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## **POLITICAL ECONOMY OF STRUCTURAL REFORMS IN PAKISTAN**

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# **Political Economy of Structural Reforms in Pakistan**

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## **I. Introduction**

The discourse on structural reforms in developing countries, which two decades ago was dominated by the debate on the Washington Consensus, has more recently acquired a new perspective, that of institutional economics. Rather than emphasizing the ten commandments of the Washington consensus, as elaborated by John Williams, institutional economics gives greater importance to the underlying institutional structure of governance in a country. Increasingly, the concept of the rule of law has acquired salience in the explanation of the success or failure of development strategies in a developing country. The Washington Consensus which became the economic orthodoxy in the 1980s broadened the neoclassical shibboleth of “getting the prices right” in the microeconomic context of “shadow prices” to the macroeconomic paradigm of “getting the policies right” with emphasis on fiscal, trade and foreign exchange rate policies, necessary for ensuring the efficient allocation of resources. Now, we have moved to a new mantra, “getting the institutions right”. How universal is this new mantra? I intend to discuss this question in the context of Pakistan’s experience.

Although the underlying assumptions of the Washington consensus were seriously challenged by many dissenting economists, it was the Asian crisis of 1997-98 which dealt it with a death blow and shook the economists’ confidence about which policies were, in fact, right. This led them to examine the institutional setting of policy making specially the rule of law, instead of tinkering with macroeconomic policies, in order to understand the causes behind

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the Asian financial crisis. Another episode which reinforced the same conclusion was the experience of the former Soviet Union and its allies. Despite quickly embracing the Washington Consensus policies, it soon became clear that such policies were not a sufficient guarantee for improving economic performance or ensuring social welfare in these countries, as they lacked the institutional structure necessary to implement them.

These “ground realities” shifted attention from macroeconomic adjustment policies to what was termed as “governance” which included such broad concepts as political accountability and the policy of the bureaucracy as well as the rule-of-law. Empirical studies were launched to prove the over-arching role of governance in improving economic performance. The most startling of such studies, labeled as the “300 percent dividend” claimed that: in the long run a country’s income per head rises by roughly 300 percent if it improves its governance by one standard deviation (for example, one standard deviation is roughly the gap in the rule of law, rated by World Bank, between India and Chile, whose income per capita has a ratio of 1 to3). Similar results were obtained by Dani Rodrik and others showed in their article entitled “The Institutions Rule” which showed that institutions were far more important than geography and openness to trade in explaining economic performance<sup>2</sup>.

Partly because of these empirical findings and also because of the universal appeal of the rule of law, government and aid agencies such programs as training judges, reforming prisons and setting up prosecutor offices became standard ingredients of reform packages adopted by many developing countries,

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<sup>2</sup> Rodrik, Dani, Arvind Subramanian, and Francesco Trebbi. “Institutions Rule: The Primacy of Institutions over Geography and Integration in Economic Development,” *Journal of Economic Growth*. However, Sachs, J. (2003). “Institutions Don’t Rule: Direct Effects of Geography on Per Capita Income,” National Bureau of Economic Research Working Paper No. 9490, has contested their findings.

with generous financial support from donor agencies. These governance and rule-of-law reforms have graduated from a specialized political and legal concern into a staple of economic policy making and an essential element of all aid giving effort. Millions of dollars have been owed into these projects during the past two decades by Western donors and the World Bank which in 2006 devoted almost half of its total lending of \$24 billion to projects with some rule-of-law components, for example technical assistance and training on capacity building, conflict resolutions in village development or related projects<sup>3</sup>.

However, there is considerable skepticism about the efficacy of rule-of-law and governance reforms in developing countries. Part of this skepticism arises from the lack of clarity in the definition and scope of such reforms. There are two broad definitions of the rule-of-law. The first definition, often termed as a “thick” definition preferred by institutional economists is the more holistic one as the core of a just society. In this version, the concept is inextricably linked to the liberal concept of liberty and democracy. In this concept, the rule-of-law is said to prevail if the state power is not unlimited and basic freedoms such as those of speech, expression and association are guaranteed. In such a society, the rule-of-law is employed to safeguard and advance the civil and political rights of individuals and create conditions under which legitimate aspirations and dignity may be realized.<sup>4</sup>

The second definition, called the “thin” definition is more formal and is preferred in the neoclassical economic literature. In this version, what constitutes rule-of-law is not necessarily democracy and morality but property

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<sup>3</sup> In Pakistan, for instance in 2004, the World Bank approved a US\$55 million credit to support the Government of Pakistan’s ongoing economic reform program to improve the government’s capacity in implementing reforms through the Public Sector Capacity Building Project. The Project was designed to fund the training and professional development of over 500 public servants, enhancing the capacity in key ministries/agencies which are in the forefront of designing, implementing and monitoring policy reforms, and strengthening some key regulatory agencies.

<sup>4</sup> The Dehli Declaration of International Commission of Jurists, 1969.

rights and the efficient administration and justice. Laws must provide capability rather than ensure human rights for social justice. Nobel laureate Douglass North, the pioneer of institutional economics, focuses on the importance of property rights, reduction in transaction costs, and improvement in economic organization which are a prerequisite for encouraging investment and growth. On the other hand, another Nobel laureate, Amartya Sen, puts much more emphasis on expanding people's capability and economic freedom to lift the oppressive burden of the state and guaranteeing certain basic rights.

The success of the reform process also depends crucially on the degree of political consensus behind it. In countries where the reform process is understood, desired and backed widely, not only by the political and intellectual elite but also the public at large (such as centrally-planned economies of Europe after the fall of Soviet Union, South Africa after the end of apartheid) success is readily achievable. But when the reform process is favoured by a limited elite group and lacks consensus and where the adverse effect of reforms are not mitigated through public safety nets, the reforms can be very divisive and have rather limited success.

In the South Asian context, especially in the case of Pakistan, the latter or the "thin" definition of the rule of law and institution building has gained much greater currency in official circles in recent years. However, at least in Pakistan, the "thick" or more holistic definition seems more relevant in the context of recent restrictions on democracy and freedom and the dismissal and wrongful confinement of the Chief Justice of Supreme Court, including about half of superior judiciary who refused to swear allegiance to an unauthorized constitutional amendment imposed by the Chief of the Army Staff. The lawyers-led movement of civil society started a year ago spearheading the demand for an independent judiciary and restoration of democratic and

constitutional rule which was being repressed by the Army Chief of Staff. The institutional conflict among the three major pillars of democracy: the executive, judiciary and the legislature has been complicated by the frequent intervention of the Army in politics, lasting for more than half the period of the country's existence.

The Army may well be regarded as the largest and most influential single institution with its ubiquitous presence in almost every field in Pakistan, as comprehensively documented by Ayesha Siddiqua in her recent and well-publicised book, *Military Inc.*<sup>5</sup> The frequent interventions by the military have not been conducive to the creation and strengthening of the institutions of governance and have often contributed to their becoming ineffective and dysfunctional. Other kinds of “thick” reforms in the case of Pakistan are land and educational reforms, which could increase the access to poor of two vital resources whose lack has stymied poverty alleviation efforts.

