THE ROLE OF POLITICS IN PAKISTAN'S ECONOMY

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Economic and social outcomes in Pakistan over the last sixty years are a mixture of paradoxes. The economic growth rate has averaged 5 percent annually since 1947—a feat achieved by very few countries. Politically, however, the interplay of religious fundamentalism, sectarianism, ethnic cleavages and regional economic disparities has made the country volatile and unstable. Various East Asian countries that were behind Pakistan in the 1960s have surged far ahead in most economic and social indicators. Pakistan has thus been unable to realize its potential.

It is usually believed that economic growth can take place only in the presence of political stability, but the Pakistani case contradicts conventional wisdom. In order to explain these paradoxes and contradictions, this article attempts to address the following questions:

» How can a country that has suffered from political volatility and instability for such a long period achieve high economic growth?

» Have periods characterized by stable authoritarian regimes in Pakistan provided the means for long term economic performance?

» Have external influences, particularly the United States, played a constructive role?

Despite sharing a common historical, cultural and social milieu, Pakistan and India have pursued different paths since independence in 1947. Both countries have done reasonably well in improving their economies and reducing absolute poverty levels. India has, however, emerged as a stable and vibrant democracy while Pakistan has spent half of its post-independence years under military dictatorships and is currently struggling to quell an Islamic insurgency in the northwest part of

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the country. The democracy–development nexus appears to be well entrenched in the case of India, while it is faltering in Pakistan. A great deal of recent literature has suggested that China and India are the typical representatives of authoritarian and democratic regimes, but fewer attempts have been made to resolve this puzzle in the case of India and Pakistan, two countries that are more akin to each other and share a common legacy.

In order to address these questions it is useful to revisit the essential dimensions of Pakistan's economic and political history, a history which can be divided into six distinct periods:

- The Flat Fifties, 1947 to 1958
- The Golden Sixties, 1958 to 1969
- The Socialist Seventies, 1971 to 1977
- The Revivalist Eighties, 1977 to 1988
- The Muddling Nineties, 1988 to 1999
- The Reforming Hundreds, 1999 to 2007

Period I: The Flat Fifties, 1947 to 1958[1]

Pakistan came into existence as a moth-ridden country at the time of the partition of India. The British-controlled provinces of Punjab and Bengal were each divided into two parts. East Punjab and West Bengal formed part of modern-day India; West Punjab and East Bengal, along with three other provinces, together formed Pakistan. The physical separation between eastern and western Pakistan, with Indian territory in between, put Pakistan at a serious disadvantage from its inception.

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The foundation of an authoritarian streak in the polity was laid fairly early in Pakistan's history. After the death of the first prime minister, Liaquat Ali Khan, and the ascent of bureaucrat Ghulam Mohammed to the office of Governor-General, the supremacy of politicians in the political order was lost.[2] In February 1953, martial law was imposed in Lahore to quell the anti-Qadiani movement.[3] Prime Minister Khwaja Nazimuddin was dismissed by the governor general. Scholar Keith Callard termed this a "governor-general's coup."[4] He observed that three major conventions—the impartiality of the governor general, cabinet and party solidarity and the role of legislature as the maker and sustainer of government—had been destroyed or gravely weakened.

Pakistan's ambassador to the United States, Mohammed Ali Bogra, was foisted as the new prime minister and six of the nine ministers of the dismissed cabinet joined the new government. Changing political loyalty has since become one of the main causative factors of political instability. Pelf, patronage and power have dominated the political scene.

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The seeds of separation were further sown when the Muslim League lost the 1954 provincial elections in East Bengal due to a growing disaffection with the ruling political elite in West Pakistan. This elite from the Punjab province, instead of coming to grips with the grievances of East Bengal, adopted a confrontational strategy to consolidate their power by merging all four western Pakistan provinces into one province. As a result, East Pakistanis were antagonized when their province, which contained the majority population, was forced to accept parity with newly-formed West Pakistan in the Parliament. The three smaller consolidated provinces—North-West Frontier Province (NWFP), Sindh and Baluchistan—also protested Punjab's attempt to establish hegemony.

The political atmosphere was too vitiated; political instability was too acute; tensions between the different tiers of the government were so damaging; the challenge of setting up the organs of a new state was so formidable; and the influx of millions of refugees from India was too demanding. As a result, economic management took a back seat in this formative phase of Pakistan's life.

Period II: The Golden Sixties, 1958 to 1969[5]

Ayub Khan, the first military dictator of Pakistan, assumed complete control of the state in October 1958 and reigned over the golden period of Pakistan's economic history. With the help of Harvard advisors, Khan vigorously implemented the Planning Commission on Economic Management and Reforms with impressive results.[6]

GDP growth in this decade jumped to an average annual rate of 6 percent from 3 percent in the 1950s. The manufacturing sector expanded by 9 percent annually and various new industries were set up. Agriculture grew at a respectable rate of 4 percent with the introduction of Green Revolution technology. Governance improved with a major expansion in the government's capacity for policy analysis, design and implementation, as well as the far-reaching process of institution building.[7] The Pakistani polity evolved from what political scientists called a "soft state" to a "developmental" one that had acquired the semblance of political legitimacy.[8] By 1969, Pakistan's manufactured exports were higher than the exports of Thailand, Malaysia and Indonesia combined.[9] Though speculative, it is possible that, had the economic policies and programs of the Ayub regime continued over the next two decades, Pakistan would have emerged as another miracle economy.

