

Pakistan: A Crisis of Legitimacy and Liberalization 1980-2010

Working paper, for the 'Institutions and Long-Term Growth' SOAS-AFD Research Project, Paris, 2012.

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SUMMARY

Pakistan's political economy over this period was characterized by high levels of conflict compounded by low economic growth. Conventional discourse explains this in terms of Pakistan's weak governance: weak institutions, high levels of corruption, repeated challenges to its democracy and later in the period, the rise of Islamism. The political settlement that emerged in Pakistan towards the end of our period described a reproducible social balance that entailed persistently high levels of violence and poor economic development. Ironically, throughout this period Pakistan also made repeated attempts at pushing good governance reforms and liberalization. The political settlement analysis allows us to trace these problems to a growing crisis of legitimacy of the ruling coalition that has its roots in the strategies that the ruling coalition was persuaded to follow in a context of strong external influences. The alliance with the US and support for its war in Afghanistan in exchange for significant inflows of foreign rents provided the resources for a consolidation of a ruling coalition. The allocation of external rents related to security could be controlled from above and this enabled the ruling coalition to exclude many potentially powerful political organizations. But over time, this strategy made it

easier for many new political organizations to challenge the legitimacy of the ruling coalition that consisted over this period of one or other of the two main parties or the army. The increasing challenge to the legitimacy of organizations that constituted the ruling coalition provoked a growing level of violence as some excluded organizations were effectively challenging the parameters of the established political settlement in Pakistan. This analysis suggests that there are structural but avoidable features in the combination of institutions and political strategies that powerful organizations have supported in Pakistan that can help to explain the evolution of greater instability and poorer development performance. This analysis identifies a different set of issues as the source of some of these problems compared to the common explanations in terms of the weakness of 'good governance' and the challenges of rising Islamism.

The evolution of the political settlement in Pakistan in our period of interest cannot be understood without reference to the history of modern Pakistan and of partition where independence was thrust on the Pakistani state as the outcome of the exigencies of Congress-led politics in British India. The Pakistani state in 1947 was faced with the task of establishing social and political control over a territory that historically had strong social and political organizations that were not integrated into the political organization of the Muslim League. From 1958 the attempt to construct a viable ruling coalition were shelved with the onset of military rule and the prioritization of economic development. However, the strategies adopted for economic growth were themselves exclusionary and left out important constituencies. These strategies contributed to the breakup of the country in 1971. Subsequent attempts to consolidate a viable ruling coalition in a political settlement that was developmental were significantly constrained by a number of factors. The influx of external rents associated with the wars in Afghanistan and the perception of a permanent threat from India allowed a relatively narrow group of (political and military) organizations to dominate the political system. The process of gradual inclusion of intermediate class organizations into the ruling coalition was therefore slower in Pakistan compared to India with damaging consequences for political stability in the long run.

It is in the context of this specific political settlement that Pakistan embarked on liberalization and Structural Adjustment Programmes in the late 1980s and the 1990s. The features of this political settlement explain why the outcomes of liberalization were poor. Pakistan did not have the productive capabilities to benefit from greater market access, nor were there significant productive capabilities close enough to the competitiveness frontier to benefit from the compulsions of the market and the financing opportunities for capability development. In contrast in contemporary India the effects of liberalization were better because there were some industrial sectors close to the competitiveness and some of these could benefit from support mechanisms of the state which allowed them to raise their competitiveness. More importantly, the ideological and political strategies through which Pakistani ruling coalitions were constructed were beginning to unravel because of Pakistan's growing involvement in western supported strategies in Afghanistan. The easy sources of external rents allowed Pakistan's military and political elite to dominate their organizations from above and the concentration of sources of rents disadvantaged excluded organizations in the political competition. The adverse dynamics of this strategy became particularly evident after 9/11. On the one hand the concentrated rent flows controlled by the leadership of the ruling coalition strengthened the Musharraf regime but on the other hand, it became easier to mobilize against the ruling coalition whose legitimacy was increasingly questioned. The poor outcomes associated with liberalization in Pakistan can therefore be explained with reference to features of its political settlement. It resulted in the exposure of Pakistan's economic organizations to market competition when most were far from the competitiveness frontier and the ruling coalition was increasingly under challenge from excluded organizations that were now aiming at a fundamental change in the political settlement. Faced with these challenges, the ruling coalition had neither the time horizon nor the implementation capabilities to carry out developmental rent allocations.

7.1 Introduction

Pakistan's birth was accompanied by much sound and fury that yet signified a hopeful, if uncertain future for the 31 million people who made up its eastern and western flanks. 'Maimed and mutilated' at its birth (Jalal 1990), Pakistan was the price Jawaharlal Nehru and the Congress were prepared to pay for having a strong and stable central government in India (Hasan 2001). The new country inherited some of the most underdeveloped parts of British India. All the major urban centres (Delhi, Bombay, Madras, and Calcutta) major industrial locations, the most important ports, much of the railway network and even the majority of the bureaucracy remained in the newly independent Indian state. Pakistan's main urban centres were Lahore, the port town of Karachi and Dhaka in East Pakistan and its most valuable inherited infrastructure from the British was the canal-irrigated area of west Punjab which had helped the fertile Punjab plains to become one of the most agriculturally productive in the sub-continent. As for East Pakistan it was even less developed. It was made up of the rural hinterland that supplied raw materials to the industrially advanced western part of Bengal, now modern day West Bengal in India. And while Dhaka was a thriving urban centre during Mughal times before modern day Calcutta had been founded, it was British Calcutta which became the second city of the Empire. To put matters in perspective the contribution of industry to Pakistan's national income was a mere one per cent and though East Pakistan grew 70 per cent of India's raw jute the province did not have a single large jute mill (I. Ali and Malik 2009).

Population	180 million
Gross Domestic Product 2011 current	USD 211.1 bn
GDP per capita current 2012	USD 1290
Capital Output Ratio	3.6
Investment in Fixed Capital as share of GDP	11.8 %
Percentage of population below poverty line	22 %

Table 7.1. Pakistan Economic Characteristics

Source: Various, (census.gov.pk), (World Bank World Development Indicators), (Bloomberg), (Asia Development Report 2007), (State Bank of Pakistan)

Though Pakistan has had periods of stability, instability and violence have grown over the last two decades. This has contributed to the slowing down of growth in the Pakistani economy with GDP growth of 3.8 per cent and per capita GDP growth of only 2 per cent over 2008-10, the lowest in South Asia. The period since 1980 divides into three phases relevant for analysing the evolution of Pakistan's political settlement. A common theme in all these phases has been a more or less intense contestation between included and excluded groups for access to the political and economic rents controlled by the ruling coalition. Pakistan's political instability reflects a failure to achieve a distribution of rents across organizations that reflected a distribution of power that was accepted by all major organizations as the real distribution of power. Several factors contributed to the failure to achieve a balance between the distribution of benefits across organizations and their relative power that could have achieved significantly lower levels of political violence. First, the concentration of significant security-related rents in the hands of a narrow ruling elite supported their perception that their relative organizational power was greater than it actually was, and reduced their willingness to compromise with other organizations. Some of these organizations represented regional elites like those in Baluchistan, the tribal areas of Khyber-Pakhtunkhwa (KP), the Federally Administered Tribal Areas (FATA) and the Muhajirs (Muslim immigrants from India) largely based in the cities of Karachi and Hyderabad. Secondly, political organizations led by the intermediate classes had always been organizationally less developed in Pakistan compared to other parts of India. This meant that when the legitimacy of the ruling organizations began to be seriously challenged new organizations often emerged with radical agendas. Many of these organizations were willing to use violence to challenge the position of the dominant political organizations, and were not just trying to capture a bigger share or rents. The mobilizing ideology that was often used by new political mobilizations was Islam, much as the violent anti-state movement of indigenous people in neighbouring India has used a Maoist ideology.

These distributive conflicts are very similar to those in other developing countries but an understanding of the specific problems faced by Pakistan requires an understanding of the history of its creation out of British India. First, there was no geographical or cultural grouping that could be identified as Pakistan within undivided India even as late as the 1930s. Independence was thrust upon it in 1947 in large part by the Indian Congress party that was unwilling to accommodate Muslim demands for representation in a Hindu dominated India (Jalal 1985; A. Roy 1993; Anderson 2012). Secondly, the areas the Pakistani state inherited already had strong social and political organizations, while the Muslim League, the party that won Pakistan, had not been historically strong in these areas of India. The new Pakistani state dominated by the Muslim League ruling coalition thus had an immediate challenge in enforcing its authority from the outset. Thirdly, in the early years, the greater population of East Pakistan and the concentration of economic, military and bureaucratic power in West Pakistan led to a constitutional crisis over the power sharing formula between the two wings. Compounding all these problems was the threat perception from India. These challenges led to an unstable political settlement in the years immediately after 1947 and contributed to the failure of Pakistani policy makers to come up with broad-based employment generating policies. The turnaround only came with the military takeover of 1958 which imposed military rule in Pakistan and was associated with a vulnerable patrimonialism that could nevertheless achieve some progress in industrial policy and accumulation (M. H. Khan 2012a).

