

How Pakistan's military is taking over its economy



The country's armed forces have become intimately involved in everything from canal projects to energy contracts. Investors are increasingly nervous

Humza Jilani in Jamshoro and Islamabad 2 HOURS AGO

On a sunny early January afternoon, two thousand fishermen, farmers and activists gathered on the dry river bed outside Kotri Barrage in Pakistan, the final dam before the waters of the Indus flow into the Arabian Sea.

“Send this message to Islamabad, send this message to Pindi: we will not drink your gutter water!” shouted one activist, referring to Rawalpindi, where the army is headquartered. “We reject the canal!” roared the crowd.

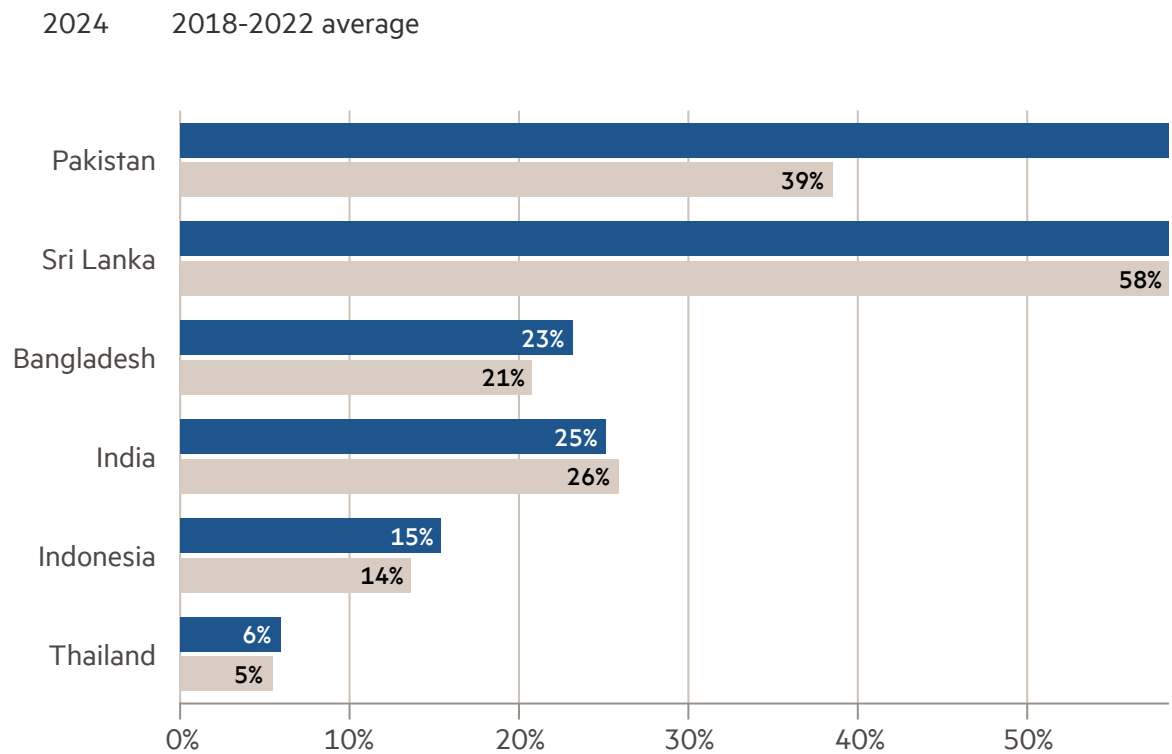
The protests were against a Rs200bn (\$720mn) project to build canals that would divert water upstream to eastern [Pakistan](#). There, an agricultural company led by the military, Green Pakistan, hopes to turn a large swath of desert into fertile farmland that will guarantee a steady supply of grain and attract investment from Gulf states.

The canal project is being directed by the government, but led by the Special Investment Facilitation Council, an investment body co-led by Asim Munir, Pakistan's army chief of staff. Other SIFC initiatives, led mostly by serving and retired officers, include plans to renovate hotels at the foot of the snowcapped peaks in Pakistan's north and schemes to exploit mineral and natural gas riches in the mountainous frontier with Afghanistan.

Proponents say the army's role is crucial in projects like this: as well as cutting through red tape and settling the squabbles that have prevented Pakistan from developing export and tourism sectors, it can draw in much-needed foreign investment and reshape one of Asia's most troubled economies.