However, the perception that income inequalities between the East and West had increased substantially and that wealth was concentrated in the hands of twenty-two families fuelled resentment among Bengalis who accused Ayub's regime of reducing the East to an internal colony.[10]

Authoritarian regimes devoid of legitimate political power use the instruments of state power to win or maintain coalitions, build up new alliances or take coercive measures against recalcitrant individuals and groups. Ayub's attempt to win legitimacy, introducing the Basic Democracies system, in fact caused his regime a loss of popularity and credibility. This disaffection with the military regime was exploited by Sheikh Mujibur Rahman and his Awami League Party. The arrest and trial of Mujibur under the Agartala conspiracy case turned him into a popular leader in East Pakistan. His six-point agenda of autonomy became the manifesto of the Awami League which swept the 1970 elections in East Pakistan with a resounding majority. The reimposition of martial law and transfer of power to the Army chief, Yahya Khan, exposed the fragility of the guided democracy system.

> The overthrow of Ayub's political system also reversed the economic system that had served the country so well. To outsiders, Pakistan had been a model developing economy.

Yahya Khan's reluctance to transfer power to Sheikh Mujibur, the elected majority leader, reinforced Bengali suspicion and mistrust toward the Pakistani Army and West Pakistan. The post-25 March 1971 events led to a civil war that, with India's strong backing, ended in the emergence of the independent state of Bangladesh.[11] The break-up of Pakistan had a traumatic effect on the national psyche and negated the very concept upon which Pakistan was founded. Although East Pakistan benefited from Ayub's economic reforms, the fact that these benefits were perceived as a dispensation from a quasi-colonial military regime to its colony—East Pakistan—proved to be lethal. According to I.A. Rehman, "[The] Central Establishment decided on a trade-off between autonomy and development but this maneuver failed in East Pakistan and it is unlikely to succeed in Balochistan and the tribal areas. The lesson is: no federating unit will surrender its rights to autonomy in exchange for any development works however huge their fall out."[12]

The overthrow of Ayub's political system also reversed the economic system that had served the country so well. To outsiders, Pakistan was a model developing economy to emulate, but domestically there was a total rejection of this economic model.

Period III: The Socialist Seventies, 1971 to 1977[13]

Zulfikar Ali Bhutto took advantage of the resentment against Ayub's economic policies and promised to restore the principles of distributive justice and equity to the forefront of Pakistan's development strategy under the slogan of Islamic socialism.[14]

Bhutto's populist policies of nationalizing industries, banks, insurance companies, educational institutions and other organizations, derailed Pakistan's journey toward modernization and faster economic development. This setback hit Pakistan so badly that the East Asian countries that were lagging behind Pakistan in growth and economic indicators in the late 1960s not only overtook it but also became huge success stories. The oil price shock of the 1970s as well as droughts, floods and the withdrawal of external assistance did not help the situation, either. The growth rate in the 1970s fell to 3.7 percent per annum from the 6 percent recorded in the 1960s. Worst of all, the main plank on which the Bhutto government came to power—social justice—proved to be extremely weak. Income inequalities rose compared to the previous period while inflation accelerated, averaging 16 percent between 1971 to 1977, thereby hurting the poor.[15] The large-scale manufacturing sector performed very sluggishly, netting a growth rate of only 3 percent, primarily sparked by vast public sector investment.

The idea that government control of the commanding heights of the economy can best spearhead industrial growth, allocate resources and invest in the activities that it considers a priority not only failed to materialize but antagonized the private sector. The lesson learned from this experience was that good populist politics are bad for the economy.[16]

Period IV: The Revivalist Eighties, 1977 to 1988[17]

The overthrow of the Bhutto government by a military coup in July 1977 and the ascendancy of a right wing military leader, General Zia ul-Haq, halted the socialist experiment. Political party activity was soon banned, thereby limiting political participation to the local level only. This small liberty, however, could not mask the centralization of political power in the hands of one man.

Zia ul-Haq used religion to provide legitimacy to his takeover and subsequent rule, asserting that Islam should be a unifying force for overcoming ethnic, linguistic and other propensities prevailing in the country. Centralization and personal control over the affairs of the state thus became easy to manage under this paradigm. The nexus between the military regime and components of the religious right, such as Jamaat-e-Islami, was extended to engulf the Islamic militant groups that participated in the Afghan war against the Soviets. The roots of present Islamic fundamentalism in Pakistan can be traced to this period.