This paper is intended to review the role of structural reforms in Pakistan over the past six decades in the context of the changing domestic and international political and economic developments. The paper attempts to put into a historical perspective the process of structural reforms during the last decades and tries to see how it has been affected by changes in Pakistani Governments which have alternated between civilian and military regimes with almost regular frequency. It draws upon Pakistan's six-decade long experiment with governance, policy and institutions, which are in some ways unique in South Asia.

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<sup>5</sup> Ayesha Siddiqua, *Military Inc.*, O.U.P., Karachi, 2007

## **II. A Historical Perspective on Pakistan's Political Development**

Pakistan emerged as an independent state in South Asia six decades ago in rather chaotic circumstances, as the British decided to leave undivided India in a hurry, after agreeing to create two independent states. Neither the British nor those who had clamored for the creation of Pakistan were very certain of the precise boundaries of the new state, the exact composition of the population it would comprise or the kind of development policies it would pursue. As a result, Pakistan inherited a heavy baggage of unsolved political, social and economic problems, some of which continue to fester even today. As if that were not enough, the country lost the within the first four years of its existence its pioneering leadership – in M. A. Jinnah and Liaquat Ali Khan, the first heads of state and government, respectively – who had conceived and created the vision of Pakistan as an independent state comprising Muslim majority regions of India. The country became a rudderless ship, which was steered by an ever-changing crew at the helm during the first decade of its creation, with as many as seven Prime Ministers changing guards from 1947-58. As a result, ad hocism or crisis management became the principal mode of governance, with disparately powerful groups struggling to get the upper hand. Despite these initial disadvantages, the period saw considerable growth, especially in the previously non-existing manufacturing sector. It also witnessed the establishment of its own central bank, severing the umbilical cord with the Reserve Bank of India whose currency continued to be used until a year after independence, as well as the creation of a central Planning Board (later renamed the Pakistan Planning Commission). The First Five Year Plan was formulated in this period and laid the roadmap for many social and economic policies which was unfortunately not followed for many decades until its adverse consequences evidenced by the lagging social and human development indicators started receiving greater attention since the 1980s.

Two main political schisms emerged in Pakistan in the first decade. The first based on geography, between East and West Pakistan, separated by a distance of a thousand miles of hostile Indian territory and the second, between the two elite public services, the Army and the Civil Service. With weak political institutions and absence of any elections in the first decade, the Army staged a coup in 1958 and Gen. Ayub Khan, who was given an extension as an Army Chief four years earlier, began his decade-long military rule. He managed to keep himself in the saddle and the East-West Pakistan conflict at bay for almost a decade through a number of measures, benign and otherwise, which included, among others, his own brand of democracy (which he speciously termed as Basic Democracy), increased dependence on the U.S. military and economic assistance, a moderate degree of land reforms, import-substituting industrialization and rise in military expenditures. While these measures helped achieve his rule perhaps the most rapid and sustained pace of economic growth in Pakistan's economic history, it also created vast economic and regional disparities and tensions with India over Kashmir, leading to three historical developments: the 1965 war with India, the 1971 secession of Bangladesh and the rise of populism under Z.A. Bhutto. On the positive side, the period saw the strengthening of the Planning Commission through the support of the Harvard Advisory Group provided by the Ford Foundation. The launching of the Second Five Year Plan in 1960 with substantial support of the United States for the funding for the foreign exchange requirements of the Plan, gave a great fillip to Pakistan's economic growth.

The first quarter century of Pakistan saw two military regimes lasting for about 14 years, headed by two army generals who also headed the Government as President. Gen. Ayub Khan abolished the provinces in West Pakistan and the country was ruled as a unitary Government with two provinces, East and West



Pakistan. His successor, Gen. Yahya Khan, restored the provinces and held elections in 1970.

After the separation of East Pakistan in 1971, Z. A. Bhutto, succeeded Gen. Yahya Khan as Chief Martial Law Administrator and president and oversaw the formation of a new constitution which was completed in 1973, restoring parliamentary democracy and giving greater autonomy to the four federating provinces. Bhutto became Prime Minister and introduced radical economic reforms, including the nationalization of key industries and the banking system and devaluing the currency by over 50 percent and abolishing the multiple exchange rate system. Bhutto, who had come to power on a populist vote against the Ayub regime's inegalitarian policies, faced a Rightist backlash from the business community and conservative religious parties. These elements capitalized on the attempted rigging by Bhutto's party in 1977 and he was overthrown in the country's third military coup by Gen. Ziaul Haq who later approved his hanging in connection with an alleged conspiracy to murder a political rival.

Gen. Ziaul Haq's eleven-year rule (1977-88) as the military head of the state and government – except for a brief period in which he experimented with his own version of non-party democracy – is widely regarded as politically the most repressive period in Pakistan's history. It is also reputed for its promotion of religious fundamentalism in Pakistan and for making Pakistan a conduit for financial and military assistance from the US and Western allies to Afghan mujaheddin to fight the Soviet invasion in the 1980s. Preoccupied with the conduct of the Afghan war and keeping the growing unrest against his unelected and unpopular regime at bay by diverting attention to his project of Islamization of the economy and by suppression of opinion of his policies, he pushed back the agenda of modernization and reforms. He entrusted the task of

managing the economy largely to a group of experienced economic bureaucrats, who – with changing faces – have continued to play an important role in Pakistan’s economic management since the early years.

### **III. The Evolution of Governance Structure, Economic Policies and Institutions**

There have been six fairly distinct periods of political rule in Pakistan in the last six decades, based on the predominance of civilian or military. The first eleven years from 1948 to 1958 were the formative years in which the civilian governments inherited the structure of a parliamentary democracy. The second period started with the take over by the first military coup of General Ayub Khan and lasted until the separation of Bangladesh as a separate state. Although General Ayub Khan resigned in 1968, he handed over the rein of the government to General Yahya Khan, the then Commander-in-Chief of the Army, who ruled until the Pakistan Army’s surrender in Dhaka in December 1971. The third distinct period of political rule was Mr. Z. A. Bhutto’s who took over from General Yahya Khan as the Martial Law Administrator and was later elected as the Prime Minister under a new constitution framed in 1973. Bhutto’s political reign ended in July 1977 after the third military coup of General Zia ul Haq who began the fourth major political era of eleven years military rule in 1977 until 1988 when he was killed in a mysterious air crash. The fifth long period of political rule in Pakistan started in 1988 with the holding of new general elections. The period which lasted until October 1999 was one of considerable political instability with both Benazir and Nawaz Sharif getting elected twice each as Prime Ministers as well as getting dismissed by the Presidents. In between their dismissals and re-elections four care-taker regimes were inducted to conduct the elections of the National and Provincial

Assemblies. Thus, the period saw as many as eight Prime Ministerial changes in a short period of eleven years.

