

Agenda before the Nation 2013 and Beyond

[The first half of 2013 is a period supposed to witness a reshaping of the present political dispensation. Be it in the form of some outright change or continuity of the incumbent regime with some variations, it will be a new government taking the reins somewhere in the next few months. While many of the issues the country is confronted with have continued through the tenures of successive governments, and IPS has been giving its policy-oriented input time to time, it is about time when a comprehensive academic discourse needs to be initiated as to what should be Agenda Before the Nation – in the short, medium and long run – and coming up with solid, viable policy proposals in this connection. It is in this background that in this issue *Policy Perspectives* is publishing the symposium presenting a set of priorities, actionable points and viable solutions for the new managers of the country in various fields. – Eds.]

Constitutional, Political and Governance Issues

*Prof. Khurshid Ahmad**

A National Agenda for next five years i.e. 2013 and beyond has to be formulated in the context of global, regional and domestic scenarios.

Global Scenario

First and foremost is the global scenario. In the global scene, while the haunting shadows of 9/11 are very much lingering the real issue is the need for an exit strategy. This is being recognized on all sides. Yet the way out is not clear. The costs of confusion and inaction are increasing, even multiplying. As of today exist strategies, despite some serious efforts, are in limbo. And while this process has been unfolding, a new crisis in the form of a global financial crisis has cast its spell over the whole world.

Financial crisis began in September 2007 but year 2008 was the worst. It was hoped that 2009 could be a year of recovery. But even in the beginning of 2013 recovery remains a distant hope. During these five years, financial crisis has impacted other sectors of economy. It has become a wide-ranging economic crisis.

Another important aspect is that a crisis that emanated primarily in the private sector (banking, property and real estate), gradually affected other sectors having devastating consequences for production, trade, public debt, employment and budgetary deficits. State bailouts to save the system are beginning to change the very role of government within the current capitalistic economic system. This

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process has snow-balled into crisis at national economic levels. Greece, Spain and Italy are faced with crisis at the national levels. Even other Western countries have not been totally immune from that. Germany has so far been able not only to safeguard itself but also helped others, yet there is an increasing unease. France is in a difficult position. Even in America national debt has crossed the 16 trillion dollar limit. Now they are trying to seek a new ceiling. The two pronged strategy of tax cuts and state intervention to promote economic recovery has not been successful at least so far. It is now being realized that the economic crisis has the capacity to turn into a civilizational crisis exposing the weakness relating to the moral, political, structural and institutional dimensions.

In this global context, the symptoms of a shift of global economic balance of power are also becoming visible. The role of Asia and Latin America is increasing. Even the developing countries, despite all the problems, they face are searching for new roles. They are beginning to be looked upon as a source of strength in future as against the view of their being a burden. China, Japan, Brazil, India and Turkey are being looked upon as relatively more important players in the future. That is one scenario.

The second scenario relates to the Arab Spring. From Pakistani point of view, two aspects are very important. One is that hegemonistic neo-colonial post-WWII arrangements that have so far been calling the shots in the region are crumbling. There is a universal urge for change. Secondly, this urge for change also reflects a new assertive mood of the people, the real stakeholders, who were marginalized in the past. They are re-asserting themselves to play a more decisive role. An unintended by-product of these developments has a significant ideological dimension.

Whenever any genuine democratic process has unfolded in the Muslim World, it has also meant greater role of religion in general and Islam in particular. I recollect a very succinct observation by two Western scholars, of course in different contexts and with different objectives. Wilfred Cantwell Smith says in two of his books, *Islam in Modern History* and *Pakistan as an Islamic State* that whenever there would be democratization in Pakistan and other Muslim countries, Islamization would be a corollary of that. Kissinger has also in one of his speeches in 1960s, expressed this idea in a manner clouded in apprehension. He was concerned that democratization in the Arab World may lead to a new role of Islam in politics that could be a challenge to the West and its interests. With this worry at the back of his mind he suggested strategies for balkanization of the Arab World and support for ethnic and sectarian identities and movements. In his view such a strategy could also act as an insurance policy for the protection of Israel. Promotion of ethnic and sectarian movements amongst the Kurds, Arabs, Iranians and Turks was part of this strategy. The same game is being fostered in Iraq, Afghanistan, Pakistan and

Arab World today. This scenario is also to be kept in view when we are planning for a future agenda for our country.

Regional Scenario

Third is the immediate regional scenario. Pakistan is at the receiving end of what is happening in Afghanistan. It has also being directly affected by America's role in Iraq, and its new alignment with India. China's current efforts to evolve a more assertive and multidimensional strategy has also its implications for Pak-China relations. While continuing its earlier development-specific efforts towards self-reliance, it is now making serious efforts to play a more active role in Asia and Africa, on its way to an emerging global power. The most immediate challenge we face comes from the expected exit of the US and NATO forces from Afghanistan. This is unavoidable, yet the way this is coming about is very lopsided. France has withdrawn abruptly. So did Italy. Spain had done that earlier. UK is on the verge of withdrawal. And America also has no other option. The post American scenario in Afghanistan is going to have very important consequences for Pakistan. As also, the Iran-Israel-America tension whose escalation would have very serious consequences for Pakistan and the Middle East. We cannot afford to ignore all these challenges.

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Domestic Situation

Fourth scenario relates to the domestic situation. Even if we do not go very far back, the last fourteen years are very important. These years can be grouped into two periods: (a) Musharraf period 1999-2008 and (b) Zardari-PPP period 2008-2013. The Musharraf period witnessed reversal of the democratic process, re-establishment of Military rule, subordination of all constitutional organs to the will of the Military ruler, promotion of an elitist capitalistic economy, weakening of the country's ideological identity and serious compromises on issues of independence and sovereignty of the state. The tragic events of 9/11 and abject surrender of Pakistani leadership to the US pressure changed the whole equation of Pak-US relationship and resulted not only in seriously denting our national sovereignty and independence but also caused huge losses in life, property and economy. India-Pakistan relationships also took a new turn to the disadvantage of Pakistan. Core issues of Kashmir and Water dispute were sidelined. Out-of-box solutions became favorites yet turned out to fiascos. In short, Pakistan suffered

in all respects, politics, economy, law and order, national cohesion, culture and ideology.

Elections of 2008 could have been a turning point. The PPP-led Government initially bore a fresh promise but unfortunately that hope has turned sore over the years. The gruesome reality is that these five years of supposedly democratic rule have been years of disaster. Instead of change they fell prey to "continuity" and so called reconciliation. It is not unfair to say that post 2008 period despite some apparent differences, is essentially a continuation of the earlier era. Musharraf's major policies have remained unchanged. Even where there have been some changes in appearances, little has changed in substance. There is little change. America's interference and involvement in internal affairs and policies has increased. What was being done by Musharraf with a gusto is now being done as if under compulsion. The political and military leadership has not shown the courage, vision and capacity, to get Pakistan out of the US shadows and pursue new policies and strategies to protect and develop Pakistan as an independent state capable of defending and promoting its own interests and not playing just second fiddle to others.

The upshot and result of both these periods (1999 to 2008 and 2008 to 2013), goes to make up the nature and shape of the crisis that the nation is facing today. As the tenure of present Parliament is ending we are faced with prospects of new elections. What is the real nature and extent of the domestic crisis? I will try to highlight some of its major dimensions.

Crisis of Legitimacy: First and foremost it is a 'crisis of legitimacy'. For any country's good governance, legitimacy is a must. Musharraf lacked legitimacy. The present regime, despite being an elected one, and despite the semblance of democracy and democratic institutions, also lacks moral and political legitimacy. There is a lack of trust

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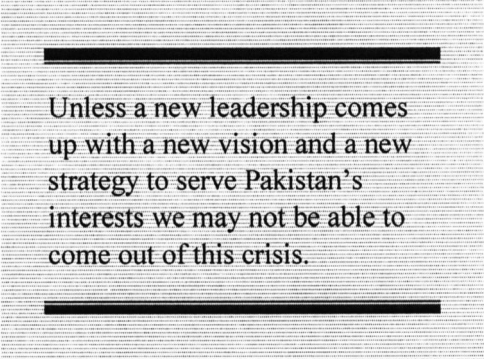
between the people and the leadership, as also between different state institutions and stake-holders. It is an arrangement of convenience, lacking unity of thought and commonality of vision and concerns. What is absent is the spirit and substance of co-participation, cooperation and co-sharing. Key institutions are either at loggerheads with each other or in a state of

uneasy co-existence. But the most important aspect is that the trust of the people on the Government and most of its institutions has weakened, if not totally collapsed. Higher judiciary is perhaps the only exception. Media has played a relatively positive role but only in very

limited areas. Army which has always enjoyed the trust of the people as defenders of national borders has become disputed because of its involvement in the war of terror and because of people's apprehensions about the role of the intelligence agencies in civil, political and regional affairs. This crisis of legitimacy is a matter of deep concern and makes it imperative that fresh elections must be held fair and with utmost transparency. It is only with the emergence of a new political leadership that enjoys people's trust that a new beginning can be made.

Crisis of Integrity: The second dimension of the crisis can be described as a crisis of integrity. It is more than a natural corollary of the crisis of legitimacy. While integrity includes legitimacy it is more than that. The situation is much more complex. Integrity is achieved on the basis of vision, character, trust and incorruptibility. The incumbent political regime, a coalition that is running the show, has failed to demonstrate integrity, moral, ideological and political. The War on Terror has also seriously dented the integrity of the ruling classes. If a large number of people think that their leadership is not making decisions on the basis of what constitutes Pakistan's national interest that destroys integrity. The most painful aspect, in my view, is that

even the army has suffered in this respect. There is a trust deficit between the army and the people. An alarming symptom of this was the official instruction issued to military personnel during the Musharraf regime not to travel in public transport in uniform. This was the lowest watermark. It may not be that bad today, but it remains low nonetheless. The role assigned to army, viz-a-



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viz, internal counter-terrorism, in certain cases unavoidable and essential part of a strategy of deterrence, has its darker sides. It is not suggested that terrorism is not a threat. It is a threat. Yet, it has to be tackled in a manner that is realistic and productive. This is possible only if we address the causes of the malaise and not merely its symptoms and expressions. There is no military solution, pure and simple to an essentially political problem. The real solution has to be political; even though security forces have a role to play in areas they may be needed. That is what the Parliament had recommended in its three resolutions. It has suggested an independent foreign policy and political solution of the problem based on dialogue, development and deterrence. Government failed to follow that path. The imposed strategy it has followed has failed even to contain terrorism, what to say of its elimination. Unfortunately this strategy has dented army's integrity viz-a-viz the people.