Interest payments absorb 61% of Pakistan's government revenues

Interest payments as a share of revenue



The army has always had an outsized role in Pakistani politics. No fewer than four military dictators have ruled the country since independence in 1947 — most recently [Pervez Musharraf](#), who was ejected from power in 2008. Even when civilian governments have been in power, there is widespread evidence that army chiefs have held considerable sway.

Analysts and officials say that the military's influence over the country's civilian government is at its highest level since Musharraf's resignation.

But in recent years especially, the tentacles of the military have extended even further, deep into Pakistan's economy. A 2021 UN report described military-linked businesses as the "largest conglomerate in Pakistan". And at the launch of Pakistan's new five-year economic plan on New Year's eve, Prime Minister Shehbaz Sharif publicly thanked chief of staff Munir for helping save the country from the brink of default in June 2023.

"I must tell you, without any fear of any kind of exaggeration, that I . . . never experienced this kind of co-operation which I've received from the army chief and the institution," he told the audience.



Protesters gather earlier this month at Kotri Barrage in Sindh province against a project to build canals that would divert water upstream to eastern Pakistan © Asim Hafeez/FT



Supporters of the Tehreek-e-Labbaik Pakistan party at a protest rally in front of a picture of Asim Munir, Pakistan's army chief of staff, in Lahore in February last year following claims of election vote-rigging © Aamir Qureshi/AFP/Getty Images

Critics warn that the military's ever-expanding economic footprint raises the risk that it will favour its own interests over others. There are also concerns that its involvement in politics and the economy is distracting it from counterterrorism work, increasing societal unrest and deterring foreign investment.

The military's presence also offers acute challenges for the political factions that govern this country of 240mn people. The Pakistan People's party is the third-largest party in Islamabad and the ruling party in Sindh — a province of 50mn people where there is widespread opposition to the canal project.

The party can either resist “or sell out, letting other, more violent and nationalist forces step in”, says Naveed Qamar, one of its senior members of the national parliament. “We could see our support completely collapse in Sindh.”

Munir has leaned into the army's “saviour complex”, says Madiha Afzal, a fellow at the Brookings Institution in Washington. The military has come to believe “that it alone can fix Pakistan, that it alone can guarantee the political stability needed for economic progress and can ensure that the economic ship is righted,” she adds.

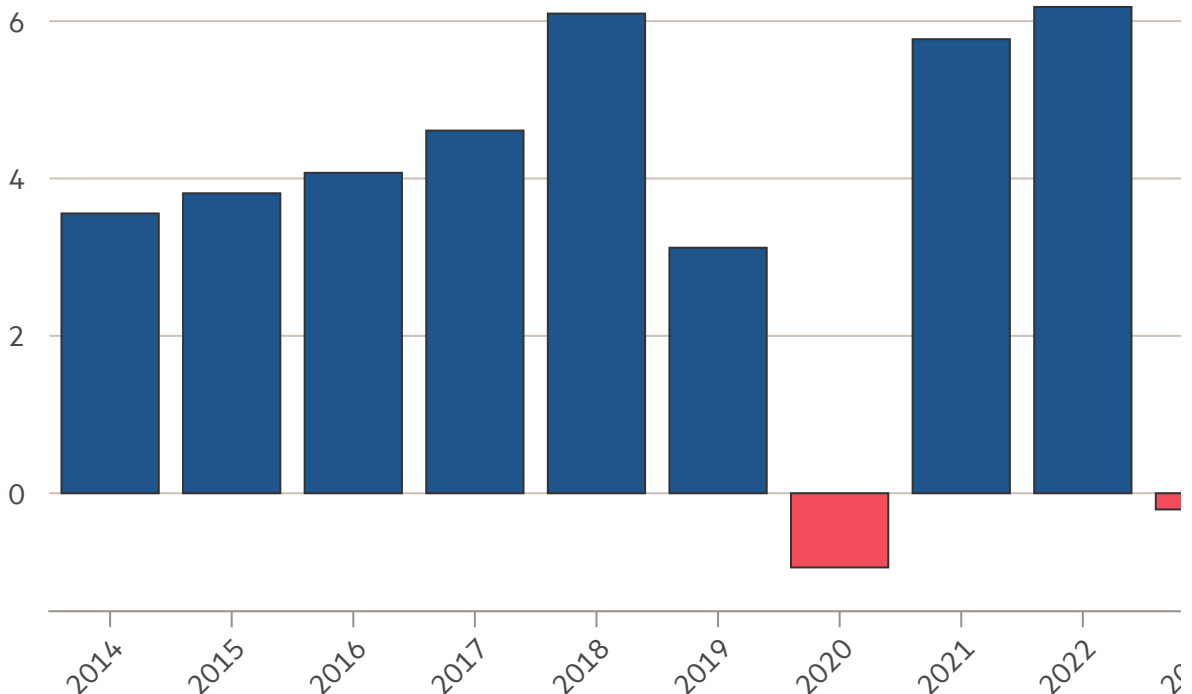
Pakistan's military leaders began ramping up their involvement in economic matters around the time of Imran Khan's ascent to power in 2018. Amid an economic slowdown and the accelerating growth of its great rival, India, the military played a prominent role in Khan's rise.

