

# IMPLICATIONS OF GLOBAL FINANCIAL CRISIS ON PAKISTAN

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## **Abstract**

*Many economic developed countries are experiencing declines in the poverty as the poverty can be eliminated through solid economic growth. The recent economic recession is a big hurdle in such economic development. Even if such disturbed countries recover quickly they still will not be able to regain the same glory in the economic development as they were enjoying previously. Such process will stop further economic development as the financial recession implications will be seen for long time to come.*

*The recent financial crisis though originated in the West but will have repercussions for Asian economies despite the fact that the Asian economies are well structured. Pakistan is one of the affected countries with weak economic setup and does not seem on the recovery path as many other Asian economies will recover. Such economic crisis in Pakistan will undermine its ability to fight against terrorism. Pakistan was seen as emerging Asian giant when it was ruled by a military dictator General Mushraf and a banker Shaukat Aziz but collapsed suddenly when the civilian government has taken the charge. The financial crisis even deteriorated the situation. Political instability is the main factor in the very slow recovery of the country.*

## **Introduction**

In the year 2008 the Global Financial Crisis has gripped the major economies of the world. This crisis is considered as severe that it is

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matched and compared by the experts with the Great Depression of 1930s. The crisis started with the shortfalls in the United States banking system and has resulted in the sudden fall down of huge financial institutions, slump in stock markets and the rescuing of banks by the respective national governments throughout the world. The recession in its nature had very close similarity with that of its predecessor in 1930s and caused many problems that the Great Depression of 1930s caused.

Asia is also among the recipients of the implications of recent Global Financial Crisis. Many Asian economic giants are experienced enough to tackle the economic crises as such recessions have often hit Asian economies in the last decade or so. Although many experts believe that the Asian economic essentials have improved to a great extent in the seven or eight years, recent crisis has created a panic within Asian camp. In the last eight or ten years Japan, South Korea and China have witnessed many economic reforms.

As a result of the recession that broke in the United States and other Western economies in the year 2008, there are serious worries about its implications on the developing countries including Pakistan. That is beyond any doubt that there are particular countries that will be harmfully affected. Despite Pakistan's recent economic problems are due to its internal political, economic and security chaos rather than of global financial recession, however, its economy may further deteriorate as the recent crisis extends.

### **Global Financial Crisis and Pakistan**

The present financial crisis that gripped the world will affect more badly to the countries where political stability is absent, rule of law did not prevail in last many years. Experts predict vulnerable governments with lack of promising economic systems are more likely to give birth to unrest in the society and militant insurgency. Among such countries is Pakistan economic downturn is fueling unrest, thus, weakening the already crumbling government.

Affected by political uncertainty, lack of preparedness and hard hit by the global financial recession, Pakistan falling in the hands of terrorists. Its foreign reserves are about 4.5 billion U.S. dollars, almost equal to about a month and half imports, foreign investors are departing and the currency is plummeting sharply.

The current People's Party government badly needs money of about ten billion U.S. dollars to lift the country's finances. It was very optimistic about the help and assistance from the traditional friend China, but President Asif Ali Zardari came back from Beijing without promises for cash while another Islamic ally, the Kingdom of Saudi Arabia, did not agree on the oil export concessions to Pakistan which was obvious as the Saudis are more sincere to Nawaz Sharif's PML (N) as compared to any other party in Pakistan. President Zardari's party does not enjoy such influence on the Royals in the Kingdom of Saudi Arabia.

As a last and only available option, Pakistan may be driven to opt for the International Monetary Fund for assistance. Such decision by the government may result many catastrophes that would harm the poor of the country, thus, will result more unrest. Prime Minister's former Adviser Tarin tried to receive some concessions from IMF but such request was rejected by IMF delegation negotiating with Pakistan team.

