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Issue Brief

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Introduction

Elections in Pakistan have always been a sensitive and controversial subject in many ways. Since the time of General Ayub Khan in 1958, spanning all the way till General Musharraf in 1999, the country has seen 34 years of military dictatorship since its birth in 1947, marred with violent upheaval and disintegration of a so-called democratic process (Jehangir, 2023). Considering today's context, Nawaz Sharif is expected to make a triumphal re-entry to Pakistan politics due to the strong underlying support for him and his party from the Chief of Army Staff (COAS), Gen Asim Munir (Javed & Drury, 2024). The elections, originally planned to be held within the 90-day window post-dissolution of the Shehbaz Sharif government in August 2023, saw delays well beyond the stipulated time and now scheduled for 8 February 2024 (Livemint, 2024). As in the past, the Army is the one pulling the strings in Pakistan, but the fact that they have had to turn back to Nawaz Sharif who had been hounded out in 2017, indicates the utter paucity of political options left open to the Pak Army after their short-lived tryst with Imran Khan.

2. We foresee two possibilities how the 2024 Pakistan General Elections could unfold. The first possibility is that Nawaz Sharif is elected to office by a straight and simple majority of his own and thereafter forming the government.

The other possibility we foresee, is where the Pakistan Army hedges its bets by ensuring that the election outcome is a coalition government between Nawaz Sharif's Pakistan Muslim League (Nawaz) (PML – N) and Bhutto's Pakistan People's Party (PPP). With Nawaz being the senior partner in such a coalition government this outcome will enable the Pakistan Army to maintain a tighter grip over the civilian Government and it's functioning thereby restricting Sharif's ability to spring surprises.

3. Imran Khan, once the army's preferred choice for Prime Minister and regarded by many as its puppet, was served a 14-year imprisonment sentence along with his wife for multiple charges branded baseless by Khan (Saifi, 2024). Imran Khan alleges that the Army took matters into its own hands after his strong public criticism of its interference in governance and put forth accusations of the Army's attempts at having Khan assassinated (Chingakhm, 2023)

4. Imran Khan's Pakistan Tehreek e Insaaf (PTI) posed a significant threat to Pakistan's prevailing military-civilian hybrid governance model, an eventuality that senior Army Generals were in no mood to countenance. With Khan out of the race due to the several sentences pronounced against him by a pliant judiciary, General Asim Munir will ensure that the reins of power remain firmly in the Army's grasp.

5. As Prime Minister of Pakistan, Nawaz Sharif's probable course of action will be to leave national security and much of international politics to the Pak Army while trying to effectively plan the reconstruction of Pakistan's struggling economy, rising unemployment, climate change-induced floods, and the energy crisis (Livemint, 2024b). Seeing the rising tensions in the heartland and with PTI, along with other opposition parties, being suppressed by the Army after violent demonstrations by Khan's supporters on May 9, 2023, many see these elections as a means by the Army to reiterate its unshakable grip over the country and any attempt to discredit or criticise it will not be forgiven (IANS, 2024)

6. With multiple urgent domestic issues to be addressed and the country's future at stake, what implications will this dynamic hold for India – Pakistan relations? Will there be any overt or covert steps Nawaz may take to change the relationship? Will he be guided by his own convictions of the need for a relatively normal relationship between India and Pakistan or will he be happy to go along with the Pakistan Army's need for an estranged relationship which is the basic reason for Pakistan to have a strong Army which is far in excess of its economic needs. These are the kind of questions and issues this paper will attempt to answer. By doing so, we shall also come up with some policy options for the Government of India with a 1-year time horizon

I. The Pakistan Economy – How Much of a Morass?

. Economic Indicators for FY 2018 to FY 2023

	2018	2019	2020	2021	2022	2023 (October)
Real GDP Growth Rate	6.1	3.1	-0.9	5.8	6.1	-0.5
GDP per capita at current prices	1.7k	1.5k	1.38k	1.57k	1.65k	1.47k
Inflation rate, average consumer prices percentage change	3.9	6.7	10.7	8.9	12.1	29.2
Unemployment	5.8	6.9	6.6	6.3	6.2	8.5
Current account balance percent of GDP	-5.4	-4.2	-1.5	-0.8	-4.7	-0.7
Primary net lending/borrowing	-1.85	-3.01	-1.52	-1.12	-3.04	-1.22
Government revenue percent of GDP	13.43	11.26	13.26	12.42	12.12	
Government expenditure percent of GDP	19.11	19.05	20.3	18.46	19.95	
Interest payments on public debt	3.83	4.77	5.51	4.92	4.78	
Gross public debt percent of GDP	64.82	77.5	79.56	73.56	75.75	
Import Reserves	0.82	0.78	1.28	1.35	0.66	0.58