But the former prime minister fell out with the top brass, and generals grew more sceptical that electoral democracy could deliver growth, enable Pakistan to compete with India or serve the army's own widespread political and business interests, analysts and former officials say.

The need for a rethink became more acute as Pakistan's importance to the outside world waned. “Ten years ago, the US was in Afghanistan, so Pakistan's geopolitical position was secure,” says Stefan Dercon, a professor at Oxford who has advised Sharif on economic reform. “They could expect to be seen as too big to fail.”

Pakistan's economic growth has fluctuated since 2019

Real GDP growth rate (%)



FINANCIAL TIMES

Source: IMF • *Estimate

Counting on waivers and bailouts from friendly countries worried that its collapse might put nuclear weapons within the reach of Islamist terror groups, Pakistan put off serious structural reforms. “It was an overdraft without ever needing to be called in,” says Dercon. “That’s changed now.”

When Munir became chief of the army staff in November 2022, seven months after Khan was ousted and replaced by Sharif, the country was still haemorrhaging dollar reserves, inflation was rocketing and insurgencies were starting to flare up along the Afghanistan border.

Since then, the general has made saving the economy a core part of his public image. Last November, he told a group of businessmen in Karachi that “all indicators of Pakistan’s economy are positive”, according to a report by the state news agency. “Where are the people now who spread disappointment and talked about default?” he added.

Munir has secured an extension to his term, potentially allowing him to stay in office for 10 years rather than the usual maximum of six.

Pakistan's elected government now comprises an alliance of parties whose leaders have all fallen foul of the army in the past, but have united to prevent Khan — whose allies won the most votes in last February's contested election — from returning to power.

With Khan in prison, the government wants to use its time in power to pursue ambitious reforms that ministers say will transform Pakistan's boom-and-bust economy.



Protesters rally earlier this month over the controversial canal project. The military's presence offers acute challenges for the political factions that govern the country © Asim Hafeez/FT



Construction work under way on one of the canals at Kotri Barrage © Asim Hafeez/FT

Their close ties to the army, they say, insulate them from the feuds and public backlashes that have prevented past prime ministers from completing full terms.

“There is a broad understanding between all pillars of state that any political uncertainty and political instability would be suicidal for Pakistan,” says planning minister Ahsan Iqbal. “There is very good positive synergy . . . between the establishment [a common euphemism for the military] and the government to take this economic recovery path together,” he tells the Financial Times.

In addition to Munir sitting atop the SIFC, alongside the prime minister, serving generals also run Pakistan’s national population registry, its anti-corruption watchdog and task forces pursuing tax reform and the renegotiation of energy contracts.

Munir also directed a 2023 operation against currency smuggling, while admirers also cite his ties to the Gulf monarchies that Pakistan depends upon for financing.

One senior government official acknowledges that “there has definitely been mission creep”, but blames politicians: “We failed to take the steps we should have taken before to fix the economy.”

“[The army] acts as a nudge to get us to tax our voter bank, or right-size the government,” the official adds. “They see themselves as guardrails for the economic reform journey.”



In the 18 months since Pakistan's near-default, the country has returned to a semblance of economic stability. In September, it [secured a \\$7bn IMF bailout](#) and inflation fell to 4.1 per cent in December — having peaked at 38 per cent in June 2023. The central bank has cut interest rates and has enough dollar reserves to cover over two months of imports.

To shore up its finances and retain IMF support, Pakistan's government raised taxes on salaried workers, removed popular energy subsidies and promised to introduce taxes on the politically sensitive agriculture and real estate sectors. It has also said it would slash trade tariffs by a third over three years.

But the country's economy is still growing more slowly than its population, with a million more people entering the workforce each year than there are formal jobs. "Growth is still very low," says Hasnain Malik, head of equity and investment strategy at emerging and frontier market research company Tellimer.

"The huge devaluation of the currency has left its scars on consumption power without yet triggering an export boom, and external debt refinancing needs are still very high."