The implication of financial collapse will more deepen the political crisis in the country which is already deteriorated by hard U.S. demands for 'do more' in the fight against terrorism. Such war is not popular in Pakistan and creating more anti-Americanism. Any economic chaos will undermine campaign against terrorism. Pakistan in the future, perhaps, will link its efforts against militants on Afghanistan border with the economic aid as a Pakistani official explained to the New York Times: "A selling point to us even has been, if the economy really collapses this is going to mean civil strife and strikes, and put the war on terror in jeopardy."<sup>1</sup>

The National Intelligence Estimate (NIE) of U.S. declared Pakistan's situation as "no money, no energy, no government".<sup>2</sup> The Estimate further warned that the country was witnessing a sharpening financial crisis including food shortages, energy shortages and declining currency. Such situation is also accompanied with departure of foreign capital due to uncertainty and insurgency.<sup>3</sup>

Earlier the economic experts and observers were considering Pakistan as a success story and were predicting it the next 'Asian Giant'. Such economic development was happening in the General Mushraf's era. However, the things have started to change when Mushraf was forced to hold general elections in which General's party faced massive defeat and General himself was forced to step down as President in the August same year. The new coalition government led by President Zardari's Pakistan People's Party (PPP) is already facing many problems.

The *Newsweek* described the chaotic situation inside Pakistan.<sup>4</sup> "This time it wasn't the terrorist scare making Pakistanis nervous. Depositors thronged banks over the past few days to retrieve cash and valuables. Rumours that the government was on the verge of seizing bank lockers and foreign-currency accounts to rescue its deteriorating financial position had been popping up on cell phones".<sup>5</sup>

Describing the building up of public hostility, *Newsweek* explained: "[T]he Zardari-led coalition government, already besieged by political rivals and insurgent groups, has had to take unpopular measures to prop up the economy. It has raised taxes, upsetting the business community. It has trimmed government spending, prompting bureaucrats to grumble. It has increased tariffs on power, angering consumers and businesses already fed up with outages. And it has phased out subsidies on imported fuel, leading to price increases for everything from bus rides to cooking oil and prompting small, periodic protests."<sup>6</sup>

There are almost forty five billion U.S. dollars foreign debts on Pakistan<sup>7</sup> while its foreign and domestic borrowing rose almost one hundred per cent in 2008 – the year of economic recession.<sup>8</sup>

### **Pakistan's Economic Crisis and the War on Terror**

Pakistan's economic problems fuelled by the global financial crisis have and will continue to undermine its campaign against terrorism. Such economic problems will contribute to more political instability and make the government more unpopular. The Taliban and other Islamic militant groups will try to motivate the economically deprived people to join them in the insurgency they call "Jihad – the Holy War".

The U.S. National Intelligence believes "the burgeoning world financial crisis is highlighting the linkages between insurgency and economic instability there"<sup>9</sup> Dennis Blair went further and said "The government is losing authority in the north and west. And even in the more developed parts of the country, mounting economic hardships and frustration over poor governance have given rise to greater radicalization,"<sup>10</sup>

Such economic deprivation fuels the radicalism in Pakistan as the militant groups are in search of the people who are hopeless, deprived and has sense of economic insecurity. Lack of food access to the people forces them to join radical groups. A Pakistani expert working in the U.S. says "Well, I don't know if they're paying much attention to the economic news, but the Taliban know only that when the government is unable to deliver services, and when there is unhappiness among the general population because food prices have gone up tremendously, gasoline is not available, electricity shortages are rampant, that it is much easier to convince the people that the Taliban have the solution rather than the government,"<sup>11</sup>

The experts are now of the opinion that the West especially the United States of America should focus more on the civilian aid

rather than putting all their eggs in one (military) basket. No matter how forcefully we will strike to the militants but they will continue to motivate huge portion of the population if we leave a space through economic deprivation and unemployment among population.

"The fundamental objective of the counterinsurgency strategy when you're working with a government is to strengthen that government's capability to broaden its legitimacy. And it broadens its legitimacy by governing, extending services, creating jobs, providing economic opportunity for the population, and providing some kind of, as I said, citizen security and rule of law," he said.<sup>12</sup>

"What you really need is trade and aid because trade doesn't do anything with respect to building a police force or training judges or training teachers. That comes about from government services. And so you need both aid to help strengthen those government agencies, and you need trade to permit the expansion of an economy," he said.<sup>13</sup>

Pakistan is expecting a huge share of its recovery from the 'friends of Pakistan' but that seems unlikely. Already hit by the financial crisis the West will not be ready to rescue Pakistan on the priority basis.