Source: IMF Data mapper - World Economic Outlook

7. Pakistan's economy over recent years has featured bouts of growth and constant challenges which have eventually culminated in the ongoing economic crisis. The economy was quite robust in 2018, with Real GDP growth at 6.1%. This positive momentum was reflected by a rise in the GDP per capita (current prices) which stood at USD 1700. The inflation rate was quite moderate at 3.9% of the GDP. Government revenue and expenditure as a percentage of GDP were 13.43% and 19.11% respectively which resulted in a fiscal deficit of 5.68% of GDP. Interest payments on public debt accounted for 3.83% and Gross public debt for 64.82% of the GDP.

8. The primary net borrowing is the overall balance excluding net interest payment (interest expenditure minus interest revenue) which essentially indicates that the government is borrowing (given the negative sign) to cover its expenses outside the interest payments. The deficit was -1.85% of the GDP in 2018. The import cover is a measure of the number of months imports can be sustained should all inflows cease. The cover was 0.82 in 2018 denoting that if Pakistan were to maintain its current level of imports, it would exhaust its foreign exchange reserves in about 0.82 months, slightly above three weeks.

9. However, subsequent years saw a serious downturn in Pakistan's economy, with Real GDP growth rate declining to 3.1% in 2019 and plummeting to -0.9% in 2020, obviously the result of the pandemic. Inflation surged to almost 6.7% in 2019 and soared to 10.7% in 2020, reflecting growing economic pressures. Unemployment rates increased swiftly from 5.8% in 2018 to 6.6% in 2020, indicating labour market challenges exacerbated by the pandemic. While the current account deficit narrowed to 4.2% and 1.5% of GDP in 2019 and 2020 respectively. The import reserves ratio declined to 0.78, signalling difficulties in covering import costs. The fiscal deficit as a percent of GDP also widened from 5.68% of GDP in 2018 to 7.78% of GDP in 2019. The primary balance also increased to 3.01% of the GDP and the overall public debt increased substantially to almost 77% and 79% in 2019 and 2020 respectively.

10. Efforts toward recovery were observed in 2021, with the Real GDP growth rate rebounding to 5.8%, accompanied by a slight decrease in inflation to 8.9% and a decline in unemployment to 6.3%. The current account deficit narrowed to 0.8% of GDP. The fiscal deficit remained 6.04% of the GDP. The primary balance reduced to 1.12% of GDP and the import reserves increased marginally to 1.35.

However, economic stability seemed short-lived, as 2022 brought renewed hurdles. The Real GDP growth rate improved to 6.1%, but inflation surged to 12.1%, becoming a critical concern. Unemployment rates remained stable at 6.2%. The import reserves however drastically went down to 0.66. The primary deficit also increased to 3.04% of the GDP.

11. By 2023, the economy faced significant challenges, marked by a negative Real GDP growth rate of -0.5%. Inflation skyrocketed to 29.2%, the highest observed in the past few decades, while unemployment surged to 8.5%, illustrating severe labour market pressures. Despite a slight improvement in the current account deficit to -0.7% of GDP, the import reserves ratio plummeted to 0.58, reaching its lowest point, indicating serious concerns in covering import costs.

12. Overall, the Pakistan economy is unable to sustain high growth rates for extended periods. The year 2023, has been a clear case of stagflation with extremely low growth rates, high inflation and high unemployment.

13. This is the economic backdrop of the 2024 General Elections being held soon in Pakistan. With the economy being crippled, Pakistan had no other way out except to turn once again to the International Monetary Fund (IMF), which in turn has laid down its usual conditionalities including privatization of public firms such as Pakistan International Airlines (PIA), which the Pakistanis have been avoiding for several rounds of IMF conditionality. The foreign exchange crisis is so severe that this time around they may have to abide by what the IMF advises.

14. The Pakistan Army too is feeling the economic crisis as its share of national resources is dwindling and it is not able to import much needed spares, ammunition and other platforms. Hence, it appears to us that the Pak Army has once again turned to Nawaz Sharif to manage the economy as he has proved adept at that in his previous terms. To us, this appears to be the major reason why the Pak Army has swallowed its pride and built bridges with Nawaz. Obviously, brother Shehbaz Sharif has played an important role in this rapprochement during his tenure as PM. We shall not be surprised if Shehbaz gets an important Cabinet berth in the next Nawaz administration.

