



SPECIAL INSIGHT REPORT QUARTERLY

Jan-Mar 2018

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Executive Summary

As, 2018 is the election year in Pakistan, political parties, media and public at large has become charged up. From January to March, political rivalries in the form of rallies and processions were widely evident. The game changing event was the disqualification of Nawaz Shareef and the subsequent corruption related references to NAB, has considerably shook the dynastic political culture. However, Imran Khan and PTI at large have taken the credit for the disqualification of former Prime Minister Nawaz Shareef.

Furthermore, the role of judiciary was widely discussed in several media outlets. Right after the PANAMA CASE verdict, role of Supreme Court and Chief Justice Saqib Nisar has taken a new shape and widely pressurizing the government and influencing the governance by judicio-com-political statements and several visits in hospitals and schools. Therefore, the new aura of Supreme Court and Chief Justice may suggest that the upcoming general elections will be over sighted by the Supreme Court.

During last three months, in defense and security, there were tectonic shifts widely observed. As China and Russia has engaged Pakistan with more cooperation, defense and economic ties further strengthened, and United States had continued its DO MORE mantra and tried to bully Pakistan and its efforts in the war against terror. However, President Trump, in his new South Asia policy, put all the blame on Pakistan for its failures in Afghanistan and halted military assistance aid, which has considerably led to not only trust deficit but a new low in Pak-US relations.

Further, the situation on LOC remained violent and un provoked firing from India on different sectors led to many civilian and military personnel casualties. In that response, Pakistan Army carried out instant reprisals to Indian shelling and restored peace in the area.

The economic landscape during the last three months has faced many positive and negative trends. As CPEC related projects are taking pace and come to speedy completion; Gawadar port has completed its test runs, and now all set to be operational in coming months. On the other hand, the price of gold, US dollar, and crude oil has taken off and led to inflation in the country.

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Furthermore, the devaluation of Pakistani Rupee has led to increase in interest rates and government is again at the door step of IMF for the bailout loan to stabilize the economy, which may lead to further increase in taxation and tariffs of many domestic utilities. Therefore the upcoming months are highly tough for the economy.



Timeline of Events

Political Landscape

From January to March 2018, following were the major events took place in Pakistan's political landscape.

January 2018: Overview:

During January 2018, the overall political environment was highly charged as the sitting government in Islamabad had faced many challenges. The most pressing of these was when President Donald Trump passed derogatory remarks about Pakistan's efforts in war on terror and threat of suspension of military aid in his tweet. Pentagon officials were watching for Pakistan's next moves after Washington froze security aid payments to Islamabad, saying it is not doing enough to target Afghan Taliban and Haqqani group bases. The Trump administration's decision to withhold hundreds of millions from its "coalition support funds" has riled Pakistan, with some there calling for retaliatory measures that might hamper America's war fighting efforts in neighboring Afghanistan. Most problematic for America as it wages its 16-year war in Afghanistan had been if Pakistan suddenly shut its border points into the country, stemming the vital flow of goods, food and gear from the port at Karachi. Though US officials insisted they'd seen no evidence Islamabad was planning such a move.

Furthermore, in January 2018 witnessed the whole country was shocked when eight year old Zainab was raped and murdered and thrown away on the heaps of garbage in Kasur. The whole situation sparked a nationwide protests and call for justice raised by civil society. Protests in Kasur over the recent rape and murder of eight-year-old Zainab have continued for many days. The streets of Kasur were filled with the stench of burning tires as residents voiced their anger and outrage at the news that little Zainab, who went missing on Saturday, had been found – raped, dead, and buried in garbage. A crowd of protesters demanded the public flogging and hanging of “the monster responsible”.

Then, Pakistan Tehreek-e-Insaf PTI and Pakistan Peoples Party PPP had given a tough time to PMLN in many public gatherings and media briefings. The Ousting of Nawaz Shareef was the



prime case for political bashing for the opposition parties. However, on the other hand, Nawaz Shareef and his daughter Maryam Nawaz heavily engaged in their political campaigns to gain the lost vote of confidence from the public.

Lastly, in the highly charged political environment, Chief justice of Pakistan Saqib Nisar had made many public appearances and expressed his judicio-com- political statements. As he said *judiciary would not allow derailment of democracy in the country. Addressing a seminar organized by the Lahore High Court Bar Association (LHCBA) here, he said the incumbent judiciary was independent and it was not influenced by criticism. The judiciary exercised restraint and held contempt proceedings rarely*, he added. He applauded lawyers for their role in provision of justice and said the bar and the bench were two parts of a body. *"If one of them becomes weak, then the body will become paralyzed,"* he added. He said *sometime minor misunderstandings took place between the bar and the bench.*

February 2018: Overview

During February 2018, the overall political environment remained highly charged as the sitting government in Islamabad had faced many challenges. The most pressing of these was when The Supreme Court ruled that a person disqualified under Article 62 and 63 of the Constitution cannot head a political party. A three-member bench of the Supreme Court headed by Chief Justice Mian Saqib Nisar and comprising Justice Umer Ata Bandial and Justice Ijazul Ahsen was hearing into the petitions, challenging the controversial Election Act 2017. In its judgment, the three-member bench ruled that former premier Nawaz Sharif does not qualify to serve as the PML-N president. As a result of the SC ruling, all decisions including Senate tickets issued by former premier Nawaz as party chief stand null and void. Article 17 of the Constitution gives right to form a political party with legal conditions are also included in it, the SC judgment reads. The Chief Justice remarked that it was mandatory for chief of political party to fulfill the requirements of Articles 62 and 63 of the Constitution. Former Prime Minister Nawaz Sharif was disqualified by the Supreme Court in the Panama Papers case last year under Article 62 of the Constitution for failing to declare his receivable salary as an asset.