Period	GDP	GDP per capita
1960-71 (Ayub)	6.8	4.1
1971-77 (Bhutto)	4.2	1.2
1977-88 (Zia)	6.6	3.2
1988-99 (PPP and PML-N)	4	1.1
1999-2008 (Mussharraf)	5	3.2
2008-2010 (PPP)	3.8	2

Table 7.2: Growth rates of GDP and GDP per capita under Different Regimes, Pakistan 1960-2010 (constant 2000 US\$)

Source: World Development Indicators 2011, World Bank

A comparison of the organizational basis of the early Congress and the Muslim League is instructive. The Congress has a long organizational history, being founded in 1885 with an extensive grassroots membership that remained significant at least till the 1950s. In contrast, the League founded in 1906 was initially representative of elite Muslims in India and did not even have the intention of establishing Pakistan. It did not have an organizational structure in the parts of India that became Pakistan that was equal to the task of building Pakistan's new institutions in ways compatible with the local distributions of power (Jalal 1990). While formal political organizations were weak in these areas, there were strong informal organizations exercising authority and power using informal institutions of 'biradri' which are networks based on kinship groups, both patriarchal and patrilineal. Ethnic identities and organizations were also strong in the different provinces making up Pakistan. The military rapidly emerged as a focal point for the new state not only because of the weakness of the dominant political organization in accommodating all the interests in society, but also because of the environment of armed conflict with India that immediately affected the disputed territory of Kashmir. The dispute is still unresolved and Kashmir's accession to India remains controversial given the compelling body of evidence showing that India manipulated the accession of Kashmir without the support of the Kashmiri public (Anderson 2012).

The military takeover of 1958 resulted in high levels of economic growth under General Ayub Khan in the 1960s and Pakistan's economic growth was in general higher than that of India from the 1960s till around 1990 (Table 7.3). Ayub's military intervention changed the distribution of power and put the armed forces in a dominant position. The political settlement was a vulnerable patrimonialism in terms of the categorization in Chapter Three, with the ruling coalition enjoying enough enforcement capabilities to run a basic industrial policy but also being vulnerable to

repeated challenges from excluded organizations that occasionally required the use of violence and repression against them.

Growth Rates %	India	Pakistan
GDP		
1960-80	3.5	5.5
1980-90	5.6	6.1
1990-00	5.8	3.7
2000-05	6.7	4.9
2005-10	7.8	3.9
Per Capita GDP		
1960-80	1.2	2.6
1980-90	3.4	3.5
1990-00	4.0	1.2
2000-05	5.2	2.4
2005-10	6.4	2.1

Table 7.3 Comparison of India and Pakistan in terms of GDP and GDP per capita growth rates

Source: (World Bank 2012)

In the 1970s a democratic order emerged with Bhutto's Pakistan People's Party (the PPP) emerging as the dominant party. With elements of similarity with Modi's BJP, Bhutto maintained his political dominance using informal threats and sometimes violence against political opponents. We will describe this later as a similar type of constrained patrimonialism with authoritarian clientelist characteristics. The return of army rule under Zia in 1977 marked the reversion to another period of vulnerable patrimonialism but this time the economic policies and institutions began to change. Pakistan's military was now more concerned with establishing a new set of political organizations that would support their rule than in building productive capabilities. The rents from the Afghan war ensured inward resource flows that kept overall growth rates high without adding to competitive capabilities. Zia's political strategy was not very successful in by-passing established political organizations like the PPP, and his attempt to create new political organizations brought in elites like Nawaz Sharif in the Pakistan Muslim League - Nawaz (PML-N) who were quite similar to the elites in the PPP. Zia's death in 1988 brought in a period of weak democratic

governance with the PPP and the PML-N alternating in power till Musharraf and the army again came back in 1999. Throughout the democratic period of intense competitive clientelism, liberalization strategies were implemented, often in stealth by technocratic caretaker governments that ruled in between elections.

Musharraf's military government was yet another period of vulnerable patrimonialism. As in Zia's regime, Pakistan's elites enjoyed another period of significant security-related aid inflows, this time associated with another but much less legitimate (in Pakistani eyes) US intervention in Afghanistan. Once again, the aid inflows created a perception of strength in ruling organizations that were actually facing increasing social challenges and demands for inclusion from new social mobilizations. The failure of dominant political organizations to make the compromises that may have allowed evolutionary changes in the political settlement is, in our analysis, the source of the instability that began to grip Pakistan from the mid-2000s onwards. In particular, we argue that the problem of instability was not just the result of military rule in Pakistan. Rather, both the military and a few relatively elitist political parties could access a much more centralized control over rents than in other parts of South Asia, particularly in the context of security-related aid inflows. As a result, they *jointly* failed to achieve the inclusion of significant new intermediate class mobilizations within political rent distribution arrangements.

Pakistan's army as an organization is most often held responsible for the country's instability. The army does indeed appear 'overdeveloped' with respect to the size of the economy and the state, and it does behave as if it has the authority to act to represent the popular will against corrupt political parties, but in reality it is mostly engaged in protecting the status quo (Alavi 1983a; Jalal 1990). It usually maintains and protects the interests of the current ruling coalition and its attempts to create a new ruling coalition have usually resulted in the construction of a new coalition with very similar characteristics to previous ones. In reality, the actual power of informal organizations and networks that permeate Pakistani society have meant that while formal power often appears highly concentrated in Pakistan, the enforcement capabilities of ruling coalition have been weak, and formal rules have been

significantly modified in reality. As in the case of Gujarat in Chapter Four, a state cannot be characterized as developmental just because it is formally pro-business or even if it able to implement rent allocations to business organizations. More complex enforcement capabilities are required to make a state developmental in terms of achieving developmental outcomes. In terms of this criterion Gujarat is not a developmental state. Similarly, the Pakistani Army is often accused of not using its apparently high enforcement capabilities to enforce developmental outcomes and instead appears to exaggeratedly focus on external adventures. In fact, the Pakistani army arguably lacks the organizational power base in broader society to enforce the difficult institutional rules that would be necessary for developmental outcomes. Viable developmental strategies would have been to reconstruct the composition of the ruling coalition or devise institutional interventions that were developmental but also enforceable in this political settlement. Instead, the availability of easy rents for any ruling coalition that played along with external strategic interests in the area, the strength of informal organizations that the ruling coalition failed to accommodate and indeed the fact that the army perceives important strategic threats to Pakistan resulted in institutional strategies that were neither developmental nor capable of delivering stability in the longer term.

In contrast, the mainstream 'good governance' analysis of Pakistan suggests that Pakistan's instability is due to its weak democratic institutions and so the strengthening of these institutions could turn the country's fortunes around (Candland 2000; Haque 2000; Easterly 2001). Interestingly, this type of analysis cannot explain why neighbouring India which has been a democracy for most of the time and has had elections that have been largely free and fair has also experienced growing levels of political fragmentation, contestation and violence. The difference is that the Indian political settlement at the federal level has evolved to a competitive clientelism with characteristics of 'vulnerable maturity' where no one organization can imagine that it can dominate all the others (M. H. Khan 2011b; P. Roy 2012). In the context of a complex society with a proliferation of organizations, this at least allows the excluded enough of a hope of inclusion through 'normal' clientelist politics. This can entail quite a lot of 'normal' violence but keeps most aspiring

organizations away from radical strategies to overthrow the state. In Pakistan, the army has for a long time been able to claim dominance and by association the parties that have ruled in close association with the army have followed strategies of dominating politics from above. But unlike Gujarat's authoritarian clientelism where Modi's ruling coalition was able to browbeat excluded organizations to be quiescent, in Pakistan the excluded have been able to increasingly challenge the legitimacy of the ruling elites, increasingly using the critique of radical Islamism, and adding to the centrifugal forces of regional and ethnic separatist movements.

In the period studied in the thesis, from 1980 to around 2010, the evolution of the Pakistani political settlement had two significant effects. The first was a loss of enforcement capacity on the part of the ruling coalition because of its ebbing legitimacy, which resulted in weaker enforcement of all formal institutions and growing levels of violence. While violence has also been growing in India, the distribution of power across organizations supported by institutional rent allocation is somewhat more stabilizing in averting radical strategies on the part of the excluded. This is not always the case, as the case of the Maoist uprisings and regional separatist movements in India testify, but the level of challenge is arguably higher in Pakistan. The second effect was low levels of economic growth associated with sustained attempts at liberalization and good governance reforms, again in a context of weak enforcement. Liberalization in Pakistan was associated with low and declining growth as is evident from Tables 7.2 and 7.3 above. This period will be analyzed in greater detail in Section 7.7.

What was interesting about liberalization in Pakistan was that the most significant moves towards liberalization were made by unelected 'caretaker' governments that served between elections, made up of technocrats, with the backing of the military. They reflected the ideological preference of increasingly weak ruling elites who lacked the power to enforce any pragmatic developmental strategies. The political and policy establishment were willing to adopt the recommendations of international financial institutions and donors largely because they lacked any alternative strategy of their own. In particular, they did not consider the viability of

liberalization in a country where economic organizations were in most cases not globally competitive in any sector. Even more critically for Pakistan, the limited implementation of liberalization actually further weakened already weak bureaucratic organizations through administrative restructuring and decentralization. The reforms were ostensibly driven by a desire to prevent the state from capturing public goods and hence ensuring economic growth but in reality the opposite happened. Weakening state capacities arguably led to more decentralized rent capture and declining service delivery. In contrast, in India a few sectors were close enough to the competitiveness frontier to engage in a further spurt of rent-financed learning in the 1980s which led to the emergence of at least a few globally competitive sectors (M. H. Khan 2011b).

