

# Pakistan

<b>Status Index</b> (Democracy: 3.58 / Market economy: 5.29)		<b>4.43</b>	<b>Management Index</b>		<b>4.33</b>
<b>HDI</b>	0.527		<b>Population</b>	151.8 Mio.	
<b>GDP p. c. (\$, PPP)</b>	2,097		<b>Population growth<sup>1</sup></b>	2.9%	
<b>Unemployment rate</b>	n/a		<b>Women in Parliament</b>	20.6%	
<b>UN-Education Index</b>	0.44		<b>Poverty<sup>2</sup></b>	13.4%	
			<b>Gini-Index</b>	33.0	
Source: UNDP: Human Development Report 2005. Figures for 2003 – if not indicated otherwise. <sup>1</sup> Annual growth between 1975 and 2003. <sup>2</sup> Population living below \$ 1 (1990-2003).					

## A. Executive Summary

This report argues that Pakistan faces serious economic and democratic deficits, although it formally adheres to constitutional norms, and has drastically improved its macroeconomic performance during the review period. Pakistan's democratic transformation has faltered, despite conducting national elections in October 2002. The military involvement in the political process has been institutionalized with the formation of the National Security Council. This was initially introduced in the Legal Framework Order of August 21, 2002. This also restored the powers of the president to "relieve" the prime minister and the cabinet of their functions and dissolve the National Assembly. President Musharraf continues to hold the office of Chief of Army Staff, despite the expectation that he would step down from this at the end of 2004. The law and order situation in Pakistan continues to cause concern. Sectarian violence in parts of the Punjab is endemic. Taliban and al-Qaida units are present in the tribal areas. Ethnic violence grew in Balochistan during 2004.

Pakistan's macroeconomic performance has improved dramatically during the period under review. Foreign loans, grants and debt relief along with the inflow of remittances have transformed the foreign exchange and debt situation. The foreign exchange reserves rose from \$908 million in 2000 to \$10 billion in 2003-2004. Improved fiscal management (the fiscal deficit dropped from 6% to 4% of the GDP), greater transparency and other governance reforms have led to upgrades in Pakistan's credit rating. The rupee has been stabilized against the dollar. Rates of economic growth have recovered from 2.6% in 2001 to 6.4% in 2004. However, Pakistan remains a low-income country. Inadequate expenditure on human development in the past along with a high birth rate have resulted in Pakistan being ranked a low 142<sup>nd</sup> in the Human Development Index, making it the worst performer in South Asia. The lack of investment in human capital is a major deficit for both economic and political transformation. Moreover, despite improved macroeconomic performance, there are

structural problems at the regional sector level that need to be addressed. Pakistan is a world leader in the use of compressed natural gas for vehicles, but environmental problems involving air pollution and surrounding water management are likely to worsen.

Governance reforms have been mixed in their impact, in part because of the regime's legitimacy problems. A military-led government moreover lacks the flexibility to initiate major structural reforms. Corruption has been reduced from the high levels of the 1990s, when Pakistan was ranked 93<sup>rd</sup> of 133 in the 2003 Transparency International Report, but there is no accountability with respect to the military itself. Civil society has been undermined by successive bouts of martial law, although the press is relatively free under the present regime. The population at large is committed to democracy unfettered by military intervention. Pakistan's international credibility increased with its involvement in the war on terror, although some doubts remain concerning the level of its commitment and effectiveness. Indo-Pakistan relations improved after the war scare of 2002, nevertheless the process of dialogue throughout 2004 brought little movement on the key issue of Kashmir.

Despite improved macroeconomic performance, Pakistan's future prospects are uncertain. The entrenchment of military influence is a major barrier to democratic recovery. Political conflicts are deepening. Civil society remains weak. Internal security will continue to be imperiled by acts of terrorism. Socioeconomic inequalities are deficits for both political and economic transformation.

## **B. History and characteristics of transformation**

Pakistan has struggled throughout its existence to consolidate democracy. Successive military coups (1958, 1977, 1999) have entrenched the position of the army in the country's political development. Even during the democratic interlude of the 1990s, the military held veto powers over key areas of security and foreign policy. Military intervention has been justified in terms of safeguarding national integrity and rooting out political corruption. Despite its perceived guardianship role, the army is part of the problem rather than its solution. Military rule perpetuates a weak civil society and political opportunism. The skewed army recruitment alienates communities such as the Baloch and Sindhis who are unrepresented within it.