Further, the issue of black listing Pakistan by Financial Action Task Force from its grey list countries had aroused and considerably dented the soft image of Pakistan. The Foreign Office spokesperson Dr Mohammad Faisal briefed and said that Pakistan is not in the grey-list of Financial Action Task Force (FATF) and it would be place on the list in June this year. Dr Faisal said, “There is no question of inclusion of Pakistan in the black list as this is meant for countries not cooperating while Pakistan is actively cooperating with the Task Force.” To a question about recent meeting of global anti-money laundering group, the spokesman said “Pakistan took several measures during the last two years as per requirements of FATF.”

Moreover, in the aftermath of Supreme Court ruling, Pakistan Muslim League-Nawaz held a crucial meeting where majority of the party members suggested Punjab Chief Minister Shahbaz Sharif to be made new PML-N president. In the meeting, sources said, majority of party leaders suggested that Shahbaz Sharif be made new party president. N-League leaders said that Shahbaz Sharif is non-controversial and an influential personality, therefore, electing him as party president would likely lessen confrontation of the institutions. Following the suggestion of majority leaders, Shahbaz Sharif is expected to be made new PML-N president, sources said. The final decision in this regard would be made by Nawaz Sharif and it will be endorsed by Central Executive Committee of the party.

March 2018: Overview

In March 2018, the political situation got charged up by every day passing as 2018 is the general election year and political parties are racing for campaigns across the country. In the meanwhile, PML-N and PPP won big in Punjab and Sindh respectively in the Senate elections, while MQM-P suffered setback as majority of their lawmakers either voted for PPP or stayed away from the voting. Results were coming in after the polling for the Senate elections concluded at all the four provincial assemblies and the National Assembly to elect 52 senators for the six-year term from 133 candidates contesting in the electoral arena. There were reports of horse-trading and defections in election of senators from Baluchistan, Sindh and Khyber Pakhtunkhwa.

However, the political parties conducted mass processions and showed their political power to win hearts and minds of the masses. As, PMLN was all over the print and electronic media with



their political show ups, the former Prime Minister Nawas Sharief and his daughter Maryam Nawaz were conducting processions all across Pakistan. Although, there were two humiliating incidents happened in March that resonates all over the social media. One was the act of throwing black ink on the foreign minister Khawaja Asif in Sialkot while he was addressing the public, and the other similar kind of incident happened with Nawas Sharief when he was about to start his speech in Jamia Naimia Karachi, and a person throw his shoe at him. These two incidents during March heavily tarnished the image of PMLN as both were motivated to take revenge of infringement of Khatam e Nabowat clause.

Although The trend of shoe hurling continued as an unidentified man threw shoe at senior Pakistan Tehreek-e-Insaf (PTI) leader Aleem Khan, standing next to party Chairman Imran Khan on a makeshift stage in Gujrat. Later, the attacker was taken into custody.



Defense and Security

From January to March 2018, following were the major events took place related to defense and security in Pakistan.

January 2018: Overview

In January 2018, the threats by the US that it would take unilateral action against Pakistan if it were not seen to take action against the Haqqani Network and the Afghan Taliban – the way the US would have us do – seem to have now been carried out. There were reports of a drone attack at a refugee camp in Kurram Agency that had killed at least three people. Claims from some US sources that a commander of the Haqqani Network was killed in the unilateral drone strike have not being verified. This marks the second drone attack of the year and continues the increase in such attacks since Donald Trump took power last January. The US always claims that its drone attacks have only killed militants but past experience had shown us that drone operations routinely count any male as a militant. Predictably, the US embassy in Islamabad has denied that any US-led action had struck a refugee camp but, as always, it has also refused to confirm that it had carried out a drone attack at all, making it impossible to take anything the US says at face value.

Furthermore, National Command Authority called a high level meeting to discuss country's defense and security. The statement issued after National Command Authority's (NCA) 23rd meeting maintains that *Pakistan would continue its policy of Full Spectrum Deterrence (FSD)*. The reason behind the statement is the growing challenges to Islamabad's security and attempt to maintain strategic stability in the region. However, emphasis was on the policy of preserving FSD and avoidance of arms race in a statement seems contradictory. The arms race between India and Pakistan is nothing but a classic case of a security dilemma that the two states are suffering from. Out of the three major threats identified by NCA, two are from India. First the Indian attempts to arms buildup and India's aims for the development of Ballistic Missile Shield (BMD). While it is understandable that Islamabad needs to maintain at least "*Credible Minimum Deterrence*," it also means that Pakistan is going to spend more and more of its resources to keep the power balance in the region.



Moreover, the government of Pakistan has decided to man the normally unmanned border that Pakistan shares with Afghanistan. Known as the Durand Line, the border is 1500-miles long. And almost every day, thousands of Afghans and Pakistani cross the Durand Line when the security situation is normal. The recent proposal by the foreign ministry to create a new force to patrol the border is an extension of the fencing project that Islamabad has undertaken in recent past to check militant infiltration. Both initiatives in themselves are part of the National Action Plan that intends to counter terrorism.

Lastly, in January, for the first time in six years, the military leadership had come to the Parliament House to brief lawmakers on the security situation. Just the occurrence itself is symbolic; the military is answerable to the civilian government and can be called to the seat of civilian power to be questioned. More so than muddled verbal statements, this action does more to establish notion of civilian supremacy, hence it is appreciable.

February 2018: Overview

In February 2018, the US State Department announced the decision, saying it reflected the Trump administration's frustration that Pakistan has not done more against the two groups, which have long used sanctuaries in Pakistan to launch attacks in neighboring Afghanistan that have killed US, Afghan and other forces. The department declined to say exactly how much aid would be suspended, saying the numbers were still being calculated and included funding from both the State and Defense departments. US officials said two main categories of aid are affected: foreign military financing (FMF), which funds purchases of US military hardware, training and services, and coalition support funds (CSF), which reimburse Pakistan for counter-terrorism operations. They said they could make exceptions to fund critical US national security priorities. CSF funds, which fall under Defense Department authority, are covered by the freeze, said Pentagon spokesman Commander Patrick Evans, saying Congress authorized up to \$900 million in such money for Pakistan for fiscal year 2017, which ended Sept. 30. None of that money has yet been disbursed. The freeze also covers \$255 million in FMF for fiscal year 2016, which falls under State Department authority and whose suspension has already been announced, as well as unspecified amounts of FMF that went unspent in earlier fiscal years.