Declining political and economic stability can open up a vicious cycle of declining legitimacy and weaker enforcement capabilities leading to even more adverse economic and political outcomes. This process has a number of elements. First, the time horizon of the ruling coalition can become shorter as it faces greater uncertainty. This can result in the creation and capture of quick rents that are more likely to be unproductive and predatorial. Secondly, this can lead to the ruling coalition facing even stronger contestation by emerging political organizations, some of whom may adopt radical strategies of overthrowing the system. Finally the ruling coalition can lose the ability to provide any support for capability development in economic sectors, and in particular in manufacturing. Pakistan's growth in the 1990s and beyond has been driven by the financial sector, real estate and associated services that do not need an effective industrial policy but which also provide few Kaldorean dynamic economies. Economic growth becomes vulnerable, providing limited employment generation and this too strengthens excluded political organizations by supporting the perception that the system is not working.

7.2 Setting the Context

The constraints to growth and stability in Pakistan can be traced back to the loss of legitimacy of the political organizations that could constitute its ruling coalition as a result of their sustained involvement in unpopular policies associated with US

interventions in the region and economic liberalization. While this describes the current situation an understanding of the evolution of the political settlement requires a look at the history of the partition of India. Indeed, we argue that it is interesting to remind ourselves about the history of Islam in South Asia because this provides insights into the complex communal relationships affecting not just partition but also contemporary South Asia as well. India's internal structural dynamics which requires a politics of accommodation and concession in keeping a continental country together has an often overlooked impact on Pakistan's polity. There is an unarticulated policy of the ruling Indian elite to convince those wanting or threatening secession that breaking away from India will have huge costs. If Pakistan can have good relationships with India and perform as well as India, this is not a good signal to a multitude of other would-be Indian secessionists. As a result India's aim is to have strategic and economic dominance in the region to make this convincing and credible. This is also why any resolution of the dispute in the Kashmir Valley on any terms that signal Indian weakness is off the table even if Kashmir imposes huge costs on India. The Indian position has inevitably impacted on Pakistan's security-dominated political settlement from its birth as has been documented in Ayesha Jalal's seminal work on these issues (Jalal 1990). It is important to revisit this framework at a time when Pakistan seems to be facing its worst crisis since 1971, the year Bangladesh was created out of a united Pakistan.

Another focus of our analysis will be the ideology of nation building that led to the growing 'securitization' of Pakistan's political economy. By securitization we refer to two parallel discourses applied to Pakistan—that of providing human security and the other preventing it from becoming a 'failed state'. All other developmental agendas increasingly became subservient to these. The Indian subcontinent was partitioned on the basis of a 'two nation theory', referring to the Islamic and Hindu 'nations' but now has the distinction of housing three countries, Pakistan, India and Bangladesh. As Jalal has pointed out, Pakistan was 'painfully' carved out 'ostensibly' as a homeland for British India's Muslims (Jalal 1990). Subsequent revisionist historical accounts have pointed out that far from being a spontaneous organic process it was the result of a competition for controlling rents between the Indian National

Congress (Congress) and the Muslim League in undivided India. Congress refused to admit the League's well founded contention that Indian Muslims needed some constitutional arrangement to protect their interests and the League refused to accept that the Congress could represent Muslim interests in a first-past-the-post polity where India Muslims (around a third of the population) would be a perpetual minority (Jalal 1990; A. Roy 1993; M. H. Khan 2009b, 2010, 2011a; Anderson 2012).

Pakistan emerged in 1947 not because the Indian Muslims had a well-articulated plan for Pakistan based on a shared idea of national identity. Rather, it emerged because all the propositions that the Muslim League came up with to achieve some level of constitutional protection for Muslims were rejected by Congress. Once it was born, however, Pakistan's leaders had to construct a national ideology that asserted that its independence movement was always about creating a separate homeland for Muslims (Alavi 1989; Jalal 1990; I. Ali 2002; Talbot 2005). To be sure a small Muslim constituency in India had imagined an independent, sovereign Pakistan from the 1930s, but most Indian Muslims, including Mohammed Ali Jinnah, were not committed to an independent country till as late as 1946, when the final negotiations broke down (Jalal 1985, 1990; A. Roy 1993; M. H. Khan 2010; Anderson 2012). One reason for this was that India's Muslims were territorially dispersed, and the regions where they were concentrated, in the east and the west, they had local majorities and did not feel threatened enough to support the Muslim League. Whether a united India would have been successful is anybody's guess but it is clear that partition was the outcome of conscious and expedient decisions taken by the Indian National Congress to maintain its dominance even if that meant losing some territory to Pakistan (Hasan 1998; Anderson 2012).

This reading of history is inconvenient for both Pakistan and India, but an objective analysis is essential for understanding the implications of partition for contemporary politics. In India the national myth is that the Congress did everything it could to keep the country together but failed in the face of the League's communal politics. In Pakistan, the equivalent Pakistani myth is that Pakistan was created to protect Muslims from Hindu dominance. The logic of prioritizing security in Pakistan is the

direct result of this (mis)reading of the history that led to partition. The security imperative of Pakistan's military and political leadership continues to inform critical strategies like its pact with the US. The Pakistani perception that India may use military force to overrun it is particularly ironic given that it was the unwillingness of the majority Hindus to share power and rents with Muslims that was ultimately behind the Congress decision to push Muslims out in 1947. Interestingly, contemporary India has a significant anti-Pakistan and anti-Muslim rhetoric as part of its political discourse primarily driven by the right wing Bharatiya Janata Party (BJP) to challenge the 'secular' banner of the Congress.

Both countries have thus manipulated history at various levels to construct two nationalist narratives: one based on the idea of an Islamic nation facing an existential threat from India and the other based on a claim of secular inclusiveness. Both narratives deny significant historical facts and processes driving the partition of 1947 and the strategic calculations that led to the respective nation-states emerging. The consequence of partition was the gradual rise of 'soft Hindutva' in India (Engineer 1995; Assadi 2002; Rangarajan 2005; Banerjee 2007; Shani 2007; Desai 2011). A gradual diffusion of markers of Hindu identity in culture, media and even the state is a reflection of a gradual erosion of the formal secular commitment of the Indian state. The Indian constitution still remains robustly secular but the informal norms of the Indian polity have gradually become more Hindu-centric. In a similar way, while Jinnah was hardly a religious person and was more concerned with the political goal of protecting the access to rents and opportunities for Muslims, the logic of partition gradually led to a growing Islamization of Pakistan. In particular, excluded political groups in Pakistan have increasingly mobilized by challenging the Islamic credentials of the ruling elite in Pakistan, particularly when the international alliances of the latter involve supporting the US in regional wars. The growth of radical Islamism was accelerated in the 1980s by General Zia-ul-Haq's US-supported strategy of arming non-state Islamist actors to fight against the Soviets. By all accounts this process spawned a wide variety of non-state military organizations and by the 2000s, forces like the Tehrik-e-Taliban Pakistan or TTP began to threaten the Pakistani political establishment itself (Lieven 2011). Many observers hold Pakistan's Afghan policy

under Zia responsible for the rise of Islamic mobilization. However, we argue that there were deeper fissures in the construction of the ruling coalition in Pakistan and given the country's founding mythologies, significant challenges to the legitimacy of the ruling elites were likely to emerge sooner or later in the language of a betrayal of these ideals.

A distinguishing feature of our analysis relative to most political economy analyses of Pakistan is in the assessment of the significance of the army in explaining Pakistan's developmental trajectory. The implicit pact between the Pakistani Army and business and landed elites, and the army's dominance of Pakistani politics and economics have been identified and discussed in many outstanding contributions beginning with Ayesha Jalal's seminal work on this topic (Rashid and Gardezi 1983; Jalal 1990; Cohen 1994; Jalal 1995b; Rizvi 2000; Arif 2001; Rizvi 2001; Cheema 2003; Rizvi 2003; Zaidi 2005; Siddiqa 2007; Haqqani 2010). However we contend that the Army is not an all-powerful monolith, and rules only because the dominant political and economic organizations have worked closely in tandem with it. The effect has been to monopolize a significant share of rents at relatively high levels of the social hierarchy, to the detriment of achieving a political settlement with low levels of violent contestation. If the Army as an organization were indeed powerful vis-à-vis other organizations, it may have been able to create a developmental along the lines of Taiwan or South Korea both of which were initially led by strong military-backed governments. But in fact Pakistan's army did not have the enforcement capacity to pursue a developmental agenda in the 1960s and its enforcement capacity was even weaker in the 1980s or 1990s. By the 2000s, the capability of the army to control a significant part of rent allocations from above in alliance with its political and business allies began to be challenged by significant political mobilizations that were often informal and violent. This is why we argue that the role of the Pakistani army has to be analysed in the context of a broader range of organizational mobilizations that describe the political settlement in Pakistan and its evolution.

