

OUR VIEW

THEIR VIEW



# Pakistan's future needs to overshadow its past

Pakistan's flawed democracy is being tested at a time of global geopolitical turmoil. In India's interest, we must watch its arena of power-play for any swing with our eyes on the long game

Intrigue tends to hang over Islamabad like smog does over Delhi, though with far less predictability. This time, the air is thick with global geopolitics. Russia invaded Ukraine on 24 February, the day Pakistan's Prime Minister Imran Khan had a one-on-one talk with Russian President Vladimir Putin. On Sunday, Khan escaped ejection from office. Instead, he asked for his country's National Assembly (NA) to be dissolved so that fresh polls could be held. The validity of this political 'googly' may now be put to scrutiny by its apex court. Since the NA had already resolved to hold a vote on Khan's leadership after he lost some ally support (and within his own party), it is unclear if its deputy speaker (in charge) had the right to thwart a no-confidence motion, let alone dissolve the House before a vote was held. Citing an article of Pakistan's constitution that demands loyalty to the state, the chair sought to justify it on the basis of an alleged "foreign conspiracy" to oust the Khan government. As prior utterances of the ex-cricketer had made clear, his needle of suspicion pointed at the US, which in his telling was displeased with Islamabad's pursuit of an "independent foreign policy" like India's. No matter how all this plays out, Indian interests would require us to focus on forces that can queer the pitch right now even as we keep our eyes set on long-haul aims.

Pitch conditions in Islamabad are typically set in Rawalpindi, where Pakistan's army is based. This was why a clock may have begun ticking on Khan's days in office after his recent run-in with the military establishment over who the country's next chief spymaster would be. The 2018 electoral outcome that put Khan in power was widely seen as sponsored by an army rarely seen to take civilian disloyalty

lightly, at least not on 'strategic' matters. This also lends credence to US denials of any role in this crisis. The Pakistani economy has done poorly under Khan, while his blatant playing to Islamist galleries has stymied badly-needed reforms in various fields. To the extent that its stagnancy is home-made, so might Khan's troubles be—even in what can only be called a flawed democracy. Yet, Pakistan is a nuclear-armed state that was tilting away from Washington towards Beijing when Cold War II reached a flashpoint in Europe; which way it goes would therefore matter to either side.

New Delhi should watch Rawalpindi, which has made peace noises over Kashmir, for any sign of a 'rebalance' back to the West that could enhance America's sway, open up more space for diplomacy and perhaps stall the possibility of a three-way alignment across the Eurasian landmass. If Moscow's brazen attempt to bully Kyiv has actually rallied Western countries in defence of democracy from an onslaught by brute authority, as claimed, then any calculus of eventual victory must take into account the brighter chances of a side that can count on free minds among diverse multitudes. After all, while the West clearly has an assimilative agenda of its own, it does not have detention camps to force-feed people an ideology, as Beijing does. All considered, America's respect for individual liberty could yet keep it ahead of China as this century rolls on. This analysis of win likelihoods should inform India's long-term game, too. As for our prickly neighbour, we may find our interests served better by its offensive capacity kept under civilian control. Its domestic politics, of course, would have to evolve in favour of an economic future that overshadows its India-inflected past.

# Systems of global governance should move beyond realpolitik

We must keep at bay both domestic and international tyrants trying to impose their will on others



**ALOK SHEEL** is a retired IAS officer and former secretary, Prime Minister's Economic Advisory Council

The war in Ukraine has drawn pointed attention to the manner in which global politics is conducted. Carl Von Clausewitz famously described diplomacy as the continuation of war by other means. Whereas earlier big powers got their way through war and conquest, they now get their way through diplomacy in the garb of realpolitik. International diplomacy as practised today can be dated back to the Treaty of Westphalia of 1648 and the post-Napoleonic Concert of Europe (CoE) that tried to maintain peace by a balance of power among the bigger countries. While that Treaty was based on the premise of non-interference in the internal policies of other countries, a corollary of the Metternich system was that major powers had their own spheres of influence that others would not disturb. This cosy understanding was shattered by the emergence of nationalism and new nation-states from the 18th century onwards, leading to two world wars and later the Cold War.

