
Pakistan's politics and its economy

Shahid Javed Burki

Introduction

This chapter has three parts. The first lays out the main argument on which the analysis of the chapter is based. It is followed by the listing and then development of some of the themes that help to explain the country's economic, social, and political development in the past. The third part examines the current situation and indicates what might happen if the country's political and economic leaders do not act to move the country in the right direction at this critical juncture in its history.

Intertwining of politics and economics: The case of Pakistan

Political and economic developments are intertwined processes, with the one affecting the other. Economists, particularly economic historians, have begun to recognize that it is difficult to map the economic progress of a society without fully understanding its political evolution. That the relationship also works in the other direction is now being appreciated by political scientists as well.

Politics and economics have had a more profound impact on one another in Pakistan than in most developing countries. Why that is,

has been and will continue to be the case will be a recurrent theme of this chapter. In Pakistan's case, this interaction between economics and politics is further complicated by the enormous influence over the country of external forces and the changes in the external environment in which the policymakers must operate. Both economics and politics are affected by the changes that are taking place outside the country's borders and over which policymakers have little or no control. The most important of these is, of course, the rise of Islamic extremism in the part of the world in which Pakistan is situated. There is a developing consensus that, for a variety of reasons, Pakistan is now at the epicenter of this movement.

Pakistan's politics, its economy, and its external relations have been on a rollercoaster ride ever since the country gained independence on 14 August, 1947, some six decades ago. It ran into turbulence within a year of its birth when Muhammad Ali Jinnah, the country's founding father, withdrew from active politics on account of ill health. His death on 11 September, 1948 left a political void that was not filled for a decade. It was the extreme turbulence and confusion that prevailed during the decade after Jinnah's death that created an opportunity for General

Muhammad Ayub Khan, the first Pakistani to be appointed to the position of commander-in-chief, to bring the military into politics.¹ Ayub Khan's intervention created a precedent that was followed by three other army commanders.

Pakistan became politically stable only when the military was in charge. That was for 33 years in the country's 61-year history. Only four leaders governed during the time the military was in control. Only in one case did power directly flow from one military leader to another. That was when General Yahya Khan forced the politically and physically weakened Ayub Khan out of office in 1969 and became president himself.

Economics played an important role in Ayub Khan's departure. His economic model, appreciated in particular by the community of foreign donors, had produced impressive macroeconomic results.² GDP increased by 6.1 percent a year and income per head of the population by 3.8 percent per annum. But an impression was created that the rewards of economic growth ended up concentrated in a few hands. There was considerable discontent in the country's eastern wing which first led to a popular political movement against the regime and finally to the breakup of the country.

Economics was also the reason for the demise of the administration of Zulfikar Ali Bhutto that succeeded two successive military regimes and created the expectation that the economy would deliver more to the masses than had happened during the Ayub Khan period. Bhutto adopted an entirely different model of economic management from that followed by his military predecessors. He placed the public rather than the private sector at the commanding heights of the economy. However, the expanded role of the state created different kinds of exploitation, this time by government functionaries who were prepared to oblige their political masters by using the economic entities they controlled for granting favors. The result was growing discontent and a sharp slow down of the economy. There was once again a popular movement which led to

regime change and brought the military back to power in 1977, this time under General Zia ul-Haq.

Economics contributed to regime change once again—albeit somewhat less significantly—in the late 1990s when General Pervez Musharraf forced an elected prime minister out of office. Had the economy fared better economically under a succession of civilian prime ministers, the military's intervention in 1999 might not have been as welcomed as was the case when Musharraf assumed control.

Another transition from military to civilian control has now (2008) occurred, but in circumstances very different from those that prevailed on previous occasions. The military was forced to yield control not because of economic difficulties but because of the extraordinary mobilization of some segments of civil society. On 18 August, 2008, four days after President Pervez Musharraf celebrated Pakistan's birthday, he resigned after coming under intense pressure from the political parties that had won massive victories in the elections held on 18 February, 2008. The parties threatened to impeach the president in case he did not surrender his position. After resisting for a few days, he tendered his resignation.

Economic difficulties followed the change in the governing order rather than preceding it.³ What will happen now will depend on how the various forces that have had important roles in the past will affect the new, evolving situation. In order to anticipate how the current situation is likely to evolve, we will lay out some of the themes that explore the interaction between economic and political forces and how both are affected by the country's external environment. However, before spelling out these themes it would be useful to underscore one other feature of Pakistan's political history.

In the two relatively long periods of civilian rule, each lasting eleven years, more than a dozen persons held power, but derived it not from such political institutions as the parliament or political parties. Most of them gained positions of power because of the alliances they

were able to forge outside the formal political structure. There was much political turmoil in the decade immediately after independence when seven prime ministers held power. In 1988–99, another period of long civilian rule, power changed hands seven times as well (see Table 6.1). The only time the country gained political stability during civilian rule was in the six-year-period when Zulfikar Ali Bhutto was in control. However, even Bhutto ruled as a quasi-dictator rather than as the head of a political party. In other words, the civilian leadership, when exercising power, failed to institutionalize the base of their support. Had they done that, the military would have found it more difficult to intervene.