In mid-January, a group of Pakistani wind energy executives sat down in a conference room in a military base in Rawalpindi.

According to two of those present, a team of bureaucrats flanked by half a dozen uniformed army officers demanded that they revise the state-backed contracts they had signed years before — changes the government says would bring down electricity prices for ordinary people.

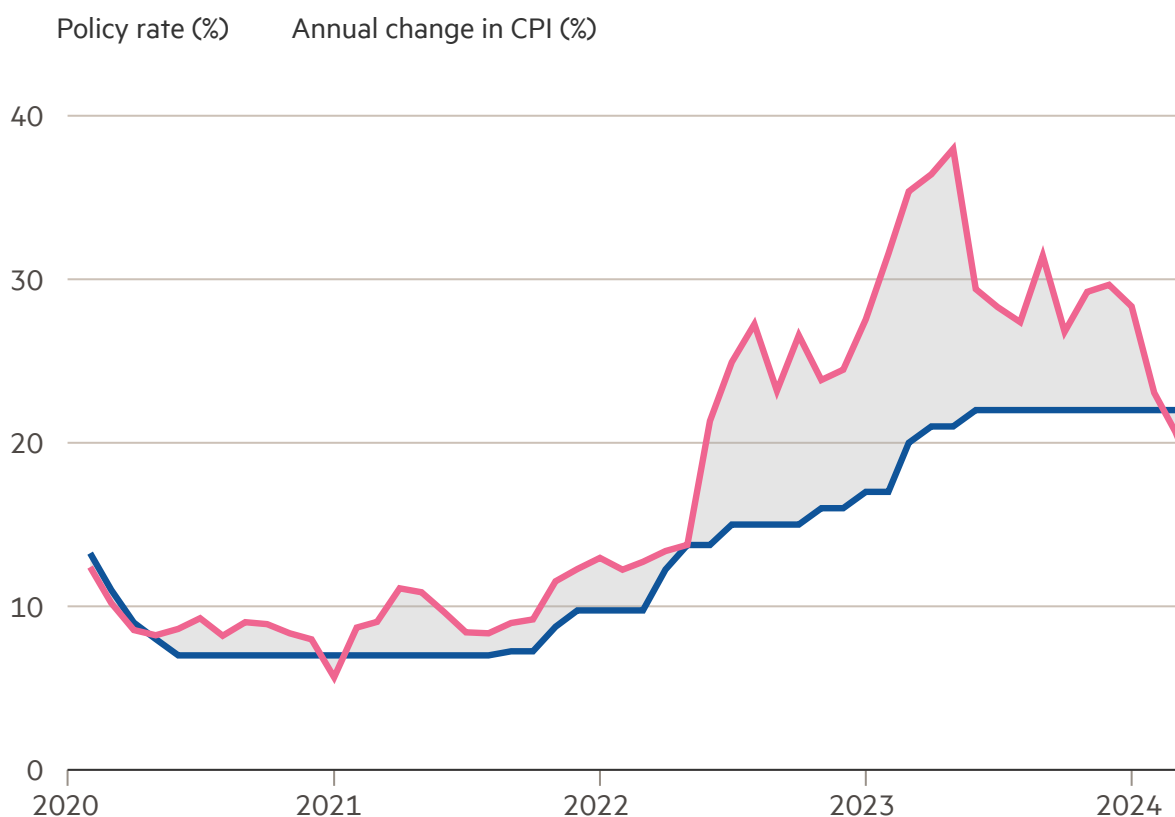
One of the executives says they were informed by a bureaucrat that “if you do not want to work with us, we will let the right people get in touch” — meaning one of the officers behind him.

“The message was clear,” says the executive, who asked to remain anonymous. “We will probably need to shut down our wind farm in Sindh to avoid going into default now.”

The episode was the one of several negotiations with power producers that Pakistani authorities, with the support of the security services, have undertaken since August.

Nadeem Anjum, the then head of Inter-Services Intelligence, Pakistan’s foreign spy agency, also met energy executives towards the end of 2024 to discuss renegotiating power contracts.

Inflation in Pakistan fell sharply in 2024 following a high of almost 40% in 2023



A decade ago, Pakistan attracted heavy foreign investment in its power sector by promising dollar-indexed, state-guaranteed returns. But the recent surge in electricity prices has turned such investors into public villains.

Sharif has celebrated these renegotiations as proof that his government will take bold steps to bring down power bills. But they have unnerved the business community and foreign investors, according to seven energy sector executives who shared details with the Financial Times.

“We can’t lawyer up and go to arbitration — we have to live and do business in this country,” complains another energy executive who had his contract terminated last year.