In response to the deep economic crisis Pakistan seems to rely on external assistance rather than internal measures. Pakistan has intended the required assistance from its friends such as China, Saudi Arabia and the United States of America, international financial institutions such as the Asian Development Bank, the International Monetary Fund (IMF), the World Bank and the Islamic Development Bank, and the group of countries called the "Friends of Pakistan". International Monetary Fund (IMF) seems to be the most likely option, however, there is huge opposition from public as well as from the opposition political parties within and outside parliament to accept the terms and conditions the IMF is forcing.

The opposition political parties can use such decision to mobilize masses on the street protests in order to take political advantages. Such moves will also more deteriorate the political situation and stability in the country, thus, can undermine Pakistan's campaign against terrorism.

### **Pakistan's Response to the Economic Crisis**

Even Pakistan is badly affected by the economic crisis that hit the West but Pakistan's response is not promising one as we have not witnessed any major positive development except depending on the economic aid by the West especially the United States of America.

Pakistan can not do much about the energy shortage as there is a considerable lack of water in Pakistan. Pakistan has water disputes with India while it is also facing an internal problem for building big dams to overcome the electricity shortage.

Kalabagh dam and Bhasha dam are two big projects which can bring the shortage of electricity to an end. However, the progress in these two projects does not seem possible in the near future as there is a considerable opposition from the smaller provinces against such projects.

The nationalist parties in Sindh are protesting against any project on the Indus river as they consider it against the international law. These parties over the years have protested against any initiative for the dams on Indus water. Pakistan at the moment can not afford to make any province like Sindh angry on any federal decision as the country is already witnessing unrest in Khyber Pakhtunkhwa and Balochistan.

Pakistan also has big coal reserves in Sindh but there is a mistrust between the federal government and the provincial government even though the Pakistan People's Party is the ruling party in both; federal and provincial level. Sindh claims the loyalty and federal government is not ready to give such concessions.

The resources of Balochistan can not be explored right now as there is considerable unrest and kind of insurgency there. The situation in Balochistan became volatile after the killing of former Balochistan Governor and Chief Minister Nawab Akbar Khan Bugti—Tribal head of the Bugti tribe in Balochistan. Bugtis are third largest tribe in Balochistan after Murrees and Mengals. The Muree tribal leader was also shot dead on the Afghanistan border since then the situation in Balochistan is totally worse and some observers are even consider such bad situation as dangerous so that country's another breakup can happen.

In such scenarios big projects to overcome the economic crisis is not on the cards of Pakistan. Pakistan only can opt for tactical options which are not the long term solutions.

There are several other reasons Pakistan could not succeed in tackling the economic problems facing the country. The recently elected civilian government is quite weak and is not in a position to take big decisions. The government's political rivals have also diverted the priorities of the ruling party. Most of the time the party leaders spend their time to make conspiracies against each-other rather than tackling big issues.

## **Conclusion**

The recent Global Economic Recession was the most severe as compared to the financial crises in the last few decades and according to many observers it can be compared with the Great Depression of 1930s. It shook the major industrialized economies of the world. Many western countries including the United States of America have lost their growth momentum and now are on the path of recovery.

As the Economic Crisis affected the West, it also left implications for Asian economies. Among the most affected economies is Pakistan which experienced huge economic turmoil as a result of this crisis.

Pakistan had already so many internal economic problems and the economic situation worsened as a result of the recession. Pakistan's response to the crisis does not seem effective one as there are many problems in Pakistan's recovery.

Pakistan's war on terror has also been undermined due to the economic crisis in the country. The militants are continuously taking advantage of economic deprivation to motivate the isolated people to join them, thus, making government's campaign more unpopular. The worsening situation will create more problems for the government to continue its war on terror.

## **References**

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