The last period starting from October 1999 to November 2007 was headed by General Pervez Musharraf who staged the fourth military coup in 1999 and continued to rule as Chief of Army Staff until November 2007 when he had to give up, albeit reluctantly, his military post. For the first three years of his rule, he declared himself as the Chief Executive and became President in 2002 through a referendum. He held local government elections under a devolution program in 2002 and later held the general elections in the same year after amending the constitution enabling him to hold the dual posts of President and Commander in Chief. He also barred the leaders of the two major political parties, Benazir Bhutto and Nawaz Sharif, from taking part in the elections. Although there were three prime ministerial changes since the elections of 2002, the period was politically stable, largely because General Musharraf was not only the head of the State but also the de facto head of the government. He also established the institution of the National Security Council which was headed by the President and had as its members the three services chiefs, the Prime Minister, the Chief Ministers and the leader of the opposition as its members. This provided him with even greater leverage on the strategic policies of the government. This era came to an end on 15<sup>th</sup> November, 2007 when a caretaker government headed by the Chairman of the Senate and consisting of supposedly neutral cabinet ministers for holding elections on 18<sup>th</sup> February 2008.

The elections resulted in the overwhelming defeat of the parties that had supported General Musharraf's election as President by the last National Assembly, although the Supreme Court had yet to decide about his constitutional eligibility. President Musharraf got around this difficulty by

imposing Emergency and dismissing more than half the judges of the Supreme Court and replacing them with those who later confirmed his election as President.

### **The Interaction Between Political and Institutional Reforms**

Both policy making and institution building were influenced by the political and ideological orientation of the leadership in the six distinct eras discussed earlier. The major features of economic performance and the ingredients of policy making and institutional building are encapsulated in Table 1 and are discussed below<sup>6</sup>. The Table highlights the major differences in the economic performance indicators, public policies and political and economic institutional changes among the six distinct periods. The categorization of both periods and indicator of economic performance and policies and institutions are to some extent arbitrary but they give a synoptic view of how policies and institutions have interacted with the form of governance in the past six decades.

The six broad periods of political and economic regimes the Table are divided into the civilian and military dominated periods, although there has always been some mixture of both during these periods. The civilian-dominated periods have varied a great deal in the way policies were formulated policies , relying more on institution building than on the need to survive politically. In general, the civilian regimes have been responsive to public opinions and have given a greater role to democratic institutions such as the Parliament and the Judiciary – although their record has hardly been unblemished. They have favored regional and provincial autonomy much more than the military dominated period of governance. However, the tendency towards authoritarianism became apparent

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<sup>6</sup> The Table's format is adapted from a similar table in Parvez Hasan, "The Role of the State in Pakistan's Economy", " *Economic and Political Weekly*, May 5, 2007, p. 1624, although the categories and criteria used here are very different.

even in the early years after the dismissal of the second Prime Minister Khawaja Nazimuddin in April 1953 by the dissolution of National Assembly by the then Governor-General, Ghulam Muhammad. Even though the dissolution of the Constituent Assembly was challenged by the Speaker of the Assembly in the High Court which accepted the petition to restore the Assembly. However, the then Chief Justice of the Federal Court, Justice Munir upheld the dismissal under the doctrine of “necessity” which became a precedent to be invoked by all successive heads of state including a civilian President, Ghulam Ishaq Khan, when dismissing an errant Prime Minister and dismissing the Parliament .

### **Conflicts between and within Civilian and Military Regimes**

The conflict between the civilian and military claimants of power sharpened after the Martial Law imposed in October 1958 by General Ayub Khan, who was eventually thrown out after country-wide protests against his policies. The political instability, however, has been much sharper during the period of civilian regimes, with the exception of the Bhutto regime of 1971-77. But in the other two civilian dominated periods, there have been much more frequent Prime Ministerial changes, with as many as seven Prime Ministers rotated during the 1947-1958 period and six during the 1988-1999 period.

The causes of political instability during the 1950s and the 1990s, however, stemmed from very different sources. In the 1950s, it was the conflict between East and West Pakistan over the distribution of resources that was the main source of instability in the federal government. Firstly, after the demise of Jinnah and Liaquat Ali Khan, the Muslim League which was the political party that was in the fore-front of the struggle for Pakistan, lost its influence in East Pakistan and split into several factions in West Pakistan. Secondly, the bureaucracy became heavily involved in politics and undermined the role of politicians. Eventually, the military was brought on board in politics with the

appointment General Ayub Khan as the Defence Minister in 1954, partly to facilitate the inflow of US military aid under a US-Pakistan Military Pact signed in the same year. This opened the doors for military take over in the succeeding years.

In the 1990s, in the aftermath of military's prolonged interventions, the hanging of Z. A. Bhutto, the leader of Pakistan's major political party, as well as the fall-out from Pakistan's support of the war in Afghanistan, the political parties became extremely polarized between those who had supported democratic and military regimes in the past. The religious parties had received a major boost from the Afghan war and the Kashmir resistance during Gen. Zia's military rule. Although the military had withdrawn to the barracks, its influence continued well beyond General Zia's demise in 1988. In this perspective, politics became an increasingly risky enterprise in which the military as well as the various intelligence agencies had become important stakeholders.

During the first two decades, politics was dominated by large feudal landlords and a sprinkling of the new bourgeoisie. Bhutto's attempt to win the vote of poor and the middle class in the early 1970s was flawed by his personal ambitions and frustrated by the opposition of the vested interests who combined to create political unrest, providing the opportunity to the military to intervene and rule for a decade under Zia, who virtually banned all political parties, except the official Muslim League. As a result, when political activity was resumed in the 1990s, politics had become a game of capturing the spoils of power and privilege by the elite, with high levels of corruption and general economic mismanagement. Bhutto's daughter, Benazir, who was exiled after her father's hanging, returned to a tumultuous welcome and won the elections, but was outmaneuvered by the civilian establishment, which had close links

with the military. She was dismissed under an amendment in the Constitution introduced by Ziaul Haq under which the President could send a Prime Minister and Parliament packing for alleged corruption and irregularities. The provision was repealed during Nawaz Sharif's second stint as Prime Minister, but was reinstated in 1999 after his overthrow by Musharraf.

### **Economic Policies in the 1990s**

Large macroeconomic imbalances in the 1990s led to frequent resort to borrowing both from the international financial institutions and commercial banks and increasing support of workers' remittances, especially from the Gulf, provided a major source of support in the balance of payments.

Liberalization policies, often a part of structural adjustment program were followed both during the Prime Ministership of Benazir Bhutto and Nawaz Sharif in the third civilian period. A major flip-flopping or U-Turn in economic policies occurred after the fall of Ayub Khan's military regime in 1968 and its eventual succession by the Z. A. Bhutto's civilian regime in the early 1970s, which were again reversed – though not entirely – after the coup of Ziaul Haque.

The economic orientation during Z. A. Bhutto rule in the 1970s was very different from that of Ayub era of 1960s as well as Benazir's and Nawaz Sharif's civilian rule of 1990s. Bhutto embarked on a program of nationalization of industries, the banking system and educational institutions. He also tried to reduce the power of bureaucracy and dismantled the elite administrative services, the Civil Service of Pakistan (CSP) which was a successor to the Indian Civil Service (ICS) created by the British. Bhutto's antagonization of the civil service cost him dearly.