As the differentiated global reaction to the crisis in Europe shows, diplomacy is still geared to the Age of Empires and CoE. It has still to fully adjust to the rise of nationalism and nation-states, even though we were envisioning a world beyond nationalism and nation states not so long ago. Has the prevalent system of diplomacy served us well and made the world a better place?

On one hand, it could be argued that has prevented a state of perpetual war that characterized the pre-Napoleonic era. On the other, it is inconsistent with the principle of democratic nation states that supplanted monarchy. In democracies, it is not rulers but the will of the people expressed through the ballot box that is sovereign. It is perhaps time to align relationships between nation-states with democratic values that inform equations within them, be it in terms of respect for a consensus in civil society, or minority rights, in a way that realpolitik still does not.

The League of Nations and later the United Nations (UN) can be seen as first steps towards global diplomacy that reconciled democratic values within nation-states with relationships among them. But the League was primarily a European phenomenon with the international system bifurcated into states and colonies. The colonized in Asia, Africa and Latin America had no role in it. While the UN was also set up by the last world war's victorious Allied powers, as colonies became independent, they were incorporated in the system.

But the League's failure and the veto held by major powers in the UN Security Council ensured the continuation of realpolitik, where the voice of smaller states could be ridden roughshod over. This is precisely what is happening over Ukraine, with its destiny being decided by opposing big powers defending or expanding what they see as their zone of influence, rather than by what Ukraine, a nation in making, wants.

It was rising powers that pioneered the non-aligned movement for equidistance between the warring Western and Soviet blocs after World War II, and later assumed leadership of multilateral institutions of the 'South', such as the G-15, G-24 and G-77, bodies critical of 'North' dominance of the UN and Bretton Woods systems. As these powers gained economic heft, the G-7 was constrained to give them seats at the high table of global governance through the G-20.

Rising powers now distanced themselves from third world multilateral organizations and lapped primarily for themselves by seeking to increase their own influence in institutions of global governance, such as the Bretton Woods institutions, the Financial Stability Board, etc. They are also jockeying for permanent seats in the UN Security Council with veto powers, rather than pushing for the abolition of this power altogether and giving primacy to the more representative UN General Assembly. They appear to have succumbed to the temptation of joining the established powers. The G-24 and G-77 are now critical of the G-20, particularly of newly emerging powers, for not adequately representing their interests.

Global governance now needs to be democratized, with each country having an equal say. A global force at the disposal of the UN General Assembly could enforce a system of governance that keeps at bay both domestic tyrants seeking to impose their will over the free choices of their own people as well as international tyrants seeking to impose their will on other states. This would also free up vast resources spent on national militaries to better the productivity gains of the Industrial and Electronic revolutions for a more inclusive social welfare system aimed at those at the bottom of every country's socio-economic pyramid, and also to address the critical issue of anthropogenic climate change.

This may sound very idealistic, almost in the realm of science fiction. But the status quo should not be taken as fixed. The world has changed enormously in the past. Ideas have changed and made it better. Indeed, science fiction is a good barometer of the direction we might move in the distant future. For example, in the president Star Trek series, federations are seen as the future of global and interplanetary governance (following extra-terrestrial contact). A federation like the European Union, for all its weaknesses, can indeed be seen as a movement in this direction.

MY VIEW | MUSING MACRO

# Lessons from the implosion of Sri Lanka's tiny economy

AJIT RANADE



is a Pune-based economist

The entire cabinet of Sri Lanka resigned this week, collectively expressing its inability to handle the country's worsening economic crisis. This was just hours after the lifting of a curfew that was imposed nationwide. The curfew followed the previous week's imposition of a state of emergency by its president due to a deteriorating food and fuel crisis. This is Sri Lanka's worst ever economic crisis. The pandemic severely dented tourism revenues, which were about \$4 billion annually in a \$80 billion economy prior to 2019. Even its inward remittances dropped from roughly \$7 billion before the pandemic to less than half that level presently. Tourism and remittances are two of the island economy's top three foreign-exchange earners. The third is apparel exports, which too have been hit during the pandemic. A crucial forex earner is tea, whose production plummeted thanks to a ban on the use (and import) of chemical fertilizers. The president tried to camouflage that ban (which was actually a desperate measure to save the output of

precious forex) as being nature-friendly and pro-organic farming. That fertilizer ban also adversely affected rice production, causing the nation to import rice for the first time.