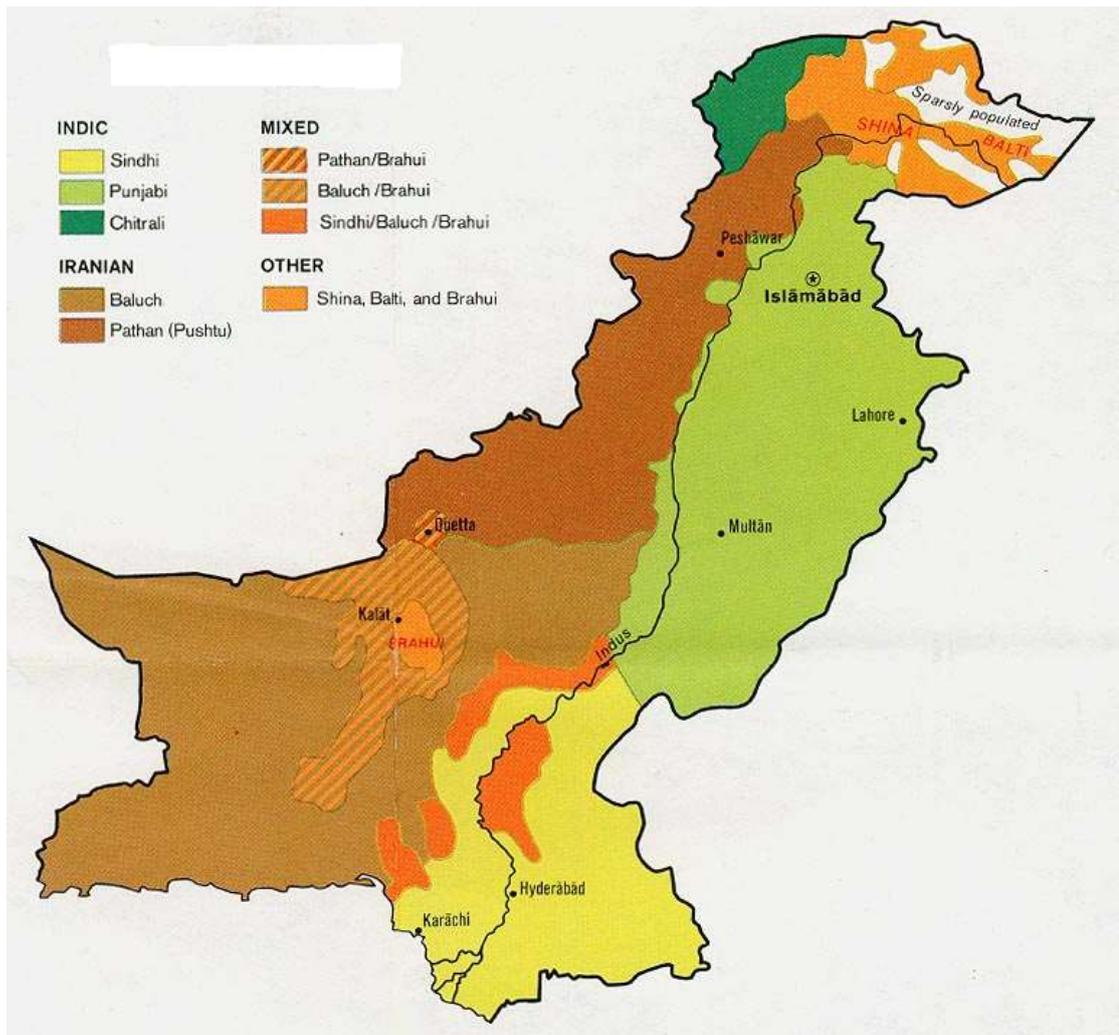


Figure 7. 1. Languages in Pakistan

Source: <http://ethnicityinpakistan.blogspot.co.uk/> (accessed 03/06/2012)

Note: the provincial boundaries of Pakistan in this map though not marked out correspond roughly to the Baluch (Baluchistan), Sindhi (Sindh), Punjabi (Punjab) and Pushtu (Khyberpakhtunkhwa) speaking areas. Some of the Pashtu speaking regions of the country's northwest also make up the Federally Administered Tribal Areas. Chitrali is spoken in the northernmost district of Khyberpakhtunkhwa. The Shina and Balti speaking areas are in Pakistan's Gilgit-Baltistan.

Another element in the political violence and instability that intensified in Pakistan in the 2010s was the growing militancy of the long marginalized tribes of FATA especially in North and South Waziristan. This is often explained in terms of a strengthening of fundamentalist Islamic movements. However, the growing tensions in the region were also the outcome of a breakdown of traditional social structures

in Khyber Pakhtunkhwa and the FATA brought about by economic changes and the conflict in Afghanistan. In this sense these conflicts had much in common with the Maoist movements in India's hinterland, where marginalized social groups engaged in violent attempts to overthrow ruling elites rather than attempting to enter their patron-client networks. The ideological discourse in Pakistan was obviously different given its history, but the structural features of the conflict had much in common. At the heart of this process was a significant level of exclusion of these societies from the political rent allocation processes of standard patron-client politics combined with shocks that destroyed the legitimacy of the established political organizations at the very moment when inclusion became necessary to avoid conflict.

In Pakistan, the loss of legitimacy of mainstream elites came from a foreign policy crisis. Pakistan's external rents in the 1990s were conditional on support for the US offensive in Afghanistan. While Pakistan carried out some operations in pursuit of this objective, its strategic interests in Afghanistan also meant it could not afford to fully abandon the Taliban if it wanted to ensure an eventual Pakistan-friendly government in Kabul (Lieven 2011). At the same time Pakistan's policy of ignoring US drone attacks in these areas and the Pakistani Army's own actions against in the Swat region contributed to fundamentally weaken the legitimacy of the Pakistani state in these marginal societies. A more orthodox Islamist ideology began to replace the 'Pakhtunwali', the social code of the Pathan tribes in the region (Ahmed 1980; Economist 2009; Lieven 2011). The rise of the Taliban in Pakistan is often mistakenly conflated with irredentist terrorism. We argue that strategies of violence are better understood in the context of a broader analysis of processes of mobilization and the success or failure of accommodation of new groups within an evolving political settlement.

7.3 History of Islam in the Indian Sub-Continent: Hostage to Polemics

The history of Islam in the Indian subcontinent has to be distinguished from the political mobilizations around religious, ethnic, caste and other identities as competing groups have attempted to acquire the organizational power to capture and retain rents through the political process (Thapar 1989; Jalal 1990). The reason

why a delineation of history is so important to the formation of the countries within the sub-continent is that each has constructed its identity based on the same sequence of historical events but with starkly contrasting interpretations of these events. Recent revisionist histories have demonstrated how a strand of Indian nationalism was implicitly Hindu nationalism and in certain contexts continues to be so (Gilmartin 1979; Thapar 1989; Islam 1992; Chatterji 1995; Habib 1997; L. A. Gordon 2001).

Islam had an established though limited presence in India much before Islamic rule was established in Delhi. By the 7th century CE Calicut in southern India was India's foremost entrepot with already established trade links with Rome and the Middle East now being extended to Arab Muslim traders. By the 14th century CE the growing numbers of Arab Muslim traders were well assimilated into the society of the Hindu Zamorin kings of the region (Dale 1990; Osella 2008). However the establishment of Muslim rule on the Indian sub-continent began with the conquest of Sind under the Iraqi governor in 711 CE which resulted in the province's incorporation into the Umayyad caliphate. Mahmud of Ghazni (Ghaznavi in present day Afghanistan) invaded Punjab in the early 11th century CE but did not establish his rule. Another Afghan king Muhammad of Ghor declared himself independent from Ghazni and established a kingdom spanning the north western Indian sub-continent. His successor Qutb-ud-din-Aibak shifted the capital from Lahore to Delhi and became the first Muslim ruler of the Indian sub-continent. In India it is a measure of the contemporary polemics involved that the Sultans of Ghaznavi and Ghori are singled out as ruthless conquerors, especially Ghaznavi's campaign in Gujarat which involved the looting of a Hindu temple, Somnath. That incident like so many others of similar nature in world history is more 'a rhetoric of state building' (Fearon 2010) or as Ahmad observes in both the case of Somnath and other temple desecrations it served as a 'pseudo religious wartime sport' to serve as 'proof for the self-satisfaction of the invaders that the wars they were waging were not for... the carving out of an empire, but had religious justification' (Ahmad 1964). Thapar has gone on to say that contemporary Hindu accounts do not ascribe much importance to the plunder of Somnath (Thapar 2005). Yet this has been mythified by the now

mainstream right including the BJP as a wound on Hindu consciousness and identity wreaked by Islam in India. In Pakistan on the other hand Ghaznavi and Ghauri are short and medium range ballistic missiles capable of hitting Indian targets, so named in an obvious play on the names of the two Sultans who made successful forays into 'Hindu' India. At the time of Mahmud of Ghazni's invasion Hinduism was not the Brahmanical religion recognized as such today but a collection of diverse sects and cults which only gradually came to resemble the Brahmanical religion of today. The term Hindu according to Thapar was initially used as a geographical and ethnic marker or for the indigenous population and not as a monolithic community (Thapar 1968, 1989, 1996, 2005). This identity came into being in the 19th century CE under British rule when access to jobs and resources were dependent on the size of the community, hence a mobilization on the lines of an upper caste Brahman dominated identity became necessary (Prakash 1988; Thapar 1989, 1996; Habib 1997).

The period between 1206 CE to 1525 CE saw various Muslim dynasties consolidate their hold over north India in various degrees. Babar, a Chagatai Turk established Mughal rule in India from 1526 CE, making India under Mughal rule one of the largest empires in the world in the 16th and 17th centuries. The revenue system and land records formulated under Akbar the most famous Mughal king were used by the British and continue to be the basis of current revenue administration in some parts of India. For this period historians have outlined various scenarios of what the relationship between the two communities could have been. While not attempting a detailed analysis it is possible to say they straddled a spectrum from syncretic co-existence (Fearon 2010) to exhibiting political tensions (Thapar 2006) to 'an insular co-existence' (Ahmad 1964). However despite attempts to describe this phase of Muslim expansion in India as colonization by the founders of Hindu right wing organizations writing in the early 20th century CE historical evidence shows no support for this discourse. Whatever be the approach ones takes given historiographical evidence it is not possible to conclude that the two communities were at perpetual war with each other or that the two did not influence each other in very fundamental ways. The detailed socio-political dynamics between Islam and Hinduism are beyond the scope of this paper but one would still need some

references to these processes to fully grasp what happened in 1947. Eaton summarizes the dynamic effectively when he calls Islam both the dependent variable through 'accretion' or natural growth and the independent variable through the 'reform' process where Islam is posited as socially distinct (Eaton 1985). In the deeper south there were alternating Hindu-Muslim dynasties at odds with the neat periodicity some scholars, especially earlier Orientalist ones and from current right wing organizations have tried to outline for Indian history of Ancient (Hindu)-Medieval (Islamic)-Modern (British Colonization and the independence movement) (Thapar 1968, 1989, 1996; Habib 1997).

