

Tuesday, April 30th 2019

Dear Mustafa,

As I scuttled through the heat of a Karachi evening, in shorts and a t-shirt, to the bistro of the Sind club, carrying gifts of Cadburys chocolate for a friend, I could not help but notice a delegation of besuited Chinese visitors being entertained in the salubrious surroundings of the club's billiard room. This was a clear indication of the new order - there was me, a rather informally dressed grandson of a British army officer from the 'Pindi' cantonment gazing in at the new imperialists who contentedly sat surrounded by the relics of the old empire. And as the British Lion discusses how to detach itself from the world the Chinese Dragon is working on how to link everyone to them.

China really does provide important lessons for Pakistan. Over a 10 year period from 1983 to 1993 China conducted a staggering devaluation; taking their currency from 2:1 against the US\$ to 9:1. They then closed their capital account, re-pegged their currency to the US\$ at this new rate, reduced social benefits and conducted a massive borrowing and inward-investment programme. The result is plain for all to see - China's confident re-emergence onto the global stage.

The backbone of this transformation has been their self-sufficiency in energy by developing their huge coal reserves. This allowed them to go after everyone else's industries; "We will make it cheaply here and export it back to you". The rest is recent history, and it is interesting to note that they are now attempting to transition away from coal by purchasing

Mustafa Zaidi

Clarmond Wealth

1 Holbein Place

London, SW1W 8NS



forward 20 years of Russia's gas production for \$500b, with the Russians only too happy to be paid in Renminbi.

For Pakistan today, there are two possible paths available: the Chinese path of mega-devaluation, locking the capital account, and developing their own internal energy deposits (there are substantial deposits of Thar coal of interior Sind). Energy will then be available in Rupees rather than US\$, with a chance, in the fullness of time, of doing a deal with their natural gas neighbour Iran, for a less polluting energy source.

Or they swallow the IMF medicine with incremental small devaluations, government austerity, new taxation, and an open capital account. History, though, has not been kind to IMF remedies, which have flopped in Mexico, Argentina, Brazil, Indonesia and Russia. But the nation today seems to be headed down this path as Imran Khan has just changed finance ministers, appointing a former IMF country head; this boat is unlikely to be rocked.

I can think of few places where you can see competing ideologies and tensions as clearly laid bare as here. It is a leading indicator for how the greater global game will play out.

See you when you get in later this week - Chris.