its winning coalition shows the pragmatic compromises required by the underlying social realities. In another example, it became apparent in 2018 that 197 state-owned enterprises were losing money, but 14 of these, including large entities like the national airline and steel mill, were exempted from privatization.

A lack of policy coordination among different interest groups is a hallmark of Pakistani politics and a major cause of policy failure. Lack of coordination is visible in almost all spheres, be they economic, politics or foreign relations. The Ministry of Inter-Provincial Coordination (IPC) and the Council of Common Interests (CCI) are the primary bodies for coordination between the center and the provinces. The ongoing neglect of the CCI suggests that the federal government has been relying on ad hoc governance rather than respecting formal institutional obligations. The growth in regulatory decisions by the Economic Coordination Committee has sidelined more transparent channels that might improve policy coordination. One major challenge is intergovernmental fiscal-policy coordination, particularly given the extent of fiscal devolution. A recently established Fiscal Coordination Committee, comprising the provincial and federal finance secretaries, plans quarterly meetings to synchronize policy guidance and monitor budget implementation to achieve the government's fiscal targets.

All major political parties in Pakistan have pointed to corruption as a major problem. Financial corruption includes bribery, kickbacks and tax evasion. The release in 2016 of a tax directory of parliamentarians based on their income tax payments for the preceding year showed a wide disparity in taxes paid, and in some cases drew incredulous comment on the contrast between tax bills and lavish lifestyle expenditures. Also, in 2016, the Panama Papers leak showed that high level politicians, government figures, their families and associates, and even a member of the judiciary had substantial offshore holdings. One senator who had several offshore accounts along with family members is a member of the Tax Reform Commission set up by the government to review revenue leakage, broaden the revenue base and improve tax administration – seemingly underlining the problem faced by anti-corruption policy, namely that the watchdogs and reformers are themselves

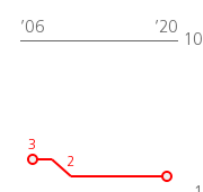
Policy coordination

3



Anti-corruption policy

2



implicated. The leak sparked the threat of a government shutdown by Imran Khan's PTI (then in the opposition); this was averted as a judicial inquiry into the extensive holdings of members of the prime minister's family got underway. Prime Minister Nawaz Sharif had paid very little in taxes, and he and his family asserted their innocence of any wrongdoing. Nevertheless, in 2017, the Supreme Court convicted him and his daughter (and political heir), disqualifying the two from office, forcing his resignation and sentencing the two to prison terms. Thousands of other members of the incumbent PML-N were also accused of corruption. The National Accountability Bureau, which is in charge of investigating corruption allegations, is itself suspected of using its powers selectively to settle political scores, taking directives from other power centers, and many saw the 2018 general election as being tainted by selective corruption investigations. The IMF's 2016 report on Pakistan noted the need to combat money-laundering through greater coordination between government bodies such as the Financial Monitoring Unit and the Federal Board of Revenue. Despite small steps toward transparency and high-profile scandals attracting national attention, anti-corruption policy in Pakistan remains weak and politicized. While anti-corruption was a critical plank in his political platform, Imran Khan included a significant number of established politicians with reputations for corruption in his PTI membership. In 2018, Pakistan was placed on the Financial Action Task Force gray list for money-laundering and terrorist financing, and it is likely that the (probable) next IMF bailout will include much stricter scrutiny.

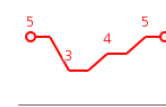
16 | Consensus-Building

Pakistan's constitution envisions a parliamentary, federal republic based on a universal franchise. Even when this vision has been distorted by coups or less overt manipulations, there have been nods to democracy as the national ideal. The three major military regimes in the country's history turned to some version of democratic process for legitimacy, whether through Ayub Khan's "basic democracy" setup, General Zia-ul-Haq's referendum (worded in a way designed to elicit likely approval) and General Pervez Musharraf's efforts to cobble together a faction of the Pakistan Muslim League in his favor. However, the repeated military interventions and the perception that democratic political parties are corrupt and elitist render popular support for democratic principle fragile. Most political parties in Pakistan have a consensus regarding the merits of democracy in Pakistan. In the period under review, the country's third general election in a row contested by civilian parties took place, along with the second consecutive transfer of power from one civilian government to another. There was a level of deliberation over party platforms and manifestos that suggests growing public expectations in line with the norms of well-established democracies – that is, that parties will propose policies, voters will debate their merits, and incumbents will be judged according to their performance in light of stated plans. Importantly, the previous chief of army staff, usually the most powerful position in the military and in the country, chose to retire at the end of his term and

