

Elite capture is the real issue plaguing Pakistan's economy

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Pakistan cannot meaningfully fight economic distress and mass unemployment unless its resources are freed from control by the highest echelons of its military, bureaucracy and the political class

Pakistan's economy has shown glimmers of hope in recent months. The inflation rate was 9.6 percent in September – the first single-digit reading in three years and a stark contrast to 27.4 percent recorded a year ago. Fuel prices have fallen, largely due to decreasing oil prices worldwide. The executive board of the International Monetary Fund (IMF) has approved a USD 7 billion loan package over 37 months to ease Pakistan's unending economic crisis – the country's 24th such bailout in the 77 years since its independence. Islamabad has undertaken a round of economic reforms to appease the IMF and smoothen the passage of the bailout.

But electricity prices continue to rise and the prices of medicines have gone up considerably. Tax increases have hit the vast majority of people. The government raised indirect taxes in 2023, hiking the General Sales Tax, which is applied to all parts of any supply chain, from 17 percent to 18 percent. Income tax for the salaried class was raised drastically up to 35 percent. In addition, the government is mulling a fixed taxation system that has provoked protests among non-salaried classes, especially traders. Taxpayers have received, and can hope to receive, no additional benefits in return. Public schools, colleges, universities and hospitals remain extremely poorly funded and the majority of Pakistanis turn instead to expensive private providers of education and healthcare. The net result has been that people's actual purchasing power has declined.

The general mood in Pakistan is one of utter disappointment with the current economic stagnation. Over the past year, my brother's rice trading business has been virtually stagnant. Sales have been hit by the public's decreased purchasing power, and by extremely high electricity costs. Another relative, who deals in petroleum products, told me that his business has suffered from import restrictions. Most families in Pakistan have stories like these, if not ones of struggling to simply put food on the table.

A recent Gallup survey showed that “more than half of the country's businesses perceived themselves to be facing bad or worse conditions in the second quarter of 2024, a deterioration of eight percent from the first quarter.” The findings indicate that several problems, such as loadshedding, inflation and de-growth, remain unresolved. This is despite the reforms that the present government has undertaken in the last few months, such as reducing subsidies on oil, gas and electricity and privatising state organisations including Pakistan International Airlines.

There are reams of analysis that can and have been produced on the structural problems of

Pakistan's economy. But one of the biggest problems, underlying all others, is still too often ignored, especially in the highest echelons of the ruling establishment: That problem is elite capture. In an editorial earlier this year, the political scientist and international development expert Syed Mohammad Ali wrote that "The rich can still live luxurious lives in poorer countries, but the situation for the poor masses is becoming increasingly intolerable. Such is the situation in Pakistan today." And, he argues, institutions like the World Bank and the IMF have enabled elite capture in developing countries.

THE GOVERNMENT IS projecting its new deal with the IMF as a crucial victory that will dramatically change the country's economic fortunes. While the agreement might be crucial for Pakistan to achieve a semblance of stability at the macro-economic level and escape a sovereign default, this reliance on the IMF only underlines Pakistan's perennial economic problems. It also stresses the inability or unwillingness of the ruling elites, both civil and military, to undertake crucial structural reforms, including reducing the size of the government.

The government has set up three committees to suggest reforms on this front, but it does not seem to be taking them seriously. At the end of August, Kaiser Bengali, an economist and a proponent of radical structural reforms, stepped down from all three committees. They had reviewed the functioning and effectiveness of 70 government institutions and 17 corporations, and recommended shutting down 17 divisions and 50 departments. In resigning, Bengali said that the government was taking steps against the committees' recommendations. He said that the government could save as much as PKR 30 billion by cutting a number of officer positions from departments, as the committees had recommended, but was choosing instead to retrench low level employees.

Pakistan made its first pact with the IMF in 1958, and this institutional relationship remains central to the country's survival today. The economy has also been kept afloat with debt rollovers by China and rich Gulf states such as Saudi Arabia and the United Arab Emirates (UAE). Since the launch of the China-Pakistan Economic Corridor almost a decade ago, Chinese capital has flooded Pakistan. Now, according to some estimates, Pakistan owes more than USD 30 billion to China - roughly approaching a tenth of its entire GDP.

The UAE and Saudi Arabia have long been allies of Pakistan, and have in the past frequently handed it billions of dollars to help the country escape crises. For example, aid from Saudi Arabia helped Pakistan weather economic sanctions after it conducted its nuclear tests in the late 1990s. In November 2023, Saudi Arabia extended by one year the terms of a USD 3 billion deposit it had made with Pakistan's central bank in 2021 to boost the economy. Moreover, the IMF said that Pakistan had received financial assurances from China, Saudi Arabia and the UAE linked to its latest loan programme. But as home to more than 235 million people, Pakistan cannot permanently operate on externally arranged financial steroids.