During the time the military held the reins of power, the economy also did well economically, growing at an average yearly rate of 6.5 percent (see Table 6.2). Rapid economic progress was often used by the military to claim legitimacy for governing the country.

This rollercoaster history raises two important questions—important not only to develop a better understanding of Pakistan’s exceptionally turbulent history but also to lay down some markers for the future. The questions are: why did the military intervene so frequently in the country’s political life? And, why did the economy perform so well during the period of military domination compared to the time the civilians were in charge? Finding some answers to these questions will be the main subject of this chapter.

Themes to understand Pakistan’s development: state, society, and economy

We will structure the story of political, social and economic change in Pakistan around a number of themes concerning politics, economics, and relations with the world outside. These will be brought together into a fabric

Table 6.1 Political periods in Pakistan’s history

<i>Period</i>	<i>Type of governance</i>
August 1947–October 1958	Competitive politics
October 1958–December 1971	Military control
December 1971–July 1977	Quasi-dictatorship
July 1977–August 1988	Military control
August 1988–October 1999	Competitive politics
October 1999–March 2008	Military control
March 2008–	Competitive politics

Table 6.2 United States’ assistance to Pakistan

<i>Period</i>	<i>Amount (\$ million)</i>	<i>Yearly average (\$ million)</i>
Pre-first Plan	181.2	30.2
First Plan 1955–60	472.9	94.6
Second Plan 1960–65	504.1	100.8
Third Plan 1965–70	197.4	39.5
Fourth Plan 1970–75	141.1	28.2
Pre-first Afghan War 1975–1981	23.3	3.9
First Afghan War 1982–1989	1,517.2	216.7
Post-Afghan War 1990–98	2,216.4	246.3
Post-nuclear tests 1999–2001	303.3	75.8
Support for war on terror 2001–07	1,695.4	333.1

Source: various issues of *Pakistan Survey*

that will keep on changing its weave and color as time progresses. Some of these themes were developed in my earlier works;⁴ the rest are the product of reflections on the way Pakistan has once again, at the time of yet another transfer of power from the military to the civil, plunged into a serious economic and political crisis.

I will first list these themes and then go on to develop them at some length:

- There were constant changes in Pakistan’s social landscape. These led to the emergence of new social and economic groups that competed for power with those that were already established. Demography played an important role in this development.
- Transfer of population following the partition of British India “Muslimized” Pakistan with the proportion of Muslims in the population increasing from 72 to 93 percent. This demographic event laid the ground for the later radicalization of the society. Islam may not have developed such a prominent place in the society had there been a larger presence of non-Muslims in the population of the country.
- There was an absence of an institutional structure that could have helped the socio-economic groups to engage in dialogue with one another in order to reach an understanding on the sharing of economic power as well as the economic rewards that come from access to power.
- The group conflict took place outside the confines of a formal political structure. This produced conflict that, in the eyes of the military, seemed to threaten national security and justified its repeated ventures into the political space.
- The first generation of Indian leaders took time to come to terms with the partition of British India and the creation of a new state on the basis of religion. This led to a serious conflict between what some scholars have called the idea of India⁵—that a state could accommodate diverse cultures, religions, and languages provided

institutions were built that would give voice to each of these groups, and the idea of Pakistan⁶—that the Muslims of British India needed a state of their own to preserve their distinct identity. An impression was created that India wished to undo Partition and create the unified state for which its leaders had campaigned during the independence movement. Thus threatened, the Pakistani establishment, in particular the country’s military, placed protecting the country’s integrity and survival above issues concerning nation building.⁷

- The preoccupation with India’s real or perceived intentions towards the country led to the creation of a triangular relationship involving Islamabad, New Delhi, and Washington. This was to be tested a number of times and is once again at the center of attention.
- It was an accident of history that the opportunities for crafting close relations with Washington occurred mostly when the military was in power in Islamabad. The military’s preoccupation with India gave an edge to the relations between Islamabad and New Delhi.
- On the surface, the military’s economic performance was impressive. However, that performance was not based on urgently needed structural reforms that could have placed economic progress on a growth trajectory that was continuous and ensured large and sustainable increases in national income. Instead, the military leadership relied on the economic sustenance provided by the United States.
- The military used political power to improve its economic base. This was done mostly to keep in line the senior officers.⁸
- Long periods of rule by the military led to a highly centralized system of governance that made the provinces totally subservient to the center. This contributed to the emergence of serious tensions among the provinces. It was this conflict between the military-dominated center and the

province of East Pakistan that led to a bloody civil war between East and West Pakistan in 1971 and to the emergence of the country's eastern wing as Bangladesh.

I will now develop in some detail each of these eight themes and then discuss what may lie in the country's future if the current leadership groups do not develop a strong political-institutional base.