The military is not only entrenched in Pakistan's politics but also in its economic life. The army runs its own industries, businesses, hospitals and schools. The largest of the quasi-public military foundations is the army's Fauji Foundation. Its assets rose from 152 million rupees in 1970 to 9.8 billion rupees in 2000. This entrenchment has led some commentators to conclude that even if the ostensible strategic reason for the

army's political predominance presence was removed, it would be difficult to stage its complete withdrawal. High rates of economic growth have coincided with periods of military rule. The weakness of re-distribution has, however resulted in deepening socioeconomic inequalities.

Controversies surrounding the role of Islam in Pakistan's public life have further compounded the country's identity problems. Since the state's foundation, religious parties have called for its "Islamization". While the military have used Islamic symbols and militant groups in Afghanistan and Kashmir for strategic purposes, it has largely resisted such calls. The notable exception was during the martial law period of Zia-ul-Haq (1977-88). The current influence of Islamic groups in the legislatures is the result both of anti-American sentiment at the time of the October 2002 polls and the deliberate marginalization of the mainstream parties in the electoral process. In addition to the Islamic parliamentary parties, there are heavily armed militant offshoots. Such groups have been responsible for the growing sectarian violence in the country. President Musharraf was seeking to curb some of their activities for this reason even before 9/11. Nevertheless, groups frequently re-form under new names and continue to operate.

Pakistan's continuing political uncertainties and internal security problems have undermined the economic advantages of an early pursuit of market-based economic reform policies. These from the 1980s saw removal of barriers to foreign trade and investment, the easing of foreign exchange controls and the privatization of state-owned enterprises. The process witnessed mixed results in the 1990s because of concerns regarding transparency and corruption. The economy also faced the external shocks arising from the Asian financial crisis and the sanctions imposed following the 1998 nuclear tests. Poverty increased during the decade as the rate of economic growth slowed. By 1998 it was down to 2.6%. The pressure to contain fiscal deficits led to a reduction in development expenditure from over 7% of the GDP in the early 1990s to only 3% of the GDP by 1999-2000.

Social modernization remains an elusive target. In the absence of effective government welfare policies, the religiously mandated zakat system forms the main social safety net. The collapse of the state educational system, partly the result of the distorted public expenditure priorities (military expenditure is twice that of public education) has encouraged the rise of religious educational institutions (madaris). While madaris provide the only education on offer for the masses in a situation of high rates of adult illiteracy, they do not inculcate the skills for a modern society. Moreover, some madaris are a breeding ground for intolerance and militancy.

Since 2001, President Musharraf has attempted to divide the religious from the secular political opposition. Both groups remain opposed to his regime. The populace appears committed to democratic consolidation in place of guided democracy. It is also eager to see the transformed macroeconomic environment affecting the extensive incidence of poverty.

## **C. Assessment**

### **1. Democracy**

Democratic transformation has faltered. Voting irregularities tarnished the April 2002 referendum, which provided a mandate for General Musharraf to serve as president for five more years. The Legal Framework Order ensured that power would lie with the office of the president, whatever the outcome of the national elections in October 2002. It thus dispelled the good impression created by the decision to lower the voting age to 18 and to reintroduce joint electorates and reservation of seats. The 60 reserved seats for women in the National Assembly had marked a major step forward.

The October polls were supervised by the military and the intelligence services. They went ahead without the presence of Pakistan's two most popular politicians Benazir Bhutto and Nawaz Sharif. The unexpected success of the Islamic grouping Muttahida Majlis-e-Amal (MMA) complicated ministry formation, which dragged on for six weeks. The eventually elected Prime Minister Mir Zafarullah Khan Jamali was clearly seen as Musharraf's nominee.

From June 2004 onward, the army's influence in governance was institutionalized in the meetings of the new National Security Council. Despite a promise to step down as Chief of Army Staff by December 31, 2004, made to the MMA to ensure its support for the 17<sup>th</sup> Constitutional Amendment that resolved the controversy over the Legal Framework Order, Musharraf continues to hold that position along with the post of president. The resignation of the pliant Prime Minister Mir Zafarullah Khan Jamali on June 27, 2004 and his replacement after the interregnum of Chaudhry Shujaat Hussain by the technocrat Shaukat Aziz who had to contest for a seat in the National Assembly, provided further evidence of the constraints on parliamentary democracy.

## **1.1 Stateness**

Territorial borders and the state's monopoly on the use of force remain partially disputed. In addition to the well-known dispute with India over Kashmir, the Durand Line border with Afghanistan is contentious. The army for the first time has undertaken military action in the loosely governed tribal area of southern Waziristan. The area was serving as a base for the regrouping of Taliban and al-Qaida militants. The mainstream Islamic parties objected to the army's intervention and portrayed Musharraf as a pro-American leader. Some restrictions on advertising and music on buses were attempted by the Muttahida Majlis-e-Amal (United Action Forum MMA) Government in the Northwest Frontier Province (NWFP), but little progress has been made in Islamization.