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America has played a role in it by making the people feel that army, as also the political leadership, are following American road map. People feel absence of a truly Pakistani policy. This has a direct role in aggravating the crisis of integrity. In the light of the above analysis it would be appropriate to suggest that a way out cannot be found without a well thought out political decision which is possible only if there is change in political leadership. Unless a new leadership comes up with a new vision and a new strategy to serve Pakistan's interests we may not be able to come out of this crisis. This new strategy should take on board all the stake holders as partners.

The political scene is very clouded but there are some positive developments that deserve to be acknowledged. The Government despite all its failures and compromises, has, by and large, not resorted to naked political vendetta and victimization, as has been the case during military rules. Major constitutional institutions, even though they have failed to fulfill the people's expectations, are at least operational however poor be their performance. At least three positive aspects can be noted. One at the constitutional and legal level, major constitutional distortions which had destroyed the balance of power as envisioned in the original Constitution have been removed and a new balance achieved through a national consensus. Not that all the problems have been resolved but a framework has been agreed upon which can take care of issues at the federal level and can lead to improvement in relations between the federation and provinces. Unfortunately the provincial-local relationship could not be addressed so far. It is a big failure. But at the other two levels, i.e. Federation and provinces, some of the developments are positive, at least as far as the constitutional framework is concerned.

Similarly there is some improvement in the area of legislation through proper parliamentary process. Legislation by ordinances, although present, has decreased.

Secondly, there have been some very positive developments as far as the higher judiciary is concerned. Of course this independence of

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the Judiciary was achieved through a heroic struggle of the people and the legal community. Initially the post-2008 government showed great reluctance, even resistance, to restore independent judiciary. But ultimately the will of the people prevailed. While the independence of the Judiciary has been achieved, tensions between the Executive and Judiciary have escalated. A large

number of judiciary's decisions remain unimplemented. There are

occasions when it seems as if there is a tug of war between Executive and Judiciary. This does not auger well for the future. Judicial activism becomes necessary because of the failure of the Executive to deliver and operate within the framework of the constitution and law. The Judiciary had to fulfill its normal responsibilities as also respond to people's grievances caused by Government's failure to do its duty fairly and honestly. In such cases it had to resort to its constitutional role as the defender of human rights. This has been due to an abnormal situation. It is only something exceptional. Judicial restraint must remain as important as judicial activism. A balance between the two is necessary. In my view, the whole idea of fundamental rights and Supreme Court to be the guardian of fundamental rights was a very important contribution of the original 1973 constitution. Embedded in this constitutional provision is the view that if fundamental rights are violated as a result of a faulty executive action, then this being a violation of fundamental rights, it becomes the duty of the Supreme Court (and not any other court) to intervene. That is how a political issue becomes an issue of fundamental rights. And when it becomes an issue of fundamental rights, it comes under the original jurisdiction of the Supreme Court. Frequent use of this right is taking place because the executive had failed to deliver. Yet, while we recognize the positive contribution of judicial activism the danger is that if it becomes a norm that would not be helpful towards promoting institutional balance and safeguarding structural equation as established in the constitution. That leads us to the core issue of good governance. Courts cannot play the role of the executive and its different organs. It can only act as a brake, a source of restraint, and guide, but not as a substitute.

The third positive development relates to the freedom of media and its enhanced role both as a source of information and as a forum promoting debate that could influence policy-making in the country. It has also a role to play to promote greater accountability in the society and polity. Unfortunately there have been a number of excesses in this area as well, particularly because of the role of certain lobbies, both domestic and international, and also because of covert influence of certain cultural groups, political mafias and power elites who have also used advertisements to achieve their vested interests. Despite these failures and weaknesses, free media is a source of strength and whatever has been achieved has been a positive development.

Crisis of Governance, Capability and Credibility: The third challenge we face relates to a serious and all-pervading crisis of governance. It is a central issue. Along with the crisis of *legitimacy* and *integrity*, it is the crisis of *governance* that has to be the centerpiece for an Agenda for the Nation 2013 and Beyond.

Legitimacy and integrity are essential but not enough. Without good governance a country cannot make real progress. If the leadership and institutions lack the capacity to deliver governance

would be at a low ebb. And when lack of capacity is coupled with corruption, all is lost.

Our failure of governance can be traced to many factors: lack of legitimacy and credibility, failure on the count of rule of law, disregard of the principle of merit, absence of transparency, and wanton violation of standing operational procedures, abuse of power and wealth-aggrandizement for personal ends. Some SoPs may also be flawed, but whatever is there, has to be respected. And if rules are openly and persistently violated good governance can never follow. It is because of this rampant culture of incompetence and corruption that has driven governance to near collapse. This is so throughout the length and breadth of the country. If a change for the better has to take place, both incompetence and corruption, would have to be addressed firmly.

I put incompetence and corruption as twin disasters because in my view corruption is antithetical to capacity. It is also a gateway to the destruction of capacity and credibility. Corruption is not merely monetary embezzlement, which is only one gruesome form of it. Each and every form of misuse of power is corruption. That destroys every fabric of the state and pollutes all those processes that produce capable leadership in a country. So the menace of corruption has to be fought at the foundational levels (legitimacy and integrity) and also at the operational levels (competence, capability, rule of law and respect for merit). An aggressive anti-corruption crusade can result in substantial reduction in corruption in the first phase and its ultimate eradication in due course of time. This should be one of the primary objectives in this National Agenda.

Credibility is primarily a moral phenomenon based on conformity between word and deed, policy and action, law and respect of law. It affects every activity in every sphere of governance.

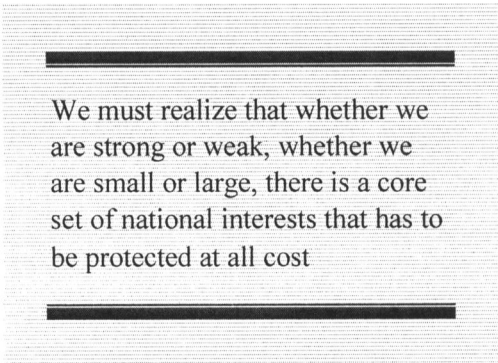
There is one more aspect of the crisis which should be taken into view i.e. crisis of credibility. Credibility is primarily a moral phenomenon based on conformity between word and deed, policy and action, law and respect of law. It affects every activity in every sphere of governance.

Some other Critical Issues

These in my view are the major challenges that we face. But it would be inappropriate to stop at that, because in my view three more issues are of critical importance.

Erosion of Independence and Sovereignty: First, as a result of all the above mentioned predicaments, the country is confronted with aspects of an existential crisis: erosion of independence and sovereignty, loss of national honor and neglect of vital national interests. Our independence, our autonomy and our identity as a nation are at risk. In view of this we have to search for a new Security Paradigm in the proposed Agenda for 2013 and Beyond. That Security Paradigm must have independence, sovereignty of the country, national interest and national honor, as our key concerns, to be protected and promoted within the context of availability of resources. We must realize that whether we are strong or weak, whether we are small or large, there is a core set of national interests that has to be protected at all cost. Security is not merely a military phenomenon. It is multidimensional: having human, military, political, cultural and economic dimensions. As such protection of independence, sovereignty and national interest is an overriding concern and must be integral to our Security Paradigm.

Ideological, Moral and Cultural Identity: Second key issue relates to our country's ideological, moral and cultural identity. That too has been compromised, tarnished and marginalized. A people cannot be inspired and motivated to rise up and sacrifice everything only for petty political and economic concerns. They live and die only for higher ideals. So along with security and independence, the ideological, moral and national identity of the nation is a matter of vital concern. Hence the cardinal importance of Islam as a source of our national identity.



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Even a number of Western strategists are now recognizing that Islam is integral to a Muslim society. And if this aspect is ignored or allowed to be disfigured peace within and peace with the rest of the world would remain elusive. This fact must be recognized that Islam is the basis of our identity, notwithstanding the narrative of the secular lobbies or vested interests. If this identity is ignored, camouflaged or compromised, the people and the rulers would never be on the same page. Consequently a country torn from within as a result of such a conflict would never achieve good governance.

Economic Dimension: Third is the economic dimension. Power of a nation, political as well military, depends very much on its economic strength. It is of critical importance in respect of protection of independence and honor and promotion of national identity and well being. Security and economy go hand in hand. People's welfare is the

source of a nation's real strength. During the last few years our economy has unfortunately gone down the drain. All major economic indicators are in the negative. Yet, if we have survived it is because of inherent resilience of the people. People's will and presence of a large informal sector have come out as the hidden source of strength of our economy. That is how we have survived despite grossly flawed government policies, acute energy shortages, and rampant corruption.

The way economy has been handled since 2008, smacks of heights of incompetence and mismanagement. High rates of inflation,

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unemployment, and levels of poverty; constant erosion in the value of money, both domestically and in world markets; low levels of production; flight of capital; mounting debts; escalating levels of debt servicing; precarious state of reserves, — all have driven the economy towards brink of disaster. It is the inherent resilience of the non-public sector that has enabled the country to survive. There is no doubt that people have suffered and every sector of

economy has languished. It is only a certain elite that wallows in prosperity and affluence. The common people have suffered. It is a sad commentary on the performance of the Government that public sector enterprises (PSE) have been a constant drain on the economy. Some energy shortages were there before 2008, but it has been during the last five years that shortages have snowballed and disrupted the economy and worsened the living conditions of the people. The volume of domestic and international debt has increased from Rs. 6 trillion in 2008 to over Rs.15 trillion in 2012. Capacity to repay debt has not been created. Debt servicing has become item number one in public expenditure. In 1970's and 1980s, defense expenditure was used to be the largest component of government spending. Now debt servicing is almost double the defense expenditure.