Consensus on goals

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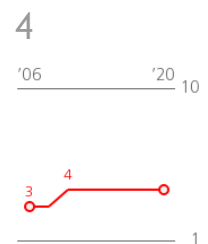
move on to lead the Islamic Military Alliance, a regional Saudi-led coalition, despite calls for him to enter the political arena. This bodes well for at least the more overt separation of military officers from civilian political office. The established Islamic parties have all participated in electoral politics over multiple elections. In the lead-up to the 2018 general election, some banned militant groups were allowed to participate in the political process – seen by some a cynical maneuver to weight the scale against the incumbent PML-N, rather than an indication that the militants have accepted democratic norms on principle.

While there is a widely shared basic consensus on the importance of the market economy in Pakistan, there is little political will to deal more effectively with the money-losing state-owned enterprises (SOE). Moreover, at the end of 2018, the PTI government listed 14 SOEs as exempt from privatization, including Pakistan International Airlines and some other major ones. During the period under review, there was some expansion of a universal health insurance program for those below the poverty line (which grew to cover 38 districts). An interesting question is the degree to which the Beijing model will affect domestic economic policy thinking in Pakistan. The so-called Washington consensus, with its neoliberal ingredients for sound macroeconomic management, has lost its hegemonic status, partly due the 2008 financial crisis and partly due to the American administration's recent sporadic, populist-flavored interventions. China has shown a mix of state strategic and business objectives in its pursuit of trade routes and resource security. Shortly after winning the election, Imran Khan gave a widely watched public address in which he described his intention to learn from and possibly emulate the Chinese model of poverty alleviation.

Anti-democratic forces in Pakistan have been active since the birth of the country and have succeeded many times in derailing the democratic system. These forces include the civil-military oligarchy, the intelligence agencies and the landed elite. For example, it is well known that control over land often produces local political ward bosses who act through patronage networks to circumvent structural reforms that might threaten their positions. Furthermore, the military has traditionally acted as a veto power and retains this role particularly within certain policy areas. The renewal of military courts during the period under review, as well as the likelihood of a further two-year renewal, suggests the presence of a parallel justice system with little civilian oversight. The National Security Council, the official consultative body between the military and civilian sectors, is not well-institutionalized, and military-civilian consultation largely happens on an ad hoc basis.

In the lead-up to the 2018 general election, there were allegations by the incumbent PML-N that the security apparatus had been selectively undermining the PML-N and boosting the PTI. This was among the factors that led the Pakistan Institute for Legislative Democracy and Transparency to label the 2018 election as “unfair” in its post-election report.

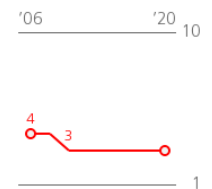
Anti-democratic
actors



Pakistan faces multiple conflicts, including sectarian warfare, ethnic issues, the war on terror, and inter-provincial disharmony. Sectarian warfare has claimed the lives of thousands of people. In 2018, the Global Terrorism Index ranked Pakistan 5th among the countries most affected by terrorism. This was an improvement over 2016 and 2015. Many of the victims have been from religious minorities such as Shi'ites, Christians and Ahmadis. According to the PIPS Security Report of 2016, much of the decline in terrorist attacks in 2016 can be explained by a reduction in sectarian attacks and nationalist attacks by groups in Balochistan; attacks by Islamist militants similar to the Taliban actually increased by more than 10%. The Tehrik-e-Taliban Pakistan (TTP) group continued its war on the Pakistani state. Many people across Pakistan have been killed in suicide attacks carried out by the TTP. In 2014, the military launched the Zarb-e-Azb operation against the TTP in North Waziristan. This was followed by the National Action Plan for combating terrorism; its operation, while controversial from a human rights perspective and also due to allegations of politically motivated selectivity in the particular organizations targeted, produced an overall decline in violence by non-state actors in the period under review. Operation Radd-ul-Fasaad (elimination of discord), launched during the period under review, aims to counter violent militancy across the country. However, the fact that some well-known militants have been allowed to operate openly, and even to endorse political candidates, suggests selectivity in this crackdown.