Changing social fabric

The continuous evolution of the social landscape with the emergence of new groups was an extraordinary feature of Pakistan's economic, social, and political development. In that respect, Pakistan presents a more dynamic picture than other countries of South Asia. The creation of new social structures was the consequence of at least three circumstances. The first of these was the social composition of the leadership that led the movement for the creation of a Muslim state once the British left India. The political elite that spearheaded the movement came from the provinces in which the Muslims were in a minority. It was economically and socially very different from the political elites who were dominant in the areas that were to constitute the state of Pakistan. A clash between the two groups—the outsiders and the insiders—was inevitable. It was only under President Ayub Khan that the landed aristocracy won back its position in the political system it had lost to the newcomers.

Also responsible for the enormous social flux in the country was a number of profound demographic developments, among them the massive transfer of population that accompanied Partition; the flow of workers into Karachi from the country's northern areas to help build the nation's first capital; the migration of millions of workers to the Middle East during the first economic boom in that part of the world that lasted for a decade and a half (1974–91); the creation of three Pakistani diasporas in Britain, the Middle East, and North America; and the arrival of

three to four million refugees from Afghanistan in the 1980s.

“Muslimization” of Pakistani society and increase in Islamic radicalism

An important consequence of the transfer of population that accompanied Partition when eight million Muslims moved from India to Pakistan and six million Hindus and Sikhs went in the other direction left a deep imprint on Pakistani society. One of these was the “Muslimization” of Pakistan's population. In the mid-1940s, when the campaign for the creation of Pakistan was conducted, Muslims constituted 72.5 percent of the population of the areas that now make up Pakistan. After the transfer, the proportion of Muslims in the country's population increased to 93 percent. Punjab, the most affected of Pakistan's four provinces, was thoroughly “cleansed” of the non-Muslim minorities. One of the important “what if?” questions about Pakistan's history is the impact the presence of a large non-Muslim population would have had on the country's political and social development. It would not have moved the country so far towards Islamic radicalization as happened first gradually in the 1960s and 1970s and later more rapidly. The fact that Pakistan today has become the epicenter of Islamic extremism is, in part, because of the Muslimization of society following the partition of British India.

This process was given a further boost by the temporary movement of millions of Pakistanis to provide labor for the first economic boom in the oil-exporting countries of the Middle East. This boom lasted for a decade and a half, from the oil embargo in the mid-1970s to the first Gulf War in 1991. During this time, some 12 to 15 million workers from Pakistan went to the Middle East, mostly as construction workers on three- to five-year contracts. A very large number of them were from the North-West Frontier Province (NWFP) and the adjoining tribal belt as well as from the northern districts of Punjab. The workers lived in camps where they were

exposed to Wahabism, the conservative form of Islam that was and remains the state religion of Saudi Arabia. They brought the teachings of this brand of Islam back to Pakistan. This contributed to the radicalization of this part of the country.

This move towards Islamic radicalism was reinforced by the way the allies, led by the United States, fought the Soviet Union's occupation of Afghanistan in 1979–89. During this time Pakistan, one of the two US allies actively involved in this struggle—the other being Saudi Arabia—was led by General Zia ul-Haq, who was deeply committed to turning the country he led into an Islamic state. The campaign against the Soviets was centered around training and indoctrinating tens of thousands of young men, a large number of whom came from the Afghan refugee camps located in Pakistan, to become mujahideen, Islamic holy warriors. While the US supplied weapons for the fighters, the Saudis provided finance for their procurement and Pakistan set up hundreds of *madrasahs* in which the warriors were trained.⁹ These moves resulted in the defeat and withdrawal of the Soviet Union from Afghanistan, but it left Pakistan and southeastern Afghanistan with a legacy that the two countries are still dealing with two decades after the Soviet departure. The Taliban, who overran Afghanistan in the late 1990s, gave sanctuary to Osama bin Laden's al-Qaeda, and allowed Saudi renegades to mount an attack on the United States, were the product of these *madrasahs*. With Islamic radical groups digging their roots deep into Pakistani soil, the country's social fabric became even more complicated.

Failure to develop formal political structures

Pakistan's inability to develop robust political institutions was in part a consequence of the enormous powers that remained concentrated in the hands of the members of a few social groups. These groups competed with one another, causing great turbulence in the

political life of the country. That turbulence would not have been so disruptive had competition among the groups taken place within institutional confines, as happened in India. In Pakistan, the political system did not create an institutional base within which political discourse could take place. Consequently, group politics became sharply defined because of the absence of institutions that could have helped to establish a dialogue among the various competing groups. The groups contending for power included the refugees from India who had settled in Karachi and Hyderabad and had dominated politics for a decade after independence, the refugees who had settled in Punjab's countryside and were given the land vacated by the Sikh smallholders and peasants who had migrated to India, the large landlords of Punjab and Sindh who had been politically powerful when the British ruled India, the tribal chiefs of Balochistan and the NWFP and the religious leaders in Punjab and NWFP.