It is eating away more than three times what is spent on development. The amount spent on the provision of social services is peanuts in comparison to it. So this is a very grave situation. This challenge can be met only if the country is able to get a leadership that knows what is to be done; and has the capability and credibility to transform the economy. What is needed in the economy is a paradigm shift: an economic path that focuses on growth, human resource development, elimination of corruption, and effective mobilization of domestic resources and also those of the expatriates. This must be

coupled with good governance and shift of focus towards self-reliance and people's welfare as centre-piece of all policies and programs. It is very difficult to turn the corner and come out of the present mess, without such a radical change.

War on Terror: To me, War on Terror is not merely a question of security and foreign policy. It is also a question of economy, as also of trust between the people and the rulers. Protection of life, honour and property are *sine qua non* of civilized existence. If security is to be privatized, it is a vote of no confidence in the Government and the agencies and institutions responsible for law and order in the country. The economic cost of the war on terror is horrendous. Poor people of Pakistan have financed this American war on terror to the extent of over \$100 billion. This represents only direct economic cost. Indirect costs are much higher.

Deterioration of law and order is directly related to our involvement in the war on terror. Country is also suffering at the hands of terror mafias, criminal groups, sectarian outfits, secessionist forces. Foreign agencies are also engaged in overt and covert activities. This is over and above another direct cost in the form of loss of life of over six thousand personnel

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of the armed and security forces, over forty thousand civilians, injuries to more than double those numbers and displacement of over three million people within the country. How to bring this war to an end is the most urgent issue. There cannot be only one way of dealing with all of the multifarious aspects of this challenge. There has to be a multidimensional strategy. WoT has to be brought to an end in a manner that does not aggravate terrorism in the country and in the region. It is also very important to ensure that the current war on terror is not replaced by another era of civil war in Afghanistan. If there is no real peace in Afghanistan we cannot live in peace in Pakistan.

Relationship between Federation and Provinces: Relationship between federation and provinces, and between provinces and local governments is also an extremely important issue. Genuine decentralization without compromising the foundations of federation is one of our existential needs. Serious work has to be done in this respect by developing a clear roadmap taking care of the genuine concerns of the federation as well as the provinces, particularly in Baluchistan, in a manner that all stakeholders participate in this effort and ultimately arrive at consensus. Structural changes in the monetary and fiscal system which must accompany them are also required. We have a fiscal system which does not conform to principles of federalism.

It is a kind of pseudo federalism. There is a structural problem, as almost all revenue collection is done by the Federal Government as is the case in a unitary state. But, expenditure processes are in a different mould. Those who manage expenditure are not responsible for taxation. This lies at the roots of a lot of fiscal irresponsibility. Unless taxes are also decentralized, principles of fiscal responsibility cannot be promoted at all levels. The financial structure has to be redesigned and restructured. The fact that federation collects and provinces spend is recipe for indiscipline. That is why the task of development of a proper and responsible federal system demands major changes in structures, policies and processes of governance, political and financial. The 18th Constitutional Amendment was a step in the right direction, but only a first step. Successive steps required have not been taken yet. That is why we are faced with structural as well as political issues in this respect.

Role of Private Sector: Despite all the economic constraints, if we can set our priorities right and mobilize our real resource potential, particularly in the social sector and public sector development, we can inaugurate a new era of economic development and social welfare. Private enterprise should play a key role. It is borne out by history that whenever private sector was given proper opportunity it has played its role positively and constructively. But because of corruption, lack of

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good governance, real and contrived clash of interests, absence of clarity of vision, neglect of accountability, and failure of regulatory mechanisms, private sector has not been able to make its full contribution. A balanced approach is needed: vibrant private sector, and responsible and supportive public sector. The role of the

state particularly in the realm of infrastructure development, provision of social services, and bringing the lower strata's of society into the mainstream of economy is of critical importance. State's responsibility to ensure education and health for all and adequate infrastructure development at grassroots levels and financial structures that can provide lifeblood for all layers of economic activity such as agriculture, small and cottage industry, small and medium enterprises (SMEs) are very important. Key targets must be set for macro- economic stabilization, as well as grassroot economic development ensuring social well-being for all members of the society and their active participation in the economic processes. This calls for a different economic model. Development of such a model should be our immediate objective. If we as intellectuals are able to identify our real national objective, expound that vision with clarity and spell out a

roadmap to move in that direction we can help the future political leadership to lead the country out of this difficult situation.

As a nation we have great potential. What is lacking is political will, clarity of vision, a well-thought-out roadmap, capable political leadership and vibrant state institutions to play their respective roles. The success of a leadership lies in making all stake-holders play their assigned roles in building the society. Let us clearly state the issues we face and spell into the strategies and policies needed to resolve them. We can play a constructive role by providing a roadmap to the new leadership that comes up as a result of the 2013 elections to build Pakistan as a regional power in the next decade. It is time we make our contribution to enable the new leadership to squarely face the challenges that comes from this fivefold crises of legitimacy, integrity, governance, capability and credibility.

Foreign Policy

*Shamshad A. Khan**

The Quaid's Vision

The Founder of Pakistan, Quaid-e-Azam Mohammad Ali Jinnah had envisioned the newly independent Muslim state's foreign policy to be one of "peace with all, and enmity with none" In a message to the nation on August 15, 1948, he elaborated his foreign policy vision as follows:

"Our foreign policy is one of friendliness and good-will towards all the nations of the world. We do not cherish aggressive designs against any country or nation. We believe in the policy of honesty and fair play in national and international dealings and are prepared to make our utmost contribution to the promotion of peace and prosperity among the nations of the world. Pakistan will never be found lacking in extending its material and moral support to the oppressed and suppressed of the United Nations Charter."

The Quaid's foreign policy vision thus stipulated Pakistan's steadfast adherence to the purposes and principles of the UN Charter, particularly the principles of sovereign equality, territorial integrity, non-interference in each other's affairs, and peaceful settlement of bilateral disputes.

Functionally, the Quaid also expected the nation's irrevocable commitment to the ideals of democracy, pluralism, market economy, social justice, communal harmony and egalitarian order.

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Based on these principles, the basic goals of Pakistan's foreign policy can be summed up as

“Our foreign policy is one of friendliness and good-will towards all the nations of the world. We do not cherish aggressive designs against any country or nation.

“preservation of sovereign independence and territorial integrity, socio-economic development, maintenance of Islamic identity while progressing as a modern and forward-looking democratic nation pursuing in solidarity with the international community the cause of global peace and security and making Pakistan a strong factor of regional and global

stability.”

Geopolitics

For any country, it is important who its neighbours are, as their attitude, irrespective of their size or power, has a direct bearing on its personality and character, and on issues of its security, development and resource allocation. A glance at the map of our region will show that Pakistan lies at the confluence of some of the most important but volatile regions of the world.

Geography places on Pakistan the onerous responsibility of consistent vigilance and careful conduct of its relations not only with its immediate neighbours but also with the rest of the world, particularly the major powers. Pakistan's foreign policy thus has been determined primarily by its geo-political environment and concomitant compulsions of national security and territorial integrity.

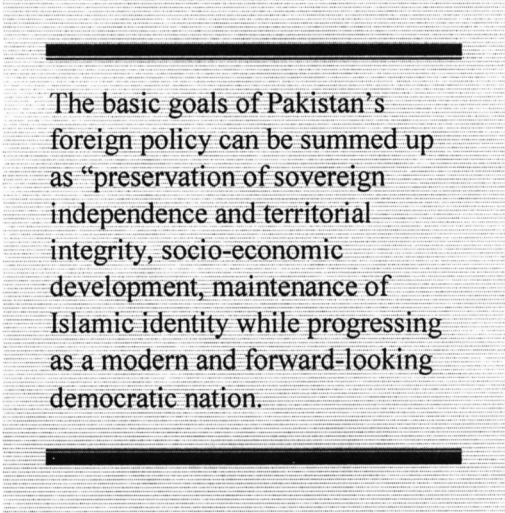
Against this backdrop, Pakistan's external relations since the very beginning of our independent statehood have been marked by four major constants:

- Our quest for security and survival as an independent state.
- The legacy of our troubled relationship with India which in fact constituted the centre-point of our foreign policy.
- Our excessive reliance on the West for our economic, political and military survival; and
- Our total solidarity with the Muslim world, and unflinching support to Muslim causes.

No wonder, Pakistan's foreign policy has remained marked by a complex balancing process in the context of the turbulent history of the region in which it is located, its own geo-strategic importance, its security compulsions, and the gravity and vast array of its domestic problems. In the process, Pakistan has encountered unbroken series of

challenges and experienced wars and territorial setbacks. It has lost half the country, and even today, it continues to live in a hostile neighborhood.

Pakistan's strategic location was pivotal to the global dynamics of the Cold War era. The policy of containment was enacted on our soil and we were a major player in dismantling what the free world once called the "evil empire" of the former Soviet Union. Unfortunately, the post- 9/11 scenario has placed us in a very negative image as "the breeding ground" of "religious extremism, violence and militancy."



The basic goals of Pakistan's foreign policy can be summed up as "preservation of sovereign independence and territorial integrity, socio-economic development, maintenance of Islamic identity while progressing as a modern and forward-looking democratic nation."

The sum-total of our foreign policy today is our post-9/11 identity on the global radar screen as the "ground zero" of the war on terror. This negative perception complicates things for Pakistan both domestically and externally, and limits its policy options.

Domestic perspective

Foreign policy of a country, and the way it is made and pursued is inextricably linked to its domestic policies, governance issues and socio-economic and political situation. And domestically, Pakistan's post-independence political history has been replete with endemic crises and challenges that perhaps no other country in the world has experienced.