The three periods of military rule also differed considerably in their economic and social policies and their institutional support, despite their absolutism and enjoying minimal popular support.

The first military regime of Ayub Khan in the 1960s derived its support, besides development, from the United States and other Western allies who saw the geopolitical importance of Pakistan in the context of oil rich Arab economies and as a bastion of defence against the Soviet Union. He derived his domestic support from the middle farmers in West Pakistan who were the beneficiaries of the Green Revolution. It was during his regime that first significant land reforms were introduced under Martial Law in order to erode the political influence of large feudal lords who had dominated the political scene. He also introduced local government in the form of basic democracies on which he based the new constitution of 1962.

Another institution that Ayub promoted in the rural areas was the village aid program funded with US economic assistance. He was instrumental in persuading Dr. Akhtar Hameed Khan, the renowned rural development expert, to start the Comilla Academy for Rural Development in East Pakistan in order to promote new technology and improving rural infrastructure through self help. Unfortunately, these institutional innovations did not take roots in West Pakistan and faced considerable opposition from the big landlords.

The second military regime of Zia ul Haq (1977-1988) was the least proactive and innovative in terms of economic development policies. The high economic growth rate achieved during his rule was more due to fortuitous circumstances than a result of policy initiatives, unlike that during the Ayub era. Some of the long gestation period projects, such as the Tarbela Dam (built with World Bank assistance), the Taxila Heavy Mechanical Complex (built with Chinese assistance), and the Steel Mill Project (built with Soviet help) favourably



affected economic performance during the Zia period, whereas heavy investments in them caused growth rates during the Bhutto period to be lower. On the other hand, during the Zia ul Haq period serious structural problems, such as the over expansion of public employment, poor incentives for private sector investment, lack of diversification of the export base and the inelasticity of the tax base, as well as poor mobilization of domestic resources, did not receive adequate attention.. There was an unprecedented increase in public spending and in the diversion of public expenditure priorities from development to defence. The problems were beginning to snowball into a major economic crisis when his accidental death passed them on to a succession of civilian democratic governments in the 1990s.

The only significant institutional innovation during the Zia period, was the much publicized program of Islamization of the economy and society, whose real intent was to give his rule a basis for legitimacy. Zia ul Haq used Islamization as a ploy to undermine the populist appeal of the Pakistan Peoples Party slogan of *Roti* (bread), *Kapra* (clothing) and *Makaan* (shelter). He showered generous patronage on the Muslim clerics, and the religious political parties whom he gave cabinet positions disproportionately high to their seats in the Parliament. He also created an Islamic fiscal and safety net system of Zakat and Ushr which however, yielded very little in terms of revenue and its impact on poverty alleviation.

While it is perhaps yet too early to give a final verdict on the success and failure of the third major period of the military rule under Musharraf (1999-2007), its performance in the macroeconomic field has been lauded by international donors but has raised eyebrows of critics who attributed economic success to the high role of external aid contingent upon Pakistan's role in the war on terror, the debt rescheduling undertaken during the last years of Nawaz regimes and the rise in official remittances as a result of the restrictions on informal channel

of remittances after 9/11, as well as on the window dressing of economic data for giving a larger than life picture of economic performance and poverty alleviation, both for gaining electoral support and for impressing the donor community about the success of its reforms. Its record began to unravel during its last days, when serious shortages in the supplies and rise in prices of food items and fuel, as well as electricity, gas and other amenities and became one of the key factors in the massive defeat of the political party most closely allied to the Musharraf regime<sup>7</sup>.

The main weakness of economic performance under the last regime has been the widening of income disparities both among different segments of the population and also among different regions of the country. The second was the lack of transparency in its economic decision-making, which was top-heavy and was not backed up either with a political or technocratic consultative process. The linkage between research and analysis and policy was generally weak; analysis was not undertaken to reach rational decisions, but to rationalize decisions already made –often based on considerations of political survival. Although these problems were not unique to the Musharraf regime or to the

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<sup>7</sup> The macroeconomic picture revealed by the latest quarterly report released by the State Bank of Pakistan showed substantial lowering of the growth prospects, rise in current account and fiscal deficits. Although much of the deterioration in the economic situation has been caused by the worldwide inflation in food and fuel prices, the lack of a proper institutional mechanism to anticipate the shortages and take timely remedial measures also contributed to the situation. When the “*atta*” (wheat flour) crisis hit the country last winter, it was for a variety of reasons, including the overestimation of the wheat crop, failure to raise the wheat support price and the permission to export wheat, as well as failure to build buffer stocks of foodgrains, as well as the neglect of investments in the agriculture and power sectors. Instead, the military-led government’s response was to deploy troops around warehouses and flour mills and the borders to stop hoarding and smuggling of wheat. Typically, an Army General, who had supervised the 2005 earthquake relief operations earlier, was appointed to head the Food Security Committee, appointed by Gen. Musharraf to enforce these measures. That the civilian response to such a situation is more nuanced and sensitive to public grievances, is revealed by the 100-days relief and response package announced by the new Prime Minister on 29 March, as well as similar measures announced by the Indian Government to cope with food inflation.

military regimes in general, they became much more endemic during that period<sup>8</sup>.

### **The Role of Political Instability in Enforcing Institutional Reforms**

The high level of political instability in Pakistan both between and within the military and civilian periods of governance has been the major hindrance towards the undertaking institutional reforms. During the sixty years period Pakistan has had as many as 26 civilian and 5 military heads of government. The average duration in office of civilian Prime Ministers in Pakistan has been above one year with only three Prime Ministers exceeding their tenure for more than four years. In contrast, in India for the same period there have been only 17 heads of government (or Prime Ministers) with an average duration of tenure of over three years, with six of them having spent more than four years in office and two lasting for more than a decade. This high degree of political instability has hindered the introduction of institutional reforms in Pakistan, a factor which unfortunately is not adequately addressed in learned discourses on institutional reforms.

### **IV. The Impulses for Reforms**

The need for institutional reforms in various areas of governance arises from a variety of sources both in the economic and social spheres. Poor delivery of services and infrastructure have lowered productivity, raised the costs of production and reduced the competitiveness of Pakistan's exports. The inefficiency in the production of public services and the inequity in its distribution has reduced the access to basic services such as electricity, sanitation, water, health and education, fuelling political discontent. These

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<sup>8</sup> For a general perspective on these of these issues, see Naseem, S. M. "PIDE – from a Think Tank to a University: A Brief History", History of PIDE Series-1, PIDE, Islamabad, 2008 and Kemal, A. R. . "PIDE's Contribution to Policy-making, History of PIDE Series-3, PIDE, Islamabad, 2008

deficiencies have increased the need for creation of autonomous and responsive institutions at all levels and have underlined the need for reforms in their institutional structure. It is hardly a revelation that the institutional structure for enabling Pakistan to face current economic and social development challenges is inadequate and its present state has become highly dysfunctional and outmoded. However, the reason that discontent with the absence of proper institutions does not translate into positive action to establish new institutions or reform the old ones, stems from the fact that there are powerful sections of society which continue to benefit from their unreformed existence. Corruption is rife and access is limited to only the privileged in the current institutional milieu. This again, as is often believed, is not unique to civilian regimes alone, but the possibilities of redress in the latter are a little more transparent and subject to public debate and scrutiny.