The emergence of Islamic groups has further complicated institution building in Pakistan. Most of these groups do not subscribe to western notions of democracy, the rule of law based on a legal system devised by the elected representatives of the people, and tolerance of groups that do not accept their interpretation of the Koran and the Hadith. While many scholars, including several from the West,¹⁰ have argued that Islam and democracy are not incompatible, this is not accepted by more radical Islamist groups. They maintain that, in the Islamic system, there is no place for man-made laws and institutions. Some of these groups are now engaged in military campaigns in parts of the northwest—in particular in the Swat valley—to impose Islamic *sharia* on the population.

Wherever competition among the social groups became so intense that it adversely affected the quality of governance, the military intervened. In other words, political underdevelopment and a persistent feeling of insecurity created the space for the military to act on the political stage.

India's perceived intentions and concerns about the survival of the state and the rise of the military as a political force

Right from the time of its birth, the non-military groups that had political power were anxious over the country's survival as a separate entity in South Asia. This feeling of insecurity was initially fed by the actions of the first generation of India's leaders, who took time to come to terms with the partition of the subcontinent and the creation of a separate homeland for the Muslim community. As Pakistan was struggling to find its feet, the Indians took a number of steps designed to cripple the country economically. These included the refusal to pay the "sterling balances" Britain provided New Delhi to compensate for the effort India made during the Second World War, a part of which was owed to Pakistan. The Indians also refused to accept the new rate of exchange between their currency and that of Pakistan. In 1949 the rate changed from parity to 144 Indian rupees for 100 Pakistani rupees when Pakistan refused to devalue its currency in relation to the US dollar as was done by all countries of what was then called the "sterling area" (now the Commonwealth). India sought to punish Pakistan by halting all trade with its neighbor.¹¹ This action was to have a profound impact on the development of the Pakistani economy. In 1950 India began to divert water in the eastern rivers of the Indus system for use in its state of Punjab. It used the canal head works located on its territory to block water from flowing into Pakistan. This act was considered hostile enough for Liaqat Ali Khan, Pakistan's first prime minister, to appear on the balcony of his house in Karachi, raise his fist, and threaten war, if India persisted in its designs. This dispute was resolved a decade later when the World Bank intervened and the two countries signed the Indus Rivers Water Treaty in 1960.

One consequence of these moves by India was to create a deep fear in Pakistan about the intentions of its much larger neighbor. This

fear was used by the military leadership as one reason for intervening in the country's politics. The military's appearance on the political stage, therefore, was not the result of ambition on the part of those who were its leaders.¹² General Ayub Khan was perhaps the most politically ambitious military chief, but even he would not have ventured into politics had the politicians not created an opportunity for him to act and had India not continued to pose a threat to Pakistan's survival.

While the failure of the Pakistani political establishment to create political institutions within which it could function without resorting to the politics of the street created the space for the military to operate, the military, once in power, did not consolidate its position by systematically undermining the political structure. All four generals-turned-presidents used the political process and the politicians to buy political longevity for themselves. Three of the four did not succeed; the fourth, General Zia ul-Haq, died in an air crash while still engaged in an attempt to manipulate the political system to win more time for himself. In other words, the failure to institutionalize politics, has to be placed at the door of the political establishment.

While the military establishment may not have actively engineered its entry into the political system, it used its position when it did attain power to strengthen its economic base. This was done mostly by those who held the reins of power to keep in line the senior members of the military. By now the military has created an elaborate system for providing economic benefits to its senior officers. General Pervez Musharraf went the furthest in this regard, appointing military personnel to a large number of senior positions in the bureaucracy. This led to much resentment and persuaded General Ashfaq Pervez Kayani, Musharraf's successor as the head of the army, to order military officers back to the barracks. Kayani also made it clear that the civilian leadership was fully in charge in all spheres of policymaking and that the military's role was to be confined to that of an implementer of the

policies made by the civilian administration. This resolve was put to the test when, on 7 August, 2008, the political parties issued an ultimatum to President Pervez Musharraf to vacate his office. The military refused to intervene openly, confining its role to ensuring that the former chief of the army staff was not humiliated in the process.

Close relations with the United States

Once in power, the military leadership managed the country’s foreign affairs to bring it closer to the west, in particular the United States. During the long periods of its rule—1958 to 1969, 1977 to 1988, and 1999 to 2008—it was able to forge close relations with the United States. This resulted in the flow of significant amounts of US assistance to the country (see Table 6.2).

This was one reason why the economy did so much better during the time the military held the reins of political power (see Table 6.3). It was able to obtain large flows of assistance from the United States to augment paltry domestic savings. These remained low and did not establish a sustainable structure that could ensure growth on a long-term basis without resort to external savings.

The easy availability of foreign assistance created a situation that economists describe as a “moral hazard.” That Pakistan was able to obtain large amounts of foreign flows to augment domestic savings was one reason why important structural reforms were not taken

up and why no effort was made to develop robust political institutions. Pakistan’s political leadership was prepared to take risks with the economy in the expectation that the country would be bailed out should it land in serious crises: and this happened time and again.