Just over two out of every three Pakistanis are below the age of 30. By 2030, the total population is expected to be around 280 million, with almost 100 million below the age of 30. In an economy with reasonable growth, the youth bulge would have been a major dividend. In Pakistan, it is already a liability because of an economy that cannot absorb them. According to the Pakistan Economic Survey 2023-24, some 4.5 million people are unemployed; those aged between 15 and 24 have the highest unemployment rate, at more than 11 percent. These figures are based on the 2020-21 Labour Force Survey, conducted before the present economic crisis really bit, which means the actual current rate of unemployment is much higher.

In 2022, a report by the Pakistan Institute of Development Economics in Islamabad revealed that 31 percent of the country's educated youth, including those with professional degrees, were unemployed. The report also revealed that a large part of the working-age group was not part of the official labour force survey.

Such large levels of unemployment cannot be taken lightly. High rates of unemployment and poor prospects for graduating students were major factors in the recent student uprising in Bangladesh, which spiralled into a revolution that unseated Sheikh Hasina, the prime minister until this August, and her Awami League government.

IF PAKISTAN WISHES to achieve the targets set for it by the IMF – especially boosting exports to USD 100 billion by 2028, from the current level of USD 30 billion – crucial structural reforms are needed. First, the country needs to reduce its non-development expenses. The defence budget takes up more than 11 percent of the national budget – and that is not including defence-related expenses such as pensions to retired military personnel, the import of military equipment and expenses related to atomic energy. One key mechanism for reducing the overall budget would be to radically reduce defence spending. Another would be to get rid of the numerous unnecessary military cantonments scattered across the country, holdovers since the colonial period.

But, instead of reigning in defence spending, the government increased it by 18 percent in 2024. Worse still, even the IMF does not seem to have raised this point with the Pakistan government, or asked for reduced defence spending as a precondition for the loan. Which signals that the IMF [cannot be relied upon](#) as a source of real reforms to address the structural inequalities that are at the core of Pakistan's economic rot.

One of the factors behind the slow or even negative growth of exports are the high prices of commodities, which are essential inputs for manufacturing. This is an outcome of, among other things, extremely high electricity prices. A key reason for expensive electricity is Pakistan's extremely flawed system of agreements with independent power plants. These pacts, made in 1994, were driven by the government's push towards liberalising the economy. They pegged the capital costs of establishing the plants to the dollar and guaranteed returns on equity of 17 percent. Moreover, the government committed to paying all capacity charges. The resulting costs continue to be passed down to consumers, while the hefty resulting profits continue to go to power plant owners.

People in Pakistan today pay between PKR 2.2 and 2.8 trillion every year in electricity bills – roughly between USD 7.5 and 10 billion – on account of these agreements. The problem has been exacerbated by the IMF, which has not pushed Pakistan to renegotiate these pacts while successfully pressuring the government to lift all consumer subsidies on power tariffs. Many independent power plants are reportedly owned by members of various political parties, who are able to lobby their way out of reforms.

This electricity problem is symptomatic of the elite capture of Pakistan's economy. In 2021, a report by the United Nations Development Programme showed the Pakistan state giving out a staggering USD 17.4 billion annually in "elite privileges", in the form of subsidies, tax exemptions, amnesty schemes and more for those at the top of society. The report terms this a "paradox of privileges", and shows how people in elite circles use their position of power to enrich themselves. This group

comprises high-ranking members of the military and the bureaucracy, leading members of political parties and monied sponsors of politicians, including large business and industrial houses. Given the military's overall dominance of Pakistan, and the fact that most "elected" governments depend upon the military for their survival, the military is able to avoid any direct taxation on its [extensive empire](#) of industries and commercial enterprises. The bureaucracy is also highly politicised, and most appointments to key bureaucratic positions are politically motivated, which again allows the elite easy access to privileges.

How can Pakistan's citizens expect the country's elite to reform its behaviour? Why would the cat want to bell itself? In recent years, this elite has only drawn closer together in its efforts to consolidate its hold on the economy. This is evident from the establishment of the Special Investment Facilitation Council (SIFC), which includes the country's top political and military leadership and has been made responsible for key economic decisions. The SIFC recently granted a military-run company a 30-year lease on some 4.8 million acres of state land to be used for corporate farming.

As the Asian Development Bank recently stressed, political stability is necessary for economic stability in Pakistan. The lynchpin on both fronts, then, is the military. It often destabilises civilian governments that fall out of its favour, as is evident from the ouster and imprisonment of the former prime minister Imran Khan on questionable charges of corruption. Between 2018 and 2022, when Khan was in office, he and the military establishment were allied against the Pakistan Muslim League-Nawaz (PML-N). Now the same establishment is backing the PML-N, which it brought back to power early this year. The vicious cycle of the military playing politicians against each other has been a key feature of Pakistan's trajectory since the early 1990s. To find any meaningful way forward, Pakistan will have to confront the control of its economy by an unaccountable elite, and that will begin with finding a way to end the military's involvement in politics.

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