II. The Military Situation

15. Pakistan's political history has seen excessive military interference since its partition from India, emanating from the ineptitude of civilian leaders and constant infighting among them, as well as the apathy of the general populace to exercise their democratic rights at periodic elections. The Pak Army has always found support in politicians willing to bend the rules and democratic procedures to ensure they stay in power (Khurram, 2024).

16. Post-independence, the Pakistan military has made multiple attempts to shift the pivot in their favour using the turbulent nature of the country's political leadership and their constitutional authority to declare martial law. The Example of the establishment of Ayub Khan as the Chief Martial Law Administrator by the then Governor General of Pakistan, Iskander Mirza, and his subsequent deposition by Khan in 1958, as well as the ascension of General Zia-ul-Haq in 1977 post the purported rigging by Zulfikar Ali Bhutto's PPP Government in the 1977 General Elections (Snellinger, 2019,) all lead to the Pakistan Army's primacy in politics in the country, albeit with severe long-term repercussions. The common saying that Pakistan is not a country with a military, but a military with a country comes to mind vividly in this scenario.

17. To elaborate, the Indian and Pakistan establishments have long been at loggerheads, having fought three major wars, all under the rule of a Pakistani Military dictator. Under three different Martial Law regimes under Ayub Khan in 1965, Yahya Khan in 1971 and finally in 1999 under Pervez Musharraf, Pakistan fought and lost all three wars with India, vastly overestimating its capabilities and severely underestimating that of the Indian Military and Government at large, point precisely to the understated ambitions of the Pakistan Military for Kashmir and India (Chaubey, 2023).

18. Furthermore, China, Pakistan's all-weather ally, is now arming it with advanced military systems and weapons to strategically counter the Indian Military's large-scale acquisitions of both foreign and indigenous platforms. Chinese platforms like the J-10C Multirole Fighter, the Type 054A Frigates and the Type 041 Submarines are just a few examples of weapon systems sold to Pakistan to attempt to act as a counterweight to India (Parkin et al., 2022).

It may be recalled that the US had similarly armed Pakistan from 1954 to 1964 with state-of-the-art weapon systems like M-48 Patton tanks, F-86 Sabre and F-104 Starfighters which gave its armed forces a misplaced sense of military superiority over India, resulting in the 1965 war.

19. The Pakistan military's supposed funding and support for cross-border terrorism in Kashmir and collusion in malicious schemes to counter its neighbour, as claimed by India, has always been a focal point of friction between India and Pakistan, which the latter vehemently denies (Zaman, 2023). Carrying this forward, the Pakistan Government has, at multiple times, attempted to normalise ties with India, but due to allegations of terror involvement and abetment, have yielded no fruition as India has remained firm on its stance of wanting tangible and actionable evidence of Pakistani actions in this regard (The Wire Staff, 2023). The reality is that it has been several Indian Prime Ministers from Indira Gandhi to Atal Bihari Vajpayee and even Narendra Modi who have made very serious attempts at rapprochement but the thorn in the works has always been the Pakistan Army. Vajpayee's successful bus trip to Lahore followed by the Kargil incursions and war is a case in point. Hence, the very power structure of Pakistan at it has evolved over the decades with primacy even in Pakistan politics of the Pakistan Army has to be factored into all calculations that India makes. This is an important aspect of Indo – Pak dynamics to which we shall return.

20. As the ultimate arbiter of power in Pakistan, General Asim Munir, the COAS, now has quite a task ahead of him. With Nawaz Sharif back and bearing in mind his previous efforts at trying to normalise ties with India, will the General be willing to accept India's preconditions towards de-escalating terror, or if anything, try to appear as if doing so? Sharif, in an attempt to revitalise relations with India, had made an appearance at Prime Minister Modi's first oath-taking ceremony in 2014 (Malik, 2014), reciprocated in 2015 by PM Narendra Modi during an unannounced surprise stop at Lahore for a brief meeting with the then PM Sharif (Kumar, 2015).

III.Options for India?

21. Given this politico – economic – military situation in Pakistan where real power will continue to dwell with the Pakistan Army and the newly elected Prime Minister of Pakistan will at best be a 2IC (2nd in charge) looking after economic revival, what should the Government of India be doing vis-à-vis Pakistan?