There was serious talk in American policy circles in the spring and summer of 2008 about changing the relationship with Pakistan and moving towards an association that placed much greater emphasis on a long-term arrangement. Such an arrangement would not only provide assistance for strengthening Pakistan’s security forces but also help with economic development. It was finally recognized that there was no military solution to Pakistan’s problems, especially those that emanated from the increasingly disaffected populations of the tribal belt and the NWFP.

There was a deep and growing resentment among the people of the tribal belt and the NWFP that the world, in particular the US, had not treated them well. This, it was felt, was especially the case since 9/11 when the US, supported by Pakistan, launched an intensive military campaign against the Taliban regime in Afghanistan. The impression, widely held for some time in Washington, that the Taliban had been decisively beaten, turned out to be wrong. The Taliban began, to reassert themselves after the snows melted in 2008 and revived their campaign not only against the US but also its NATO allies, who had an active presence in Afghanistan. What went wrong?

Table 6.3 Economic performance in various political periods in Pakistan, 1947–2008

	<i>GDP growth rate (%)</i>	<i>Population growth rate (%)</i>	<i>GDP per capita increase (%)</i>
1947–58	2.7	1.8	0.9
1958–69	6.1	2.3	3.8
1969–71	5.8	2.8	3.0
1971–77	3.9	3.1	0.8
1977–88	6.5	3.1	3.4
1988–99	4.7	2.7	2.0
1999–2008	6.1	2.3	3.8

The Taliban's defeat brought to power in Kabul the ethnic groups who had never been comfortable with the much larger Pakhtun population that had economically and politically dominated Afghanistan for decades. Political power brings economic rewards; the non-Pakhtun groups benefited from the economic revival, albeit slightly, that followed the occupation of Afghanistan by the US and NATO. The Pakhtun were largely marginalized even though Hamid Karzai, the country's president, belonged to that community. In the absence of secure sources of income, the Pakhtun population in the southern and eastern parts of the country turned to the cultivation of poppy and Afghanistan became the world's largest producer and provider of heroin. A close relationship developed between the people who ran the country's drug economy and the dissidents who constituted the Taliban.

Since the majority of the Pakhtun population lived on the Pakistani side of the border—Pakistan has an estimated 25 million of the 40 million people who identify themselves as Pakhtun—it should not have come as a surprise that the country's tribal areas would join in the fight. Their discontent began to seep into the rest of Pakistan, which also became restive. The economic downturn in the country in 2007–08 provided an added impetus to the groups operating out of the northwestern hills to increase their activities not only in their own areas but also in other parts of Pakistan. The only way to counter these trends was to ensure that the Pakistani economy did not suffer a severe and long-term decline, that economic revival was not concentrated in the areas that benefited from the short-lived prosperity that marked the second part of the period of President Pervez Musharraf, that a broad-based program of economic development was initiated that provided employment and incomes to the country's young population, and that a special effort was made to bring the tribal areas and the NWFP into the economic mainstream.

The US seemed to agree with this approach. A bill was prepared by two powerful

senators to reflect this change in sentiment. Its authors were Joe Biden, a Democrat, who headed the Senate's Foreign Relations Committee, and Richard Lugar, a Republican, who was the senior most member representing his party on the same committee. The bill was aimed at providing Pakistan \$7.5 billion over a five-year period with the assistance to be directed towards the country's economic and social development. "Our bill represents a genuine seachange—one which will set the US' Pakistan policy on a safer and more successful course. For too long our policy towards Pakistan has been in desperate need of serious overhaul," said Senator Biden, while introducing the bill. "While our bill envisions sustained cooperation with Pakistan for the long haul, it is not a blank check," added Senator Lugar, the bill's co-sponsor. The two senators believed that the bill would have the support of the House of Representatives, the lower house of the Congress and, once passed, would be signed into law by President George W. Bush. However, the bill died, having failed to reach the Senate floor before the end of its term in January 2009. At the same time, the Americans indicated that they would continue to provide between one and \$1.5 billion a year for military purposes, an amount that included the logistics support Islamabad was giving for Washington's efforts in Afghanistan.

The data presented in Table 6.2 show how fickle the US has been in the past in aiding Pakistan. It provided large amounts of support when the country was ruled by the military; on average \$100 million a year during the first part of the period of Ayub Khan, \$217 million a year during the period of Zia ul-Haq and \$333 million a year when Pervez Musharraf held the reins of power. While it is true that American strategic interests were strong in the area in which Pakistan is located when the latter was governed by the military, it is also the case that Washington felt more comfortable in working with the military than with the civilian leadership.

As Pakistan enters into a new and possibly economically more productive relationship

with the US, it is important that the civilian leaders prepare themselves to deliver the expected results. Their actions in the economic arena have not given confidence that they will be able to do that. While many economic problems the country faced at the time Musharraf resigned his position as president were inherited from the Musharraf period, it should be recognized that more than four months elapsed between the effective transfer of power from the military ruler to the elected representatives of the people without any action having been taken to address either the deteriorating economic situation or the worsening situation with respect to the insurgency in the tribal areas. This was a long enough time to display competence, confidence in economic matters, and willingness to take hard decisions.