The Month witnessed deterioration in internal security situation. As Two Pakistan security personnel were martyred in unprovoked firing by Indian troops along the Line of Control (LoC), Inter Services Public Relations said. According to ISPR, the military's media wing, Indian troops resorted to unprovoked firing in Bhimber sector of LoC; resulting two Pak Army personnel were martyred. They include Sepoy Muneer Chohan, 32 years, resident of village Kahuta and Sepoy Amir Hussain, 28 resident of district Bhimber. Pakistan Army troops befittingly responded to Indian unprovoked firing. There are reports of substantial damage to Indian posts.

The Frontier Corps has killed four terrorists during search operations in different parts of Baluchistan, according to the Inter-Services Public Relations (ISPR) on Friday. The ISPR said the FC launched search operations in Sibbi and Turbat on the basis of intelligence information. He said terrorists opened fire on the FC and four of them were killed during exchange of fire.

Furthermore, Director General of Inter-Services Public Relations (ISPR) Maj Gen Asif Ghafoor responded to the Indian army chief's 'nuclear bluff' assertion by warning that India will be given a befitting response if they engage in any misadventure. He added that statements like this are unbecoming from a person of a responsible stature. Indian Army Chief Gen Bipin Rawat had said that the force was ready to call Pakistan's 'nuclear bluff' and cross the border to carry out any operation if asked by the government. The Foreign Office too responded to the Indian army chief's statement in strong terms, saying Gen Rawat's "threatening" remark is "representative of a sinister mindset that has taken hold of India". "These are not issues to be taken lightly. There must not be any misadventure based on [a] miscalculation," FO spokesman Dr Mohammad Faisal said in a statement.

In addition to that, Chief of Army Staff (COAS), General Qamar Javed Bajwa had confirmed death sentence of another 10 hardcore terrorists, awarded by military courts. The convicts were involved in terrorist activities, killing of innocent civilians, attacks on educational institutions, slaughtering of soldiers, attacking Law Enforcement Agencies and Armed Forces of Pakistan. In total, these 10 terrorists were involved in killing of 41 personnel while injuring 33 others. Arms and explosives were also recovered from their possession. These convicts were tried by military courts. Besides these 10, another 3 convicts have been awarded imprisonment for varying period by military courts.



March 2018: Overview

During March 2018, Chinese Ambassador to Pakistan, Yao Jing called on General Zubair Mahmood Hayat, Chairman JCS Committee at Joint Staff Headquarters, Rawalpindi. According to Inter Services Public Relations, matters related to changing geostrategic environment and further strengthening of security & defense cooperation were discussed during the meeting. Both sides reaffirmed the resolve for furtherance of deeper strategic ties. The Ambassador applauded the professionalism of Pakistan Armed Forces and acknowledged sacrifices made by Pakistan in war against terrorism.

However, The Chief of Army Staff (COAS) General Qamar Javed Bajwa laid the foundation stone of UAE and Swiss government-supported desalination plant in Gwadar. According to the Army's media wing, Inter-Services Public Relations (ISPR), the project would fulfill long awaited demand of the locals, providing 4.4 million gallons water per day with capacity to increase to 8.8 million gallons per day.

In addition to that, Pakistan sent its troops to ally Saudi Arabia on a “training and advice mission”, the military said, three years after it decided against sending soldiers to join the Saudi-led military intervention in Yemen. The exact role the troops will play was unclear, but a statement from the army’s press wing stressed they “will not be employed outside” the kingdom. Pakistan’s retired army chief, General Raheel Sharif, commands the new Saudi-led Islamic military alliance to fight terrorism, though it was not immediately clear whether the new troops would participate in that coalition. Saudi Arabia had asked Pakistan to provide ships, aircraft and troops for the Yemen campaign to stem the influence of Iran in what appears to be proxy war between the Gulf’s two dominant powers.

Further, The Pak Army shot down Indian spy drone for violating Pakistan’s air space along the Line of Control, Inter Services Public Relations said. According to ISPR, the media wing of the military, the Pakistan Army shot down Indian spy drone in Chirikot sector of LoC. It was the fourth drone Pak Army has shot down in the past one year for violating Pakistani space. Pakistan Army troops have taken the debris of the Indian spy drone in custody, the ISPR said.



Moreover, Chief of the Naval Staff, Admiral Zafar Mahmood Abbasi, was on an official visit to Kingdom of Saudi Arabia (KSA). During the visit, the Naval Chief called on Western Fleet Commander of Royal Saudi Naval Forces, Rear Admiral Hamed Bakheet Al Johani and also visited RSNF Ship and establishments. During the meeting with Western Fleet Commander of Royal Saudi Naval Forces, matters of mutual interest and bilateral naval collaboration were dilated upon. Rear Admiral Hamed Bakheet Al Johani acknowledged the significance of close and strong bilateral naval association in diverse realms between Pakistan Navy and Royal Saudi Naval Forces.

Lastly, National Security Adviser Nasser Januja was called on Afghanistan's Chief Executive Abdullah Abdullah during his one-day visit to Kabul. He under took the visit on the invitation from his Afghan counterpart Haneef Atmar. According to details of the meeting posted on Dr Abdullah's official Twitter account, Nasser Janjua and the Afghan Chief Executive discussed "inter-state dialogues for improvement of relations between the 2 countries, support for the Afghan Peace Process and the timely & new peace offer that Taliban should utilize"



Economic Landscape

From January to March 2018, following were the major developments took place in economic landscape of Pakistan.

January 2018: Overview

In January 2018, Pakistan facing a crippling trade deficit, the country's authorities should be alarmed by the \$2 billion drop in Pak-Afghan trade in just one year. The numbers are even more alarming when we note that the total trade between the two countries amounted to \$2.5 billion. The drop leaves it at a paltry \$500 million, which opens up serious questions about how trade policy and security policy are interacting in Pakistan. If Pakistan is to take full advantage of the China-Pakistan Economic Corridor, it must be able to position itself as a regional trade hub.