A country's standing in the comity of nations always corresponds directly to its political, social, economic and strategic strength. Unfortunately, decades of political instability resulting from protracted military rule, institutional paralysis, poor governance, socio-economic malaise, rampant crime and corruption, and general aversion to the rule of law have left us politically unstable, economically weak, socially fragmented and physically disintegrated.

Our domestic failures have not only seriously constricted our foreign policy options but also exacerbated Pakistan's external image and standing. Today, from being a major power in South Asia always equated with India, Pakistan is bracketed with Afghanistan in terms of its outlook, role, needs and problems. This is an unenviable distinction which circumscribes our role both within and beyond our region.

The Challenges

For over sixty-five years now, we have followed a foreign policy that we thought was based on globally recognized principles of inter-state relations and which in our view responded realistically to the exceptional challenges of our times. But never did we realise that for a perilously located country, domestically as unstable and unpredictable as ours, there could be not many choices in terms of external relations.

In recent years, grave crises and acute problems have proliferated in our volatile region in a manner that has not only made

Pakistan's foreign policy has been determined primarily by its geo-political environment and concomitant compulsions of national security and territorial integrity.

Pakistan the focus of world attention and anxiety but also forced it to make difficult choices in its perennial struggle for security and survival as an independent state. Our problems are further aggravated by the complex regional configuration with a growing Indo-US nexus, India's strategic ascendancy in the region and its unprecedented influence in Afghanistan with serious

nuisance potential against Pakistan's security interests and legitimate strategic stakes in the region.

Pakistan's biggest challenge now is to convert its pivotal location into an asset rather than a liability. We must restore our global image as a moderate, cooperative and responsible state, capable of living at peace with itself and with its neighbours. Instead of always blaming "others" for our problems, let's have the courage to admit that there is something fundamentally wrong with our own governance patterns. The perennial leadership miscarriages are the root cause of our governance failures. In the ultimate analysis, our problems are not external. Our problems are domestic.

Even our external difficulties are the extension of our governance failures. There is no foreign policy worth its name in the absence of good governance which in today's world is the real instrument of statecraft. No country has ever succeeded externally if it is weak and crippled domestically. Even a super power, the former Soviet Union could not survive as a super power only because it was domestically weak in political and economic terms.

The Way Forward

Our foremost priority is to fix the fundamentals of our governance. We need domestic consolidation, politically, economically and socially.

Governance must be based on the rule of law, accountability and absolute justice on non-discriminatory basis. While preserving our Islamic identity in its real essence, we must extricate ourselves of the distortionist forces of extremism, obscurantism, intolerance, militancy and violence.

Our peculiar socio-economic and political culture, high rate of poverty and illiteracy, and inequality of wealth and power require fundamental changes in our political system and governance patterns. Temperamentally, we are a 'presidential' nation. It is time we abandoned the system that we have never been able to practice and opted for an adult franchise-based 'presidential system' suitably designed for and tailored to Pakistan's needs. Also needed is rationalization of our federal system in order to address the problems of provincial disharmony and regional disparities.

Pakistan needs a low profile foreign policy formulated through institutional rather than personal approach with focus on country's political, economic and strategic interests.

Reordering of national priorities is needed with greater focus on socio-economic wellbeing of the people through sustainable economic growth and poverty eradication as well as maximum allocation of resources to the social sector including health, education and basic infrastructures.

We must opt for self-reliance and national dignity. No begging. Loans are not capital; they are a liability. Foreign aid is never unconditional. Let us dispense with them focusing on optimum utilization of our own material wealth and human resources. We need to capitalise on our agricultural, economic, industrial and technological potential.

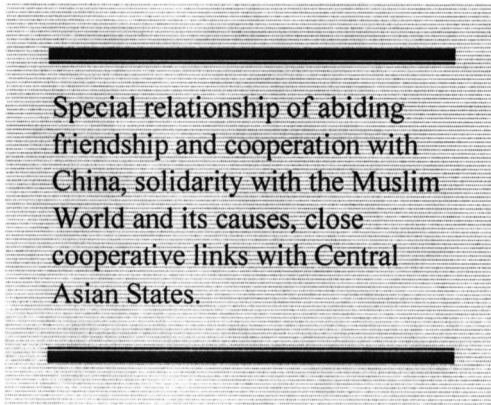
Simplicity and austerity should be the cardinal principles of our national life in all its spheres.

No more blind faith in the so-called "Friends of Pakistan." Let's be our own friends and seek homegrown solutions to our problems. Our leaders must give-up the Marco Polo culture. No more foreign visits unless unavoidable in national interest. No more World Economic Forums, no more state-funded Umra junkets. Corruption must be rooted out from all segments of our society and at all levels of the government and its institutions.

The sanctity of Pakistan's territorial integrity must be observed with no relaxation or exemption. From now onward, no piece of land in

any part of the country should be gifted or leased for any purpose to foreign rulers, sheikhs, princes or states and their governments. No more 'Shamsi Bases.'

Our foremost challenge at this critical juncture is not what we

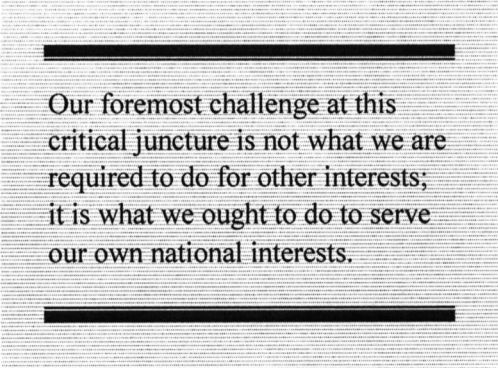


are required to do for others' interests; it is what we ought to do to serve our own national interests. We must not make any compromise on principles & national interests. We need to regain and preserve our sovereign independence and dignity. We need to restore our credibility and respect as an independent state in the comity of nations.

Pakistan needs to develop a well thought-out road map regarding the following points:

- An independent foreign policy based on Quaid-e-Azam's vision: peace with all, enmity with none, and premised on universally established inter-state relations, and economic diplomacy, focused on protecting vital national and security interests, national honour and dignity.
- Steadfast adherence to the principles of the UN Charter, particularly the principles of sovereign equality, territorial integrity, non-interference and peaceful settlement of disputes.
- Respect for all internationally recognized human rights and fundamental values and freedoms as also enshrined in Pakistan's Constitution.
- Pakistan's geopolitical location should be a source of strength and stability in the region and a factor of peace and security in the world.
- Special relationship of abiding friendship and cooperation with China, solidarity with the Muslim world and its causes, close cooperative links with Central Asian States, multi-dimensional cooperative relationship with the US, Japan, Canada and EU countries on the basis of sovereign equality and mutuality of benefit, and the principle of friendship with all, enmity with none, as the main pillars of Pakistan's foreign policy.

- Promotion in the country of an environment of tolerance, understanding, responsibility and moderation, while curbing obscurantism and fundamentalism.
- Pakistan's territory not to be allowed to be used as a staging ground for terrorist activities in any other country. There shall be zero tolerance for militancy under any name or on any pretext.
- Complete solidarity with international community in promoting policies that seek to address the underlying causes of extremism, intolerance, militancy and violence.
- Instead of the current "war on terror" a Global Peace Initiative should be launched under the UN auspices involving a comprehensive approach at global level aimed at addressing the underlying causes of this menace.
- Peaceful environment in South Asia and good neighborly relations with countries sharing borders with Pakistan including India and Afghanistan.
- Principled position on the Kashmir issue seeking its final solution through peaceful means in conformity with the UN resolutions and legitimate aspirations of the people of Kashmir.
- Mutually beneficial economic cooperation both at bilateral and regional levels in South Asia and Central Asia within the frameworks of SAARC, ECO and SCO.
- A highly 'responsible nuclear-weapon state' posture based on 'credible minimum deterrence' with strict adherence to restraint and responsibility and compliance with non-proliferation goals on non-discriminatory criteria-based terms with other nuclear-weapon states.
- We need a low profile foreign policy formulated through institutional rather than personal approach with focus on country's political, economic and strategic interests while following Hafiz Shirazi's advice: "kindness to friends", "courtesy to enemies" with equal faith in Allama Iqbal's message of "self-respect, esteem and dignity."



Our foremost challenge at this critical juncture is not what we are required to do for other interests; it is what we ought to do to serve our own national interests.

National Security

*Said Nazir Mohmand**

Diplomacy is the first and outer most defensive line of a country. It furthers and preserves the national interests amongst the comity of nations and remains alert to any development with a focus on all threats in the making to the detriment of national interests. In today's global village the threats are multidimensional and the challenges are very many and complex. Safeguarding the national interest is a gigantic job and a bull work of policy parameters and strategic undertakings are required to be meshed together in the overall ambit of state craft. Though, diplomacy is the art of impossible, but the irony is that even the very possible have not been exploited to the good of this country. This art craft either remains in slumber or gets compromised at the wish of a dictator or his strong arm the security establishment. Our

The present design of threats on the canvas of national security spectrum is complex, multi faceted, omni-directional and difficult to face and neutralize.

diplomatic manoeuvres are defensive or at the most reactive in nature. Moreover the internal disharmony and institutional incapacity leads to vacuum which is partly exploited by indigenous destabilizing agents and mainly capitalized by regional and international players. So, one can conclude that the external threat is either given a free passage by ducking

down or meet with a meek and mute response. It is also the internal turbulence which risks the foundation of a nation state. We had been the victim of both. The chronology of threats and response capacity and efficacy are tabulated as under.

The 1948 Indo-Pak military confrontation on the State of Jammu and Kashmir was mainly left to the volunteers of FATA to liberate Kashmir. Had there been a collective response the Indian held Kashmir would have been part of Pakistan.

The 1965 war fought with national resolve and cohesion was lost on the diplomatic table at Tashkent. It left us with misconception that the defence of East Pakistan lay in the defensive/offensive posturing of West Pakistan.