Pakistan has a long tradition of postponing reform when large foreign capital flows become available. There is also the feeling in the Pakistani political and economic establishments that the country will be rescued by its friends when the times are really difficult. This has happened in the past on several occasions. It was happening again in the summer of 2008. As previously noted, the world of finance has a phrase for this phenomenon: “moral hazard” is the term financial people use when managers postpone action and take risks in the belief that their enterprises will not be allowed to sink. Policymakers in Pakistan have behaved in much the same way. It has been recognized for many years that Pakistan needs deep structural reforms in its political system and economy. In many countries, such reforms have been undertaken when there was a crisis. In Pakistan’s case, this was not done since crises opened up foreign coffers. It could be different this time around if the new leaders study the country’s history and draw some lessons from it.

There are two other aspects of Pakistan’s history that should be briefly discussed— one with a long tradition and the other more recent in origin—before we turn to the final part of this chapter.

Centralization of governance

That Pakistan was governed for long periods by the military, which relied on the civil services—initially on the powerful Civil Service of Pakistan (CSP)—for support brought power to two groups that were comfortable with centralized command and control. This led to the concentration of power in the hands of the federal government located at Islamabad. This happened in spite of the fact that the constitution of 1973, written and adopted in the aftermath of the civil war in East Pakistan, opted for provincial autonomy. The schedule to the constitution provided two lists of government’s responsibilities: the first listed the responsibilities of the federal government, the second spelled out those that were initially “concurrent”—to be performed by both the center and the provinces—but were to be fully transferred to the provinces. This did not happen. Zulfikar Ali Bhutto, the author of the constitution, sabotaged the system the moment it came into being. He fired the two provincial governments that were not controlled by his political party, the Pakistan People’s Party, on flimsy grounds and forced the parliament to postpone for a ten-year period most requirements of the constitution that would have seen greater exercise of provincial autonomy. His successor, yet another military leader, had even less interest in sharing power with the provinces. After the death of General Zia ul-Haq when the country was governed by a succession of democratically elected governments, they made no attempt to invoke the federal features of the constitution. The country continued to be governed from Islamabad.

Under General Pervez Musharraf, the governing system became more centralized. The provinces were given little power and, even within the center, the prime minister gathered an enormous amount of authority in his own hands, building a secretariat that became all powerful. The only initiative taken by the Musharraf government towards decentralization was to establish a new system

of local government which, at least on paper, was allowed to exercise considerable authority in a number of areas previously under the control of the federal and provincial governments.

Pakistan had failed to develop a viable system of local government in spite of the many efforts made by different regimes over a period of six decades. It had tried five different systems since its birth, starting with the system of *panchayats* inherited from the British period. In the 1950s, this system was replaced by "Village Aid," a local government structure that had the moral and financial support of the US. Ayub Khan introduced the system of "basic democracies." This was a multi-tiered system that had elected councilors at the bottom who then elected representatives to the higher tiers. Government officials serving in the areas over which the councils had jurisdiction were also represented. This system worked well for promoting development but it was also entrusted with political responsibilities. The 80,000 "basic democrats," 40,000 from each of the two provinces, constituted the electoral college for the election of the president and the members of the national and provincial assemblies. The system was discarded by General Yahya Khan who succeeded Ayub Khan as president in 1969. The military government headed by General Zia ul Haq which took office in 1977 introduced another system of local government which borrowed heavily from the structure of Ayub Khan's "basic democracies." This too was discarded by the political governments that held the reins of power in the 1990s.

Pakistan's current situation: how it might evolve with and without appropriate public policy choices

At time timing of writing (early fall 2008), Pakistan once again stood at a crossroads. This situation arose on account of several events that took place within the space of 17 months, from March 2007 to August 2008. They destroyed

the government headed by General Pervez Musharraf and brought the economy to its knees. Although the rate of growth of GDP was high during the Musharraf period it was based on the growth of the sectors that did little for employment creation and for the poor. The government also let serious shortages develop in the supply of such vital goods and services as food grains, electric power, and natural gas. While Islamabad's policymakers were responsible for some of these developments, a number of them were the result of happenings over which they had no control. It may be useful to describe the internal developments briefly since they illustrate a number of themes that were identified in this chapter.

On 8 March, 2007 President Musharraf summoned Chief Justice Iftikhar Chaudhry of the Supreme Court to his "camp office" in Rawalpindi, the city that had the headquarters of the Pakistani army, and asked him to resign from his position. The meeting between the two men was filmed by Pakistan Television, the official news channel, which showed Musharraf in his army uniform facing the chief justice. Several other senior generals were present in the room, all in uniform. That the meeting was held in the camp office used by Musharraf when he operated as the army chief was also significant. It is not clear whether the intention was to communicate to the judiciary the army's displeasure at its conduct, but that was the way it was perceived. Chief Justice Chaudhry, to the surprise of General Musharraf and his colleagues, refused to oblige. The authorities were clearly not prepared for this development; it was their assumption that Chaudhry would quietly walk away, accepting whatever compensation was being offered to him. The government's response to the developing situation was panic. The chief justice was prevented from returning to his office; instead he was taken to his official residence and was prevented from leaving or meeting with anybody from the outside world. His family was held with him in the house.