However, Pakistan Stock Exchange (PSX) signed an agreement with the Chinese operator of Gwadar port to facilitate companies in the city's free trade zone in raising funds from the capital market. Prime Minister Shahid Khaqan Abbasi along with other Chinese and Pakistani government officials witnessed the signing ceremony of a memorandum of understanding (MoU) between PSX and China Overseas Ports Holding Company Pakistan (Pvt.) Limited (COPHC) in the port city.

Moreover, The Pakistani and Chinese investors at the first-ever global exhibition in Gwadar City are hopeful that Gwadar Expo 2018 will open new avenues for their businesses. Over 100 companies are participating in the two-day exhibition, jointly organized by the China Ports Holding Company (COPHC) and Gwadar Port Authority (GPA) at the newly established Gwadar Free Zone.

Further, Prime Minister Shahid Khaqan Abbasi said the China Pakistan Economic Corridor signifies economic stability of Pakistan and it is portraying a positive image of the country. The prime minister assured the international community that CPEC projects would be financially and environmentally sustainable and would be open to all for investment. The panel discussion took place during the second day of the 48th annual meeting of the World Economic Forum (WEF), which is taking place at Davos.



February 2018: Overview

During February 2018, Pakistan's Minister of Commerce Pervaiz Malik attended an informal WTO ministerial meeting taking place in New Delhi on March 19-20, The Indian Express reported Monday. Quoting unnamed diplomatic sources, the newspaper said the Pakistani side has confirmed the participation of the minister. The invitation comes in the wake of the late-December secret back-channel negotiations between the two national security advisors, Ajit Doval and Nasser Janjua, it said.

However, "Galkynysh, the world's second-biggest gas field, will feed the TAPI (Turkmenistan-Afghanistan-Pakistan-India) pipeline," Turkmen President Kurbanguly Berdymukhamedov told reporters gathered in a town near the Turkmen-Afghan border through a video link. Earlier, Minister Shahid Khaqan Abbasi in a meeting with Turkmen President that TAPI gas pipeline project is an important project for Pakistan due to its growing energy needs.

Further, Pakistan has sought unilateral market concessions from China on cotton yarn, rice, nuts, plastic waste, leather, nuts edible fresh or dried trousers, frozen fish and crabs on immediate basis before embarking on the second phase of China Pakistan Free Trade Agreement (CPFTA). Pakistan's high-powered delegation led by Federal Secretary Commerce Younas Dagha is going to participate in next round of talks for finalizing 2nd phase of CPFTA scheduled to be held in Beijing on February 7 and 8.

Furthermore, Pakistan can increase trade volume with China by twofold to \$45 billion – only one percent of China's total trade – through connecting underdeveloped region with the ongoing corridor projects. "China has a total trade volume of \$4,477 billion. If CPEC (China-Pakistan Economic Corridor) is linked with the development of markets along this corridor, and thereby attracts even one percent of China's trade, a trade volume of about \$45 billion annually could be generated by the market networks on the hinterlands of CPEC," said the study launched by the United Nations Development Programme Pakistan and ministry of planning, development and reforms. Pakistan's trade with China amounted to more than \$15 billion during the last fiscal year of 2016/17 with trade oddity in favor of China.



March 2018: Overview

In March 2018, Pakistan's rupee weakened sharply against the dollar in what appeared to be currency devaluation by the central bank, traders said, and the second such intervention in less than four months. The apparent devaluation comes at a time when Pakistan's nearly \$300 billion economy is showing signs of vulnerability despite surging growth rates. The rupee plunged to about 115.5 per dollar in early trading from 110.5, traders said. Abid Qamar, spokesman for the State Bank of Pakistan (SBP), told Reuters the rupee plunge was a "market driven" event.

However, Matco Foods Limited signed an agreement for the supply of 20,000 tons/annum rice glucose manufacturing plant with Beijing Meckey Engineering Co,. This new expansion will increase the total production capacity of the company to 30,000 tons rice glucose and 3,000 tons rice protein per annum, respectively.

Further, TCS Holdings, a group of 14 companies including TCS logistics, has announced to expand its business by 100 more express centres in 2018 to 1,000 centres. President and Chief Executive Officer, TCS Holdings, MA Mannan, in an interview at his office told The News that currently, TCS has 900 express centres while 100 more centres will be added in the current year.

Furthermore, Standard Chartered Bank sees greater opportunities to use Yuan for settling cross-border trade deals between Pakistan and China because of its strong footprint in the country. "The trade levels are significant between Pakistan and China with the figures varying from \$7 billion to \$11 billion with respect to both these markets," AD Ganesh, Standard Chartered Bank's regional head for commercial banking told The News in an interview. "Renminbi (RMB) is definitely an opportunity and a way forward as we are uniquely positioned in China."

Moreover, Ant Financial Services Group, an affiliate of Chinese e-commerce giant Alibaba, agreed to acquire 45 percent stake worth around Rs20 billion in a subsidiary of Norwegian Telenor to broaden access to financial services through digital payment solutions in Pakistan. "Telenor Group has reached a strategic partnership agreement with Ant Financial Services Group in Pakistan, where Ant Financial will invest \$184.5m for a 45 percent stake in Telenor Microfinance Bank (TMB), a subsidiary of Telenor Group, to further develop TMB's mobile payment and digital financial services," a statement said.



Strategic Analysis

Political Analysis

There is too much desperation in the air. It is hard to find an actor who is not gripped by the fear of the unknown, and feeling desperate as a result. Even those who are tasked with the mediation have jumped into the fray, becoming a part of the problem, rather than the solution. It is this contagion, the rot from above, that makes 2018 so different from 2013.