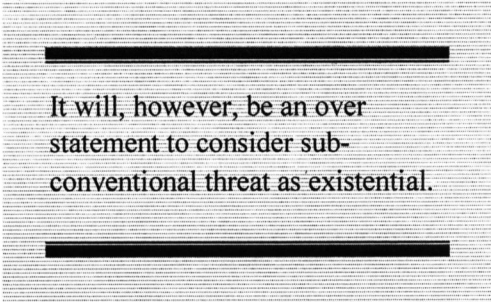
The CETO and CENTO pacts were linked with a faulty concept that allying with a super power means security at best. We became a party to the Cold War and it resulted in safeguarding the interests of a

* Retired brigadier and senior IPS Associate.

stronger ally rather than that of our own national interests. Kashmir dispute remained embroiled in the fallout effects of these pacts.

We misinterpreted the 1971 crisis to be controlled and subdued through the use of military instrument, negating the very fact that we had already lost on the diplomatic front. We miscalculated that the external threat in active support of insurgency in the then East Pakistan could be a win-win situation for us.

The proxy war in Afghanistan against the Soviet occupation blinded us by avenging the Cold War US rival with the Muslims blood and US dollars. The resulted demise of Soviet Union provided unbridled authority to the only surviving super power (USA). The world at large and Af-Pak in particular owes its destabilization and militancy and extreme tendencies to the imbalance and lopsided policies of USA.



The Kargil misadventure was not only a fiasco on diplomatic front but an example of rudimentary military strategy with limited goals and obscurity to the massive response/retaliation capacity of India. We were not prepared for the worst case scenario. One could contribute it to the bravado mindset of a would be power corrupted dictator with little respect for consultation and experience in statecraft.

Diplomacy was reduced to a nonentity in the aftermath of 9/11 when the then dictator collapsed on a phone call and agreed to all the seven diktats of US and volunteered to act as front line ally in the war on terror; limited to the Taliban routing. The war was thought to be short and limited to the Taliban routing. The security of Pakistan was put at stake for elongating self rule.

The Abbottabad episode, raid on Salala, unabated drones attacks and striking with impunity our vital installations by the Tehreek-e-Taliban Pakistan (TTP), target killing in Karachi and violence in Baluchistan are the unfolding existential threats. These incidents have exposed many chinks in our amour and shredded our security parameters, leaving a question mark on our sovereignty.

The intermittent military interventions in politics, bad governance, corruption, social injustices, internal disharmony and collapse of national institutions at the hands of incompetent political leadership are eating-up the very vitals of this nation. The combined effects of all these fault lines in our system could reduce Pakistan in to

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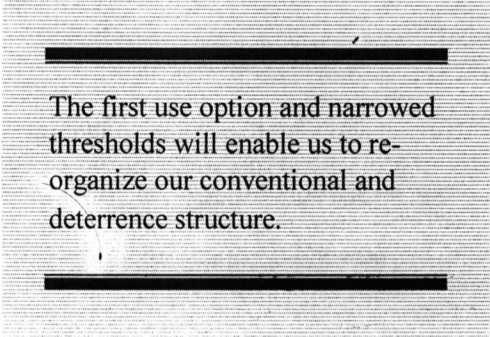
a banana republic if not taken cognizance in the coming elections and addressed by the resultant political dispensation.

With the crises in and around, Pakistan has serious security concerns at home, regional and international levels. The internal dynamics of the mainland Pakistan could be summarized as:

We had been the victim of the injustices done to us during the partition by the British Raj, which left us agitated and frustrated. We lost lot of our energies and resources in redefining and addressing our security parameters rather than institutions and nation building.

The diplomatic, security and intelligence agencies of India and Pakistan never missed an opportunity to destabilize each other's country overtly or covertly. Both the countries are hostages to the belligerency, bellicosity and trust deficit in one form or the other.

The proxy war with jihadi elements in Afghanistan against Soviet Union remained an unfinished agenda of the warring factions. It



The first use option and narrowed thresholds will enable us to re-organize our conventional and deterrence structure.

not only introduced Kalashnikov culture but a policy parameter leading to imposing our will on others through coercive diplomacy and growth of non- state actors at the cost of peace and progress. The victor and vanquished vanished with little respect for the stability of the war ravaged country, Afghanistan and front line ally,

Pakistan.

The Afghan war in eighties mainly fought by Sulfi Sunni Jihadis and the export potentials of Iranian revolution during the same period polarized Pak society into Shia, Sunni extremists sponsored by their wealthy dogmatic giants. The fissures created sectarian monsters devouring the bondages of our society.

The Kargil episode attributed to the Kashmiri Mujahideen backfired at the diplomatic front and mismanaged at the strategic level thereby creating fissures in the civil-military relations. The security threat loomed large and the elected govt was sent packing.

In the aftermath of 9/11, the series of U turns on the long standing and well established policy parameters further widened the scope of our security concerns. The present state of flux is the manifestation of the war on terror. The fallouts are in the form of immense men and material losses, besides Pakistan being treated as a fall guy for allegedly being a part of the problem and a whipping boy for

not doing more and better. It has brought Rambo culture, drones attacks, sting operations and special missions with US boots having invisible foot prints on Pak soil.

The present design of threats on the canvas of national security spectrum is complex, multi faceted, omni-directional and difficult to face and neutralize. It is accentuated by fluid security situation, sponsored and abetted by both internal and external factors and actors. It is a complex situation to be addressed and revisited in a wholesome manner with sincerity of purpose in a fear free environment. The way forward in minimizing/neutralizing the threats could be objectively addressed, provided we put into motion the succeeding broad policy parameters and strategic undertakings.

The river water issue with India be put on fast track before it becomes the question of survival and military confrontation.

Our diplomatic, security and intelligence organs be in unison and geared up to be more proactive rather than reactive in nature to the threats. To do so, our diplomatic standing and exterior manoeuvres in the pursuit of national interest and security be conducted at the level, status and plinth of a nuclear power state.

We should make our relevance felt and extended through the development and demonstration of our strategic resolve as a force to reckon with and redfine our nuclear thresholds to save on the conventional front. It will provide nuclear umbrella to our vitals and core sensitivities and relieve us from the cost prohibitive mobilization against any misadventure. This would flatten the theory of limited war.

For Pakistan, sub-conventional threat is a reality of present time. No state can afford a parallel system or a militant force; it gets divided and taken towards a civil war. This, however, does not mean that the conventional threat has receded. It will be an over statement to consider sub-conventional threat as existential. It is transient in nature and would pass-by when its string-pullers abdicate mischief. Country is certainly pitched against a nebulous enemy; and alongside this, the conventional threat has also grown manifold.

This spectrum of threats could only be defeated through collective national will and multi-dimensional efforts in which the armed forces have a critical role to play, in harmony with other instruments of the state. However, political leadership has to take the lead. Though tenor, contour and magnitude of internal threat has changed, no military can ever forget that easiest way for the

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external threat to succeed is to come riding on the shoulders of internal disorder.

Pakistan Military's ultimate objective is to remain fully prepared to engage and defeat the external enemy, should it embark on exploiting the internal disorder through direct intervention. All militaries are trained to counter insurgencies and so is Pakistan's military.

In the nuclear strategic domain, extended reach in delivery platforms and development/refinement of tactical unconventional

Empowering and mainstreaming the people of FATA, solving the problems of the people of Balochistan and Karachi shall occupy the central stage in the internal conflict resolution.

warheads will add to our relevance at strategic level. The credible minimum deterrence nuclear strategy be based on the triad of land, air and sea based delivery platforms to ensure second strike capability and survivability. The First use option and narrowed thresholds will enable us to re-organize our conventional deterrence structure. The re-orientation of our British

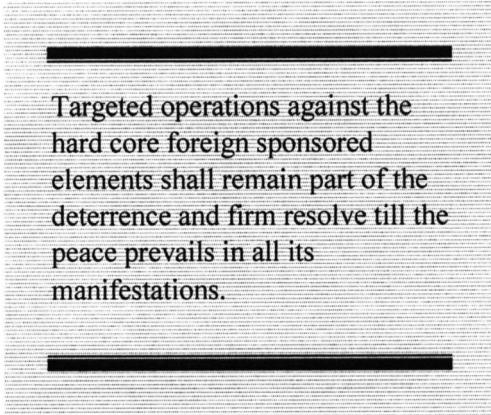
model triangular unit/formation structure into US model rectangular outfit will accrue us cost benefits at command level and off-set the Indian offensive capability in time and space dimension.

Though our armed forces and intelligence agencies have got hardened in the conduct of Low Intensity Conflict (LIC) during the last decade; but the non-state actors are also equipped with innovative techniques, target acquisition, communication /intelligence system, fighting skills and logistic/ human resource chains. The casualties and losses suffered during this sub-conventional war are more than the casualties suffered during all the wars fought with India. The western border activation coupled with brazen attacks on the very sensitive and well guarded installations have not only put us in the dilemma of two front scenarios but also committed our security agencies on the reverse slope at the cost of relegating the priority of Eastern conventional front. It is indeed a catch 22 situation with catastrophic consequences. There is a dire need to get out of this situation as early as possible by initiating a dialog process with the insurgents without pre-conditions and develop broad national consensus in routing out the menace of violence irrespective of any political, ethnic and religious reservation. Empowering and mainstreaming the people of FATA, solving the problems of the people of Balochistan and Karachi shall occupy the central stage in the internal conflict resolution. Care must be taken to strike a fine balance in acquisition of weapon and equipment for conventional and non-conventional wars. It may become cost

prohibitive to equip the first line forces with both sinews, rather it will be prudent to develop alternative strategies.

The research and development wing and defence production division be geared up to adopt a three prong strategy to achieve maximum indigenization, up-gradation to third generation technology and corporate management(civil-mil collaboration) of the existing defence industrial infrastructure. Diversification of the foreign sources with transfer of technology, out-sourcing the cost-prohibitive production/maintenance system to the local firms and standardization of weapon/equipment will not only enhance our logistic stamina but also broaden the defence oriented industrial infrastructure.