Zia benefited from participating in the campaign to overthrow the Soviet Union in Afghanistan, as large amounts of military and economic assistance from the United States flowed into Pakistan. The long-term costs were, however, colossal. The spread of *Kalashnikovs* and drug culture, ethnic and sectarian violence, the smuggling of goods and the emergence of *jihadist* parties can all be traced back to the 1980s.[18] *Madrassahs* and training camps for militant groups proliferated during this period. State laws were modified, new Shariah courts were established and the educational curriculum was revised to inculcate a more hard-line or radical Islamic way of life.

Economic conditions, however, did improve: GDP grew at 6.6 percent annually, with agriculture at 4 percent and the manufacturing sector at 9 percent. Fiscal deficits, however, widened to 8 percent of GDP despite a decline in development expenditure. Domestic borrowing to finance these deficits did not weaken growth immediately but had serious repercussions for public finances and macroeconomic stability in the 1990s. As a consequence, Pakistan had to approach the International Monetary Fund (IMF) for assistance in 1988.

Period V: The Muddling Nineties, 1988 to 1999[19]

Nine different governments (four interim-appointed, four elected and one following the military coup of October 1999) ruled Pakistan in this period. Like the 1950s, when eight successive governments were formed, this period saw heightened political instability. Despite far-reaching reforms introduced in 1991, economic indicators once again fell sharply in contrast with the 1980s for several reasons other than political instability.

The failure to implement successive agreements led to the loss of Pakistan's credibility among the international financial community. The confidence of local investors eroded when the foreign currency deposits of Pakistanis were suddenly frozen. Foreign investors were unhappy as all the power purchase agreements were re-opened and criminal action was initiated against Hubco, Pakistan's largest foreign-owned power generation company. The GDP growth rate decelerated to 4 percent. While the agriculture sector recorded higher output, growth of the manufacturing sector was low. The investment ratio fell to 13.9 percent during 1998 and 1999 as foreign savings, which formerly bridged the gap between national savings and investment, dried up in May 1998.

The persistence of fiscal (above 7 percent of GDP) and external deficits (4 to 5 percent of GDP) led to the accumulation of large levels of domestic and external debt throughout the decade. Development expenditures took a major hit and GDP dropped to 3 percent from 8 percent in the first half of the 1980s. Social sector expenditures were squeezed to accommodate higher debt service and defense expenditures. Total external debt levels became unsustainable, rising from \$20 billion in 1990 to \$43 billion (47.6 percent of GDP) in 1998. Exports stagnated and Pakistan lost its market share in a buoyant world trade environment. The incidence of poverty nearly doubled from 18 to 34 percent, and the unemployment rate rose as well. Social indicators lagged behind other countries in the region. The Human Development Index of the United Nations Development Programme ranked Pakistan in one of its lowest development categories.[20]

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At least four main factors determined Pakistan's economic performance in the 1990s. First, political instability and frequent changes in the government followed by a reversal of decisions taken by the preceding government created an environment of uncertainty and a lack of predictability. Second, there was widespread misgovernance by the two major political parties ruling the country during this period. Personal, parochial and party loyalty considerations dominated decision-making while institutions were bypassed. Third, there was a lack of political will to make timely and difficult decisions. The cumulative effect of avoiding and postponing such decisions, coupled with the failure to correct the distortions at the right time, proved too costly. Fourth, there were unforeseen exogenous shocks, such as the nuclear testing in May 1998 that shook investors' confidence, accelerated the flight of capital, led to the imposition of economic sanctions and disrupted external economic assistance.

An interesting paradox is that the economic policies of both major political parties, the Pakistan Muslim League (PML) and the Pakistan People's Party (PPP), who took turns ruling during the 1990s, were similar and could not be faulted. Both parties were committed to deregulation, privatization, liberalization, greater reliance on market forces and other economic reforms. The supporters of PML and PPP argued that the dismissal of the Nawaz Sharif government in 1993 and of the Benazir government in 1996 did not allow positive trends to persist. It can only be speculated whether the economic output for the decade would have been better had these governments completed their terms in office. Poor governance would have been largely offset by the continuity in policies, programs and projects. The stop-and-go cycle faced by Pakistani economic actors imposed enormous costs in terms of macroeconomic instability.

Period VI: The Reforming Hundreds, 1999 to 2007[21]

In October 1999, the incoming military government was faced with four main challenges: heavy external and domestic indebtedness; high fiscal deficit and low revenue generation capacity; rising poverty and unemployment; and a weak balance of payments with stagnant exports.

The country faced a serious external liquidity problem as its reserves were barely sufficient to buy three weeks of imports and could not possibly service its short-term debt obligations. Workers' remittances decreased by $500 million, foreign investment flows dwindled by $600 million, official transfers turned negative and Pakistan had no access to private capital markets. In the domestic sector, the declining tax-to-GDP ratio and inflexible expenditure structure, whereby 80 percent of revenues were preempted to debt servicing and defense, constrained the government's ability to increase the level of public investment.