The 2013 election was a moment to celebrate. For the first time in the nation's history, power was transferred from one democratically elected government to another. There was optimism in the air, even though Pakistan had been through some of the worst years of its history. Within a span of five years, Pakistan had faced two historic natural calamities, unprecedented rise in international oil prices and unabated terrorism. Though the PPP government had been able to bring down inflation from 25 percent to less than 10 percent, the rise in prices had crushed people's ability to buy essential goods. Yet it was a moment of optimism. The opposition had successfully tied all these problems to the person of Asif Ali Zardari and he was on his way out.

Both optimism and pessimism are contagious and infect the economy fast. Soon after the elections, Pakistan's stock market skyrocketed; then real estate followed suit. A favorable international climate and falling oil prices provided a huge relief to the people. Inflation remained within reasonable limits and growth picked up. Pakistan's ranking in the World Happiness Report improved from 81 in 2013 to 75 in 2018, making it the happiest country in South Asia. Pakistan also improved its ranking on the Corruption Perception Index from 130 in 2012 to 117 in 2017. As 11,000 megawatts of less expensive electricity were added to the national grid, it appeared the country was ready to soar on the wings of new opportunities, particularly CPEC.

Perhaps the best thing during the last five years was the healthy competition between the provincial governments, empowered and enriched through the 18th Amendment. As the demand for delivery shifted from the federal government to the provinces, people in Punjab and Khyber Pakhtunkhwa benefitted from the rivalry between two governing parties. Sindh too shook off its



sedated state in mid-2016, when the PPP picked a more dynamic and hardworking chief minister, Syed Murad Ali Shah.

Governments in both Punjab and KP tried to curb patronage-based politics and made an effort to impress their voters through improved governance and direct delivery of services. The Shahbaz style of government was not good for democracy. He ignored the Punjab Assembly more than his brother ignored the national parliament. However, his government did wonders in state buildings and empowering what we know as Weberian bureaucracy. It was after decades that the civil service in the province became meritocratic and its ability to deliver services increased manifold.

Perhaps, it is the first time since the 1960s that many district coordination officers (DCOs, formerly deputy commissioners) don't even serve tea to elected representatives, and parliamentarians find it almost impossible to have them transferred. That does not mean that clientelist politics has been thrown out of the window. However, the balance between state delivery and politics of patronage has improved substantially.

It was a clever move that made political sense. The size of government has shrunk considerably – relative to the rising demographics, education levels and business sector. It is very hard to satisfy the electorate through the 1990s style of patronage. As an Urdu proverb puts it, there are a hundred sick persons seeking the single elusive pomegranate. It is better to allocate it through some transparent mechanism, rather than having 99 angry left-outs. It is also more logical to satisfy the electorate directly through delivering public goods.

The KP government also tried to follow suit – though with a lot of fanfare, claiming the discovery of fire and invention of the wheel. Unfortunately, it tripped and fell while copying the project they maligned the most, the Bus Rapid Transit (BRT) aka the Metro Bus. Though a thorough comparison of the performance of the two governments will take some time, it is hard to disagree that both provinces have improved from the 2013 baseline. The contagion of pessimism and desperation is located in the class that has benefitted the most from the turnaround – the urban middle class. Like always, democracy is under threat from this class and the institutions manned by its members. Comprising barely 20 percent of the nation's population, this class is



not willing to share the spoils with the rabble. As Fukuyama said somewhere, or should have said somewhere, democracy remains under threat till the middle class remains a minority in a state.

No one believes that democracy will benefit hugely from continuity in 2018. It may and it may not; too much desperation has seeped into the system. It is easy to understand why the PML-N is desperate. It has voters, it has the government and yet it may lose everything. Had Nawaz Sharif been as unpopular as Zardari was in 2013, things would have been much simpler. He remains popular and he has decided to go down fighting.

That's what makes Imran Khan so desperate. It is not without reason that he is clutching at Amir Liaquat and trying to use arsenal left half used by Maulvi Khadim Hussain Rizvi. As numbers appear out of reach, he wants to add more virulence to his online brigade. His followers must be able to bully and silence those who disagree with him or try to create any hurdle in his march to glory. Put a compromised Zardari in the formula and he can still be the king. His sidekick, Sheikh Rashid, wants a judicial martial law as road roller.

The PPP is desperate because it has been confined to Sindh – and even Sindh may be in danger if winds from Baluchistan reach there. The party is lost in the wilderness and may not be able to find its way out with the outdated maps of reality.

These are desperate times for religious parties as well. First, their voters were stolen by the mainstream parties. The PTI has almost finished the work started by the PML-N three decades ago. If that was not enough, new religious entities have emerged and are eating into the core of the established religious parties. Unlike the promising years of the Musharraf era, the revival of the MMA is an act of desperation.

The transfer from one system to another is a revolutionary moment. We had that moment in 2008, for the third time in our history. Such shifts are not simply events, but duality of events that launch them and the process that seeks to complete them. A dialectical relationship between event and process is involved. In the process, participants argue to define the change and adjust their boundaries. As the process of negotiation appears to be failing once again, it is not hard to imagine that we are in for rough times once again. Losing a decade or two again is



not great news for the people of my generation who are barely left with a decade or two of life on this planet. And being conscious of the desperation can make you even more desperate. According to Kierkegaard, the first existentialist philosopher, “being conscious increases the level of desperation, because one is conscious about his own desperation, which is even worse than being purely desperate.” Perhaps, it is better to adopt a willing suspension of disbelief and follow a messiah. If you are young, you have the luxury of following a mirage or two.



Defense and Security Analysis

As ceasefire violations on both sides of the Line of Control continue unabated with increasing frequency and firepower, the risk of unintended consequences cannot be ruled out. Pakistan and India have their troops in an eyeball-to-eyeball confrontation and formal dialogue and back-channel diplomacy is in a freeze due to India's intransigence. Adding to these dangers, especially in the event of a terrorist attack, is the operationalization of the Cold Start doctrine that the Indian army chief brags about. This would invariably invite a swift and appropriate response from Pakistan and if diplomacy remains dormant the situation could spin out of control. We hardly need to remind ourselves that both countries being nuclear and Pakistan's conventional forces though considerable but in comparison to India a smaller force largely rely on the nuclear both at the tactical and strategic levels.