Maximum restraint be exercised in the use of military instrument. The military employment in aid of civil power should be for a limited period with surgical mission to soften the target enough till the threat gets subdued to a level to be handled by civil govt. It is possible once capacity building of Paramilitary forces is done to meet the internal threats effectively with the cooperation of all intelligence agencies. Meanwhile the mode of conventional battle deployment and operational conduct be changed into unconventional technique to reduce the collateral damages. Targeted operations against the hard core foreign sponsored elements shall remain part of the deterrence and firm resolve till the peace prevail in all its manifestations.



Targeted operations against the hard core foreign sponsored elements shall remain part of the deterrence and firm resolve till the peace prevails in all its manifestations.

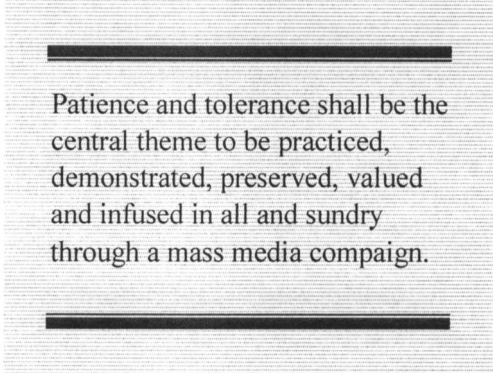
De-escalation in the war on terror by facilitating the occupation forces a safe exit and earning goodwill of all parties involved in the Afghan conflict be given priority. A graduated and calibrated response to the regional geo-strategic development in the pursuit of peace and stability shall provide us with a stable platform to project our relevance. It must be coupled with the unfolding of an exit strategy with defined time lines for troops deployed in FATA. While doing so a well thought out dialogue and development strategy be put into motion in order to win the hearts and minds of the people of FATA. There is urgent need for rehabilitation of all IDPs through a massive aid programme and provision of greater employment opportunities to the youth of FATA and Balochistan, both within the country and abroad. Credibility and visibility should be the hallmarks of this wholesome rehabilitation process.

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Drone attacks are a blatant and very visible manifestation of our lackey foreign policy and security incompetence in the context of national sovereignty. This blatant violation of our sovereignty must be put on check through an aggressive diplomacy and if need be potent active counter measures be mobilized. The drone attacks are counterproductive and a stark reminder of Armitage's necked brawl, "back to the stone age".

Let the policy of mutual co-existence be followed at home and abroad. The policy of confrontation be relegated and good neighbourly relations based on equality and dialog be promoted. The policy of appeasement be also shunned with firm resolve to remain independent and consistent while pursuing our national interests. Development and economic progress shall be kept in focus in the conduct of international relations and economic cooperation. A sound economic base is an important element of national power potentials.

A soft and deliberate screening of all foreign NGOs, contractors and foreign sponsored companies to



Patience and tolerance shall be the central theme to be practiced, demonstrated, preserved, valued and infused in all and sundry through a mass media compaign.

reduce their ingress into our security interests and social values be carried out on emergency basis. Return of Afghan refugees and illegal immigrants to their native countries be ensured through a phased program in collaboration with UNHCR. Across the board de-weaponization and cancellation of all the licenses of automatic weapons except pistol/revolver, shot gun and sports guns be done to reduce

target killing, extortion and abduction for ransom.

The woes and grievances of the small federating units be addressed by judicious distribution of resources and extension of maximum provincial autonomy. Re-carving the federating units to create additional viable units, including FATA, to be more efficiently and locally administered. Empowering the people of FATA during the transition road map will help in mainstreaming Fata. Let us be realistic and cognitive of the fact that there is a growing demand, getting mass on popularity graph to the creation of more provinces. Holding of a referendum on the question of creating more federating units is after all one of the constitutional option in a democratic dispensation.

Policy focus on social justice, elimination of VIP culture, discretionary powers, and ostentatious living by the state functionaries with stringent measures to ensure austerity, merit, social justice and welfare must be the foremost priority of the newly elected political

dispensation. The institutions of ombudsman, NAB, PAC and local Jirga system be made more potent in addressing the grievances of common people.

All signs, lingo, literature, sermons and demonstrations encroaching on the feelings and sentiments of other sects and ethnic entities be banned and removed from all places of public and private concern. Policy consensus be achieved on the ethnic, sectarian and religious bondage and harmony. Ultra liberals, religious and ethnic extremists be treated at par as hate mongers. Enough is enough with class-based education. It is inculcating the feelings of apartheid education system among the younger generation. Merit is the first casualty of this system, and murder of the merit leads to frustration, disappointment and extremist tendencies.

Adulteration in drugs, food items, extra judicial killings, forced labour and dacoity/robbery, hoarding, extortion, abduction for ransom and above all corruption be equated with terrorism and tried in special speedy summary courts. Fair trial bill be extended to these areas of national malice.

Evolve a media policy to reinforce confidence in national institutions and a code of conduct to respect the individual rights and remove the misperception regarding Islam and Pakistan. The policy be in essence representative of all the peoples of the federation. Media may carry out a self-appraisal through a counsel of objective journalism to reduce confusion, and oft repeated triads of big mouths with little essence and value to general public. Patience and tolerance shall be the central theme to be practiced, demonstrated, preserved, valued and infused in all and sundry through a mass media campaign. Advertisements coupled with propaganda and party/personality projection contents; at the cost of public money be banned to reduce leverage on media manipulation. Foreign contents shall also be subjected to the PEMRA laws and regulations as in vogue for the domestic contents. Laws must be made to arrest the tendencies of maligning armed forces, judiciary, religion and ideological frontiers of the country. Ultra liberal projection and foreign cultural onslaught and obscenity be closely monitored.

Political and electoral reforms are long due and its framing with potent implementation mechanism is a burning issue. The future political dispensation and its legislative body should evolve a transparent mechanism to put a firm check on turn coats, remnants and supporters of dictators. The number of ministers, advisors and state ministers be reduced to 10 % of the legislative body both at federal and provincial level. Development funds, permits, plots, waver/write off loans and quota allotment to the legislative members are the main causes of corruption, political manipulation and mal-practices. Let legislation, and passing of finance bills be their sole responsibility.

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Ostentatious livings, import of grand luxury items, beg and borrow and extravaganzas should be discouraged to the hilt. Transparency and serving the vital national interest should be the rider clauses of our policy parameters. There should be a benchmark for foreign and domestic loans which can only be crossed during financial emergencies and with the approval of both the houses of parliament.

The sick national mega projects / organizations like PIA, Pakistan Railway, WAPDA, SNGPL and Steel Mill like rejuvenated through technical experts and kept out of the political influence. Turning around of these projects into profitable institutions shall improve the financial health of the country. Energy crisis is crippling our manufacturing, production, health, education and economic potential besides aggravating social sufferings. Energy and water management emergency be declared to ensure the cheap availability of these commodities to all sectors of consumption. The river water issue with India be put on fast track before it becomes the question of survival and military confrontation.

The list of national power potentials in the context of defence and security is long, but the above deliberated upon; deserve priority handling at the hands of future political dispensation. The internal security dynamics are grave, complex and intricately woven into an invisible web-net lurking for our sovereignty. The next couple of years will shape the future mosaic of the region and the viability of Pakistan as an independent sovereign state. Statecraft, diplomacy, domestic reforms and security parameters are to be revisited and reshaped to meet the challenges of the present and future and obviate the chances of collapse. The newly elected political dispensation be prepared to be in unison with all the state organs in facing the challenges, reconciliation and conflict resolution. The Pakistani youth, the large slice of the demographic pie will be the deciding element in the election of the new legislative body, therefore their aspirations if not met will lead to dangerous consequences. The existential threat is looming large, it may swing in any direction therefore there is a need to steer it in the right direction; else the ship may go at the disposal of the deep sea. An all-weather captain and seasoned crew can steer it out of the troubled waters.

Economy

*Sakib Sherani**

Introduction

On the cusp of 2013, Pakistan finds itself in somewhat familiar territory: facing a multitude of challenges for the sixth year in a row.

* Former Economic Advisor, Government of Pakistan and founder and CEO Macro Economic Insights (Pvt) Ltd.

The energy crisis is likely to intensify in the first few months of the year, with the shortfall in natural gas and hydro-resources peaking between January and March. During roughly the same timeframe, the country's balance of payments will face stress as foreign exchange reserves dwindle amid sharply lower inflows and debt repayment pressure. This will bring Pakistan closer to an IMF program, which will become inevitable by the summer. In the interim, the Rupee is likely to face considerable pressure as well as volatility.

This is slated to be a year of political transition, with general elections expected anytime between April and June. The prospect of a "lame duck" parliament handing over to an interim administration before the next government fully takes over post-elections is likely to slow the government's policy response to economic issues – and will likely make for a challenging environment for businesses. An added degree of uncertainty for some businesses will come from the fact that 2013 is also slated to be the first year of a more liberalised trading regime between Pakistan and India, which is likely to witness greater competition for a number of domestic sectors.

However, on a positive note, overall economic growth for 2012-13 is heading for an unexpectedly strong performance, mainly due to a bounce in output of the crop sub-sector. Inflation is also likely to remain somewhat on the lower side in comparison to recent years. A benign outlook for the international oil price in the first half of the incoming year will also be of significant help in providing some headwind to the economy.

Balance of payments

The first and perhaps most severe challenge for 2013 will come from the deteriorating balance of payments. While the external current account balance for 2012-13 is projected to be a relatively subdued deficit of less than 1% of GDP, the pressure on the external account is emanating from sharply lower capital inflows combined with lumpy debt repayments, especially to the IMF.

The lower capital inflows are symbolised by the steep drop in Foreign Direct Investment (FDI). After peaking at US\$ 5.4 billion in 2007-08, net FDI has been on a steady declining path, falling to US\$ 812 million in 2011-12 – its lowest level in recent times. For the ongoing fiscal year, it is expected to shrink even further.

The other source of lower inflow is external assistance, which has also declined sharply. Gross disbursement of long term assistance has declined from over US\$ 4 billion in 2009-10, to just over US\$ 2 billion in 2011-12. On the debt repayment front, Pakistan is expected to repay approximately US\$ 1.7 billion to the IMF between January and June 2013, in addition to other repayments.