During the Reforming Hundreds, lack of attention to economic issues by the incoming government further contributed to an atmosphere of crisis.

Structural policy reforms combined with an improvement in economic governance laid the foundations for accelerated growth from 2002 to 2007.[22] The economic growth rate averaged 7 percent, up from 3.1 percent in 2001 to 2002. Poverty was reduced by between 5 and 10 percentage points, depending upon the methodology used. The unemployment rate also fell from 8.4 percent to 6.5 percent and approximately 11.8 million new jobs were created between 1999 and 2008. Gross and net enrollment ratios at the primary school level recorded upward movement. The re-profiling of the stock of debt brought down the debt-to-GDP ratio from 100 percent to 55 percent. Foreign exchange reserves increased to cover six months' imports from a few weeks' imports. The fiscal deficit remained below or slightly above 4 percent of GDP. The investment rate grew to 23 percent of GDP and an estimated $14 billion of foreign private capital inflows financed many sectors of the economy. The exchange rate remained fairly stable throughout the period.

Since then, the elected government has not pursued the unfinished agenda of reforms with the same vigor and commitment. Governance issues that characterized the 1990s have begun to rear their ugly heads once more. The situation worsened after March 2007, when the government became embroiled in a judicial crisis. The preoccupation with the impending elections resulted in serious lapses in economic management as key adjustment decisions to escalating international oil and commodity prices were postponed. The assassination of the most popular leader of the country, Mohtarma Benazir Bhutto, plunged the country into a state of uncertainty while the transition from the military to the civilian-elected government was not managed properly. Lack of attention to economic issues by the incoming government further contributed to macroeconomic instability and created an atmosphere of crisis in the country. The global financial turmoil and the recession in OECD countries did not help either. So while domestic factors were mainly responsible for Pakistan's economic crisis, adverse external conditions worsened the problem; the global financial turmoil hampered foreign private inflows and the recession in OECD countries reduced the demand for Pakistani exports.

Political Instability and Economic Growth

Pakistan has seen twenty-three governments in the past sixty years, including: fourteen elected or appointed prime ministers, five interim governments and thirty-three years of military rule under four different leaders.[23] Excluding the military and interim governments, the average life span of a politically elected government has been less than two years. If the five-year period of Bhutto is excluded, then the average span falls to 1.6 years.

The economic policy regime, on the other hand, has only changed twice in all of Pakistan's history.[24] The liberal private sector-led growth model that was put in place in the 1950s and accelerated in the 1960s was rolled back by Bhutto in the 1970s and became the socialist economic model. Since the rejection of this model in 1977 and the revival of the liberal model, the general thrust of economic policy has remained unaltered. There has been a broad consensus among all major political parties on the general principles that should underpin Pakistan's economic direction, namely:

- Central planning and bureaucratic judgment are poor substitutes for the market's judgment in the allocation of scarce resources.
- Licensing to open, operate, expand and close business by government functionaries should be discouraged.
- Public sector ownership and management of business, production, distribution and trade leads to inefficiency, waste and corruption.
- Over-regulation, controls and restrictions of all kinds on the private sector hike up the cost of doing business.

- » High tax rates on individuals and corporations are counterproductive as they discourage effort and initiative.
- » Banks and financial institutions owned and managed by the public sector offering cheap credit and/or directed credit have a pernicious effect on economic growth.
- » Administered prices of key commodities are the worst possible means of insulating the poor segment of the population from the onslaught of market forces.
- » Subsidies on inputs such as fertilizers, seeds, water, etc., incur heavy budgetary costs and benefit the well-to-do classes rather than the poor.
- » Foreign investment and multinational corporations are to be encouraged as they are important conduits for the transfer of technology, managerial skills and organizational innovation.[25]

While the government's implementation of policies, programs and projects has seen uneven and mixed results, the initiative in driving the economy can be credited to the private sector.

The agricultural sector, representing 20 percent of GDP, is owned and managed by private farmers. Manufacturing, with a few odd exceptions, is under the control of private firms. Wholesale and retail trade, transportation (with the exception of railways and Pakistan International Airlines), personal and community services, finance and insurance, ownership of dwellings and the construction sector all fall within the purview of the private sector. Only public administration, defense services and public utilities are directly managed and operated by the government. Imports and exports of goods and services are also privately managed. A rough approximation would indicate that goods and services produced, traded and distributed by the private sector amount to 90 percent or more of the national income while the government directly or indirectly owns, manages, controls or regulates the remaining 10 percent of national income. So it is the strength of private initiative, with all its flaws, operating in a relatively liberal policy environment, that has been the main driver of long-term economic growth in Pakistan.

In Pakistan, transitions from one political regime to another have been quite difficult, causing uncertainty and short-term reductions in the speed of economic growth. The transfer of power from the military to civilian regimes in 1971, 1988 and 2008 were marked with macroeconomic instability, a slow down in economic activities, rising unemployment and inflation and the adoption of a wait-and-see attitude by investors. But economic recovery has also been resilient; short-term losses caused by political volatility have not been large enough to offset the positive long-term secular economic movement.