As if the whammy on tourism, remittances, apparel and tea wasn't enough, the final whack was via crude oil. Almost all the oil Sri Lanka needs for transportation and energy is imported. The price spike caused by the Ukraine war made matters worse. It's a classic food-and-fuel shortage-induced crisis, first manifested and then made worse by the nation's twin deficits: fiscal and current account. These deficits spiralled out of control as both domestic and foreign debts kept piling up. Sri Lanka also undertook the risky path of floating a sovereign dollar bond, and since 2007 has accumulated dollar-bond debt alone of nearly \$12 billion. Of this, \$4.5 billion is due to be paid (i.e. redeemed) this year, but the country's forex reserves are down to just around \$2 billion. Under normal conditions, the country would have been able to raise new debt to pay old debt. But no foreign lender today will touch Sri Lanka without giving its twin deficits, inflation of more than 10% and countryside daily power outage for long hours. Sri Lanka is on the brink of bankruptcy. The path to raising forex by floating sovereign dollar bonds is seductive

but can quickly turn ugly. Sri Lanka is not the first country to experience being left in the lurch by foreign bond investors. It's a cautionary tale for India's own plans to float a sovereign dollar bond. If you borrow in someone else's currency, you do not have the freedom to either repudiate or print yourself out of a debt hole.

Meanwhile, Sri Lanka has imposed several curbs on social media and news flow, its stock market and currency is sharply down. Unrest is brewing, so police action, possibly brutal, looks inevitable.

As for governance, here's a clue. The newly-elected government in 2019 announced a series of populist tax cuts, reducing value added tax by half and eliminating capital gains tax. Presently, Sri Lanka's president, prime minister and ministers for finance and agriculture are all brothers. And a nephew holds the sports portfolio. Emergency aid is forthcoming from neighbouring India via food and fuel shipments. China has already loaded a lot of debt onto Sri Lanka as part of its Belt and

Road Initiative. So more debt from the Chinese is probably not welcome. Some debt relief might be.

Lessons for India from Sri Lanka's economic crisis were highlighted by senior bureaucrats in a briefing to Prime Minister Narendra Modi. Their caution was about the state of finances of certain states of India, such as Punjab, Bengal, Delhi, Telangana and Andhra Pradesh, all of which provide people plenty of freedoms from their respective budgets. These include free electricity, water or direct cash. Additionally, states like Chhattisgarh and Rajasthan are shifting to pensions based on "defined benefits" rather than "defined contributions" by individual workers in their pre-retirement years. The hard-earned reforms which culminated in the National Pension Scheme of 2005 now seem in danger of being derailed. The returns one gets from pension plans have to be in some way commensurate with how much one 'puts in' rather than a guaranteed benefit in the nature of a freebie. While fin-

gers are pointed at states that are throwing fiscal caution to the winds, we mustn't overlook some sins of the Centre. The One Rank One Pension scheme has caused pension payments to go up from ₹54,000 crore to ₹1.2 trillion in just six years, a compound annual growth of 14%. The cabinet decision of extending free rations of foodgrain to September 2022 is an additional burden of ₹80,000 crore, which was executed as if by the stroke of a pen. India's tilt towards populist welfareism is visible both at the state level and the Centre. Whether we can afford such populism remains to be seen. That is why this lesson from tiny Sri Lanka is relevant.

Sri Lanka's crisis was in the making from much earlier than the pandemic or Ukraine war. It was in the populism of tax cuts, in the spendthrift ways of piling up debt (that too denominated in a foreign currency) and a cavalier approach to fiscal discipline.

During times of normal growth and peaceful geopolitics, such fiscal extravagance reminds one of a frog in slowly boiling water. But an adverse shock of the kind we have seen can unravel and topple an economic edifice quite quickly. This might be a year of slowing growth and rising inflation. The dangerous strain of twin deficits cannot be ignored. We can ignore Sri Lanka only at our own peril.



**JUST A THOUGHT**

The United Nations, whose membership comprises almost all the states in the world, is founded on the principle of the equal worth of every human being.

KOFI ANNAN