To make matters worse, Prime Minister Narendra Modi taking advantage of Pakistan's civil-military divide adopts an aggressive posture towards us. His belligerence is directed against our military for he knows that they are the architects and implementers of Indian policy. Modi perhaps is of the view that if left to Nawaz Sharif's government the relationship would have been more conciliatory. Our leadership should rise above the civil-military divide and formulate national policies towards India, the US and Afghanistan that genuinely serve national rather than narrow institutional interest. It has cost the nation heavily in the past and continues to do so with not much hope that these internal contradictions are likely to get resolved anytime soon.

As the situation stands they are getting more complex as election time is nearing with hardly any state institution or political party that one could look up to as a beacon of hope. The irony of this state of affairs is that while Pakistan should be focusing seriously on economic development and political stability external pressures and internal contradictions have become a huge distraction.

India, on the contrary, has a more robust economy and a relatively matured political system that is far less affected than Pakistan. Yet a conflict-ridden relationship can spin out of control seriously affecting India's ambitions as well.



The United States is interested in the reduction of tension between the two countries so that Pakistan could focus mainly on strengthening the Afghan border. So far it has failed to persuade India to engage in dialogue. Washington and other major world powers are deliberately overlooking the gross human rights violations in Kashmir and only parroting India's accusations of cross-border movement of militants.

Moreover, the US has largely been ignoring the presence of TTP and other anti-Pakistan elements present near the Pakistan-Afghanistan border. Pakistan's recent serious legal and administrative measures to conform to UN resolutions have yet to satisfy the US. In fact, General Joseph Votel, Commander Central Command, recently stated before the Senate Armed Services Committee that he was concerned by the growing tension between India and Pakistan and lack of sufficient action by Pakistan against India-focused militants that could lead to conflict. And balanced his statement by stating that India's policy of isolating Pakistan could lead to dangerous escalation.

Action by Pakistan against the militant groups should not be done merely as compliance with UN resolutions or to satisfy the US and Indian demands but in the larger interests of the country itself. The recent developments in the missile field reflect how Pakistan, despite its limitations, is endeavoring to keep pace in the missile and nuclear field with India is giving substance to its doctrine of full spectrum deterrence. Thereby, ensuring that India does not carry out any misadventure on the conventional front.

India's missile and nuclear up gradation is meant to achieve great power status and is a critical element in attaining a certain level of balance with its strategic rival China. It has been reported that India's ballistic missile submarine, the Arihant, which is nuclear capable, is already operational. Furthermore, India is believed to have developed an intermediate-range ballistic missile with a range of 3,500km capable of covering most of China. Pakistan too has been struggling to keep pace. Interestingly, it was reported by the ISPR that Pakistan early this year tested a medium-range ballistic missile equipped with multiple independently targetable re-entry vehicles. In terms of technology and effectiveness it was a quantum jump as the missile is supposed to evade radar, has a range of 2,000kms and survives in a hostile environment.



The successful launch of Babar-3, a sea-based cruise missile, early this year is another calculated response by Pakistan at effectively countering India's nuclear deterrence. Submarine-based systems when fully operational would pose a serious problem of delegation of authority to launch nuclear-armed missiles. A similar challenge of delegation of authority would arise in the operationalization of tactical nuclear weapons that Pakistan has recently developed. What will be the consequences of this race on Pakistan's economy and internal political dynamics and structure should be a matter of serious debate. Already the army leadership is demanding modifications in the constitutional structure to be able to get a bigger share of the budget. This has also given rise to several important questions. To what extent can a military build-up alone contribute towards a country's intrinsic strength? How important it is for countries to be economically self-reliant and spread their scant resources on other vital areas like education, health and infrastructure development. Is the development of these areas not equally important for the progress of a dynamic citizenry and defense of the country?

Another pertinent question is which institution should be formulating foreign, defense and security policies. We have experienced over decades this lopsided decision-making power structure has miserably failed whenever we faced a major crisis, whether it was the 1965, 1971 wars or Kargil. On the diplomatic front too our options have been mostly reactive and on the defensive. But for Pakistan to change for the better its institutional leadership — whether they are politicians, military, judiciary or media — needs to think more broadly and deeply setting aside their petty goals.



Economic Analysis

In this year high GDP growth in Pakistan will help control the inflation. There is increase in macro sectors of the economy with massive CPEC investment and an improvement in security and power supply. The acceleration in economic growth may affect well for the masses. Democracy will be strengthened with the strong economy in 2018. The loan repayment obligations may be scaring. Pakistan may find itself back in the IMF fold. There will be expansion in the job market and there will be improvement in job situation and salary increase for the working class. The inflation will go up but it is not expected to get out of control. There will be uptrend in the global oil market. The exchange rate may come under pressure and there will be adjustment in the value of the rupee against the dollar. Pakistanis will be engaged safely in capital formation in the real sector as against those dragging assets through speculative businesses. Speculators may be driven out of the mainstream to watch the economy grow from the sidelines.

Business houses may accelerate their industry and explore new projects in collaboration with Chinese companies. Credit access under the new policy may encourage medium and small enterprises. The agriculturist will concentrate on trading and industrial sector. The transport, construction and communication may boost the pace of growth in retail and banking may be moderate. The retail sector is expected to expand but the pace may be slower due to uncertain political situation consumers. The brokers' community, undisturbed by the spot on their credibility in 2017 will continue to do their business as usual. As regards of the provinces, Punjab will continue to lead while the performance of the other three provinces may be significantly better on both physical and social indicators. It will be unrealistic to expect meaningful structural or taxation reforms in an election year. The progress on the export front will be slow and tiresome. A rise in remittances inflow appears unlikely. The momentum of growth with \$25 billion investment in infrastructure under the CPEC will generate enough economic development at a higher speed.