Authoritarian vs. Democratic Regimes

In Pakistan, the debate over whether authoritarian or democratic regimes have delivered better results in terms of economic performance has been quite fierce since General Khan took power in 1958. The spurts in economic growth during the 1960s, 1980s and 2000s, when the country was governed by military dictators, have led many to conclude that authoritarian regimes are better suited to bring about economic development. Parallels are drawn with China, Indonesia, Korea and Singapore.

Detractors of the authoritarian regimes, however, have skillfully torn apart the economic performance record of the Ayub, Zia and Musharraf periods. Since the legitimacy and perpetuation of these regimes were justified on the basis of good economic outcomes, those opposed to these regimes have assailed the very economic record that has been espoused as their achievement. Such detractors lay out three arguments.

It is the acceleration of inflows of foreign assistance to Pakistan that led to the observed higher growth rates rather than sound economic policies, better governance and the efficient utilization of resources.

First, they argue that the United States had always been more favorably disposed toward Pakistan's military dictators, as they are relatively more obsequious and subservient to the American interests. Thus, it is the acceleration of inflows of foreign assistance to Pakistan that led to the observed higher growth rates rather than sound economic policies, better governance and the efficient utilization of resources. Although empirical evidence to substantiate this argument hardly exists, it has become popular folklore: Ayub was rewarded for his close economic and military ties with the United States in confronting the Soviet Union; Zia ul-Haq received a boost as \$5 billion was channeled through Pakistan for Afghanistan's *mujahideen*; and Musharraf's decision to openly support the United States in the war on terror brought in approximately \$10 billion of military assistance.

Second, the solid record of high growth rates under military regimes is believed to result invariably in adverse distributional consequences. The Ayub period is blamed for the widening regional disparities that led to the secession of East Pakistan. Zia ul-Haq's policies were criticized for their failure to deal with structural weaknesses or reverse the damage done by the policies of nationalization. According to Parvez Hasan, "Zia's economic policies represented a rather sharp contrast between reasonably satisfactory short-term economic management and an almost total neglect of long-term policy issues. The long period of political stability and sustained growth under Zia ul-Haq offered major opportunities for dealing with the underlying structural issues but these were not exploited."[26] Musharraf's economic strategy, which made Pakistan one of the fastest growing Asian economies, was also dismissed on the same grounds: that consumer-led, credit-induced, service-focused growth neglected agriculture and the manufacturing sectors, making the rich richer and the poor poorer.[27] While the World Bank and Asian Development Bank publicly acknowledged a significant decline in the incidence of poverty and International Labor Organization (ILO) experts validated the fall in the unemployment rate, the authenticity of the poverty and unemployment data has been challenged. It became the norm to practice selective acceptance of government-produced data showing negative trends and outright rejection of the data from the same source showing positive trends.

Economic accomplishments devoid of political legitimacy, however impressive they may be, prove to be short lived.

The third line of argument is quite persuasive. Economic accomplishments devoid of political legitimacy, however impressive they may be, prove to be short lived. Without the involvement and participation of the people, elegant and technically sound economic solutions developed by authoritarian regimes are quickly replaced once the regime changes, causing irreparable losses to the economy. The recent example whereby good initiatives taken by the Musharraf regime were either suspended, deprived of funds or abolished completely attests to this phenomenon. Some of these initiatives, such as revitalizing higher education and expanding adult literacy and health programs have been brought to a grinding halt. The Devolution Plan of 2001, which decentralized the delivery of basic services to local levels, is at serious risk of abandonment.

The phenomenon of abandoning the previous government's plans and policies is not confined to the military-civil transitions but also from one elected civilian government to the other. Benazir Bhutto rightly embarked upon public-private partnerships by inviting independent power producers (IPPs) from the private sector to set up electricity generation plants to overcome power shortages. The IPPs were put on hold by the new government, which alleged that corruption was involved in the awarding of contracts. In another example, the incoming Bhutto government suspended the motorway project initiated by the Nawaz Sharif government. By the time the project had resumed, time delays, cost over-runs, contract cancellations and legal entanglement had reduced the efficacy of the project.

Both the civilian-elected and military regimes have demonstrated the same characteristics and weaknesses—personality cult leadership, centralized decision-making, repression of opponents and cronyism. When one goes beyond labels and examines the actual behavior of military and civilian regimes, most distinctions appear superficial.