The growth of Islam in South Asia was achieved not through systematized and violent conversions but through a mechanism of deep rooted social transformation especially in the provinces of Punjab and Bengal and Sind. Bengal, Sind and western Punjab were areas outside the immediate primary influence of Brahmanical Hinduism at the time of the spread of Muslim rule in India. They were also far away from the centre of Mughal rule strongly suggesting there were non-state agents responsible for the spread of Islam in these places contrary to current beliefs about Islam being spread through forced conversions by the rulers. In the case of Bengal a split in the course of the river Ganga in the 17th century into what are now the Hugli that flows into West Bengal and the Padma into Bangladesh had social repercussions. The eastern and older part of the delta, now west Bengal was already Hinduized while the portion of the province now served by the Padma was largely forested and the communities there were still had animist beliefs some of which persist till today (Jalais 2011). The Mughals who were keen to settle this area as it had turned into a fertile region due to silting by the Padma gave land grants to Muslim 'pioneers' some of who were Sufis settled eastern Bengal and gradually converted the communities there into Islam (Eaton 2009). In Sind as the various tribes of the region settled in irrigated areas around the river Indus the Pirs or holy men from various Sufi orders emerged as arbiters in fights between the tribes gradually increasing their own power and driving the adoption of Islam. In Punjab the Hindu nomadic Jat tribes would come into contact with urban residents around the Sufi shrines and once the Jats adopted settled cultivation they gradually adopted

an Islamic identity focused around the shrine (Eaton 2009). Hence the areas with the largest numbers of Muslims, eastern Bengal, western Punjab, Sind, NWFP and Baluchistan were not strictly within the folds of caste-bound Brahmanical Hinduism around the times we are referring to. The idea of conversion in Islam only became popular around the 19th century CE when British scholars were trying to cast the spread of Islam in South Asia in the mould of what Christian missionaries were doing in European colonies.

The rest of the section will not delve further into Islamic rule in India once it was established because that does not contribute directly to events surrounding partition. What only needs to be mentioned about the initial period of British rule, as early as in the first few decades of the East India Company was the beginnings of the creation of a historiography of Hinduism that necessarily cast Muslims as 'foreign' in India (Chatterjee 1991). The history that we outline is certainly not the version of history of partition as it is *popularly* understood in the sub-continent and indeed elsewhere in the Western world which is of a fatal clash of opposing cultures. The reason we outline is more materialist with culture once again being instrumentalized for mobilization and the roots of the conflict between sections of the Hindu and Muslim community in South Asia lie with the advent of electoral reforms in British India and the creation of separate electorates (Reed 1930; Hasan 2001; Woods 2007). This was a period of significant constitutional reform by the British and League and Congress strategies around this time focused heavily on their responses to these attempts at reform, essentially to the various strategies of power sharing that the British were trying to implement. The decisive stage in the creation of Pakistan and India begins from 1909 with the introduction of the Morley Minto reforms or the Indian Councils Act. For the first time this Act allowed election of Indian members to the Legislative Councils at both the centre and the provinces. Following this were the Montagu Chelmsford reforms in 1919 which started the system of dyarchy in India and allowed for relatively significant autonomy to the provinces. This Act shifted the theatre of Hindu-Muslim representation to the provinces, especially Punjab and was no longer concerned with power sharing in Delhi (Jalal and Seal 1981). The Government of India Act in 1935 provided for

significant autonomy to existing provinces and resulted in the creation of separate provinces, most significantly the creation of Sindh from Bombay Presidency. The proportion of franchise through direct elections also increased under this Act. Some have also credited the Act with bringing about the origins of 'patronage politics' in the sub-continent as elected ministers started jockeying for power (Alavi 1983b). Interestingly the League was still not a force to reckon when elections were held under the new Act in 1937, just a decade before partition. The Congress had majorities in seven provinces and the Muslim majority provinces of Punjab and Bengal had non-League governments, though in Bengal it was in coalition with Fazlul Haq's middle class peasant dominated Krishok Proja Party and in Punjab the Fazl-I-Husain's Unionist Party was in power. Both these parties though Muslim dominated were an alliance of class interests—upper class land owning in Punjab and middle peasant in Bengal. The irony of this contradiction makes for interesting academic pursuit but is beyond the scope of this paper. By 1946 matters changed completely in both these provinces.

In the interim British India witnessed its most tumultuous decade. While defending itself against the Axis powers in the World war the British were also trying to hammer out an Indian constitution best suited to the many diverging interests in India. To this end it organized three Round Table Conferences, set up the Communal Awards (which provided for separate electoral constituencies for minorities) and finally the Cabinet mission in 1946. The history of this period perhaps remains one of the most widely researched periods in colonial history and this paper will not attempt to reproduce it here. But between these years the League grew in popularity with the Muslims under Jinnah who was now able to legitimately claim that he spoke for Muslims given the Congress' general recalcitrance with issues of representation (Brown 1947; Noorani 1979; Jalal and Seal 1981; Jalal 1990). Most level headed historical accounts of this period of history portray Jinnah as an astute leader who dangled Pakistan as a bargaining counter for securing legitimate Muslim rights (Jalal 1985; Hasan 2001). For one certainly for a majority of his political life Jinnah disagreed, with Gandhi's strategy of mixing religion with politics. It is of course also well documented that Jinnah agreed with the one last effort the British

put in to ensure an undivided India, the Cabinet Mission (Jalal 1985; Hasan 1993; A. Roy 1993; Anderson 2012). The Cabinet Mission rejected the idea of a sovereign Pakistan and divided the 11 British ruled Indian provinces into three 'sections' which could later if they wished from into three 'groups'. The centre would only oversee foreign affairs, defence, communication and finance for the three groups and substantial local autonomy was left to the sections. Provinces were allowed to secede from the Groups but not the Indian union. The three sections were the Hindu majority provinces that make up much of modern India today, the Muslim majority provinces of the north west (Punjab, Sindh, Baluchistan, NWFP) and the Muslim majority provinces of the east (Bengal and Assam though Assam had a sizable not majority Muslim population). Yet this was rejected by the Congress and Nehru who felt only a strong 'centre' ruled by the Congress was in India's interests (Noorani 1979; A. Roy 1993).

What partition does demonstrate is how important the creation of demography is once a western style representative democracy is introduced in developing countries. Historians of partition have consistently demonstrated how electoral mobilisations based on demography in Punjab, Sindh and Bengal allowed for successful cleavages to take shape (Chatterji 1995; Gilmartin 2001; L. A. Gordon 2001; Talbot 2005). In the case of Sindh and Punjab it was mobilisation by Muslim landowners and pirs (holy men) respectively that helped the League's cause in 1947. In undivided Bengal under the British (the eastern part of the province became first East Pakistan and then won independence for itself as Bangladesh) conversely it was the upper caste Hindus who mobilised for partition (Chatterji 1995; M. H. Khan 2010). As Khan describes it in the case of Bengal the shift towards a religion based identity or communal one was essentially a 'crisis of exclusion' where the economically and politically powerful but minority in terms of population Hindu elite were threatened by the increasing political mobilisation of a rising Muslim intermediate class. The issue at hand was who would rule Bengal's provincial assembly and wield power. Matters were very different in 1905 when Muslim-Hindu unity in Bengal was seen as exemplary. It was a successful combination of Muslims and Hindus that opposed an initial administrative partition of Bengal in 1905, a

feature of imperialist Britain's famous 'divide and rule' policy. What changed from then to 1947 was the introduction of limited suffrage and separate electorates (where Muslims would vote only for Muslims) and the resulting emergence of a specific patron-client political settlement (M. H. Khan 2010). Elections required the competing groupings of Hindu elites on one side and the intermediate class of the Muslim peasantry on the other to wield organizational power and this was done through patron-client politics. As we have mentioned in Chapter Three developing countries whether democracies, single party or with authoritarian regimes can have competing patron-client groupings. This is an almost universal feature of developing countries and their presence can be linked to their low levels of economic growth. Redistribution is then achieved through informal means that is often called patronage politics as a pejorative but is a structural feature of developing countries, and not cultural.

In the end a combination of the impatient British, expedient Congress and precipitate League ensured the rejection of further attempts to forge an Indian federation and finally resulted in partition and independence in 1947. The irony was that a third of British India's Muslim population lay outside the new 'Muslim nation'—a mockery of the two nation theory. It was impossible for the sizable Muslim population *within* the Hindu majority provinces to make the move to Pakistan even if they wanted to. This made it possible for the Congress to cast the League action almost as an act of secession (Jalal 1995a) and it is this (mis)interpretation that sticks to the sub-continent to this day.