The IMF warned that the positive trend will require strengthening the economy's with greater exchange rate flexibility, fiscal discipline, and an adequately tight monetary policy. In an update of its twice-yearly economic report, the World Bank warned that the economic uptrend this year



was temporary. Pakistan is expected to witness a 5.5 percent GDP growth driven by strong domestic consumption. The domestic demand was driven by powerful credit growth and investment. Recovery was also witnessed in agricultural production on return of normal monsoon rains. Exports are also expected to show recovery with rising investment, the report stated. The country's construction and services sector will record a strong activity.

As the increase in economic growth will average 5.9 percent in the coming years. The World Bank said that fiscal slippages are the main risk for the economy, and are expected owing to elections and weak tax revenues. Despite an increase in macroeconomic imbalances in the last financial year the World Bank projects that Pakistan's GDP growth rate will be 5.5 percent and 5.8 percent for 2017-18 and 2018-19, respectively.

In its Pakistan Development Update, a biannual publication throws light on the state of the economy and its future prospects. The global lender said the economic growth rate projection assumes that oil prices would increase slightly and that "political and security risks will be managed. The industrial sector is likely to post a growth of 7 percent against 5 percent in 2016-17. The World Bank estimates that the agriculture sector will expand 2.9 percent in 2017-18 against 3.5 percent a year ago. It notes that capital and financial flows will not fully finance the current account deficit, resulting in a drawdown of foreign exchange reserves. The fiscal deficit is expected to widen in the election year amidst a slower increase in tax revenues, while inflation will likely reach 6 percent in 2017-18. Remittances from the Gulf countries amounted to 62.6 percent of total inflows in 2016-17. Growth in remittances would be subdued going forward, the World Bank said, as Gulf nations make gradual economic recovery. The World Bank also called for increased rupee flexibility in order to help narrow the trade deficit. The gap between imports and exports of goods widened 37.1 percent year-on-year to \$7.2 billion in July-September. Higher inflation could affect consumption negatively, but the overall impact of a moderate depreciation on growth is likely to be positive. Growth in developed economies is projected to slow to 2.2 percent in 2018, from 2.3 percent last year, as central banks gradually remove their post-crisis accommodation and investment levels off. The World Bank projected that global oil prices would average \$58 a barrel in 2018, edging up to \$59 per barrel in 2019.

Strategic Forecast

'State of economy' of Pakistan is under discussion, yet again for all the wrong reasons. One group of analysts sees nothing wrong with economy, while the other do not see any positive output from the economic measures taken by PML-N government during last 4 years. In my opinion, there is nothing like good or bad economic policies. One can argue that there would be some losers in best of the best economic system, whereas there would be some winners in worst economic situation. The bottom line for policymakers is how to create more winners than losers.

Looking back in this context, one finds that against the benchmark of 2013, Pakistan has remarkably stabilized its economy with considerable improvement in its macroeconomic indicators. The GDP growth rate increased from 3.6 percent to 5.3 percent, the size of GDP was stretched to Rs 31.862 trillion from Rs 22.9 trillion, inflation reduced by 3 percent, tax to GDP ratio got improved from 8.8 percent to 12.5 percent, the fiscal deficit of 8.8 percent of the GDP in FY 2012-13 was recuperated to 5.3 percent by June 2017; whereas, the size of the PSDP tremendously increased from Rs 540 billion to Rs800 billion (downwards revised figure) in FY 2016/17.

The story of stability began with the \$5 billion gift from Saudi Arabia back in 2013-14. It was followed by a single time earnings from the auctions of 3G-4G spectrum. Our economy also got the benefit of sporadic decrease in international oil prices for three and half years. An extended fund facility from IMF, and last but not least an inflow of CPEC early harvest related investment also helped Pakistan in attaining macro-economic stability.

This was an excellent start for economic take off. However, due to internal inertia, lack of appetite for structural reforms, political instability, and partly due to over dependence on the above mentioned external factors; economic stability could never be sustainable.

Resultantly, issues such as low tax base (FBR tax revenue nearly doubled without any significance expansion in tax base), high cost and difficulty of doing business, bleeding public sector enterprises, uninterrupted supply of energy at affordable prices, energy circular debt, un/under employment, and low investment to GDP ratio kept haunting our economic outlook.



Despite his hectic engagement in more than fifty committees that Mr. Dar was chairing, he had economic front under control during first three years of PML-N government. Due to the political turmoil in 2017, he lost focus on economy. The state of limbo in ministry of finance after his indictment in NAB cases and later on his leave of absence negatively affected his economic agenda.

Amid growing twin deficit (fiscal and current account deficit) a team of new economic managers was inducted to do a lot within too little time. Fiscal deficit, in the run up to general elections when federal and provincial governments would be on spending spree, would be difficult to manage. Energy circular debt, which has exceeded than the total federal PSDP would also be a major contributor to fiscal deficit, and so would be loss making public sector enterprises. Thus there is very little that can be done by ministry of finance to control fiscal deficit in the remaining term of current government. This depreciation was also necessary in the context of IMF's first Post-Programme Monitoring (PPM) Report, which projected current account deficit to increase to 4.8 percent of GDP this financial year as compared to 4.1 percent in FY 2016-17 and 1.1 percent in FY 2012/13. In layperson terms, IMF warns that macroeconomic stability gains achieved during the 2013-17 are rapidly eroding. To cope with the twin deficit, going back to IMF in 2018 seems very likely, unless we again get some bailout from a friendly country, as was the case in 2013 when Saudi Arabia provided us US\$ 5 billion.

Focus on falling exports: Like it or not, the textile sector still directly or indirectly drives about two thirds of the national exports and the export performance of this sector is in a free fall. Given Pakistan's widening current account deficit and with pressure on foreign exchange outflows likely to further increase in the coming months – external debt repayments, firming up oil prices, rising imports and fast increasing profit/dividends repatriation — boosting or at least stabilizing exports will be critical in 2017. The main issue that confronts our manufacturing is that of competitiveness (difference of about 10pc with regional competitors) and there are only two quick-fix solutions: a) devalue currency by about 10pc, or b) provide incentives in shape of outright rebates through the banking channel (not FBR) and abolish non-applicable surcharges from the power bills of the industry. The writer recommends 5-7pc gradual currency devaluation; 3-5pc additional export rebate directly payable by the central bank into exporters'



accounts; and abolishing of all line-loss surcharges being unfairly charged to the industry. Given that going forward, it will in any case be difficult to sustain pressure on international parity of the Pak rupee, now would be a good time for the government to act. Not only will this be a small cost to pay to retain home grown foreign exchange inflows, but also save us a great deal of future pain on account of capacity closures and unemployment – markets once lost can be difficult to recover.