> Pakistan has over the last sixty years been an authoritarian polity both under the civilian as well as military regimes. 'Authoritarianism' involves great relevance and obedience to authority and stands opposite to individualism and freedom that come with it. Both the civilian leaders coming from an agrarian and feudal social background and military leaders from the Command and Control structure of the armed forces have demanded absolute loyalty and compliance with their institutions of origin.[28]

External Influences

The international community showed skepticism at the creation of Pakistan. Liberal Western democracies were unable to reconcile themselves with the partition of a country on the basis of religion. Scholars such as Christopher Jaffrelot believed that Muslim historical heritage was an insufficient bond to glue ethnically diverse groups into a nation.[29]

In any case, the structural deficiency in the creation of Pakistan, the adversarial relationship with its large neighbor India, the internal fissiparous tendencies among the various ethnic and linguistic communities and a weak economic base with no significant natural or human resources all added to Pakistan's insecurities and pushed it toward finding a strong ally. The United States was more than happy to oblige and found that Pakistan's strategic location fit in well with its desire to build a *cordon sanitaire* around the Soviet Union, China and Eastern Europe.

Pakistan viewed U.S.-sponsored pacts, including the Southeast Asia Treaty Organization (SEATO) and the Central Treaty Organization (CENTO), as guarantees that the United States would come to its rescue if its territorial integrity was threatened by India. Thus the marriage between a new, insecure state wanting to protect its territorial integrity, and a superpower looking for key strategic assets and alliances in Asia and the Middle East was quite convenient.

During the Cold War, Pakistan aligned itself with the United States while India aligned itself with the Soviet Union. Despite lofty ideals for democracy promotion, the United States found the efficiency of an obsequious military regime, with its unified command and control structure, to be more suitable for its larger geopolitical goals as opposed to dealing with a messy, dispersed and ineffective democracy. Would a democratic regime have allowed U.S. access to an air base in Peshawar to fly spy planes to the Soviet Union? Would the U.S. strategy of removing the Soviets from Afghanistan have been so successful absent a military regime's help? Would the Bush ultimatum in the aftermath of 9/11 have been accepted by a political leadership that did not combine the command of the military and the constitutional authority of the civilian government? The answers to these questions are unclear at best.

In turn, Pakistan allowed U.S. policymakers considerable space for intervening in domestic public policy matters. The United States became actively engaged in Pakistan's economic development through its bilateral military, development and food assistance. The most critical and enduring intervention was the induction of the Harvard Development Advisory Service in the planning machinery. The Ford Foundation became actively engaged in the Pakistan Institute of Development Economics (PIDE). A large number of young economists, planners and civil servants were sent to leading U.S. universities for advanced degrees and occupied key policymaking and technocratic positions in the government. This combination of foreign advisors, Pakistanis trained in U.S. universities and policy-oriented research at PIDE laid the foundations of economic thinking for a market-friendly, private sector-led liberal, neoclassical model.

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As political uncertainty and instability are anathema to a market-based economy, something had to be done to fix this supposed problem. The solution was the strengthening of the military, which even today remains professionally the best institution in the country. Because of its merit-based induction and promotion system, coupled with superb professional training and conduct, the Pakistani military was considered the real guardian of the nation's territorial and ideological frontiers. It believed it had the best interests of the country at heart and therefore knew exactly how to bring about the reforms needed to spur economic development. Every military dictator removed the preceding elected governments on the pretext that they were damaging the economy. Transparency, continuity, consistency and predictability are needed by the markets, and the military regimes thought they were the only ones who could provide those enabling factors.

The empirical evidence to the above hypothesis is provided by the relative economic outcomes during the three military regimes compared to the dozen civilian governments. Economic development under Ayub was a high point in U.S.-Pakistan relations as Pakistan was presented as a model for other developing countries to follow. Zia ul-Haq and Musharraf pursued the same set of policies over longer periods of stability, producing impressive results. Nawaz Sharif's reforms in 1991 were even more far-reaching and were followed by Benazir Bhutto and now by the Zardari government. But the outcomes under these civilian regimes have been disappointing; it was weak governance and not policy direction that created the deviations from the trend under various regimes.

Stephen Cohen also echoed the popular belief that the two most dramatic spurts in economic growth during the Ayub and Zia ul-Haq years were accompanied by high levels of aid from the United States, military grants from China and subsidies from Saudi Arabia.[30] The facts, unfortunately, do not substantiate this belief. In 1968, under the military government of Ayub, foreign aid commitment was 5.8 percent of GDP, while under the democratic regime of Bhutto it almost doubled to 10.5 percent.[31] Foreign savings comprised 21 percent of financing investment in the 1980s while from 1990 to 1994 it rose to an average of 25 percent.

The strained relationship with India, which has existed since 1947, has resulted in three wars and can be seen as one of the factors behind the erratic performance of Pakistan's economy. It is popularly believed that a high level of defense spending has had a detrimental effect on the economy. The wars fought with India over Kashmir are presumed to have led to substantial increases in defense expenditure. Parvez Hasan estimates that economic growth and social progress would have been faster if defense spending had been reduced by 2 percent of GDP and the liberated resources were utilized to increase public development spending by more than one-third.[32]

Pakistan's quest to acquire nuclear capability, conventional weapons, delivery systems and other defense mechanisms, was also a reaction to India's move to become a nuclear power. Whether this objective was achieved by sacrificing investment in education and social development remains a debatable but unsettled question. According to Hussain Haqqani, the intermittent flow of U.S. military and economic assistance encouraged Pakistan's military leaders to overestimate their power potential.[33] This, in turn, has contributed to their reluctance to normalize relations with India even after learning through repeated misadventures that Pakistan can, at best, hold India to a draw in military confrontations.