Cleavage /
conflict
management

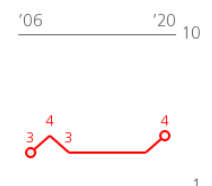
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According to the International Center for Not-for-Profit Law, domestic NGOs have relatively few legal impediments, and there are an estimated 45,000 not-for-profit organizations employing about 300,000 persons in areas ranging from service delivery to technical advice and legal reform. The vigor of self-organizing activity speaks to civic virtue and a social foundation for effective self-governance, as well as the courage of tenacious individuals. The issues taken up by CSOs have often made headlines in the mass media and sometimes prompt reactions by government functionaries. Owing to the poor state of law and order in the country, the threats to CSOs have also grown with their strength. Activists have been assaulted and even killed, including dozens of polio workers in many parts of the country with war-ridden tribal areas. The Khyber Pakhtunkhwa is becoming most dangerous zone for CSOs. Several foreign aid workers have had to flee the country after intimidation by militants. The state apparatus has also been accused of harassing civil society activists. There are structural constraints in the system that bar government officials from consulting civil society members or organizations on important policy matters. Early in 2017, five liberal bloggers were abducted separately but nearly simultaneously, leading to suspicions that the state security services were involved, although the government has denied this. These forced disappearances raised disproportionate national attention because they did not take place in Balochistan or a conflict zone, where such happenings attract less media attention. NGOs with international connections are now required to register with the Interior Ministry. In the period under review, about 30 INGOs had their registration applications

Civil society
participation

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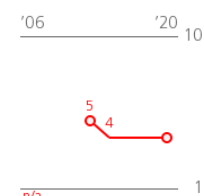
rejected; 18 were told to wind up their operations, while the remainder's applications remain in process.

In 2018, Pakistan co-introduced a resolution to the U.N. General Assembly on promoting interreligious and intercultural dialogue; the resolution was adopted by consensus. A Minority Youth Summit organized by several community groups early in 2018 brought together 400 Hindu, Christian, Sikh, Bahai and Muslim youth in Karachi, and affirmed the importance of interreligious harmony. These steps are important because sectarian differences and the apparent incompatibility of faiths have fed suspicion and strife in Pakistan, particularly with regard to questions of political rights and governance.

Still, considering the national importance of intercommunal relations, efforts to promote reconciliation have been comparatively weak, and no systematic policy appears to be in place. The incoming PTI government named Atif Mian, a prominent economist and an Ahmadi, to an advisory role, but he stepped down amid opposition due to his religious identity. A common perception is that a small number of extremists tend to pull diverse communities apart, and that political parties have tended to serve a narrowly conceived understanding of their interests rather than pursuing the collective benefit of intercommunity harmony. Blasphemy accusations continue to place vulnerable minorities and others at risk, even when the individuals so accused have been acquitted by the legal system, as happened in the Asia Bibi case in the period under review. There has been little systematic effort to address grievances in Balochistan in particular, feeding ethno-nationalist militancy.

Reconciliation

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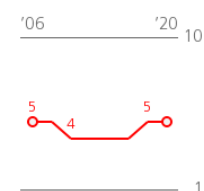


17 | International Cooperation

Pakistan is dependent on the international community for financial support. Every year, it receives major sums of money from donors such as the IMF, the World Bank, the European Union, the United States, Saudi Arabia and other countries. Despite the receipt of millions of dollars to upgrade its education and health sectors, the government has been unable to effectively redesign the basic structure of the education and health systems. Foreign aid conditions have included imperatives to pursue structural reforms and decentralization, open the country's markets, and widen the tax net. According to the IMF report describing Pakistan's use of the Extended Fund Facility from September 2013 through September 2016, Pakistan's performance in meeting benchmarks was satisfactory. Despite a decrease in inflation rates and an increase in tax revenues, needed underlying structural changes have not been made. Privatization efforts have dragged or stalled. More comprehensive steps toward central bank autonomy and a widening of the tax net have not been undertaken or have been resisted. Further, there is the problem of inclusive growth. Much of the assistance provided to Pakistan seems to have been captured by elites. Debt in the public corporate sector has ballooned in the last several years. CPEC investment,