This drama was played out on the TV screens by dozens of private channels the government had not only allowed but encouraged to operate. This was a part of the government's policy to modernize the political and communication systems. The government's objectives succeeded but not in the way it had hoped. The treatment meted out to the chief judicial officer of the country incensed the legal community whose members launched a countrywide campaign to have him reinstated. The government changed course and allowed Chaudhry to leave his house and meet with his supporters. He took this opportunity to travel widely and address various bar associations around the country. The "contact the people" campaign was inaugurated by a procession that started from Islamabad and took 25 hours to cover the distance of 175 miles to Lahore. While this campaign was drawing hundreds of thousands of supporters out on the streets of urban Pakistan, a case was filed against Chaudhry's dismissal which was adjudged in his favor by his erstwhile colleagues in the court. The chief justice took his position on the bench.

Chaudhry lost no time to assert himself. He allowed the case against Musharraf to proceed and he also took on board the challenge to the passage of the National Reconciliation Ordinance (NRO) that gave blanket amnesty to a large number of people who had been charged with corruption by the Musharraf government. Notable among these was Asif Ali Zardari, the husband of Benazir Bhutto. It was well known that the administration of US President George W. Bush had encouraged the two sides—Bhutto and Musharraf—to conclude this deal. Washington was of the view that by gaining the support of the country's largest and most popular party, Pervez Musharraf would be able to gain legitimacy and thus be able to fight al-Qaeda and the Taliban more effectively. These two groups had established themselves in the country's tribal belt and had begun to inflict heavy casualties on the American and NATO forces fighting in Afghanistan.

The case against Musharraf was based on the constitutional provision that a person who was in the employ of the government could not contest for political office within two years of leaving the service of the government. Musharraf had won the second term as president while still holding the office of the chief of army staff. By the time these cases began to be heard Bhutto had returned to Pakistan. On 18 October, when she arrived in Karachi, her cavalcade was attacked by suicide bombers, resulting in the death of more than 140 people. She was the target of the attack but escaped unhurt.

Fearing that the Supreme Court would nullify his election, Musharraf, as the chief of the army staff, moved on 3 November to issue a proclamation setting aside the constitution and promulgating in its place a provisional constitutional order (PCO). Sixty judges of the Supreme Court were not invited to take the oath of office under the PCO. Musharraf's desperate action was termed as a "coup against himself." Widespread condemnation of the move by several foreign governments and by an energized civil society led Musharraf to withdraw the PCO, restore the Constitution, and announce that general elections would be held in the first half of January. Nawaz Sharif, the other former prime minister, who had spent eight years in exile, was also allowed to return. However, while the country was in the grip of election fever, on 27 December, Benazir Bhutto was assassinated after addressing a public meeting in Rawalpindi. A total breakdown of law and order followed for three days as Bhutto's supporters expressed their anger by coming out on the streets and attacking government property. The government reacted by postponing the election to 18 February, 2008.

The elections produced unexpected results. While Benazir Bhutto's Pakistan People's Party was expected to do well, especially after her assassination, Pakistan Muslim League (Nawaz) (PML(N)) performed better than expected even by the party's senior leaders.¹³ The

Pakistan Muslim League (Quaid), the party that had supported Musharraf and had governed as his partner for five years after the elections of 2002, did very poorly. The Islamic parties also lost the support they had picked up in 2002.

The PPP and PML (N) were able to set aside their traditional differences and form a coalition government at the federal level as well as in Punjab. The old rivals were prepared to work together for different reasons. The PPP wished to ensure that its senior leaders would be cleared of the charges of corruption that had been leveled against them by both Nawaz Sharif when he was prime minister and then by the administration headed by General Pervez Musharraf. The PML (N) wanted all the judges removed by Musharraf on 3 November to be reinstated. These differences could not be resolved. The only common ground the two sides could walk on was to force Musharraf to leave office. On 7 August they announced their agreement to launch impeachment proceedings against the president. On 18 August Musharraf resigned from office. On 6 September Asif Ali Zardari, Bhutto's widow, was elected president by an overwhelming majority of the electoral college. Zardari's election was not supported by the PML(N) that moved across to the opposition benches in the national assembly. Not only did the coalition fall apart; the two parties declared open war in February 2009. The president responded by dismissing the provincial government in the Punjab after the supreme court issued an order barring the Sharif brothers from holding public office. The PML(N) reacted by ordering its supporters to march on Islamabad starting 12 March. The party leaders ordered a *dharna* (sit in) in front of the supreme court building for 16 March. This is where the situation stood at the time of writing.

Which way Pakistan will proceed depends on a number of things. Among them, the leaders will have to find the right answers to a number of difficult questions. Whether the leadership groups that now have poli-

tical power will be able to institutionalize it? Whether the civil society that was responsible for forcing political change by having the military withdraw from center stage and allow the elected leaders to occupy that space will find a way of becoming a part of the evolving political structure? Whether the new leaders will find a way for resolving the difficult economic situation the country now faces will depend on how much attention they will be prepared to give to economic management and how much external support they will receive to deal with some of the macroeconomic imbalances that had materialized.