7.4 The First Three Decades: From Industrial Policy to 'Islamization'

The first serious blow to independent Pakistan occurred in 1948 with the death of Jinnah. By 1951 its first Prime Minister Liaquat Ali was mysteriously assassinated. However through this political turmoil Pakistan pursued aggressive policies of industrialization in the first two decades of its independence. In the 1960s it actively encouraged capitalists willing to invest in industry by subsidizing their learning through bearing the start-up risk. This proved to be successful with Pakistan's

manufacturing growth rate outpacing India's. While there have been arguments that Pakistan was building from a very low base its gains in the manufacturing sector cannot just be explained away by the base effect as we will see in later sections. Here Pakistan's attempts at industrial development were different from India's dirigiste economy in that it encouraged private sector participation and the state remained as the risk bearer in the initial stages, an institutional innovation not often seen in developing countries (M. H. Khan 1999). It was during the 1970s and 1980s that Pakistan had developed two export oriented industries, a viable cotton textile industry and a highly successful surgical instruments industry. In fact right till the 1980s India's GDP growth trend was lagging behind Pakistan. However neither of the strategies for industrial development used by the two countries led to the desired growth effects.

On the political front in Pakistan the military stepped in to bolster the flagging strength of Pakistan's political parties. The League in both East and West Pakistan lost its popularity and came to be replaced by a United Front government in East Pakistan and by political parties like the Republican Party in West Pakistan. By the time Ayub Khan's coup took place in 1958 the civil-military complex was already quite strong in Pakistan. Also in place was an anti-Indian rhetoric that was based on the interpretation of having seceded from 'Hindu' India as mentioned in the Section 7.2. This meant any show of opposition to the centre was immediately marked off as anti-national and even pro-Indian (Talbot 2005).

A lot has been written about Pakistan's early years of industrial development (S. H. Gordon 1954; Papanek 1967; Sayeed 1995; Zaidi 1999; M. L. Ali, et al. 2003; Robinson 2010; National Institute of Statistics 2012) and the country was quickly able to achieve a trade surplus due to an overvalued exchange rate during the commodities boom of the Korean War in the 1950s. As Noman points out this created enough wealth for many of the country's trading class who now also had surplus to invest in industry when the boom from the Korean War petered away (Noman 1991). In the 1950s manufacturing became the leading sector in Pakistan growing at 8 per cent per year (Burki 1981). However more important than these

growth rates were three important institutions that were set up by the government in this period the Pakistan Industrial Credit and Investment Corporation (PICIC), the Pakistan Industrial Finance Corporation (PIFCO) and the Pakistan Industrial Development Corporation (PIDC). These institutions were innovations at the time as they acted as risk financiers for manufacturing though their effect on increasing inequality is now a matter of debate within Pakistan. The PIDC was the lead organization and served as a financial institution that funded learning as it made the initial investments in areas the private sector did not immediately see returns in before selling these enterprises to entrepreneurs (M. H. Khan 1999). As we have discussed in chapter two of this paper entrepreneurs in developing countries often fail to invest in critical industries due to the risk imposed by high entry costs and late profitability. With PIDC bearing this initial risk entrepreneurs could then be bought in at a stage which was relatively more within their capabilities or more importantly aligned with their appetite for risk. The declining terms of trade for agriculture also meant that the agriculture driven economy of East Pakistan suffered more due to the strategy of ISI, contributing to the perception of marginalization in that province that would reach its climax in the creation of Bangladesh (Power 1963; Maniruzzaman 1971; M. H. Khan 1999). At the end of this period the army emerged in a moderate operational equilibrium with the civil bureaucracy. The two together used their concert to start a process of institution building that was compatible with the newly emerged political settlement.

The period of General Ayub Khan's tenure (1958 to 1969) has been well documented in literature on Pakistan (H. Gardezi 1971; Alavi 1976; Burki 1981; M. H. Khan 1999; I. Ali 2002). Muhamad Ayub Khan rose to prominence when he was appointed commander-in-chief by Liaquat Khan in 1951 and he took over power in a coup in 1958. Burki suggests that the army was able to step in because a conflict between the landed indigenous elite and the migrant politicians created a situation where the army could strengthen its own position (Burki 1980). Ayub's rule is marked by two significant milestones namely the attempt to establish democracy directly bypassing political organizations in rural Pakistan through 'Basic Democracy' and high levels of industrial and economic growth that was achieved by first through PIDC's policies

and then by discretionary allotments to selected capitalists. These had consequences that helped explain the political settlement towards the end of Ayub's reign, namely the explosion of secessionist dissent in East Pakistan and even in West Pakistan significant political opposition to him that saw the rise of Zulfikar Ali Bhutto. In terms of our framework this phase can be characterized as military authoritarianism in a moderate operational equilibrium with vulnerable patrimonialism. What resulted was a mismatch between the distribution of benefits among the army and the coalitions it built up and the distribution of power among the excluded organizations. Pakistan's urban population grew from 17 percent in 1951 to 22.5 percent in 1961 with a three-fold increase in the number of industrial workers. It is no surprise that opposition to the Ayub regime was the strongest in growing urban centres (Jalal 1990; Sayeed 1995). For one his strategies did not even work in West Pakistan but it was even more unsuited for the east. Bengal, even as an undivided province in British India was known for its high levels of political mobilization and sensitization (Sayeed 1995). The secession of Bangladesh from united Pakistan can be best described as the exclusion of the East Bengali elites from the Punjabi and Mohajir (Muslim migrants from India to Pakistan) controlled political.

The issue in East Pakistan however was not as simple as an upsurge in latent nationalist sentiments fuelled by an almost colonial attitude of 'Punjabi' West Pakistan (M. H. Khan 2010). At least in the 1950s there was a genuine attempt by both wings of the country to make the arrangement work with many Bengali politicians in leadership roles nationally and there was no groundswell of support for independence even till the mid 1960s (M. H. Khan 2010). In the best south Asian tradition though mainstream Bangladeshi discourse excises this historical fact and concentrates only on the 'War of Liberation. For sure the terms of trade being against agriculture and the overvalued exchange rate did affect the agriculturally better endowed East Pakistan (rice, jute) in the 1950s. Levels of investment were also higher in the western wing than in the east but as Talbot, Khan and Jaffrelot have shown towards the end of the 1960s investments were actually on the rise in East Pakistan (M. H. Khan 1999; Jaffrelot 2002; Talbot 2005). By the time popular resentment in both West and East Pakistan forced Ayub Khan to leave office in

favour of General Yahya Khan in 1969 there were other catalysts would eventually lead to the formation on Bangladesh after a decisive and opportunistic Indian military intervention in 1971. This was basically the fact that Bhutto and the PPP were vehemently opposed to Mujib-ur-Rahman becoming Prime Minister of Pakistan even after he won a majority in the elections of 1970.

GDP	4.2
Agriculture	2.1
Industry	5
Manufacturing	3.4
Services	6.6

Table 7.3. Sectoral and GDP growth rates 1971-77 (constant US\$2000)
Source: WDI, World Bank

Zulfiqar Ali Bhutto came to power in tumultuous times but he had the support of the West Pakistani elite who despite being a minority were loathe to lose economic and political power to East Pakistan. Despite presiding over the dismemberment of the country Bhutto's early years were characterized by a high level of support for him. The first reason for this was that the army was still recovering from its loss against India and still too weak. The second reason was Bhutto's early recognition of the fact that patronage based politics was necessary to ensure his survival. To this end Bhutto diluted the strength of Pakistan's highly capable bureaucracy by firing 1300 civil servants in 1972 who had incidentally entered the civil service through the tightly regulated Civil Service of Pakistan, a holdover from the British times mirroring the similar Indian Administrative Service. This was done in order to facilitate lateral entry for important members of the PPP and supporters of the regime in return for their support. The other key feature of Bhutto's redistributive politics was the nationalization of some industries, the financial and education sectors. However he alienated a large section of small-scale industrialists and traders by nationalizing

three semi- cottage industries of rice milling, cotton milling and ghee (clarified butter) production (Sayeed 1995).

Bhutto identified his policies as 'Islamic Socialism', a sort of catch-all phrase that he tried to supplement with populist, redistributive policies. But his explicit use of Islam, the first time since independence was essentially a cover for an authoritarian one-party rule. His policies could not deliver the broad based growth that Pakistan so desperately needed precisely because apart from a few populist measures most of the regime's energies were concentrated on building a combination of clientelist support that it thought would ensure support. GDP growth stalled to 4 percent and manufacturing was the worst performing sector (Table 7.3). His populist economic policies had succeeded in slowing down the Pakistani economy though some economists like Zaidi and Hamid contend that some of the growth in Zia's tenure occurred as projects sanctioned under Bhutto came on stream later and that the small scale industry sector actually did better under Bhutto (Hamid 1992; Zaidi 1999). However the clientelist political settlement can veer damagingly towards high levels of fragmentation and contestation with patrons unable to enforce order over their various factions if economic growth is low and therefore the opportunity for payoffs is low. The operational equilibrium under Bhutto proved too tenuous with just the rural voter base on his side and once again popular protests laid the ground for Zia-ul-Haq's coup. What added to the collapse of the political settlement in this period was also the growing strength of the army that Bhutto had to depend on to quell uprisings in Baluchistan. The political settlement under Bhutto can be described as authoritarian clientelism in an operational equilibrium with constrained patrimonialism.

GDP	6.6
Agriculture	3.9
Industry	8
Manufacturing	8.8
Services	7

Table 7.4. Sectoral and GDP growth rates 1977-88 (constant US\$2000)
Source: WDI, World Bank

This brought Zia-ul-Haq into power with a coup in 1977 and he ruled Pakistan till his assassination in 1988. Enough has been said about Zia-ul-Haq and his rule and its import for Pakistan (Burki 1981; Noman 1991; Jalal 1995b; Alavi 1998; Zaidi 1999; Talbot 2005). Hence this section won't attempt a lengthy exposition of the details of Zia's regime but only pick out and analyze the most consequential aspects. All agree that Zia's regime turned out to be the one that firmly linked Pakistan to the Cold War anti-Soviet Union global geo-political discourse. His regime is also known for repression of civil liberties and using Islam as an ideology to foster national unity in the face of Soviet presence in Afghanistan as well as heightened political mobilization within Pakistan. Yet the Pakistani economy grew at a rate averaging over six percent in these years. Zia did not start out as an ally of the US. It was only with the Regan administration's involvement in aiding the Mujahideen forces in Afghanistan that Pakistan occupied a frontline position in the US' anti Soviet strategy.

