

RESEARCH NOTE

New Prime Minister in Pakistan after prolonged crisis. Military gains leverage, economic outlook worsens

APRIL 12, 2022

Executive Summary

A deep political crisis triggered by the appointment of a new army chief in Pakistan cost Prime Minister Imran Khan his job

The economic outlook, already fragile, will worsen after a prolonged period of uncertainty. Foreign policy changes are also expected, at least on rhetoric and messaging

Estimates for inflation and growth likely to be revised

New Prime Minister Shehbaz Sharif has an arduous path in front of him as the new government attempts to stabilize the economic outlook without losing too much support from voters

Some in Pakistan laud a return to the past, but public opinion may yet favor a return of Imran Khan

Background and Analysis

On March 7, Pakistan Democratic Movement (PDM) chief Maulana Fazlur Rehman, Pakistan Muslim League-Nawaz (PLM-N) President Shehbaz Sharif and Pakistan Peoples Party (PPP) co-chair Asif Ali Zardari held a joint press conference in Islamabad to announce the submission of a no-confidence motion against Prime Minister Imran Khan. Shehbaz kicked off the press conference by explaining the need for the no-confidence motion. “What has been done to the country’s economy there is no other example of such destruction in Pakistan’s history.” Asif Ali Zardari said that the opposition decided at one point that it was “now or never”.¹

It is hardly surprising that the political parties preferred to stress the dire economic situation in Pakistan, but at the heart of the crisis lies a well-known dispute about the appointment of the new Chief of the Army Staff of the Pakistan Army. General Qamar Javed Bajwa wants another term in office, but Prime Minister Imran Khan was thought to prefer General Faiz Hameed, who previously served as the 24th Director-General of the ISI, Pakistan’s premier intelligence service. Opposition leaders were worried that Khan might appoint Faiz Hameed as the new army chief in April 2022 and that he could rig the next election in Khan’s favor.

In recent years, the decision to appoint a new army chief has become fraught with political danger. Convulsions take place

every time a successor is being considered and inter-factional disputes are often reflected in political and social conflict. Bajwa felt that Imran Khan could not be trusted to make the decision. According to our sources in Pakistan, leaders of political parties were told that, were General Faiz Hameed to succeed Bajwa, military power would be strengthened. In a second term, a combination of General Faiz Hameed and Imran Khan would place many of those parties in a difficult position. Hence Zard-

ari's "now or never." That was the immediate trigger for the crisis.

Following in the footsteps of Zulfikar Ali Bhutto, Prime Minister Imran Khan alleged a "conspiracy" led by the United States was behind the effort to unseat him. No one of significance in Pakistan took this seriously and the Supreme Court eventually ruled against the Prime Minister, allowing the no-confidence motion to proceed. Pakistan's leader was removed from office after 174 members voted against him on April 9, one month after the beginning of the crisis.

Bajwa meets many journalists in Islamabad. What many of the journalists coming out of these meetings tell us is that the primary reason for the growing dissatisfaction with Prime Minister Khan was less the economic crisis than certain foreign policy choices. The way Bajwa would put it in these meetings is that "everyone is now mad at us." Khan has allowed relations with the United States and Europe to deteriorate, while losing favor in Beijing as well. Foreign policy mismanagement is thus at the center of the political crisis. For the powerful Pakistan army, the two reasons why the Imran Khan experiment had to be undone were foreign policy and a sense that the Prime Minister was unduly interfering in important military appointments.

Key Issues

ECONOMIC OUTLOOK

On April 5, the Pakistan Stock Exchange plunged almost 3 percent, amidst already low investor confidence in the country, indicated by the sharp increase in foreign investment outflows from equity, treasury bills and Pakistan Investment Bonds in March. Pakistan's foreign currency reserves are depleting fast, dropping to its

Timeline of recent major political developments in Pakistan

MARCH 8, 2022

Opposition leader and Pakistan Muslim League (N) President Shehbaz Sharif moves a motion in National Assembly (NA) to allow tabling of a no-confidence motion against Imran Khan

MARCH 27

PM Khan claims foreign powers' involvement in "conspiracy" to overthrow his government

MARCH 31

NA meets to debate no-confidence motion against Khan.