Pakistan's institutional structure in the past has been based on traditional and personalized modes of governance. As the country has moved towards greater modernization, largely due to foreign rather than domestic impulses, institutional reforms have lagged behind the economic and social development that had taken place in the past. The resistance to institutional reforms comes from those who continue to benefit from the old system of status based institutions.<sup>9</sup>

The main reason for the resistance to reforms is that the lobby for articulating and urging institutional reforms in Pakistan is rather small and ineffective. Notable among the groups who can be included in this group, the first are the educated often Westernized elites who have lost their privileges as a result of the growth in public education in the 1950s and 1960s. This elite group which used to pride itself with connections and linkages with military and bureaucracy faces competition from the lower middle class who earlier laid claim for access

to public services, such as education, health and transport. It no longer sends its children to public educational institutions and to elite public services such as the military and bureaucracy. An increasing proportion of children of these classes study in private schools awarding O and A level certificates rather than to indigenous high school diplomas. This group has been the most vocal in demanding institutional reforms which would make it possible for them to address new technologies and employment through the entry of multinational corporations. This group is generally opposed to democratic reforms and holding of elections and would prefer enlightened military dictators to populist demagogues. The second vocal group, often opposed to the first is that of the urban middle and rural middle classes which favor greater decentralization and devolution in order to ensure law and order, administration of justice and less inhumane treatment from the Police as well as the provision and delivery of basic economic and social services. The third group is that of people who perceive globalization as the future for Pakistan's economic development and wholeheartedly support the new and comprehensive agenda of institutional reforms peddled by the IMF and the World Bank.

### **The Role of International Financial Institutions**

The international financial institutions, especially the IMF and the World Bank and lately the Asian Development Bank, have played an important role in pushing forward the structural and economic reforms agenda in Pakistan particularly since the 1980, as part of the "conditionalities" for structural adjustment programs. In view of the deteriorating macroeconomic imbalances, Pakistan entered into three major arrangements with the IMF: the first in November 1980, the second in December 1988 and the third in February 1994,

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<sup>9</sup> Akbar Zaidi, "Crisis of Governance" *Economic and Political Weekly*, Vol. XXXIII, No.11, 1998.

corresponding to the Zia, Benazir Bhutto and Musharraf regimes respectively.<sup>10</sup> The 1980 agreement negotiated during the Zia regime was notable for its size and relatively less stringent terms – perhaps, a reflection of Pakistan’s role in the Afghan war against the Soviet aggression.

Although fiscal adjustment was an important objective of the stabilization program, the program failed to achieve the desired result. By 1983-84, the fiscal deficit was already higher than in 1980-81 and rose sharply in the next four years. Under the 1988 structural adjustment facility from IMF, the fiscal deficit was reduced from 8.5 percent in 1987-88 to 4.8 percent in 1990-91 rising to a new peak of 8.1 percent in 1990-91.<sup>11</sup> Nonetheless, gross disbursement from IMF totaled over US\$900 million during 1989 to 1991. The 1994 program negotiated by the Benazir government in its second stint once again aimed at sharp reduction of fiscal deficit to 4 percent in 1994-95 to 3 percent in 1995-96. The program had to be renegotiated in September 1995 and more realistic targets of 5 percent in 1994-95 and 4 percent in 1995-96 were agreed to which still turned out to be too high to achieve, missing the target by about 2 percentage point in each case. The 1994 agreement was thus terminated after the disbursement of only 40 percent of the original amount of \$1.4 billion and Pakistan was once again categorized as a “one tranche” borrower of the IMF. Thereafter, in November 1996, a new agreement was negotiated by the caretaker government’s finance advisor, Shahid Javed Burki, who was seconded by the World Bank. The new agreement gave a fresh target of 4 percent of fiscal deficit for 1996-97. Extending the date of original agreement from February 1997 to September 1997 and increasing the amount of disbursement by US\$250 million to US\$280 million. As pointed out by Mr. Parvez Hasan, the failure of

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<sup>10</sup> Although the December 1988 IMF agreement was signed by the then newly elected government of Benazir Bhutto, the terms of the agreement were already negotiated during the last days of the Zia ul Haq regime, under the stewardship of the late Dr. Mahbub ul Haq, the then Finance Minister.

<sup>11</sup> Parvez Hasan, *Pakistan’s Economy at the Cross-Roads*, OUP, 1998, p.304.

the IMF agreement in 1994 was due to the fact that “the successive governments did not have a real commitment to fiscal deficit reduction and attempted to juggle categories [especially with regard to privatization receipts and defence expenditure] in order to show progress to IMF”,<sup>12</sup>.

Along with the IMF, the World Bank and IDA provided long term development assistance to Pakistan which amounted to US\$ 2.5 billion or about 1/3<sup>rd</sup> of total net inflows on debt (disbursement – payments during 1990 to 1995 arose). Sizeable portion of the World Bank lending was in the form of relatively quick disbursing policy lending designed to support reform and adjustment in energy, finance and agriculture as well as in the economy at large. This non-project lending involved broad ranging policy conditionalities. While IMF focused on fiscal adjustment and macroeconomic framework, the World Bank has been concerned with trade policy, energy prices, agricultural pricing, cost recovery etc. It also supported the Government’s efforts on privatization, and prioritization of public expenditure and has supported a large Social Action Program (SAP), which was later abandoned because of financial and administrative irregularities.

The agenda of structural reforms initiated in the 1990s was largely donor/lender-driven and involved only half-hearted commitment on behalf of the government. Even though the macroeconomic imbalances remained much above the agreed goal and showed little signs of improvement, the World Bank increased its lending to Pakistan without attempting to use its leverage to bring about stabilization and other structural reforms.

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<sup>12</sup> Parvez Hasan, p.cit., parenthesis added.

The international finance institutions did however succeed in persuading the government to undertake needed policy efforts in the first half of the 1990s. These efforts consisted in liberalizing Pakistan's economy through trade liberalization and deregulation, expanding the role of private sector and redressing the imbalances in social services. The liberal economic policies, however, did not halt the economic decline and reverse the deepening foreign exchange crisis. Limited progress was made in the field of privatization of financial, telecommunication and energy sectors. The continued hold of large state-owned commercial banks was particularly costly because the allocation differences became more susceptible to political pressures. The ease for financing the foreign exchange gaps through foreign currency deposits and portfolio investments reduced incentives to face the large fiscal and balance of payments deficit through the mobilization of domestic savings, increased taxation and reduction in public expenditures, especially, defence spending.