Throughout its history, Pakistan has experienced tensions between ethnic and linguistic allegiances on the one side and the nation-building process on the other. During the course of 2004, the situation in Balochistan became increasingly violent. Islamabad presented this as tribal resistance to modernization. Baloch nationalists regarded the proposal to establish cantonments and to move ahead with the development of the coastal belt as the internal colonialism of a Punjabi-dominated state. Disruptions to the gas supply following attacks on pipelines and installations at Sui in January 2005 cost the economy around Rs. 200 million per day.

## **1.2 Political participation**

Despite official claims of democracy and respect for the freedom of speech and assembly in 2003, there were a number of instances of arrest of Pakistan Muslim League Nawaz (PML-N) leaders for delivering "provocative" speeches against President Musharraf. (Human Rights Commission of Pakistan, Democratic Development Key Events Since 2001, [http://www.hrcp-web.org/demo\\_dev.cfm](http://www.hrcp-web.org/demo_dev.cfm)). The most controversial case involved Javed Hashmi, the acting PML-N chief. He was arrested for reading at a press conference a letter written by some army men calling for a probe into the Kargil episode and the 1999 coup. Hashmi was convicted on April 13, 2004 and sentenced to 23 years imprisonment for sedition.

While the press is largely free, editors were allegedly asked not to print material on the attempted homecoming of Nawaz Sharif's brother Shahbaz. Freedom of assembly was denied when hundreds of PML-N leaders and activists were arrested on May 6-7, 2004 when the PML-N President Shahbaz Sharif attempted to end his three-year exile in Saudi Arabia. Similarly, hundreds of Pakistan People's Party (PPP) supporters were arrested at the time of the attempt by Benazir Bhutto's husband, Asif Ali Zardari

to address a political rally in Islamabad in December 2004. The police baton-charged and tear-gassed those waiting for Zardari. More latitude was given to MMA protests in 2004 on what came to be known as the “uniform issue”.

### **1.3 Rule of law**

The higher judiciary has been accused of making political judgments with respect to accountability cases. The tendency has been to prosecute only opponents of the regime in power on corruption charges. For ordinary Pakistanis, there is little confidence in the legal system. This is because of the problems in securing access to justice. The subordinate judiciary is seen to be corrupt and prone to political interference. The interests of the poor, women and minorities are particularly vulnerable. The massive backlog of court cases is a further factor in the deprivation of justice to the underprivileged. Despite Pakistan’s improved performance in Transparency International’s index since 1996, the public perception remains that corruption is a major problem. Judicial reform, legal aid for the poor and a non-politicized accountability process remain major areas for good governance.

### **1.4 Stability of democratic institutions**

Democratic institutions in Pakistan are constrained by the military veto. This was brought home most evidently, when the briefly elected Prime Minister Mir Zafarullah Khan Jamali referred to President Musharraf as his "boss." Jamali was encouraged to resign because he was unable to successfully manage the parliamentary process. This was marked by increased tension between the pro-Musharraf government and the opposition parties. The sound and fury of the debating chamber, however, signified little in the real disposition of power in the country.

### **1.5 Political and social integration**

Successive bouts of martial law have handicapped the institutionalization of political parties. These are personality based. Pakistani politics are ephemeral, displaying a bewildering array of shifting allegiances and alliances. Electoral politics are dominated by elite families, many of whom regard the high costs of campaigning as an investment for access to the spoils system. President Musharraf talked about a "new politics" and type of politician before the 2002 elections. The introduction of a requirement to hold a degree did not however achieve this goal. Many of the feudal elite now possesses such qualifications. Moreover, so-called degrees provided by

madaris were also deemed as an acceptable qualification.

The only party with stable roots able to aggregate a diverse range of interests across the country is the Pakistan Peoples' Party. The Pakistan Muslim League (N) is weaker and largely confined to the Punjab. In addition, there are a host of regional and ethnic parties and personality based parties. The Jama'at-i-Islami is the most disciplined of the Islamic parties. It has urban, lower middle class support in most of Pakistan. The ulema parties are sectarian in appeal and have greatest influence in the conservative Pushtun areas of the Frontier.

Feudal classes and larger business interests dominate societal representation in the political system. The Muttahid Quami Movement (MQM) is the only party that can be termed middle class in its composition. Seats reserved for women are filled by representatives of the feudal elite rather than by lower-class activists. Public disillusionment with the current military-backed regime has increased citizens' attachment to democracy. Free elections would undoubtedly see the PPP returning to power.