APRIL 3

Deputy Speaker Qasim Suri blocks the no-confidence motion against Khan and President Arif Alvi dissolves the NA; Opposition moves to Supreme Court

APRIL 7

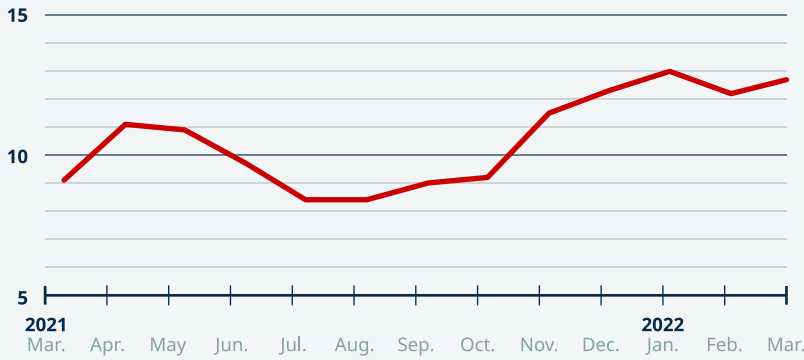
Supreme Court declares move to block no-confidence was illegal, orders restoration of the NA

APRIL 9-10

No-confidence motion passes with 174 votes in favor leading to Khan's removal

APRIL 11

Shehbaz Sharif elected in NA unopposed as Pakistan's 23rd Prime Minister, will lead new government



CPI Inflation-General
(YoY % growth)
(Base 2015-16)

Source: DRI, Pakistan
Bureau of Statistics

lowest level since June 2020 on April 7, largely due to debt payments. Pakistani rupee also fell to an all-time low against the US dollar, maintaining the non-stop downward streak since March 4 and adding more pressure on the central bank. In response, the State Bank of Pakistan announced a 250-basis point hike in the benchmark interest rates, taking it to 12.25 percent. The move was primarily aimed at containing inflation — 12.7% year-on-year in March, up from 12.2% in February 2022. The latest estimate of 4% GDP growth for 2022 — from the Asian Development Bank — will need to be revised downwards.

ROLE OF MILITARY IN DOMESTIC POLITICS

Military involvement in Pakistan’s domestic affairs has been a persistent feature since the country’s independence in 1947, sometimes overtly in the form of military rule or through close ties with elements of the political class, ensuring a harmonious relationship between the civilian and military leadership. More recently, the military’s power has extended beyond its traditional control over foreign policy and internal security, to sectors such as economic policymaking. Army support was seen as a crucial factor in Khan’s victory in 2018; during his rule, several military

officials were given important government positions, which previously were under civilian control. Although the army has distanced itself from the current political crisis, its lack of support for Khan is visible and in tune with its traditional opposition to civilian rule which threatens its autonomy and influence in foreign policy.

What’s Next

On April 11, PML-N President Shehbaz Sharif was elected as the 23rd prime minister of Pakistan after 174 lawmakers voted in his favor. Born in Lahore in 1950, Shehbaz is the younger brother of former prime minister Nawaz Sharif. His main challenge will be to start stabilizing the economy. A struggling program with the International Monetary Fund will have to be resurrected. As a result, currency devaluation and new taxes may well become necessary. Khan put the IMF program in jeopardy by cutting domestic fuel and power prices. Default risk climbed while the Pakistan rupee dropped to a historic low of 191 rupees to the dollar as the ongoing political crisis rocked. But improving public finances will be a tightrope act as tough steps such as the withdrawal of the fuel subsidy can trigger a backlash with voters. After some steps are taken in this direction, the National Assembly could be dissolved, and elections would take place.

Imran Khan will try to return to power after unpopular measures by the new Prime Minister. General elections are scheduled to be held in Pakistan less than 60 days after the dissolution of the National Assembly, whose term is set to end on 13 August 2023, unless dissolved earlier, in which case the election shall be held within 90 days after dissolution.

¹ <https://www.dawn.com/news/1678944>