Effective use of support

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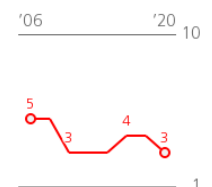


hailed by some as a game-changer, is viewed with suspicion by the marginalized, such as in Balochistan, where residents worry that the benefits will accrue elsewhere and disempower them further. While this worry is certainly justified in part, CPEC has produced results in terms of energy generation and the development of roads. However, this has predominantly benefited the province of Punjab. Widespread corruption among government officials leaves little incentive for the government to allocate aid resources in the country properly. During the period in review, Pakistan's foreign exchange reserves dropped significantly, leading to a push by the new administration for new funding from Saudi Arabia, the UAE and likely the IMF in the form of another bailout, in addition to the Chinese funding associated with the China-Pakistan Economic Corridor. In 2018, the United States expressed worry that an IMF loan to Pakistan would be used to repay CPEC loans, even though the CPEC loans do not come due for a decade. The United States together with three other countries led the Financial Action Task Force (FATF) to place Pakistan on a watch list for terror financing and money-laundering, and early indications are that the FATF is not satisfied with country's response (the process is ongoing and nothing definitive had been announced by the end of the review period). Incoming Prime Minister Imran Khan expressed a wish to learn from the Chinese model of poverty alleviation, but it is too early to tell what specific policy changes will be implemented.

In June 2018, Pakistan was placed on a watch list by the Financial Action Task Force (FATF), a global monitor of terrorist financing, largely due to the lack of a crackdown on Jamaat-ud-Dawa (JuD), an organization allegedly linked to the Lashkar-e-Tayyiba, which the United Nations deems a terrorist organization. In October 2018, Pakistan removed the JuD from its list of banned organizations, likely adding to foreign investors' concerns. The country has had its third general election in a row, and an unprecedented public discussion of party platforms, suggesting a growth in democratic engagement and increasing treatment of party manifestos as serious proposals – all of which present some constraints on the leadership and thus suggest a degree of increased credibility. In September 2017, Pakistan launched its first Review Report in compliance with the Implementation Review Mechanism of the United Nations Convention against Corruption (UNCAC), identifying successes and challenges, and noting areas where technical assistance remains needed. In 2018, the Research Society in International Law was engaged by the Federal Ministry of Human Rights to examine Pakistan's practice on international human rights to suggest reforms that would bring its domestic legal landscape in line with its international human rights obligations. These illustrate incremental steps to assess and improve compliance with international legal agreements.

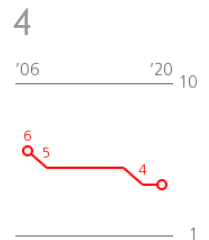
Credibility

3



Understanding Pakistan's regional relations rests partly on understanding the choices of great powers. In the period under review, the new U.S. administration described the Kashmir struggle as terrorism, tried to cut funding for Pakistan, led an effort to place Pakistan on the Financial Action Task Force gray list for money-laundering and terrorist financing, and complained that American transfers to Pakistan have not produced enough outcomes favoring American interests. Pakistan's ties to Saudi Arabia, UAE, and China – headlined by the planned \$60 billion China-Pakistan Economic Corridor – have gained new emphasis as alternative sources of finance and support. While the actual American reduction in support has not been as substantial as the rhetoric might suggest, there is nevertheless an awareness of the U.S.-China rivalry. Finance Minister Asad Umar suggested that the extra scrutiny over a possible IMF bailout to Pakistan comes primarily from the concern that IMF funds will be used to repay Chinese bondholders, and that this scrutiny would have been more relaxed if Western banks were the bondholders. Potential gains from trade in South Asia are not realized due to rivalries. At the end of the period under review, a major attack on Indian forces in Kashmir produced angry Indian rhetoric and threats against Pakistan. Pakistan's response was comparatively muted. Saudi Arabia needs Pakistan as a strong military ally, and the Saudi-led Islamic Military Alliance has placed former Pakistan Chief of Army Staff Raheel Sharif into a leadership role. Pakistan's refusal to help the Saudi war in Yemen four years ago damaged the relationship, but it appears to have been restored, driven partly by Saudi concerns over Iran. Pakistan has been active in the recent discussions over the future of Afghanistan involving factions of the Taliban.