Pakistan's growth in the Zia years was not linked to an expansion of its manufacturing sector. The economy grew due to a rise in the proportion of foreign aid, especially military aid that flowed into country because of its involvement in Afghanistan, and the increasing remittances from Pakistani citizens working in the Middle Eastern countries as the Pakistani political economy became more linked to the Middle East, especially as a result of its attempts to institutionalize Islam within the state. Between 1978 and 1986 skilled Pakistani workers sent home as much as \$25 billion in remittances (Burki and Naseem 1996). A reversal of some of Bhutto's nationalization policies also followed but remittances and aid were the main reasons for Pakistan's growth in this period (Table 7.4). Aid of course added to the GDP numbers and the remittances helped spawn a middle class larger than was seen in the previous decades (Burki 1981; Zaidi 1999; Talbot 2005). The rise of this middle class led to the development of a few sophisticated industrial clusters around

Faisalabad and Sialkot that sustain till today, though in the face of increasing costs and decreases in productivity, the reasons for which will be discussed later. The cotton textile sector also did well but could not move beyond low value added manufacturing. While a re-privatization was not carried especially in the insurance sectors barriers to entry for private enterprise were quickly dropped and this helped small entrepreneurs and growth picked up once again (Sayeed 1995; Zaidi 1999). However lack of appropriate policy instruments to aid this entrepreneurial base led to increasing informality in the Pakistani economy from this time. This period did see the emergence of a new type of capitalists but they very different from those during Ayub's tenure. These capitalists had political ambitions and were more closely meshed into patron-client structures of Pakistani politics. They included families like the Lakhani, Sharifs and, Hashwanis who made their money through newly deregulated sectors like cement, oil seeds, and fertilizers (Sayeed 1995). However the growth they produced can best be described as what Khan defines as primitive accumulation or growth through off market (informal) activities like land grabs, resource capture or extortions (M. H. Khan 2002, 2012b) without providing any positive feedbacks into the formal economy through productivity and employment led growth. The Sharifs are of course the most well known with the family now becoming one of South Asia's leading political dynasties through the Pakistan Muslim League (Nawaz) or PML (N).

Towards the end of his tenure Zia had began to distance himself from the more obscurantist demands of the Ulema but by then the country was already deeply divided on sectarian lines (Talbot 2005). Like Ayub, Zia missed an opportunity to discipline the capitalists his regime created because his focus remained foreign policy. More importantly the rise of the middle class could have provided credibility to targeted industrial policy instruments had they been introduced and implemented. The political settlement that evolved in the Zia era, a long 11 years was one where the army became the organization superior over all others. The army was also increasing its role in directing the economy and even taking part in production. Formal political organizations (electoral parties) were kept under severe repression. And informal organizations, especially of small businesses and religious

organizations were created for the army to gain legitimacy at a time when political freedom was suppressed. The bureaucracy existed as a concerted civil bureaucracy in a strong operational equilibrium with the military. It is impossible to answer where Pakistan might have headed had Zia not been assassinated. However the levels of repression and exclusion in the political settlement would likely have made it unsustainable.

7.5 Democracy, moves towards Liberalization and a return to Military Rule

GDP	4
Agriculture	4.3
Industry	4.5
Manufacturing	4.0
Services	4.3

Table 7.5. Sectoral and GDP growth rates 1988-99 (constant US\$2000)

Source: WDI, World Development Report

General Zia's untimely death provided Pakistan's leaders with an opportunity to break with the past and in a sense the military establishment did so by refraining from continuing with army-led rule. Elections were held in 1988 and the PPP under Zulfikar Ali Bhutto's daughter Benazir Bhutto won a majority enough to form a civilian government. There were high expectations from Benazir, but this was to be no transformational move that changed the political structure of Pakistan in any permanent manner but a transitional one where only the seat of formal power changed. Informally the army still retained effective power. Once again this section will only highlight the significant events that were to affect the political settlement at this time. Talbot (2005) provides a detailed exposition of this period for those interested. It was Benazir's attempts at toeing a line independent of the army and

the powerful president Ghulam Ishaq Khan that cost her prime ministership in 1990. However her own autocratic style, inability to break the stranglehold of large landlords, appropriation of state resources for private use, especially deals concerning her husband Asif Ali Zardari, later to be Pakistan's president and an inability to direct economic growth provided the Army with enough rationale to dismiss her. Increasing confrontations with the powerful Islami Jamhoori Ijtehad (IJI) of which Nawaz Sharif was the main leader were debilitating but more critically the PPP's failure to come to any compromise with the Muttahida Quami Movement or MQM in Sindh meant the province, especially Karachi the economic hub of the country was rocked by violence throughout her tenure. The MQM was founded in 1974 to represent the rights of Urdu speaking migrants from British India and has remained a political organization in Sind with significant holding power that the party uses to mobilize its supporters, sometimes violently when it feels a threat to its existence.

Nawaz Sharif came to power after elections in 1990 and despite being close to the Army as well as having his power base in the influential Punjab province he found it difficult to run the government given the mistrust between the political organizations and the army. The legacies of Zia's Islamic mobilization were also bearing down heavier on him because his ruling alliance the IJI included parties like the Jamaat-e-Islami (JI) that wanted to press ahead with their agenda of Islamization. He survived in power for three years because he was a canny politician than Benazir having been chief minister of Punjab earlier and helping his father build their industrial empire during the Zia regime (Talbot 2005). Yet Sharif's downfall was exacerbated by his anti-Saddam policies when the Pakistani sentiment was anti US and pro-Saddam. More importantly the army was also displeased with Sharif for taking Pakistan US relations to one of its lowest ebbs as a result of some Chinese arms procurements. Perhaps the greatest shortcoming was the absence of any live and let live politics between the PML (N) and the PPP on the lines of those achieved by the Dravidian parties in Tamil Nadu. If the two parties had come together to oppose the army and President Ghulam Ishaq Khan at this time at this time civilian rule might have been strengthened in the country. However the intense clientelistic

competition between the two main parties made political stability a casualty in Pakistan. On the economic front Sharif's first term largely saw a policy of economic liberalization. By the October of 1990 as many as 89 state enterprises were up for sale and controls on inflow of foreign currency were removed in an effort to attract foreign investment. The Sharif government was accused of misappropriation of public funds in cooperative societies which led to ordinary depositors losing Rs 20 billion. In 1993 a caretaker government was sworn after the President Ishaq Khan dismissed the Sharif government, once again because the president and the prime minister were at loggerheads. Moeen Qureshi, a former vice president of the World Bank was brought in to head the caretaker government. This feature of caretaker governments in Pakistan being headed by political outsiders will be discussed later in the section.

Benazir was reelected in the elections of 1993 but like with the two elected governments before decisive power remained with the army and president. But the most singular problem in her second term before she was dismissed again in 1996 was the civil war like situation in Karachi as pitched battles were fought between the MQM(A) or the Altaf Hussain faction of the MQM and the army with the PPP government being unable to stem the violence. However incessant counter insurgency tactics ensured the violence at least died down. However, Talbot argues that this also ensured Pakistani society still remained deeply divided. It is not as if the violence in Karachi was the only issue that plagued the second PPP government. The needs to implement IMF imposed austerity and the realities of keeping the military on her side ended up with the party alienating organized labour, a key PPP support base. Labour was hit by privatizations under austerity and on the other hand her own party functionaries uncomfortable with ex-military officials being appointed as governors of provinces (Talbot 2005). The PPP victory also had an adverse impact on sectarian conflicts rather than quelling them. As our framework suggests powerful organizations that do not accept the legitimacy of an election result will contest it to achieve a distribution of benefits and authority that reflect what they believe is the true distribution of power. In this case organizations like the Tehrik-e-Nifaz-e-Shariat-e-Mohammadi (TNSM, a breakaway group from the Jamaat-e-Islami)

were fighting the Pakistani army for the implementation of the Sharia in the Malakand region of Khyberpakhtunkhwa, a fallout of the strategy of aiding the Afghan Taliban (Talbot 2005). Contrary to popular knowledge Pakistan was already fighting its own citizens who wanted a society based on exclusively Islamic tenets as long ago as 1992. By the mid 1990s the Pakistani state was trying to balance two similar forces but opposing strategies (Hasnat 2009). On the back of these developments ambitious efforts were made to bring down the budget deficit to 4.5 percent of the GDP in line with IMF requirements. Her budget of 1996 proved to be highly unpopular as an already beleaguered middle and lower class were saddled with higher costs of living. Benazir agreed to further tax increases to receive the third tranche of a standby which the IMF was refusing to release. This proved politically unsellable and violent anti budget demonstrations followed spearheaded by the transport sector, doctors, booksellers and newspapers vendors going on strike (LaPorte 1997). Political recriminations between Benazir and president Leghari acted as the catalyst in the dismissal of her government.