A Ministry of Power spokesperson says the ongoing renegotiations “will be according to law and with mutual agreement as in the past”.

A letter sent by the German embassy to Munir in October, and seen by the FT, questioned the “unusual manner” in which negotiations over Rousch Power, a company in which a unit of German engineering giant Siemens held a significant stake, were being conducted. It went on to warn that the affair was “already damaging the trust of German enterprises and investors”.

We can’t lawyer up and go to arbitration — we have to live and do business in this country

Siemens confirmed that Pakistan’s government had asked to renegotiate the power contracts but did not comment on the contents of the letter. Germany’s foreign ministry offered no comment either.

Critics say that these disputes are hindering Islamabad’s efforts to pursue other reforms, such as the privatisation of

Pakistan International Airlines. One businessman, who also asked for anonymity, says that having his company’s power contract terminated had forced him to pull out of talks about the airline.

Two other investors say their participation in a second round of bidding for PIA will depend on the government protecting their stakes in the airline. They also say that they plan to reach out to Fauji Foundation, a conglomerate linked to the military, to join their consortium “as an insurance policy”.

While a loss of external investment could yet create an incentive for reform, Ahmed Pirzada, a senior lecturer at the University of Bristol, says there is also “a risk that the country’s elites will respond by consolidating their control over resources, effectively grabbing a larger share of a shrinking economic pie to maintain their lifestyles”.

Azeema Cheema, a director at Verso Consulting, adds that the government’s unpopularity incentivises it “to stick to the few friends it has left, instead of governing for the public at large”.

Last year’s budget was peppered with pork-barrel spending and tax breaks, with legislators, bureaucrats and serving and retired military officers among the main beneficiaries. “The whole idea becomes spend, spend, spend on initiatives that . . . serve only to appease their household guards,” adds Cheema.

Pakistan’s military has also launched a broad-based crackdown against political opponents. Thousands of members of Khan’s Pakistan Tehreek-e-Insaf party have been taken to anti-terrorism and military courts, while many senior leaders have gone into hiding.

The detentions have drawn criticism from abroad, with the EU warning in late December that military trials for civilians were inconsistent with commitments Pakistan had made to gain access to a preferential trade agreement that has been a lifeline to its textile sector.

Since last year, protests like those in Sindh have erupted throughout the country. [Demonstrators calling for Khan’s release](#) clashed with police in Islamabad and others in Balochistan and Pakistan-administered Kashmir staged sit-ins and strikes over crackdowns on civil rights.

Government and military officials say a muscular approach is needed to defeat terrorism and ensure the political stability necessary for investors to feel safe. But they have denied that their actions violate Pakistan’s constitution, and insist the military does not participate in politics.

The Pakistan Armed Forces and SIFC did not reply to repeated requests for comment.



Sindh is a province of 50mn people where there is widespread opposition to the canal project © Asim Hafeez/FT



Prime minister Shehbaz Sharif's coalition has sought to tighten its grip over the internet and social media, claiming that misinformation is undermining public faith in the government and the armed forces © Rizwan Tabassum/AFP/Getty Images

Meanwhile, critics warn that public disaffection with the government is only increasing. They point to [increasingly brutal insurgencies](#) that last year led to more than 2,000 deaths in the western provinces where Pakistan is keen on tapping into mineral and gas reserves.

In Balochistan, “it is hard to find a single family that does not have someone missing or killed”, says Mahvish Ahmad, a professor in human rights and politics at the London School of Economics. The province is home to a Chinese-backed port, Gwadar, and Pakistan hopes to develop a giant copper mine there.

Sharif’s coalition has also sought to tighten its grip over the internet and social media, claiming that misinformation is undermining public faith in the government and the armed forces.

Kalsoom Lakhani, the co-founder of i2i Ventures, a Pakistan-focused venture capital firm, says throttling the internet “acts as a ceiling on the Pakistani start-up space and commerce as a whole”.

“The arbitrariness of all of it also adds to overall uncertainty,” she adds, scaring investors away from an industry that contributed over \$3bn in export earnings last year.

Afzal, of the Brookings Institution, says the military “sees political repression as generating political stability, which is needed for economic stability”.

“But that political stability comes via cementing its own hold on power, with a politically subservient civilian government nominally in charge,” she adds.

“Pakistan’s democracy looks worse now than at any point since 2008.”

Additional reporting by Chris Kay in Mumbai and Patricia Nilsson in Frankfurt

Data visualisation by [Janina Conboye](#)