Conclusion

Ten years ago, I argued that the failure of governance and the consistent domination of political power and the state apparatus by a narrowly based elite seeking to advance its private and parochial interests lay at the heart of the problem in Pakistan.[34] Regime changes, either military or civilian, did not make any substantive difference.

The experience I gained as an economic policymaker between 1999 and 2005 has fortified my belief in the validity of this proposition. Many far-reaching structural reforms were successfully carried out during this period, particularly in the initial three years. This was a period of relative political stability steered by technocrats, away from the civilians and the military. It has, however, been painful to see some of these reforms unravel, slow down or be relegated to the back burner since 2002, when a quasi-political regime assumed power.

On the basis of superficial empirical evidence it may be tempting to make a spurious correlation between economic growth and authoritarian regimes. But in reality the country has always paid a heavy price in the aftermath of non-democratic regimes in the form of severe economic disruptions, policy reversals, complete breakdowns of institutions and a lack of accountability. An orderly transition of power at regular intervals through a predictable democratic process is the least damaging means of keeping the economy moving on an even keel.

The *tour d'horizon* of the past sixty years of Pakistan's economic history lends credence to the argument that interruptions to the orderly political process whereby elected governments were dismissed, forced to resign or overthrown further accentuated the tendency of risk aversion. Besieged with a feeling of uncertainty over their future, elected representatives have indulged in distribution of patronage to their supporters as well as to self-enrichment. Both the preoccupation with keeping power—applied to both the military rulers and the elected regimes—and fending off attacks from the opposition by co-opting them through state patronage or by coercion has led to laxity in fiscal and monetary policies and to the concentration of economic and political power. The excessive use of discretion in case-by-case policymaking to favor narrow interest groups has derailed institutionalized decision-making based on well-established rules and transparency in transactions.

The lesson to be learned from this experience is quite obvious but worth repeating. Democracy, with such flaws and shortcomings as corruption and patronage, may cause economic disruptions and slow down development in the short-term. But it should be allowed to run its course as the inherent process of fresh leadership and governmental accountability through new elections provides a built-in stability to the system that eventually brings the economy back to equilibrium. Interruptions to the democratic process in the name of economic efficiency have created more problems than solutions in Pakistan.

NOTES

1 For substantive discussion of the political and economic developments in this period, see: Khalid Bin Sayeed, *Pakistan: The Formative Phase* (New York: Oxford University Press, 1968); Lawrence Ziring, *Pakistan in the 20th Century: A Political History* (New York: Oxford University Press, 1997); Safdar Mahmood, *Pakistan: Political Roots and Development 1947-99* (New York: Oxford University Press, 2000); Hamid Yusuf, *Pakistan: A Study of Political Developments 1947-97* (Lahore: Sange Meel Publications, 1999); Andrus, J. Russell and Aziz Ali Mohammed, *Trade, Finance and Development in Pakistan* (New York: Oxford University Press, 1966); and Viqar Ahmed and Rashid Amjad, *The Management of Pakistan's Economy 1947-82* (New York: Oxford University Press, 1984).

2 Yusuf, *Pakistan: A Study of Political Developments 1947-97.*

3 Qadiani is a religious minority sect that is not accepted as truly Islamic by orthodox Islamic groups.

4 Keith Callard, *Pakistan: A Political Study* (Oxford: Allen & Unwin Ltd. 1968).

5 This interesting period has been scrutinized by a number of scholars. Altaf Gauhar, *Ayub Khan: Pakistan's First Military Ruler* (Lahore: Sange Meel Publications, 1994); Hasan Askari Rizvi, *The Military and Politics in Pakistan* (Lahore: Sange Meel Publications, 2000); Saeed Shafqat, *Civil-Military Relations in Pakistan* (Boulder, CO: Westview Press, 1997); Herbert Feldman, *From Crisis to Crisis: Pakistan 1962-69* (New York: Oxford University Press, 1972); Rushbrook Williams, *The State of Pakistan* (London: Faber and Faber, 1966); Mahbubul Haq, *The Strategy of Economic Planning: A Case Study of Pakistan* (New York: Oxford University Press, 1963); Irving Brecher and S.A. Abbas, *Foreign Aid and Industrial Development in Pakistan* (Cambridge: Cambridge University Press, 1972); and Stephen Lewis Jr., *Economic Policy and Industrial Growth in Pakistan* (London: Allen & Unwin Ltd., 1969).

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8 Omar Noman, *The Economic and Political Development of Pakistan* (London: Routledge, 1991).

9 World Bank, *Pakistan Development Policy Review—A New Dawn?* (Washington, D.C.: Government Printing Office, 2002).

10 Raunaq Jahan, *Pakistan: Failure in National Integration* (New York: Columbia University Press, 1972).

11 For an authoritative account see Hasan Zaheer, *The Separation of East Pakistan* (Karachi: Oxford University Press, 1994).