An issue which has been tabooed from the reforms agenda in Pakistan is the increasing burden of defence expenditures which constrains socio-economic development. The increase in defence spending was the consequence both of the direct influence of the military in the country's governance as well as the lack of any mechanism of oversight on defence expenditure by the Parliament which was never presented the details of defence budget. One of the problems with the military regimes has been their natural propensity to increase defence spending. Although Pakistan's defence expenditure is around 3.2 percent of GDP and appears to have declined since the 1990s, the defence budget is still absorbing nearly 1/3<sup>rd</sup> of the government revenues. It is also notable that the current military outlays are supported partly by payment from the US Government from the war on terror. In any case, the objective evaluation of the priority of defence expenditure relative to other expenditure is presented by a full disclosure of the contents of the composition of the defence budget. The issue of transparency of



the defence budget and its oversight by the Parliament has been a sore point between the civilian and military regimes and is also linked to the differences in the perception of the country's geopolitical alliances.

If defence expenditures could be substantially reduced through the continued reduction in tension with India and the de-escalation of the war on terror, economic growth and social development in Pakistan could be increased commensurately. The gradual reduction of 2% of GDP in defence spending could make it possible to increase public development spending by more than one-third. The fiscal space created by reduction of defence expenditure and interest payments on public debt which stood at 10.3% of GDP in 2000 could be raised to that of India and many other developing countries to about 20 percent of GDP. Thus the likely income dividend from reduction of defence spending could be rather substantial and allow Pakistan's growth momentum to be maintained and the lagging human development to be improved substantially.

Financial reforms and privatization are among the key elements of Pakistan's reform agenda since the 1990s. Although financial reforms have been generally considered successful privatization efforts have not been as successful in solving Pakistan's macroeconomic imbalances. Large receipts from privatization were used to bolster public spending, often in the name of poverty alleviation, rather than to retire debt. The balance of payments consequences of large scale privatization program especially in energy sector were not seriously taken into account. The danger that Pakistan would be unable to meet its increasing foreign exchange obligations for investment income without a commensurate expansion in earning was conveniently forgotten. Although economic liberalization and structural reforms measures were necessary, and perhaps overdue, they could not substitute for adequate domestic effort towards correcting macroeconomic imbalances. Pakistan's most urgent macroeconomic

needs continue to require sustained efforts to raise to a much higher level its national savings, domestic resource mobilization and export performance. Economic liberalization and other institutional reforms can at best play a catalytic role in achieving them.

## **Second Generation Reforms**

The first generation reforms in the 1990s, consisting of financial and trade liberalization, deregulation, reliance on free markets and privatization were designed to take advantage of the new global economy where the new rules of the game set by WTO and other multilateral organizations would prevail. The buzzwords were openness and global competitiveness. Pakistan's high expectations were not realized and the growth rate of GDP was the lowest in any decade. The first generation reforms were considered inadequate and the urgency for attracting substantial foreign investment, especially in infrastructure, was keenly felt. in the power and other infrastructure sectors. However, this required the the existence of a transparent regulatory regime to induce investors to undertake long term investment. This has led to the creation of regulatory authorities, such as, National Electric Power Regulatory Authority (NEPRA), Oil and Gas Regulatory Authority (OGRA), Pakistan Telecommunications Authority (PTA) and Print and Electronic Media Regulatory Authority (PEMRA) to facilitate investment in the electric power, oil and gas, telecommunications and electronic media infrastructure<sup>13</sup>. The purpose of these autonomous regulatory authorities is to improve the efficiency and availability of services by protecting the interests of the investors, the operators and the consumers in a manner that would promote competition. Although these regulatory bodies have succeeded in creating a stable

environment of competition and regulation, their activities have often been subjected to interference by the government and violation of their statute in order to promote favourite public servant and to subvert the technical standard in recruitment laid down in the statute. For being globally competitive, it was argued, Pakistan needed to have “world class” institutions, such as -- transparent and stable public institutions, subject to the rule of law, quality infrastructure not only for business but for human life, a globally competitive educational institutions, Globally competitive health and social development, as well as stable macroeconomic policies<sup>14</sup>. This obsession with ‘world class’ institutional structure may not always be justified for many developing countries, as has been pointed out by Rodrik.<sup>15</sup>

In recent years, the government’s reform agenda has focused on four major governance issues with varying degrees of success. First, through a credible program of reducing corruption in public services, the government has established the National Accountability Bureau (NAB) to prosecute corrupt politicians and public servants. The Bureau was established in 1999 and has been headed until recently by serving or retired military generals. However, the Bureau has often been used to harass and intimidate politicians who do not collaborate with the government<sup>16</sup>. The transparency of the Bureau is limited and misuse for political vendetta is considerable and its own investigators have been found to be susceptible to corruption. The potential for misuse of such

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<sup>13</sup> Although a regulatory authority, PEMRA was used by the Government to prevent certain channels of the electronic media from broadcasting their programs which voiced support for the Chief Justice of Supreme Court or against the Emergency imposed on 3 November, 2007.

<sup>14</sup> Haque, N. and Zafar M. Nasir, Best performing economies: Pakistan can learn a number of lessons, Business Recorder, Karachi, 20 October, 2006.

<sup>15</sup> Rodrik, Dani, Second Best Institutions, January 2008, Author’s Website.

<sup>16</sup> A number of political leaders have been at the receiving end of NAB’s harassment, including the newly-elected Prime Minister, Yusuf Reza Gilani, who was convicted by the NAB for misuse of his powers to recruit staff during his tenure as Speaker of the National Assembly and was awarded long prison sentences and fines, but was acquitted by the High Court. The new civilian Government installed recently has decided to scrap the body and to transfer the cases to be prosecuted under normal judicial procedures.

special agencies, especially for political blackmail, is generally high and it would be much better if the overall investigation of crime and justice is improved across the board, rather than aimed at particular groups, often at considerable cost and with little hope of catching the “big fish”. However, in recent years, the Bureau has started paying attention to economic crimes involving the defrauding public by promoters of fake housing schemes, pyramid schemes for borrowing money on high interest rates, production of sub-standard medicines and other manufactured goods and banking frauds, which could help in preventing such crimes.

As part of institutional strengthening the government has also launched major initiatives, prominent among those are reforms in judiciary, police, civil service, and pension, the restructuring of the Central Directorate of National Savings (CDNS), transforming the existing Monopoly Control Authority (MCA) into a Competition Authority Organization, and introduction and adoption of E-Government Strategy.

One of the most celebrated achievements of the Musharraf government has been the launching of a plan for decentralization and devolution of local government prepared by the National Reconstruction Bureau, which was headed by a Major General of Pakistan Army and a close associate of Musharraf. Although the primary motivation of the Devolution Plan was to undermine the power of political parties through the creation of a political structure consisting of 6400 new and directly elected officials, with thirty percent participation of women, was no doubt a significant development towards democratic governance. However, the devolution plan has been criticized on a number of accounts including the misuse of local government for supporting the ruling political party in the general elections, the lack of fiscal resources to undertake meaningful projects, lack of training, and not the least,

the influence of powerful elites especially in the rural areas who influence their functioning.