22. The current balance of power between India and Pakistan is clearly in India's favour. Using GDP as an indicator of power it may be clearly seen that India is ten times the size of Pakistan. There is a clear and pre-ponderant asymmetry of power between the two. In international politics too, India is moving up the ladder and will soon be the third largest economy in the world. We have played our hand well in relation to the big powers as well as in the Middle East.

23. In addition to its economic crisis and internal political and ethnic instability, Pakistan has been wracked by terrorism and faces strained relations with Afghanistan and Iran on its west and northwest respectively. This has resulted in a dynamic flux which needs to be assessed by India without making any first move.

24. We would advise that India not be the first mover for any exchange or interaction with Pakistan. There is no onus on India to mend fences or even change its current policy of minimal interaction with our western neighbour. Our focus on a stoppage to and cessation of all terrorist activity from across our western border must continue to be in place as well as our stated position that talks and terror cannot go together. We should not be the first movers in any relaxation of the current policy of minimal people-to-people exchange particularly in the area of sports or films.

25. What should India do if the Pakistan side, with full agreement amongst its military and civilian leadership, offers to resume some kind of normal relationship between the two countries? How should India respond then? Here are a few scenarios we foresee and our policy advice on each of them –

(a) Pakistan offers to reinstate High Commissioners in each other's capital: We need not shy away from making positive responses to Pakistani suggestions. If the Pak side offers this option we should agree and send an Indian High Commissioner to Pakistan and allow their new HC to be stationed in Delhi. This is an important channel of communication between the two governments and we too will benefit from reinstating High Commissioners.

(b) Pakistan offers to resume the Composite Dialogue Process: India should counsel a slow, steady, step-by-step process of resumption of dialogue. There should be no immediate resumption of the Composite Dialogue. We should also not agree to a high-level dialogue say between Foreign Ministers. We should accept that there can first be an exchange of visits between the Joint Secretaries (working level) in each Foreign Ministry. This level will assess if there is any topic or subject on which we can reach agreement, however miniscule it may be, and then both governments can take stock of the situation at that time.

(c) Dialogue at the Foreign Minister Level : There is a tendency for Pakistan to offer dialogue at senior levels – Foreign Ministers or even Prime Ministers – but we should not fall for this as this raises expectations of some positive outcomes amongst the media and public of the two countries. We should reiterate that dialogue can, at best, commence at the working level.

(d) Approval of Trade by the Pakistan side in select commodities: Trade is an area where we have never fought shy of resuming and this policy must continue. It is the Pakistan side which is afraid of Indian exports surging into their market. So, any offer of normal trade, even in restricted commodities should be accepted. Indian exports will boom if Pakistan opens its economy even a bit and this will also ensure the Pakistan consumer obtaining such items at lowest price. So, it is really a win – win for both but Pakistan keeps restricting trade thinking it is a one-way street.

(e) Resumption of People-to-People exchanges including cricket and film ties: While permitting visit to India of people from Pakistan who are in dire need of medical assistance (current policy), we should not move forward on such a suggestion in the short term. If we do, it may appear to be that India is embarked on an on – Off policy in this matter which is not a signal we wish to give.

26. Going forward, it will be important to keep in mind that the power structure in Pakistan post these general elections will clearly be where Chief of Army Staff is the undisputed leader of the nation with the Prime Minister being his second in command where economic issues are concerned. We should be clear eyed about this and ensure that we do not put too many eggs in the Nawaz Sharif basket. It will be critical to have a line of communication with Gen. Asif Munir while keeping Nawaz in our corner too. In line with this thinking, we would advise that –

(a) we develop a military – to – military channel of communication beyond the current DGMO hotline. Perhaps, on the margins of international conferences attended by both the Indian and Pakistani Chiefs of Army Staff we permit them a golf game together for informal communication which could be made formal if the Government of India approves the proposals being made by Pakistan.

(b) we also develop a Pakistan military – to – Indian civilian leadership channel of communication perhaps between Pakistan COAS and India's National Security Adviser which worked well in 2021 in establishing the current ceasefire on the Line of Control.

(c) if a National Security Adviser (NSA) is appointed in the new government this would provide an additional channel for communication between India and Pakistan.

IV. Conclusion

27. Summing up, it is clear that the geo-political situation and the power balance are clearly in favour of India. Hence, we advise that the onus is not on India to improve relations with Pakistan. We should play it cool post the general elections and wait and watch what Islamabad will do. We can respond to some of their minor overtures while counselling patience on any big move. Clearly, there is a need to build a channel of communication with Pakistan's army leader who will be in the driving seat as compared to the new Prime Minister.

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