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All told, the lower capital inflow and higher debt repayments are likely to significantly dent foreign exchange reserves held by the central bank in the first few months of 2013.

The first and perhaps most severe challenge for 2013 will come from the deteriorating balance of payments.

Forex reserves held by SBP have declined from their peak level of US\$ 14.8 billion as of end-June 2011 to an estimated US\$ 8.5 billion as of end-December – a cumulative decline of US\$ 6.3 billion in a matter of eighteen months.

A further fall in forex reserves will generate more pressure on the Rupee in the currency markets. The Rupee has lost over 10% in its value against the US\$ in the past 12 months. Depending on the duration and severity of the stress on the external account, an added source of pressure could come from outflow of foreign portfolio investment. Pakistan's bourse has been amongst the best-performing equity markets in the region, rising nearly 50% in nominal Rupee terms during 2012. The run-up in the KSE has attracted foreign portfolio investment of approximately US\$ 150 million between July and end-November 2012. The cumulative stock of foreign portfolio money invested in Pakistani equities amounts to over US\$ 3 billion.

The policy response to the developing debt/balance of payments crisis will be hampered by the political transition scheduled to take place sometime before the summer of 2013. Currently, the government is hoping that release of monies under the Coalition Support Fund (CSF) will be enough to keep the crisis at bay till the caretaker set-up is in place. More robust action to defer the crisis would be politically unpopular close to an election, as it will involve reducing the fiscal deficit through a combination of tax increases and spending cuts. It may also require a more serious and credible reform of the power sector – which in turn could imply higher electricity tariffs for voters.

A further fall in forex reserves will generate more pressure on the Rupee in the currency markets.

For precisely this reason, an early IMF bail-out is ruled out, as the IMF would require upfront tough action on many of the measures agreed to in the 2008 Stand By Arrangement (SBA), but which were left unimplemented by the government. These included a reform of the power sector, a

reduction in the fiscal deficit, and the elimination of wide-spread exemptions in the tax code.

Since almost all the measures are structural in nature, the implementation of which has eluded Pakistan for nearly 60 years, the IMF would rather have clear, and broad, political ownership for the measures to be introduced. Hence, negotiations for a new lending program with an outgoing government, or with an interim administration in place for a very short period with a limited mandate, are unlikely. Uncertainty regarding the timing and nature of the next IMF program is a large factor in keeping the currency markets volatile, and economic agents in a wait-and-see mode.

Energy

The energy shortage has progressively worsened since 2008, adversely affecting business activity and the investment environment. A rising electricity shortfall has combined with a precipitous fall in the availability of natural gas in the country, to produce a near-crisis like situation. Estimates of the economic impact of the electricity shortfall alone range from 2% to 4% of GDP annually. The impact of the non-availability of gas to industrial sectors such as textiles processing and weaving, and fertiliser manufacturing, is an additional cost. Combined, the economic cost of the energy shortage could easily touch 5 to 6% of GDP each year (or roughly Rs 1.2 trillion a year).

Introducing better governance in the sector, re-balancing the fuel mix of electricity generation away from highest-cost sources such as diesel and residual fuel oil, ensuring better availability of energy to the most productive sectors of the economy such as the export sector, while reducing the subsidy burden on the exchequer will continue to remain major challenges in the sector.

Strengthening public finances by reform of tax policy and building the capacity and credibility of tax administration (FBR) should be the first order of business.

However, at the margin, there may be some relief in sight during 2013 for the power sector in terms of higher availability and a less-rapid build up of the energy circular debt. This will be on account of the possibility of a sharp correction in international commodity prices, especially oil, following the failure of the US political system to reach a *conclusive* deal on fixing its public finances.

Growth, Inflation and Investment

Prospects for growth during the ongoing fiscal year 2012-13 have received a fillip from a strong performance of the crops sub-sector in agriculture. Bumper output in rice, cotton, sugarcane and minor crops such as chillies will boost growth in the crops sub-sector to its highest level in years. This will more than offset weakness in the industrial sector, particularly large scale manufacturing, and could lead to overall GDP growth of 3.8%-4.0% for the year.

Better output in the farm sector combined with lower international commodity prices, in particular of oil, will translate into subdued inflationary pressure. However, the magnitude of Rupee weakness during 2013 will be an important determinant of the extent of price pressure generated in the economy. A low starting point for CPI inflation (November data point: 6.9% year-on-year), combined with a high base effect, will also help keep a lid on the change in price indices.

While prospects for growth and inflation may be better in 2012-13 as compared to the last several years, the same is not true for investment. Both foreign as well as domestic investment appears to have hit a low point, and on current indications, overall fixed investment is unlikely to break out from its southward trajectory.

All in all, the next government will inherit a fragile economy and a plethora of deep-seated challenges in 2013.

Policy Options

A robust and credible program of wide-ranging economic and institutional reform is required to turn Pakistan's economy around. Strengthening public finances by reform of tax policy and building the capacity and credibility of tax administration (FBR) should be the first order of business. Expenditure management will need to include restructuring and possible privatisation of loss-making public sector enterprises, such as PIA, Pakistan Railways and Pakistan Steel Mills. In addition, better prioritisation of projects in the public sector development program (PSDP) can yield significant savings.

On the energy front, improved governance of the system leading to a substantial reduction in line losses and 'unaccounted-for gas' should be accorded top priority. At the same time, the fuel mix used for power generation needs to be moved towards lower-cost sources. In this context, an important step would be to initiate the conversion of combined cycle and dual-fired power plants from diesel and furnace oil to imported coal (till such time indigenous supply from Thar comes on stream).

The government will only be able to move along these lines, however, after it has successfully managed to stabilize the macro-

economic situation. That may require a return to the IMF, sooner rather than later.

Energy

*Mirza Hamid Hassan**

Access to reliable, affordable and uninterrupted electric power and other forms of energy is the key to economic growth and welfare of any society. Studies by International Energy Agency and other international organisations have shown strong correlations between access to energy, particularly electricity, and sustained economic growth, human welfare, governance and security, underscoring the need for ensuring energy security for developed as well developing economies and their citizens.

Pakistan is currently facing severe energy shortage, both of electric power and natural gas. The shortage of natural gas has been caused by depleting gas reserves and rapidly increasing demand. Ironically the electricity shortage has not been caused by a lack of generation capacity which at the moment exceeds the peak demand by about 5000 MW. The power companies are unable to utilize their existing generation capacity due to a number of problems most of which have been caused by poor management and lack of good governance. Excessively high power prices have also driven electricity out of reach of a large number of people and made it unsustainable for industrial consumers, resulting in closure or relocation of many industrial units. Frequent and sustained outages are also causing disruption in economic activity as well as daily lives of people. Thus electric power supply suffers from the multiple problems of availability, affordability and reliability. It would be pertinent to have a brief overview of Pakistan's energy scenario before we discuss the causes of our current problems and suggest possible ways out of this situation.

Pakistan's Energy Scenario

During 2010-11 Pakistan's total energy availability was 66.439 Million Tons of Oil Equivalent (mtoe), of which 44.119 mtoe (i.e. 66.4%) was indigenous production while 22.320 mtoe (33.6%) was imported. The domestic energy sources comprised natural gas, hydel power, about one third of our crude oil supply, and small quantities of coal and nuclear energy. Imported energy mainly comprised petroleum and petroleum products. The share of various energy sources in energy supply was as follows:

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Policy Perspectives

Natural gas	47.6%
Oil	32.0%
Hydel energy	11.8%
Coal	6.7%
Nuclear energy	1.3%
LPG	0.5%
Imported electricity	0.1%

The power companies are unable to utilize their existing generation capacity due to a number of problems most of which have been caused by poor management and lack of good governance.

After accounting for 21,717 mtoe used in transformation, such as oil or gas to electricity, and 3,963 mtoe consumed in non-energy uses, the net consumption of energy is 38,842 mtoe. This consumption comprised oil 29.0%, gas 43.2%, electricity 16.0%, coal 10.0% and nuclear energy 1.3% and LPG 0.5%.

Pakistan's per capita energy consumption¹ in terms of kilogram of oil equivalent (kgoe) in 2010 as compared to some other selected countries was as follows:

Pakistan 510, India 510, China 2150, Malaysia 2,420, USA 7,885.

The major causes for low energy consumption in Pakistan are lower industrialization level, high prices of energy, lower availability and lower affordability. Let us now have a look into each of the energy sectors in some detail.

A. POWER SECTOR

- Installed power generation capacity as in 2010-11- 22477 MW
- Average dependable capacity in summer -15000 MW
- Average dependable capacity in winter - 12000 MW
- Actual generation as on 14.6.2012 - 10658 MW
- Average shortfall fluctuation - 1000 to 5000 MW

The issues faced by Pakistan's Power sector culminating in the current power crisis can be divided into four broad categories as below:

- A. Policy Issues
- B. Governance and Management Issues

¹ Source: International Energy Information Agency (IEIA).

- C. Efficiency Issues
- D. Cost Issues

Issues in each of the first three categories ultimately have an impact on cost and availability of electricity. The issues are briefly discussed in the following paragraphs.

Policy Issues

Hydel vs. Thermal Power: Until 1970s Pakistan's electric energy mix comprised 70% hydel and 30% thermal along with a small fraction of nuclear power. Hydel power provides the cheapest source of energy. Pakistan has been endowed with more than 45000 MW of potential hydropower resources by nature, which should have been exploited by us to provide affordable energy to our people. However hydropower projects are more capital intensive and take a longer period to build. Partly due to lack of provincial consensus on building large dams and partly due to financial constraints Pakistan gradually started shifting to constructing thermal power plants. Donor financing was also easier to get for thermal projects. However this policy shift raised the cost of power supply and exposed the power sector to vagaries of ever increasing international oil prices. Today Pakistan produces 67% of electricity from thermal sources, 30% from Hydel and 3% from Nuclear.