Civil society organizations have emerged in Pakistan often in response to political repression. The clearest example of this was the Women's Action Forum, which responded to the discriminatory legislation of the Zia-ul-Haq era. Notable self-help groups include the Edhi Foundation, the Lawyers for Human Rights and Legal Aid and the Citizens-Police Liaison Committee. The Human Rights Commission of Pakistan has received international claim for its activities.

## **2. Market economy**

### **2.1. Level of socioeconomic development**

During the review period, the incidence of poverty declined by just over 4%. Nevertheless, fundamental social exclusion persists because of poverty, unequal access to education and gender discrimination. Pakistan ranks lowest in HDI in South Asia (the Maldives tops the list, followed by Sri Lanka, India, Bhutan, Bangladesh and Nepal). It is similarly the worst performer with respect to the Gender-related Development Index (GDI), which measures inequalities between men and women along HDI indicators. The percentage of the population living below \$1 dollar a day according to 2002 figures was 13.4%, while the adult literacy rate stood at 41.5%.

## **2.2. Organization of the market and competition**

The fundamentals of market-based competition were developed in the 1980s. Since that time, successive governments have removed barriers to foreign trade and investment, eased foreign exchange controls and privatized state-owned enterprises. The Karachi Stock Exchange has grown significantly. The Securities and Exchange Commission of Pakistan has taken measures to ensure that the capital market reform program is geared toward the development of a modern and efficient corporate sector and that market development is based on sound regulatory principles.

The Karachi Stock exchange outperformed all other stock markets in Asia between 2001 and 2003. In the fiscal year 2003-2004 market capitalization rose by 159% to \$25 billion. During the period under review, a new feature was introduced into the privatization process with the offering of shares to the public on the stock market. The next round of privatization will involve gas and oil companies, the Karachi Electricity Supply Company, government owned banks and Pakistan Steel. Significantly, military-run businesses, which have received past subsidies and preferential contracts, are excluded from the divestment of inefficient state enterprises.

Pakistan has benefited from a historically liberal trade regime, which will assist it in meeting World Trade Organization requirements. Both conventional and Islamic bank systems are in operation. The government is formally committed to interest-free banking. Islamization of the banking system is, however, unlikely to occur in the immediate term.

## **2.3. Currency and price stability**

The Pakistani rupee has been stabilized against the U.S. dollar. This has accompanied the turnaround in the foreign exchange position. By 2002-2004, foreign exchange reserves had risen to \$10 billion. The fiscal deficit had dropped from 6 to 4% of GDP. Consumer price inflation had risen to 5%. Oil imports that make up a quarter of Pakistan's total import bill are likely to continue to add to inflationary pressures.

## **2.4. Private property**

Pakistan's economy is overwhelmingly based on private ownership. Privatization and deregulation have encouraged entrepreneurial activity. The defense of poor people's property rights, particularly with respect to land, is inadequate because of the



weaknesses in judicial administration.

## **2.5. Welfare regime**

Successive Pakistan governments have assigned low priority to social safety nets. Workers' coverage in federally administered schemes for old age benefits is limited. Microfinance services provide some mitigation against poverty, but this is on a limited scale. The mandatory Islamic alms tax (zakat) is the major source of support for the poor, especially orphans, disabled people and widows. In addition to monthly

subsistence grants, awards are made for educational and medical expenses and for wedding dowry. Access to support depends on local patronage. The program covers a small proportion of poor households.

Pakistan has significant poverty of opportunity as measured by education (adult literacy rate; percentage of children in school) and health deprivation rates (divergence of life expectancy from norm; divergence of infant mortality from norm). The poverty of opportunity index (1996-1997 figures) was highest for Balochistan followed by NWFP, Sind and then Punjab.

Adult literacy is only 24% in Balochistan, with female literacy at just 5%. In addition to regional imbalances, urban-rural, gender-determined and religious imbalances are also discernible. The Gender Development Index in 2004 ranked Pakistan 120<sup>th</sup> among 144 countries. Women are underrepresented in the labor market and do not have equal access to education.

Minorities also suffer from unequal opportunities. According to the National Council for Justice and Peace Report in 2001 (NCJP, Human Rights Monitor, Lahore 2001), the average literacy rate for Christians in Punjab and caste Hindus in Sind was 34%, compared to the national average of 46.56%.