The Achilles heel of governance in Pakistan is that of restructuring the civil services. Almost every regime in the past has tried to re-invent the model of the Indian Civil Service (ICS) inherited from the British in India. The matter has acquired a new urgency in view of the challenges for having a skilled labour force and a creative managerial cadre to cope with the challenges of globalization, on the one hand, and the need for a sensitive and communicative and informed group of civil servants conversant with the problems of poverty and human development. The civil service structure also needs to have flexibility and incentives for inducting outside experts and researchers to help frame innovative public policies which are both poor- and environment-friendly<sup>17</sup>. An irritant that has balked the restructuring of these reforms in Pakistan has been the frequent assignment of serving and retired military officers into choice posts in various departments, including education, infrastructure and other social and economic spheres. It is a problem which is linked with the larger political issue of the military's role in Pakistani politics.

## **V. Conclusion**

The existence of democratic institutions is somehow taken for granted in the governance debate and the existence of military regime is often considered as an aberration worthy only of a footnote, if that. In the case of Pakistan, however, military regimes in the past six decades seem to have become a norm rather than

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<sup>17</sup> The government has appointed a National Commission on Government Service Reforms under the chairmanship of Dr Ishrat Hussain, former Governor of State Bank of Pakistan, which has completed its report and has submitted it to the government.

an exception<sup>18</sup>. The case of Pakistan illustrates the need for a more systematic consideration of governance issues in societies which have a propensity to lapse into military rule after an unsubstantial period of civilian democracy.

A consequence of Pakistan's chronic political instability and its civilian-military dichotomy has been that each new military regime attempts to point out the failings of the immediate predecessor regime rather than addressing the long run development and governance problems which they leave not only unsolved but often even more aggravated. Their myopic vision to continue in power without accountability makes them transfer the accumulated unsolved problems to the next civilian regime, which feels helpless and behaves even more irresponsibly. The resulting political Ponzi game of ever-increasing expectations and accumulating economic and social failures extracts a heavy cost in terms of public welfare.

Therefore, it seems a bit unrealistic to talk about a stable institutional structure. It is like building an elaborate mansion on a weak foundation in a region which lies on a tectonic plate, resulting in its frequent collapse. Much more comprehensive social and economic engineering may be required before putting the prefabricated building blocks which have been successful elsewhere are put in place. The discussion of such an undertaking is beyond both the author's expertise and the scope of this session. It is up to the protagonists of democracy in Pakistan to devise institutions which would prove resilient to any future onslaughts from the military on the sovereignty of the people.

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<sup>18</sup> Notwithstanding his retirement from the Army in 2007, after his election as President for five years, which has yet to be ratified by the Supreme Court, President Musharraf continues to have close association with the Army. His political base in the Parliament has eroded to less than a third, but he continues to hold key constitutional prerogatives which he could use to his and, possibly, the military's advantage, for the next five years. While it is unlikely that he or another General may not stage a coup against the civilian Government now installed, the possibility can't be completely ruled out.

**Table 1: Characteristics of Different Political Eras**

<b>Key aspects of Pakistan's development Years</b>	<b>1947-58 Early Era 12</b>	<b>1958-71 Ayub Era 13</b>	<b>1971-77 Bhutto Era 5.5</b>	<b>1977-88 Ziaul Haq Era 11</b>	<b>1988-99 Benazir-Nawaz Sharif Era 12</b>	<b>1999-2007 Musharraf Era 8</b>
<b>Economic Performance</b>						
Annual GDP Growth	Low (3.1%)	High (6.7%)	Moderate (4.4%)	High (6.4%)	Low (4.0%)	High (6.0%)
Inflation	Low (3%)	Low (3.3%)	High (12.0%)	Moderate (6.7%)	High (10.0%)	Moderate (8%)
Exports Growth	Moderate	High	Low	Low	Moderate	High
Strategy & priorities	Rapid import-substituting industrialization, reducing dependence on India, increasing US military and economic aid	Heavy mobilization of foreign aid for water and power projects and rapid spread of the green revolution, reducing power of feudal lords & bureaucrats	Nationalization of key industries & educational institutions, weakening of feudal, bureaucratic & military power, pursuance of populist policies, reducing US dependence,	Maintenance of status quo, despite rhetoric against Bhutto's policies, pursuit of Islamization of economy	Washington Consensus-based economic reforms Attempts to redress lagging social development indicators and poverty profile, increased dependence on Gulf migration and remittances	Reduction of debt burden, revival of high economic growth, poverty alleviation through PRSP and micro-credit programs, increasing foreign direct investment in telecom & other sectors
Defence spending	High	Moderate till 1965, High afterwards	High	Very High	Moderate	Moderate
Domestic Resource Mobilization	Moderate	Moderate	Moderate but with heavy reliance on foreign trade taxation	Moderate but with heavy reliance on foreign trade taxation	Low but with improving tax structure	Low but with improving tax structure
<b>Institutional Changes (Political)</b>						
Type of Government	Civilian	Military	Civilian	Military	Civilian	Military
Parliamentary elections held	None	1 (1970)	1 (1977)	1(1985)	4 (1988, 1990, 1993, 1997)	2 92002, 2008)
Quality of elections		Fair	Allegedly rigged, leading to political unrest and fall of Bhutto's Govt.	Non-party elections held in a repressive political environment	All the elections were allegedly held with the involvement of ISI and other intelligence agencies to get the	The 2002 election was generally considered rigged, the 2008 as fair.

Key aspects of Pakistan's development Years	1947-58 Early Era 12	1958-71 Ayub Era 13	1971-77 Bhutto Era 5.5	1977-88 Ziaul Haq Era 11	1988-99 Benazir-Nawaz Sharif Era 12	1999-2007 Musharraf Era 8
					"desired results".	
Provincial Govt. Autonomy	Low (frequent imposition of central govt. rule)	High but vested in Centrally-appointed Governors	High in PPP-held provinces (Sind & Punjab) but low in Opposition-held provinces (NWFP & Baluchistan)	High but vested in Centrally-appointed Governors	Moderate because of frequent changes in central govt.	High but vested in Centrally-appointed Governors (often retired military officers)
Local Government	Generally weak	Strong	Weak	Strong	Weak	Strong
Power of the military	Weak	Strong	Weak but rising	Strong	Strong but behind the scenes	Strong and broadening to economic and political fields
Foreign Relations	Increasing hostility towards India, military pact with USA	Increasing US aid inflows, Membership of CENTO & SEATO military alliances, 2 Wars with India, friendship with China	Strengthening of ties with China, USSR and Islamic countries, normalization of relations with India & Bangladesh, tensions with US	Strengthening of ties with Islamic countries, help to Afghan refugees & mujahideens, US military aid for Afghan war	Weak attempts to improve relations with India, help to Kashmir mujahideens, help to pro-Islamic Afghan warlords and Talibans, improvement in ties with China, NorthKorea	Initially isolation by West and suspension from C'wealth, but after 9/11 frontline state in war on terror and recipient of more than \$10 billion mili-tary and economic aid
<b>Institutional changes (economic)</b>	Establishment of central bank, Planning Commission and other major institutions	Creation of large public corporations such as WAPDA, NSC, ADBP, Land reforms, multiple exchange rate regime for export promotion	Roll back of planning process centralized, ad hoc decision-making Land reforms Uniform currency Heavy devaluation	Islamic social safety nets  Reversal of land reforms by Federal Sharia Court	Privatization Commission Financial liberalization State Bank Autonomy Liberalization of Foreign Exchange regime	Fiscal Responsibility and Debt Limitation Act 2005
Private-Public sector Mix in the economy	Largely public	Increasing role of private sector and concentration of ownership	Nationalization of major industries and financial institutions	Little change towards de-nationalization	Increasing	Military enterprises exempted
Public sector spending on social, econ. dev.	Moderate	High	Very high	Moderate with declining trend	Low with declining trend (lack of fiscal	Low with rising trend