Re-strategies taxation: Revenue collection drives in Pakistan are going in the wrong direction, since the current compliance culture cum environment favors the un-documented sector over existing or honest taxpayers. For taxation measures to flourish they need to incentivize people into becoming tax-filers and not otherwise. Good moves would be to lower taxation slabs per se and ring the much-awaited reforms in the FBR itself. Reforms that distance the tax collector from the taxpayer and replace coercive tax collection endeavors with ones that are based on realistic targets and primarily focus on enhancing the national tax base. Last but not least, the sales tax or the GST (general sales tax) also needs amending. India recently re-packaged its GST with a much lower slab and one that simplified the previous cluttered state and federal tax system with a clear aim to create a common market across the country. We perhaps need to undertake a similar exercise, albeit based on our ground realities.

Re-think emerging energy mix: With CPEC (China Pakistan Economic Corridor) taking root and nearly \$35 billion to be invested in the energy sector, the main thrust at present is on coal generation. While increasing the share of coal generation mix from its current level in Pakistan is not entirely a bad idea, we need to however keep an eye on where our coal's share is going to end up in the overall energy generation mix, i.e. once investments in the energy sector under CPEC get completed. At the current pace, by 2025 the coal's share could be as high as 55-60pc, which would be undesirable not only from an environment perspective but also financially. Given that our indigenous coal is still to be mined to its touted potential, an over dependence on imported coal will be foolhardy. The CPEC energy funds should be re-allocated with revised priorities favoring Hydal, renewables and nuclear options.

Focus on investment and creating jobs: Again learning from our neighbor, the Indian government recently announced sweeping changes to throw open its economy to investment.



The new rules spell out a plan to develop more business friendly policies with a clear objective to spur job creation. The idea is to remove all difficulties in doing business in India and to ensure that Indian manufacturing not only sustains itself but also expands to capture a wider global share. Pakistan falls in the bottom quarter of the world with regards to 'ease of doing businesses and perhaps 2018 can be the year where the government unleashes a new plan to resurrect a struggling industrial environment.

Last but not least, the sales tax or the GST (general sales tax) also needs amending. India recently re-packaged its GST with a much lower slab and one that simplified the previous cluttered state and federal tax system with a clear aim to create a common market across the country. We perhaps need to undertake a similar exercise, albeit based on our ground realities

Re-negotiate adverse trade deals: Our trade deals with some of our main trading partners like China, Indonesia, Malaysia, Turkey and Thailand need to be re-negotiated. In a changed global trading environment more and more countries are having a re-think on how and with whom to trade. While increased trade is welcome, it should not be at the cost of home industry and with huge cum consistent trade deficits. The earlier we re-visit all our unfavorable trade agreements, the better.

Re-priorities government spending: To support growth, economic policy must review the political economy. It shows most obviously in tax policy, but equally in expenditure priorities. While development budget increased in 2017 over 2016, questions remain about project selection, transparent procurement, and effective project management. Allocation on the other hand on some key sectors remains dismally low, such as education, health and water management sectors. Overall investment in people per se is well below par and it will be good to see the government shift its focus to mainly social development sectors in 2018.

Transform at least one PSE into a winner: The hallmark of success for any government in economic governance is that public sector enterprises (PSE) under its tenure perform well. PML-N was selected for its business prowess, but sadly the performance of state enterprises under it has instead slumped. This does not come as a surprise since the government has failed to provide an apex management structure or assemble a competent team, because its focus has



merely been on disinvestment. Nearly all emerging and successful economies owe much of their success in their sheer ability to combine private sector entrepreneurial juices with the might of state's resources in churning out global corporate winners. Examples being: China, Brazil, Russia, India, UAE, etc. Airline is one industry where most leading airlines today are beneficiaries of this model. To give confidence to the nation and its people, if the government can resolve to turn around at least one big state enterprise in 2018, it will go on to set the pace for others to follow. My pick would be PIA!



Yaldram Profile

About Yaldram Security Services

Yaldram Security Services is a leader in high quality effective security agents (armed and unarmed), innovative surveillance, access control systems, and expert consulting/training. Seasoned professionals who are experienced in both private sector and government sector security planning and operations are managing Yaldram Security. All of our Guards are State licensed, bonded, and highly professional. The company's executive, operational management and senior consultants are combat veterans of the Pakistan Army and Special Services Group.

We, as Pakistani Citizens and former combat veterans - combined with former SSG Personnel fully understand the threats and the delicate balance required when implementing hazard mitigation measures in a vibrant open society.

We deliver effective solutions to a wide variety of terrorism-driven security challenges. We go to great lengths to guarantee a superior level of professionalism, discretion and confidentiality. The success of Yaldram Security is based on forging client relationships, understanding your specific requirements and meeting your needs consistently.

In your queue, the close personal involvement of our principals in the daily operation of each account, our commitment to the highest quality service and our aggressive cost control procedures enable us to provide the best value in the industry.

Our Capabilities

- *Yaldram is capable for:*
 - *Providing Static Guarding*
 - *Providing Close Protection-ex SSG personnel*
 - *Providing Escort Services*
 - *Provide Armor Vehicles*
 - *Conversion of soft skin vehicle into armored*
 - *Training our security personnel in own school with a dedicated firing range*
 - *Conducting specialized training in Evasive Defensive Driving Courses and Close Protection*
 - *Conducting Risk Assessment and Mitigation*

QUARTERLY REPORT



- Security Analysis and compiling updates

Yaldram security Branches in Pakistan