## **2.6. Economic performance**

The review period saw a recovery in the growth in the GDP. By 2004, this had risen to the relatively high rate of 6.4%. Growth has been led by the manufacturing sector, which accounts for about 24% of the GDP. In the twelve months ending June 30, 2004, large-scale manufacturing grew by more than 18%. Manufacturing is dominated by the textile industry, which accounts for 46% of total output and

provides 68% of Pakistan's export receipts. Exports grew by 19% in the 2002-2003 financial year. Pakistan's current account surplus and growing hard currency reserves have enabled it to refinance and reschedule its accumulated large foreign debt burden. Evidence of the improved financial situation was provided in September 2004 when the government announced that IMF assistance was no longer needed. Earlier in the year, Pakistan had pre-paid \$1.17 billion high interest external debt to the Asian Development Bank. It had also strategically re-entered the international capital markets with the flotation of the Eurobond. (<http://www.finance.gov.pk/survey/overview.htm>)

## **2.7. Sustainability**

During the past decade, Pakistan has established National Environment Quality Standards and has created environmental tribunals. Pakistan is a signatory of international environmental agreements on biodiversity, climate change and ozone layer protection. Lead-free petrol has been introduced along with compressed natural gas (CNG) as a clean fuel. Nevertheless, air pollution levels in urban areas are twice the world average and five times that of developed countries.

Pakistan has been slow to innovate in industrial production. Export performance is tied to the low-technology textile industry. The widespread lack of education inhibits growth in the information industry and other modern service industries. Budgetary support for education lags badly. Indeed foreign assistance comprises 76% of the government's expenditure. In April 2003, the Government announced plans to produce 1,200 to 1,500 doctorates a year by 2009. It remains to be seen however whether this will rescue the collapsed higher education sector and will produce sufficient numbers of scientists and engineers in research and development for Pakistan to be internationally competitive.

Despite reforms designed to increase wheat and oilseed production, the agricultural sector is unlikely to experience rapid growth in the absence of structural reform of landholding. Agricultural production could be hit by environmental problems associated with water logging of canals and problems with water management brought by climate change.

### 3. Management

#### 3.1. Level of difficulty

Governance capacity during the period under review was constrained by inherited socioeconomic disparities in development. The incidence of poverty had increased during the 1990s. There were severe imbalances in life chances with respect to class, gender and regional location.

#### Per capita Income by Provinces Rs. per month 1996-7

Urban	Rural	Total
Punjab 1,245	1052	1,105
Sindh 1,352	745	1036
NWFP 1,101	686	746
Balochistan 1,100	681	762
Pakistan 1,270	921	1025
Source SDPC, <i>Social Development in Pakistan</i> (Karachi, 2000) p. 25		
Punjab*	Adult Illiteracy 60%	% children out of school 27
Sindh	55%	36
NWFP	70%	32
Balochistan	73%	42

\* 1996-97 figures cited throughout

Source SDPC, *Social Development in Pakistan* (Karachi, 2000) p. 40

The high level of inherited adult illiteracy is a major handicap for social and economic modernization. The social and political dominance of feudal and tribal elites also present a structural barrier to reform. This is further hindered by extremism and violence. Indeed the environment provided by Pakistan's involvement in the post-9/11 war on terror is unfavorable for the growth of democracy. Nevertheless, the lack of legitimacy of the Musharraf backed governments of Mir Zafarullah Khan Jamali, Chaudhry Shujaat Hussain and Shaukat Aziz, further constrains governance capacity. Smaller provinces continue to complain about Punjabi domination with the result that development projects have become politicized.

The year 2004 saw the deepening of polarization between Baloch nationalists and Islamabad. Historical memories were revived of military intervention in the region in 1973-1975. The issues of center-province relations were overlaid by the fundamental problem of democracy. The PML-Q government, under its changing leadership, claimed legitimacy and they claimed that democracy was established in the country. The opposition over such issues as the Legal Framework Order, Musharraf's dual office and the establishment of the National Security Council maintained that the interests of the electorate were blatantly disregarded.

### Profile of the Political System

Regime type:	<i>Autocracy</i>	Constraints to executive authority:	4
System of government:	<i>Parliamentary</i>	Latest parliamentary election:	10.10.2002
		Effective number of parties:	4.3
Head of State:	<i>Pervez Musharraf</i>		
1. Head of Government:	<i>Zafarullah Khan Jamali</i>	Cabinet duration:	11/02- 06/04
2. Head of Government:	<i>Chaudry Shujaat Hussain</i>	Cabinet duration:	06/04- 08/04
3. Head of Government:	<i>Shaukat Aziz</i>	Cabinet duration:	08/04- present
Type of government:	<i>single party minority</i>	Parties in government:	3
		Number of ministries:	22
		Number of ministers:	33

Source: BTI team, based upon information by country analysts, situation in July 2005. Constraints to executive authority (1-6 max.) measures the institutional constraints posed by a federal or decentralized state, a second parliamentary chamber, referenda, constitutional and judicial review and the rigidity of the constitution. Effective number of parties denotes the number of parties represented in the legislature, taking into consideration their relative weight (Laakso/Taagepera index) =  $1 / (\sum p_i^2)$ ;  $p_i$  is the share of parliamentary mandates controlled by party  $i$ . Number of ministries/ ministers denotes the situation on 1 January 2005.