<b>Key aspects of Pakistan's development Years</b>	<b>1947-58 Early Era 12</b>	<b>1958-71 Ayub Era 13</b>	<b>1971-77 Bhutto Era 5.5</b>	<b>1977-88 Ziaul Haq Era 11</b>	<b>1988-99 Benazir- Nawaz Sharif Era 12</b>	<b>1999-2007 Musharraf Era 8</b>
					space)	
Degree of Economic Liberalization	Low	Moderate	Low	Moderate	High	High
Major impediments to liberalization	Fear of balance of payments deficits	Protection to domestic industries	Populist policies of nationalization	Inertia	Crony capitalism, rent-seeking	War on terror, Mil-bus influence, restrictions on trade with India

**Table 1: Characteristics of Different Political Eras**

<b>Key aspects of Pakistan's development</b>	<b>1947-58 Early Era 11</b>	<b>1958-71 Ayub Era 13</b>	<b>1971-77 Bhutto Era 5.5</b>	<b>1977-88 Ziaul Haq Era 11</b>	<b>1988-99 Benazir- Nawaz Sharif Era 11</b>	<b>1999-2007 Musharraf Era 9</b>
<b>Economic Performance</b>						
GDP Growth	Low	High	Moderate	High	Low	Moderate
Inflation, Fiscal Deficit	Low	Low	High	Moderate	High	Moderate
Exports Growth Current a/c def.						
Strategy & priorities						
Defence spending	High	Moderate till 1965, High afterwards	High	Very High	Moderate	Moderate
Domestic Resource Mobilization	Moderate	Moderate	Moderate but with heavy reliance on foreign trade taxation	Moderate but with heavy reliance on foreign trade taxation	Low but with improving tax structure	Low but with improving tax structure
<b>Institutional Changes (Political)</b>						
Type of Government	Civilian	Military	Civilian	Military	Civilian	Military
Parliamentary elections held	None	1 (1970)	1 (1977)	1(1985)	4 (1988, 1990, 1993, 1997)	2 92002, 2008)
Quality of elections		Fair	Allegedly rigged, leading to political unrest and fall of Bhutto's Govt.	Non-party elections held in a repressive political environment	All the elections were allegedly held with the involvement of ISI and other intelligence agencies to get the "desired results".	The 2002 election was generally considered rigged, the 2008 as fair.
Federal Parliament	Unrepresentative, consisting of the	Indirectly elected	Directly elected under a federal constitution passed in	1973 Constitution suspended, several	Powers to dissolve parliament by President	Parliament was barely consulted by

Key aspects of Pakistan's development	1947-58 Early Era 11	1958-71 Ayub Era 13	1971-77 Bhutto Era 5.5	1977-88 Ziaul Haq Era 11	1988-99 Benazir-Nawaz Sharif Era 11	1999-2007 Musharraf Era 9
	oldguard, attempts to adopt a Constitutional failed twice.		1973	amendments to protect army coup	retained until 1997. Frequent floor-crossing and coercion by ruling party on members	the Presidency. Legislation done through ordinances.
Provincial Govt. Autonomy	Low (frequent imposition of central govt. rule)	High but vested in Centrally-appointed Governors	High in PPP-held provinces (Sind & Punjab) but low in Opposition-held provinces (NWFP & Baluchistan)	High but vested in Centrally-appointed Governors	Moderate because of frequent changes in central govt.	High but vested in Centrally-appointed Governors (often retired military officers)
Local Government	Generally weak	Strong	Weak	Strong	Weak	Strong
Power of the military	Weak	Strong	Weak but rising	Strong	Strong but behind the scenes	Strong and all-embracing
Role of judiciary	Pliant	Strong but ineffective	Pliant	Subservient	Strong but politicised	Strong and defiant
Foreign Relations	Increasing hostility towards India, military pact with USA	Increasing US aid inflows, Membership of CENTO & SEATO military alliances, 2 Wars with India, friendship with China	Strengthening of ties with China, USSR and Islamic countries, normalization of relations with India & Bangladesh, tensions with US	Strengthening of ties with Islamic countries, help to Afghan refugees & mujahideens, US military aid for Afghan war	Weak attempts to improve relations with India, help to Kashmiri mujahideens, help to pro-Islamic Afghan warlords and Taliban, improvement in ties with China, North Korea	Initially isolation by West and suspension from C'wealth, but after 9/11 frontline state in war on terror, recipient of more than \$10 billion military and econ. aid
<b>Institutional changes (economic)</b>	Establishment of central bank, Planning Commission and other major institutions	Creation of large public corporations such as WAPDA, NSC, ADBP, Land reforms Multiple exchange rate regime for	Roll back of planning process centralized, ad hoc decision-making Land reforms Uniform currency devaluation	Islamic social safety nets Reversal of land reforms by Federal Sharia Court	Privatization Commission Financial liberalization State Bank Autonomy Liberalization of Foreign Exchange Dollarization of economy	Fiscal Responsibility and Debt Limitation Act 2005

<b>Key aspects of Pakistan's development</b>	<b>1947-58 Early Era 11</b>	<b>1958-71 Ayub Era 13</b>	<b>1971-77 Bhutto Era 5.5</b>	<b>1977-88 Ziaul Haq Era 11</b>	<b>1988-99 Benazir- Nawaz Sharif Era 11</b>	<b>1999-2007 Musharraf Era 9</b>
		export promotion				
Private-Public sector Mix in the economy	Largely public	Increasing role of private sector and concentration of ownership	Nationalization of major industries and financial institutions	Little change towards de-nationalization		
Level of Public sector spending on social, econ. dev.	Moderate	High	Very high	Moderate with declining trend	Low with declining trend (lack of fiscal space)	Low with rising trend
Degree of Economic Liberalization	Low	Moderate	Low	Moderate	High	High
Major impediments to liberalization	Fear of balance of payments deficits	Protection to domestic industries	Populist policies of nationalization	Inertia	Rent-seeking	Rent-seeking and security concerns