ISAS Brief
No. 613 – 2 November 2018

Pakistan and Saudi Arabia: The US$6 Billion Loan

Iqbal Singh Sevea

Summary

Saudi Arabia has sanctioned US$6 billion (S$8.3 billion) worth of financial aid to Pakistan. The loan may pose new domestic and foreign policy challenges for the Imran Khan-led government.

Saudi Lifeline

Saudi Arabia has sanctioned a loan of US$3 billion (S$4.15 billion) to help Pakistan overcome its financial crisis. It has also agreed to allow Pakistan to make deferred payments on oil imports amounting to US$3 billion (S$4.15 billion).

The agreement was announced after Pakistani Prime Minister Imran Khan arrived in Riyadh on 23 October 2018 to attend the Future Investment Initiative. This trip took place amidst international outcry over the murder of journalist Jamal Khashoggi in the compound of the Saudi consulate in Istanbul.

The stock placed by the Pakistani government on strengthening relations with Saudi Arabia is clear from the fact that this was Khan's second visit to the Kingdom in three months. The implications of the loan on Pakistan's economy and geo-political positioning are, however, less clear.

Pakistan is in the throes of a crippling current account deficit. The current account deficit is currently more than US$18 billion (S$24.9 billion). As it stands, Pakistan's foreign reserves are sufficient to cover less than two months of its imports. Pakistan officially approached the International Monetary Fund (IMF) for a bailout in October 2018. A team from the IMF is scheduled to arrive in Pakistan on 7 November 2018 to discuss a potential loan. The IMF will be looking for assurances that the Pakistani government will make structural reforms and impose austerity measures.

Chinese Loan with Strings Attached

The IMF has also indicated that it would require greater transparency from Pakistan on its financial agreements with China. The reference here is to the China-Pakistan Economic Corridor (CPEC), an extensive network of infrastructural projects worth about US$62 billion (S$85.7 billion). Many of the terms that undergird the CPEC remain shrouded in secrecy.

While Khan has expressed concerns about approaching the IMF, the question now is not whether to take an IMF loan but rather about ensuring that Pakistan has some leverage to negotiate terms. An injection of cash from 'friendly countries' would bolster its negotiating position.

The Pakistani government has had extensive discussions with China and Saudi Arabia. Khan arrives in China on 2 November 2018 and will be hoping to secure further financial support amidst concerns - about the terms that China may demand and, as he previously suggested, whether this may include Pakistan potentially surrendering strategic assets.

Balancing Game

Pakistan and Saudi Arabia have long shared strong geopolitical and economic relations. These relations have been challenged in recent years. Pakistan's stated neutrality in the war in Yemen and its failure to openly support the Saudi blockade of Qatar affected the relationship. On its part, Saudi Arabia did not support Pakistan at a crucial vote of the Financial Action Task Force to determine if Pakistan should be placed on its grey list for "strategic deficiencies" in clamping down on terrorism financing.

To attract Saudi interest, Pakistan floated a number of ideas, including inducting Saudi Arabia as a partner in the CPEC. Since this was met with a lukewarm reception from the Kingdom, Pakistan then invited the Saudis to build an oil refinery at its Gwadar port. The Saudis have also been offered a stake in the Reko Diq copper-gold mines in Balochistan.

Even though Pakistan's Minister for Foreign Affairs Mehmood Qureshi has stated that the Saudi loan has no conditions attached to it, it is, however, telling that Khan stated that Pakistan will be acting as a mediator in the Yemen crisis.

Pakistan has enjoyed good relations with Saudi Arabia and Iran, the two main rivals in the Yemen crisis and has long sought to negotiate a balancing act between them. In 2015, the Saudis had called on Pakistan to provide troops and equipment to the coalition it leads in the Yemen war. This request was rejected by a parliamentary vote.

Saudi financial assistance at this juncture may pose a challenge to Pakistan's Middle East policy. The balance of power is firmly in the hands of the Kingdom. This could in turn have sectarian implications in Pakistan. While Pakistan is a majority Sunni state, 20 per cent of its population are Shia. It has also witnessed Sunni-Shia sectarian violence with both Saudi Arabia and Iran having provided support to various sectarian groups.

Domestically, the fact that Saudi Arabia was offered access to the mines in Reko Diq has led to opposition within the restive province of Balochistan. The mineral rich province has witnessed a bloody separatist campaign over the last decade. Separatist movements accuse the central authorities of looting the province's resources. Balochi political parties and organisations have already raised their opposition to the offer of a stake in the mines to Saudi.

Overall, the Saudi loan has given Pakistan some breathing space with regard to its current account crisis. However, financial matters aside, the loan is likely to pose new domestic and foreign policy challenges to the Imran Khan government.

. . . . .

Associate Professor Iqbal Singh Sevea is a Visiting Associate Professor at the Institute of South Asian Studies (ISAS), an autonomous research institute at the National University of Singapore (NUS). He can be contacted at iqbal@nus.edu.sg. The author bears full responsibility for the facts cited and opinions expressed in this paper.