### 3.2. Steering capability

Economic reforms took place both in the context of the legacies of the economic crises of the 1990s and the requirements of international lenders and the range of opportunities and challenges arising from the regional impact of 9/11. President Musharraf has subsequently made economic reform his major priority. The army's self-perception is that it can put longer-term considerations above the short term goals of rent-seeking politicians. This is true to a limited degree. The army has its own interest group requirement. This has resulted in a high defense burden (3.9% of GDP) that has reduced social expenditures with especially damaging consequences for the under-funded educational system. Moreover, subsidized military-run industries are unlikely to be privatized in the drive for economic efficiency.

The army has furthermore always taken care to safeguard the interests of the feudal elite. Firstly, this is because the elite is a component of the establishment, along with the army and the civil bureaucracy. Secondly, individual officers have marriage ties with the landed elite and they have acquired considerable landholdings. For this reason, structural reform involving land reform or higher taxation of the rural economy will not be vigorously prosecuted. Such reform is however important for the creation of a socially responsible market economy.

The army backed governments since 2002 have brought stability and macroeconomic improvements. They do not have the room to maneuver that is necessary to make

major structural changes. This is why the current restructuring is likely to prove ultimately disappointing.

### **3.3. Resource efficiency**

Macroeconomic reforms have been adequately planned and implemented. The program of decentralization and devolution overseen by the National Reconstruction Bureau was designed to carry government to the grassroots level and thereby promote human resource development. It has achieved at best mixed results. Opponents maintain that it is designed to bypass political opposition at the provincial level. The public service remains inaccessible to the poor. The falling real incomes of low-level officials have encouraged a culture of petty corruption. At higher levels, state resources are wasted because of tax evasion, defaults on bank loans and bribes with respect to the award of contracts. The National Accountability Bureau was established by Musharraf to counter fraud and corruption. It claimed to have recovered 90 billion rupees by 2004. This is indicative of the elite consumption of state resources. Opponents claimed that accountability has been selectively pursued to coerce political rivals. By 2003, Pakistan had moved up to a world ranking of 93 in the Transparency International report. Curbing corruption remains an important issue, however, not only for resource efficiency, but also for increasing people's chances of escaping from the poverty trap.

### **3.4. Consensus-building**

Ethnic, religious and political divisions inhibit consensus-building in Pakistan. Military rule has exacerbated these differences. Current political polarization focuses around the issue of the assertion of parliamentary power against military influence. President Musharraf has been given the benefit of the doubt by international organizations such as the Commonwealth concerning his progress in democratic transformation. He has made use of the advantages brought by his country's involvement in the "war on terror".

In reality, the army retains an anti-democratic veto power. The 2002 elections were designed to institute a guided democracy. The unanticipated success of the MMA reduced the power of the army-backed PML-Q in the National Assembly. This has been a factor in the opposition to President Musharraf's continued hold on both civilian and military office. The 13-member National Security Council was established as a means to institutionalize the army's role in the political process and to build consensus. It was envisaged as preventing future coups. The National

Security Council Bill was passed on April 7, 2004 amidst rowdy protests by the opposition parties. They claimed that it would have a detrimental effect on parliament and democracy and that the Pakistan Army had become an “armed political party” (Dawn, Karachi April 8, 2004).

The army involvement in South Waziristan has perpetuated tensions between the religious opposition and the government. The army has traditional close ties with the religious parties. Post 9/11, however, it was not prepared to undermine its institutional interests that included strategic ties with the United States. The MMA sought a more Islamic foreign policy. This was the driving force behind its resistance to the executive. The vitiated political atmosphere means there is no national consensus, whether on issues of socioeconomic development, prosecution of the “war on terror”, or the issue of financial disbursements from the center to the provinces. There are signs of tension in the federal arrangements as the smaller provinces claim Punjabi domination. The lack of legitimacy accorded to the Musharraf regime lies at the heart of the failure of major political and social actors to agree on Pakistan’s future path.