The economic situation worsened rapidly in 2008 with severe power shortages, increase in the prices of various foodgrains, and increases in the fiscal, external trade, and external accounts deficits. The strain on the economy was partly the consequence of the sharp increases in the prices of fuel oil, edible oil, and foodgrains in the international markets and also because of the spending spree by the Musharraf government as it prepared for the elections of February 2008. The new leaders will need to find solutions to the problems the economy faces without sacrificing long-term growth and by changing the structure of the economy in order to place it on a trajectory of high rate of growth that can be sustained over time without an excessive dependence on external flows. These problems raise further questions for the future. Whether the economy can be developed in a way to provide productive job opportunities to a very young and increasingly restive workforce? Whether the capital the country needs over the short term will become available from the traditional donors? Whether a strategy for dealing with the rise of Islamic fundamentalism can be developed that will have the confidence of a world that is getting increasingly worried about developments in the areas adjacent to the border with Afghanistan? And whether the political establishment will find political as well as economic answers to deal with the

growing discomfort the provinces have with the government at the center? Whether positive answers can be found to these questions will depend on how well the new set of policymakers understand the dozen themes explored in the previous section.

While it is difficult to be positive about Pakistan's future in these dark times for the country, there are a number of developments that may lead the country to develop sustainable institutions of political governance and to set the economy on a trajectory of high level growth that can also be sustained over time. The reasons that give hope include the following. The military has withdrawn from politics, placing its faith in the development of political institutions. A two-party political order is emerging with the Centre-Left PPP and the Centre-Right PML (N) accounting for most of the political support. A few regional parties operating in the troubled provinces of Balochistan, the NWFP, and Sindh are prepared to work with the mainstream parties. A number of donors with interest in Pakistan's economic survival are getting ready to provide emergency assistance. Punjab remains well governed and, given its size and dynamism, may become the engine of growth for the rest of the country. There is now a growing consensus in the country that the problems posed by the rise of Islamic extremism need to be resolved. And finally there is a genuine interest on the part of the new leadership groups to reach a settlement with India on the most difficult issues that have caused so much damaging hostility in the past.

Notes

- 1 Ayub Khan provided a detailed account for his move in his autobiography published at the height of the campaign his administration launched to celebrate what it called the "decade of development." See Muhammad Ayub Khan, *Friends not Masters: A Political Autobiography* (London: Oxford University Press, 1967).
- 2 Several books were written on Pakistan's development experience during the period of Ayub Khan. Most of the authors had served in Pakistan as advisors to the government. See, for instance, Gustav F. Papanek, *Pakistan's Development; Social Goals and Private Incentives* (Cambridge, MA: Harvard University Press, 1967).
- 3 These were analyzed in some detail by a group of six senior economists, including this author, in the maiden report of the Institute of Public Policy, *Status of the Economy: Challenges and Opportunities* (Lahore: IPP, 2008).
- 4 Shahid Javed Burki, *Pakistan under Bhutto, 1971–77* (London: Macmillan, 1980) and *Pakistan: A Nation in the Making* (Boulder, CO: Westview Press, 1983).
- 5 Anil Khilnani, *The Idea of India* (London: Hamish Hamilton, 1997).
- 6 Stephen Cohen, *The Idea of Pakistan* (New Delhi: Oxford University Press, 2004).
- 7 For a detailed history of the Pakistan Army and how it affected the country's political development, see Shuja Nawaz, *Crossed Swords: Pakistan: Its Army, and the Wars Within* (Karachi: Oxford University Press, 2008).
- 8 For an assessment of how the military used its political power to build its economic strength as an institution and the roles played by several senior military officials, see Ayesha Siddiqa, *Military Inc.: Inside Pakistan's Military Economy* (London: Pluto Press, 2007).
- 9 This story is well told by Steve Coll in *Ghost Wars: The Secret History of the CIA, Afghanistan, and Bin Laden, from the Soviet Invasion to 10 September, 2001* (New York: Penguin, 2004).
- 10 See, for instance, Noah Feldman, *Fall and Rise of the Islamic State* (Princeton, NJ: University Press 2008).
- 11 For a detailed account of this episode, see Chaudhri Muhammad Ali, *The Emergence of*

- Pakistan* (New York: Columbia University Press, 1967). Ali, a senior civil servant at the time of Independence, went on to become prime minister in 1956.
- 12 The subject of the military in Pakistan's politics has attracted some analytical attention in recent years. See, for instance, in addition to Nawaz, Husain Haqqani, *Pakistan: Between Mosque and Military* (Washington, DC: Carnegie Endowment for International Peace, 2005).
- 13 I met Shahbaz Sharif, the chairman of PML (N) and the younger brother of Mian Nawaz Sharif, a couple of weeks before the elections. His prediction about the number of seats his party was likely to win was less than the number actually won.