Choice of Fuel for Power Generation: In case of thermal power choice of fuel and technology has a large impact on the cost of power generation- diesel power being the most expensive, followed by furnace oil; and coal being the cheapest. Pakistan was producing its thermal power mainly from furnace oil. Thus as the proportion of thermal power gradually increased the cost of electricity kept on increasing. However as large reserves of natural gas became available and dual fuel technology also came in vogue we decided to shift from oil to natural gas for a large part of power generation. However this conversion was carried out without a proper assessment of the gas reserves and determining the extent of its availability for power generation. As domestic and industrial demand for gas increased and the gas reserves depleted with time we are back to a situation where most of our thermal power plants have to revert to oil based power generation, pushing up the cost of generation.

As the proportion of thermal power gradually increased the cost of electricity kept on increasing.

Introduction of Independent Power Producers (IPPs): Resort to privately owned Independent Power Producers (IPPs) in the mid 1990s

was another policy decision that had a considerable impact on the price of electricity in the country. The power supplied by IPPs was very expensive not only because they were all oil-based but, more importantly, because the agreements signed with them were not negotiated prudently, allowing them very high tariff. The same mistake was repeated while signing agreements for rental power in recent years.

Governance and Management Issues

In Pakistan, like most other developing countries, supply of electricity is considered to be one of the basic public services. Therefore it is managed by public sector utilities. In such a situation quality of governance has a direct bearing on the access, reliability and pricing of power.

Poor management, coupled with corruption and other factors related to governance has, in many developing countries put electric power beyond the reach of low income groups due to excessive cost.

Lack of good governance reduces the availability and increases the cost of power supply through the following factors influencing the power sector directly or indirectly:

Power Theft: Inability of the power utilities to prevent theft of electricity is a major source of excessively high power losses which are unaccountable and unsustainable. The ultimate sufferer is either the consumer or, in case the government makes up the loss by subsidy, the taxpayer.

Default in Revenue Recovery: Power companies are often unable to recover their revenues in full both from consumers in the public as well as private sectors. Large consumers in the public sector such as municipalities, water and sewerage boards, railways and government offices default on payment to power companies. There is also a lack of support from government in revenue recovery from public sector organisations.

Weak Regulation: NEPRA, the Regulatory body for power sector, does not enjoy requisite independence from the executive authorities. Tariff determined by NEPRA often remained unimplemented by Government resulting in a mismatch between cost and revenues of power utilities.

Efficiency Issues

Inadequate Maintenance and Repair of power plants: Inadequate maintenance and repair of public sector power generation plants, either due to financial constraint or sheer neglect, has either drastically reduced the operating efficiency of the plants thereby increasing cost of generation to unsustainable levels or made them unserviceable. Many of the plants are therefore not operating.

Old and Rickety Transmission and Distribution Systems: Lack of proper maintenance or replacement of old transmission lines and grid stations causes excessive line losses which in turn result in cost increase for power utilities and the consumer. It also provides an avenue for hiding electricity theft.

Cost Issues

Choice of Fuel: Greater reliance on thermal power, use of expensive furnace oil as fuel, non-availability of natural gas, poor governance and management resulting in large scale power theft and non-recovery of revenues, expensive power from IPPs and low efficiency of public sector power plants have all contributed to making the price of electricity unaffordable for domestic users and unsustainable for industrial users.

Resort to privately owned Independent Power Producers (IPPs) in the mid 1990s was another policy decision that had a considerable impact on the price of electricity.

Circular Debt: The excessively high cost of electricity has created a vicious circle in which payment default by consumers compels the power utilities to default on payment to power generators, which in turn has resulted in a chain of defaulters giving rise to a grave problem termed as Circular Debt. According to some estimates Rs.30.5 billion are added to the circular debt in the power sector every month, which has pushed total circular debt to over Rs300 billion. The government has injected over Rs.1.2 trillion in the power sector in the shape of subsidies in the last four years but the situation has gone from bad to worse.

B. OIL AND GAS SECTOR

Oil

Pakistan's supply of crude oil for the fiscal year 2010-11 was 75.3 million barrels, equal to 10.1 million TOE, out of which 68.1 percent was imported and 31.9 percent was locally extracted. Pakistan spent about US\$10 billion i.e. about 24% of its total import bill on the import

The government has injected over Rs. 1.2 trillion in the power sector in the shape of subsidies in the last four years but the situation has gone from bad to worse.

of petroleum crude and petroleum products. Oil caters for about 32% of our energy needs ¼ th of which is utilized by power sector. Transport and Industry are the two other large users of oil. Import of oil is a huge burden on our economy and foreign currency reserves due to highly volatile and ever increasing prices in the international market. Despite very liberal incentives given by the Government in the past as well as in recent Petroleum Exploration and Development Policy we have not been able to attract many foreign investors for oil and gas exploration.

Gas

Natural gas is a very precious natural resource bestowed by nature upon us. It meets more than 47% of our energy requirements. Its price was kept much lower as compared to oil, for which it substitutes as a fuel, on account of it being an indigenous resource. However, increasing demand of gas for domestic use due to rising population and expanding coverage, large scale switch over from oil to gas by power sector and industry for reasons of cost control, and indiscriminate promotion of use of CNG for the transport sector on grounds of environmental protection and for providing relief to public suffering from rising prices of petrol and diesel has put a huge burden on the limited gas reserves causing their rapid depletion. New gas fields have also not been developed and brought into production. Consequently the country is undergoing massive cuts in gas supply to industry, power sector and CNG stations. Domestic users are also suffering from low pressure and frequent outages of gas.

COAL

Coal has traditionally been the most widely used source of energy in the world followed by oil and gas which are cleaner and more convenient fuels. However the last two are much more expensive fuels

The problem has assumed such proportions that there is no quick fix available to resolve it fully in a short time. It would require short term, medium term and long term measures.

compared to coal which is by far the cheapest, barring hydel and renewable energy.

Technological development has also helped make coal a cleaner fuel and it is still being widely used in the world for power generation and other purposes. China, USA and India respectively

produce 63%, 57% and 47% of their electricity from coal. Australia and Germany also use coal to produce substantial amounts of electricity. Pakistan has not paid much attention to coal development as a fuel for industry and power sector although we have estimated reserves of 187 billion tons which are second largest in the world. Our mining

practices are primitive and technological advances have not been utilized by us to tap this cheap source of energy.

The Way Forward

The current energy crisis is a serious challenge which would require very serious and sustained effort on the part of the Government to save the economy and provide relief to the suffering population. The problem has assumed such proportions that there is no quick fix available to resolve it fully in a short time. It would require short term, medium term and long term measures as well as some hard policy decisions. These are briefly discussed below.

Short Term Measures

Resolving the Problem of Circular Debt: Circular Debt is by far the most serious problem needing to be addressed on priority. If not resolved quickly and permanently it would not only continue to bleed the power sector but would also destroy many other energy organisations in the chain-most notably PSO and oil refineries. One possible solution that comes to mind is to create a Circular Debt Retirement Fund under a specially created organisation. The Fund may be financed by a consortium of banks and financial institutions under sovereign guarantee of the government. The Debt Retirement Organisation (DRO) should take over the entire debt of DISCOs and pay off their creditors out of the Fund. From then on the DISCOs should either be allowed to recover from the consumers full cost of supply plus an additional amount to pay to DRO each month so as to retire the whole debt within six months, which would be a hard political decision for the government. Or alternatively the government should pay the difference between cost and revenue to the DISCOs by way of subsidy, which would depend on fiscal space available to the government. The government will have to make special effort to create such a fiscal space.

Prompt Implementation of Tariffs Determined by NEPRA: The initial cause for creation of circular debt was government's decision not to pass on the cost increases based on fuel price increases to the consumers by not implementing NEPRA's tariff determinations fully and promptly, thus creating a gap between DISCOs' cost and revenues. Consequently a stage came when DISCOs were unable to sustain the losses and defaulted on their payments to power suppliers.

DISCO should adopt both administrative and technical measures on priority to prevent large scale electricity theft.

Policy Perspectives

It must be ensured for future that DISCOs recover their full cost of supply either from the consumer or through government subsidy.

Ensuring Recovery of Revenues from Public Sector: Ministry of Finance should ensure provision of adequate budget to Federal Government organisations to pay their electricity bills timely. In case of default they should make a deduction at source and pass it on to DISCOs. Similarly deductions should be made from grants to other defaulting Federal entities and Provincial governments.

Checking Electricity Theft: DISCOs should adopt both administrative and technical measures on priority to prevent large scale electricity theft by domestic as well as industrial consumers. The Government should assist the DISCOs in this task by ensuring quick and heavy punishment to those caught stealing power.

Power Conservation and Demand Management: Steps should be taken to educate the public in power conservation by launching media campaigns against electricity wastage and for promoting the use of energy saver bulbs and other energy efficient gadgets. Demand should also be managed by introducing time-of day (ToD) tariffs to motivate people to defer non-essential and heavy energy uses to periods of lean demand having a lower tariff.

Medium and Long Term Measures

Efficiency Improvement: Funds should be arranged on priority by the government for Power Generation Companies (GENCOs) in the public sector to repair and refurbish their old plants to bring them back into service and improve their efficiency to make them viable.

Promoting Alternate Energy: Vigorous and effective measures should be taken for promoting the use of wind and solar energy at the household level and in off-grid remote areas. This would require development and manufacture of cheap solar panels and wind turbines domestically and providing incentives to those wishing to use alternate energy.

Correcting the Energy-Mix Imbalance: A well planned policy shift should be made to correct the energy-mix by shifting our focus from oil-based thermal power to hydel power. Serious efforts should also be made for early development and utilization of the huge Thar Coal deposits for power generation. Greater efforts should also be made for exploration and development of new gas reserves in the country, which should be dedicated to power generation. The proposed gas pipeline from Iran to Pakistan should be accelerated.

Improving Governance:

It is imperative to improve governance in order to formulate power policies based on merit rather than vested interests, check power theft, ensure full revenue recovery, check corruption and reduce overstaffing.

Funds should be arranged on priority by the government for Power Generation Companies (GENCOs) in the public sector to repair and refurbish their old plants.