### **3.5. International cooperation**

Since 9/11, Pakistan has been at the forefront of the “war on terror”. It has involved the abandonment of the regime’s Taliban allies in Afghanistan (Pakistan was one of only three countries to recognize the Taliban regime) as well as a check on jihad-like groups. The Inter-Service Intelligence Directorate (ISI) and the army itself had previously developed ties with such groups for strategic purposes in Afghanistan and Kashmir. President Musharraf has received praise for his role and Pakistan has benefited from increased international credibility by means of debt relief, loans and grants. These have been important in the country’s striking macroeconomic improvement since 2002. The decision to jettison the policy of support for Taliban and the international jihad groups and to fully cooperate with the U.S. “war on terror” was not Musharraf’s alone. Talk of a counter-coup by disgruntled Islamist officers ignores both the discipline of the army and its unified chain of command. Musharraf’s fellow officers accepted that Pakistan had no alternative. If it had refused to join in the “war on terror”, its nuclear assets would have been put at risk, its economy would have been ruined and India would have been assured of a hegemonic position within the region.

Musharraf attempted to draw a distinction between foreign terrorists and indigenous freedom fighters that were struggling for self-determination in Kashmir. The issue of Pakistan’s support for cross-border terrorism heightened tensions with India in the

wake of the December 13, 2001 terrorist attack by a Pakistan-based group on the Indian Parliament. India had attempted for a number of years to get Pakistan internationally identified as a “terrorist state”.

The escalating crisis with India was initially defused by Musharraf’s televised speech of January 12, 2002 in which he announced a ban on a number of militant Islamic organizations. There were considerable behind-the-scenes U.S. and British pressure in the days leading up to this. A massacre at an Indian army camp near Jammu on May 14, 2002 renewed the crisis. Troop mobilization brought fears of war between two nuclear-armed powers. The crisis was averted again because of international pressure, which ensured that Pakistan limited infiltration across the Line of Control in Kashmir.

During 2003, the previous year’s risk-taking was replaced by a thaw in Indo-Pakistan relations that owed much to U.S. influence. On July 11, 2003, the Lahore-Delhi bus service that had earlier been symbolic of Indo-Pakistan détente was restarted after an 18-month suspension. The January 2004 South Asian regional summit held in Islamabad launched an agreement for composite dialogue between India and Pakistan. Optimism was at its greatest during the visit of the Indian cricket team in March 2004. By the end of the year, the dialogue appeared to be stalled on the crucial issue of Kashmir, despite agreements on a number of confidence-building measures.

While Pakistan’s relations with India are its predominant foreign policy concern, the country plays an active role in international bodies, which range from the Organization of Islamic Conferences (OIC), to South Asian Association for Regional Cooperation (SAARC) and the United Nations. The Pakistan army has been eager to provide troops for peacekeeping operations. Pakistan has been readmitted to the Commonwealth. This is a sign of the country’s increased international standing because of its role in the “war on terror”, despite the continuing stalling of its democratic transformation.

## **4. Trend of development**

### **4.1. Democratic development**

In a national address shortly after his October 1999 coup, President Musharraf spoke of the need for good governance and the need to replace what he called a “sham democracy” with a “true democracy” (Dawn, Karachi October 18, 1999). While the press has remained largely free and an ambitious program of devolution has been introduced, freedoms of opinion and assembly have been constrained. National

elections were held under controlled conditions. A further setback to democratic transformation arose from the strengthening of presidential power under first the Legal Framework Order and secondly the 17<sup>th</sup> Constitutional Amendment. Musharraf's legitimacy as president rested on the dubious April 2002 Referendum and then on the vote of a supine parliament. His decision to continue in the dual office of Chief of Army Staff and President beyond December 31, 2004 completed the unfavorable trend for democratic consolidation, which had been displayed by the dropping of elected prime ministers and the institutionalization of an army presence in governance.

Deficits of democratic transformation inherited from earlier regimes also remain to be tackled. Civil society is weak. It is unlikely that the present regime will include such unpalatable but necessary steps as the enhancement of citizens' rights and the encouragement of civic and political education required to strengthen it. Structural reform is also required to remove the inhibitions on democracy arising from a markedly unegalitarian rural society. The feudal elite's dominance in parliamentary politics has been inimical to the movement away from a patronage-based to a "modern", in other words, issue-based political system.

#### 4.2. Market economy development

Economic development has gained momentum during the review period, measured in terms of macroeconomic data.

**Table: Development of macroeconomic fundamentals (2000-2004)**

	2000	2001	2002	2003	2004*
Growth of GDP in %	3.9	2.2	3.4	5.1	5.5
Export growth in %	8.8	9.1	2.7	19.6	12.0
Import growth in %	-0.1	6.2	-7.5	20.1	16.4
Inflation in % (CPI)	3.6	4.4	3.5	3.1	4.0
Investment in % of GDP	16.0	15.5	14.7	15.5	16.5
Tax Revenue in % of GDP	N.A.	N.A.	N.A.	N.A.	N.A.
Unemployment in %	7.8	7.8	8.3	N.A.	N.A.
Budget deficit in % of GDP	-6.6	-5.2	-5.2	-4.4	-4.0
Current account balance in billion \$	-0.21	-0.32	2.72	4.07	2.30

Source: ADB: *Asian Development Outlook, 2004*; IMF: *International Financial Statistics Online, 2004*; IMF: *Bangladesh - Letter of Intent, Memorandum of Economic and Financial Policies, 2004*; *Bangladesh Bank 2004*.