12 I.A. Rehman, Editorial, *International News* (Pakistan), 19 July 2009.

13 The narratives of this period can be found in: Anwar Syed, "The Pakistan's Peoples Party" in Lawrence Ziring, R. Braibanti and H. Wriggins, eds., *Pakistan: The Long View* (Durham, NC: Duke University Center for Commonwealth and Comparative Studies, 1977); Gilbert T. Brown, "Pakistan's Economic Development after 1971" in the same volume; S.J. Burki, *Pakistan under Bhutto 1971-77* (London: Macmillan, 1980); and Mahbubul Haq and Moin Baqai, *Employment, Distribution and Basic Needs: Essays in honour of Jawaid Azfar* (Lahore: Progressive Publications, 1986).

14 Farzana Shaikh, *Making Sense of Pakistan* (London: Hurst & Co., 2009).

15 The widespread perception that income inequalities rose during the high-growth period of Ayub Khan and declined during the socialist period of Z.A. Bhutto is belied by the following data: the Gini coefficient in 1963/64: 0.355; in 1968/69: 0.328; in 1979: 0.375. Presented by researchers A.R. Kemal and Moazzam Mahmood, "Poverty and Policy in Pakistan" in Tariq Banuri, Shahrukh Rafi Khan and Moazzam Mahmood, eds., *Just Development: Beyond Adjustment with a Human Face* (New York: Oxford University Press, 1997).

16 For a more sympathetic view see Haris Gazdar, "Poverty in Pakistan: A Review," in Shahrukh Rafi Khan, ed., *Fifty Years of Pakistan's Economy: Traditional Topics and Contemporary Concerns* (Oxford: Oxford University Press, 1999).

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[19] The tumultuous history of this period can be found in Craig Baxter, ed., *Pakistan on the Brink: Politics, Economics, and Society* (Lanham, MD: Lexington Books, 2004); Lawrence Ziring, *Pakistan at the Crosscurrent of History* (Lahore: Vanguard Books Ltd., 2004), particularly the chapter on Democracy and Hypocrisy; Owen Bennett Jones, *Pakistan: Eye of the Storm* (Lahore: Vanguard Books Ltd., 2002); S. Akbar Zaidi, *Issues in Pakistan's Economy* (Karachi: Oxford University Press, 1999); and Ian Talbot, "The Destruction of Democracy in Pakistan" and "Democracy in Crisis: Pakistan Politics 1993-98" in Ian Talbot, ed., *Pakistan: A Modern History* (Lahore: Vanguard Books Ltd., 1999).

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[22] Ishrat Husain, *Economic Management in Pakistan* (Karachi: Oxford University Press, 2003).

[23] Allen McGrath, *The Destruction of Pakistan's Democracy* (New York: Oxford University Press, 1996).

[24] For the long-term economic history of Pakistan, see M.L. Qureshi, *Planning and Development in Pakistan: Review and Alternatives 1947-82* (Lahore: Vanguard Books Limited, 1984); S. Akbar Zaidi, *Issues*; Shahrukh Rafi Khan, *Musharraf*; Parvez Hasan, *Pakistan's Economy at the Crossroads: Past Policies and Present Imperatives* (Karachi: Oxford University Press, 1998); Ishrat Husain, *Pakistan: The Economy of an Elitist State* (Karachi: Oxford University Press, 1999); S.J. Burki, *Pakistan: Fifty Years of Nationhood: Third Edition* (Boulder, CO: Westview Press, 1999); and Aftab Ahmad Khan, "Economic Development," in Rafi Raza, ed., *Pakistan in Perspective 1947-1997* (Karachi: Oxford University Press, 2001).

[25] Ishrat Husain, "The Economy of Pakistan: Past, Present and Future," in Robert Hathaway and Wilson Lee, eds., *Islamization and the Pakistani Economy* (Washington, D.C.: Woodrow Wilson International Center for Scholars, 2004).

[26] Hasan, *Pakistan's Economy at the Crossroads*.

[27] Kaiser Bengali, paper presented at a conference on Pakistan's economy at the National Defence University, Islamabad on 4 November 2008.

[28] Rasul Bakhsh Rais, "Political Culture and Democracy," *Friday Times*, 31 August 2007.

[29] Christopher Jaffrelot, ed., *Pakistan: Nation, Nationalism and the State* (Lahore: Vanguard Press, 2002). For an excellent review of Pakistan's relations with the United States over a five-decade period, see Dennis Kux, *The U.S. and Pakistan, 1947-2000: Disenchanted Allies* (Washington, D.C.: Woodrow Wilson Center Press, 2001).

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[33] Hussain Haqqani, *Pakistan: Between Mosque and Military* (Lahore: Vanguard Books, 2005), 323.

[34] Husain, *Pakistan: The Economy of an Elitist State*, 353.