Regional cooperation



Strategic Outlook

Prime Minister Imran Khan's rhetoric as a candidate was populist, but the strategic realities of Pakistan's situation as a cash-poor country of geopolitical significance to the great powers with a powerful domestic military establishment means that a decisive break from the past is unlikely. However, there is significant room for incremental changes that can have tangible benefits for Pakistanis and the region. These include attention to the water crisis (and environmental sustainability issues more generally), efforts to improve education access and policies aimed at improving public health and alleviating poverty. Despite concerns about undue pressures tainting the 2018 election, the simple reality is that a sports celebrity has achieved national leadership when a decade ago his candidacy and political potential was largely dismissed. Combined with the second consecutive civilian transfer of power through a democratic election, this has further given the predominantly young Pakistani population expectations that elections will proceed democratically, while expanding the potential for public contestation over party platforms and manifestos, which are increasingly treated as serious policy proposals rather than as cynical ploys. While the degree to which minorities are included remains problematic, particularly with regard to the blasphemy accusations that can imperil members of non-dominant religious groups, there have been notable steps toward nondiscrimination, such as the 2018 law banning discrimination against transgender persons, the candidacy of several transgender persons in the 2018 general election, and the appearance of the first transgender television news anchor. Combined with a dedicated civil society community, at risk as it is from militant attacks, these are some areas in which Pakistan's democratic consolidation has continued.

One question is whether an expected IMF bailout (and thus international contributions to the IMF) will be used by Pakistan to pay the Chinese. The broader context is that of a cash-poor country seeking to maximize its autonomy and room for maneuver by diversifying its sources of external finance and minimizing the conditions and costs of this external financing. IMF conditionality is likely to be significant, increasing the appeal of loans and investment from China and Saudi Arabia. The appeal by Imran Khan to overseas Pakistanis to invest in the country may yield some returns, but they are unlikely to be of the level needed to cover the \$12 billion or more the country is likely to seek in external financing. Increased reliance on China and Saudi Arabia also potentially means less external scrutiny of democratic processes in Pakistan, although the irony here is that Pakistan's military regimes have been amply funded by the United States.

Pakistan's grand asset is the Indus river basin, its extensive irrigation system, and the fertile zone that generates the agricultural produce that feeds much of the population and generates earnings. Its geostrategic location also matters – the port in Gwadar could provide a major transport node for trade from China to world markets, particularly with points west. Further, following the simple realpolitik notion that the neighbor of my neighbor is my friend, Pakistan is an appealing ally to China amid its rivalry with India, and to Saudi Arabia amid that country's rivalry with Iran. The relationship with the United States is complicated – but ultimately, regional analysts presume that

Afghanistan's well-being is linked to Pakistani stability and security, making Pakistani cooperation with U.S. goals important for achieving American objectives. While the early rhetoric of the Trump administration suggested that a substantial American retrenchment and revision of previous commitments was underway, the reality has been at best uneven. Pakistan provides overland access to Afghanistan and has a port. Pakistan's bargaining power rests on the fear of the extreme case of state failure there, and the possibility that a terrorist group might acquire nuclear weapons.

In the backdrop of all these concerns is the country's growing water crisis. Pakistan experienced drought-like conditions in part of southern Sindh and Balochistan in the period under review. A well-known prediction has been that the rapidly growing population in Pakistan will face acute water scarcity by 2025. A common view among analysts is that the primary problem is with inefficiencies and leakages, combined with corruption. The two massive, multibillion-dollar dam projects for which crowdfunding models have been proposed would temporarily ameliorate the situation if built, but would also have social and environmental impacts and do not address the fundamental need to shift to more sustainable water-use patterns. Nor will crowdfunding alone meet the costs of this huge infrastructure project. Combined with the recent report of melt in the Himalayas, which will result first in intensified flooding, and eventually in decreased water flow, this makes for a prolonged challenge deriving from the country's underlying physical geography and demands more investment in adaptation and resilience. In this regard, one might ask whether a nuanced self-aware and inclusive solidarity, a community spiritedness, could improve outcomes. Political religion is much maligned in the literature, but may serve as a vital resource for such resilience amid shocks – provided it is not completely hijacked by militancy.