\* Estimates



The data for the GDP growth rate is especially impressive. Foreign exchange reserves recovered from the vulnerable position of 2001 to a record level of \$10.5 billion. External debt and foreign exchange liabilities decreased by 6.2% to \$35.58 billion during the period from June 2000 to March 2003 (Dawn, Karachi, August 22, 2003). In addition to foreign support, the economy benefited from record remittances sent home by overseas Pakistani workers of \$4 billion (an increase of more than 98% from 2001-2002 levels) and from the strengthening of the rupee against the dollar. During the review period, Pakistan has made considerable gains on the fiscal side. Debt-servicing liabilities have declined sharply from 64% of revenue to 35.4% and from 54.4% to 34.8% of current expenditure. As a percentage of the GDP, interest payments declined from 6% to 3% of the GDP.

The privatization process has continued throughout the review period. Between July 2003 and March 2004, transactions from the sale of government holdings amounted to 33.1 billion rupees. In addition to its fiscal improvements and capital market development, the Pakistani economy has also been marked by continuing underfunding of social sector services. This particularly refers to education. The total outlay on health care amounts to just 0.8% of the GNP, with a resulting ratio of one doctor serving every 1,404 persons. It is thus likely that Pakistan's per capita income will not to be matched by the international ranking in human development indicators. The lack of a skilled labor force will ultimately slow down the country's economic transformation, as well as hinder long-term democratic consolidation.

#### **D. Strategic perspective**

Pakistan's prospects for transformation are uncertain. The crisis that emerged at the end of the 1990s arising from mounting debt, high levels of corruption and sluggish economic growth has been averted. The sound policies of the governments of the Musharraf era, together with international assistance have enabled the re-financing and re-scheduling of debts.

Numerous tasks, however, remain, which are essential for the sustainability of economic transformation. These tasks include: further increases in transparency and the elimination of corruption with respect to the privatization process; improvements in FDI; reduction of the high defense burden; increase in taxation revenues; increase in investment in the physical and social infrastructure, especially education; encouragement of greater women's participation in the labor market; and addressing the growing environmental problems with respect to urban air pollution and water management. At the regional level, the following needs are urgent: diversification from reliance on a narrow range of low-technology industrial exports, re-vitalization of the sluggish agricultural sector, promotion of the information industry and other

modern service industries, encouragement of the underdeveloped potential of the tourist industry, more effective utilization of energy sources.

Many of these tasks cannot be tackled by Pakistan alone. They will require international assistance. This is particularly vital in the educational sector. If the tasks are unaddressed, they will result in economic stagnation in the face of continuing demographic pressures.

Economic transformation is intimately linked with Pakistan's democratic transformation. Domestic political uncertainties make the investment climate unattractive, despite the improved financial situation. Pakistan has taken some backward steps in the review period with respect to democratic transformation. Despite the anxieties surrounding the war on terror, external supporters need to press President Musharraf regarding his dual office. There should also be pressure on the army to cut its ties with radical Islamic groups and for the ending of curbs on the mainstream opposition parties. That would form the best barrier to the rise of Islamic extremism within Pakistan.

Pakistan's domestic politics are closely tied to its strategic environment. The gradual stabilization and modernization of Afghanistan would reduce the appeal of radical Islam in Pakistan. Even more importantly, it needs to be recognized that democratic consolidation is unlikely to occur without a complete normalization in Indo-Pakistan relations. Only in such circumstances would it become possible for the armed forces to come fully under civilian control. The international community can play important roles in Pakistan's strategic neighborhood, which will improve its internal prospects for democratic and economic transformation.

Turning to domestic political matters, the least controversial area for the intervention of external supporters of the country's development would lie in the reform of parliamentary practices. Exposure to parliamentary practices in other countries and visits by parliamentarians could help improve the quality of performance of Pakistan's legislators. Arbitrary and unruly behavior has been cited in the past as an excuse for military intervention. There is undoubtedly the need for debate that is more informed and proper scrutiny of legislation through the work of parliamentary committees. Finally, the "clientele-ist" political party system could begin to be undermined by encouraging inner party democracy and by advocating state funding for parties.