Nawaz Sharif and the PML (N) were voted back in the elections of 1996 with the JI refusing to take part. The JI boycotted the elections at this time because it felt the voter lists and constituencies need to be redrawn and did not reflect changes in population. In reality the JI was unable to match the patron-client politics, especially the biradri based politics of the two main clientelist parties (PPP and PML) and hence would have been unable to compete electorally with them. This is still one of the reasons why the JI hasn't become a formidable electoral force in Pakistan. (However after elections held this year the JI has entered into a coalition to run the provincial government in Khyberpakhtunkhwa with Pakistan's emerging opposition party Pakistan Tehrik-e-Insaaf though it itself has a share of only nine seats). By this time Pakistan's debt levels meant every Pakistani carried a liability of \$500 (Talbot 2005). Given the increasing politicization of the bureaucracy and Sharif's attempts at deliberately weakening the judiciary the Army was called in to perform routine administrative tasks. This only made the Army stronger and better able to check Sharif's growing bent toward authoritarianism (Talbot 2005).

But the real import of Sharif's animosity towards the Army was its consequences for the economy. The Pakistani economy saw a dip in the GDP growth rate from the levels of the Zia years, from 6.6 to 4 per cent (Table 7.5). The PML(N) at one point seemed to be political organization most suited to develop capabilities among Pakistan's indigenous businessmen (Lieven 2011) . It was created by the Army, specifically Zia, and the Sharifs and similar families were successful businessmen with the correct kinship networks. This would have helped the Army overcome difficulties arising out of picking 'winners' and hence solve the problem of lack of legitimacy that so often confronts states pushing an industrial agenda that favours some over others. As we have mentioned before one of the reasons for the failure of Ayub Khan's attempts at implementing industrial policy was an inability to choose capitalists who could also claim legitimacy from Pakistan's other social classes. By the time Sharif came to power the Pakistani middle class had also evolved enough to demand the benefits of further industrialization. The party was also in alliance with the JI and the latter's popularity among those sections of the country who are both conservative and lower middle class and newly emerging middle class would have provided the PML (N) with the added legitimacy it lacks now, especially with Islamic organizations mobilizing much more intensely in contemporary Pakistan and not always for economic redistribution.

Another advantage was that the PML (N)'s stronghold is in Punjab, Pakistan's industrial heart which includes industrial centres like Faisalabad (in the Saraiki speaking region) and Sialkot (near Lahore). The Saraiki speaking regions can sometimes be at odds with the Punjabi speaking regions but Sharif was still able to carry his party through in the Saraiki regions. However Sharif took the Army head on and at this time General Pervez Musharraf ensured Sharif's wings were effectively clipped. This prevented any repetition of a military-political-capitalist alliance reminiscent of Ayub's times. Along with the efforts of the Ayub era and Zia's missed opportunity the Sharif administration's second tenure can also be seen as a phase that showed the highest potential for implementing an industrial policy, but the opportunity soon dissipated in part due to Sharif's own political recalcitrance. As Lieven points this is one of the key reasons why Pakistan will not see a replication of

even the modest growth in Egypt and Iran which was achieved through the Muslim Brotherhood's support base of a relatively prosperous commercial class or in Iran's case through the Bazaaris. The Bazaaris are Iran's heterogeneous commercial class who were neglected by the Shah but were mobilized effectively by leaders of the Revolution especially through their networks in mosques located in urban trading centres. Some Bazaari leaders were subsequently given positions of power in the government. A Turkish 'model' seems almost an impossibility given that the ruling AKP has its support base directly among the Anatolian capitalists who were neglected by the Army regimes in Istanbul. This gives the AKP credibility among a sizable section of capitalists in the country. More importantly the per capita incomes of all these countries are higher than Pakistan's, especially Turkey, and the classes mobilized could utilize their relative economic prosperity to move towards a more successful transition to a broad-based capitalism. It would be difficult for the JI to drive such a transformation in Pakistan because there is little investible surplus among its aspirational but lower middle class support base who could mobilize to drive growth. The JI has strong views about social justice based on its Islamic world view but would have little to deliver on formal economic policy (Lieven 2011). Yet it is interesting that the widespread lawyer's movement in Pakistan that proved to be General Musharraf's undoing found strong support with the JI. Hence attempts at policy making would do well to involve the JI even though its presence in the National Assembly of Pakistan is very low.

The interregnum between the PPP government and the PML (N) government in 1993 saw a caretaker government in power headed by a former vice president of the World Bank (there was another headed by Balakh Khan Mazari but achieved little in terms of the economy). While this might not seem out of place now, what with African leaders frequently having World Bank careers behind them, in 1993, and certainly for South Asia, this was a first. Other senior ministers in the Moeen Qureshi government were also more businessmen than politicians: the finance minister was a leading industrialist while the information minister was the head of IBM in Pakistan. For a country whose organized sector was pitifully small and which was still caught up in a transition from a proto-capitalist to a broad-based productive capitalism this

was a technocratic government that in no way represented the true social, political or economic structure of the country. However both Benazir and Sharif acquiesced to this choice largely because it meant unpopular reforms could be carried through without the popular politicians taking the blame. The Army also backed Qureshi as a means to introduce austerity based reforms. Pakistan had already received its first structural adjustment loan in 1982 under Zia but the military government had cancelled it perhaps anticipating the protests that later such programmes would lead to. Military expenditure was one of the key reasons why Pakistan's foreign debt liabilities reached close to \$19 billion in 1990-91. By 2008 this had gone up to unsustainable levels of \$44 billion (Mahmood Tahir 2009). In 1996 the second caretaker government of Meraj Khalid stepped in between Benazir's and Sharif's second term. This included Shahid Javed Burki, a World Bank vice president as the country's chief economic advisor. Once again in line with IMF requirements Burki tried to introduce reforms like taxing agriculture, privatization, rationalizing petroleum prices etc.

The political settlement of the democratic period reflected a competitive clientelist distribution of power across political organizations. The ruling coalition, whether PML-N or PPP was weak, and lacked long time horizons and implementation capabilities. Technocrats supported by the army and with the tacit approval of the political and business leadership pushed through early liberalization reforms. There was little evidence of significant resistance from big business which suggests that the hidden subsidies and benefits were informally continued. However, subsidies to social sectors began to be cut, reflecting the weak incorporation of intermediate class interests in the ruling political organizations. While this was happening, the capture of significant resources by economic and political organizations higher up the political hierarchy intensified. The evidence and charges of political corruption increased as a result of heightened primitive accumulation involving elites in both parties. The partial implementation of liberalization reflects the distribution of power in the political settlement with adverse effects for long-term growth and political stability. Much of the structural adjustment programmes were pushed through the institutional mechanism of the caretaker government. The caretaker

governments were not answerable to Pakistan’s National assembly, nor were they composed of political parties who operated on the basis of any patron-client system and they had the tacit support of the army. This freed the technocratic caretaker governments of any clientelistic compulsions and the army’s support gave them a free hand to announce the reforms. A later section in the chapter deals with the adverse consequences of such reform by stealth.

GDP	5
Agriculture	3.2
Industry	6.8
Manufacturing	8.6
Services	5.7

Table 7.6. Sectoral and GDP growth rates 1999-2008 (constant US\$2000)
 Source: WDI, World Bank

The government of General Pervez Musharraf that followed was dominated by security issues and security-related rents. Musharraf is likely to be remembered for two key issues—the brief and rash Kargil War with India and the decision to take on the Taliban in earnest (though Pakistan had started initial crackdowns on Islamist organizations as early as 1992) at the behest of the Americans after 9/11 including sending the Army into vulnerable areas like the Lal Masjid (Red Mosque) in Lahore. The regime’s imperatives of charting out a strategy that would allow it to balance between the need to be an American ally and using the Taliban to create strategic anti-India depth placed Musharraf between a rock and hard place. Like Ayub and Zia, when faced with growing civil and political unrest he fell back on local municipal elections in 2000 to bypass the clientelist political parties and co-opt new political

organizers at lower levels (Talbot 2005; Lieven 2011). In 2002 Musharraf created a party mostly of defectors from the PML (N) called the PML (Qaid e Azam) or PML (Q). As Lieven says Musharraf was genuinely committed as a liberal progressive but once again ran into the realities of South Asia's complex social structures and patron-client politics. On the economic front his high profile finance minister and later prime minister Shaukat Aziz, a former Citibank senior executive steered the economy at a time when growth hovered between 6.6 percent and 9 percent (Lieven 2011). His policies once again veered close to Qureshi's and Burki's, essentially privatization and deregulation. For a while his policies seemed to have worked and enhanced yet military aid was once again responsible for higher growth rates (Table 7.6). It was 3.9 per cent when Musharraf took over in 1998 (Lieven 2011). In certain consumer driven sectors like mobile telephony and internet usage these policies worked well. The number of mobile phone subscribers rose from 300,000 in 1997 to 35 million in 2007. Internet users went from 200,000 to 2.4 million in the same period. Even exports did well increasing from \$7.5 billion in 1998-99 to \$17 billion in 2006-07 (Shaukat Aziz in an interview in *Emerging Jordan*) (Oxford 2007). However as Lieven recounts businessmen in key industrial centres like Faisalabad felt the growth targets of Aziz (phones, fridges, net connections) were misplaced when what the country needed a comprehensive investment architecture for industrial growth. That was simply not provided (Lieven 2011).

The political settlement under Musharraf approximated to a more vulnerable variant of vulnerable patrimonialism. Compared to Zia Musharraf had to exercise greater repression to exclude powerful organizations. This ironically led to the weakening of the army and its ability to discipline excluded organizations. Moreover, unlike Zia, the Afghan adventure that now gave the military access to external rents was this time deeply unpopular in many sections of Pakistan's population. But these strategic and rent capture imperatives once again overshadowed a developmental agenda. Finally, compared to Zia, Musharraf's strategy was even less aligned to deliver to lower levels of society and the political organizers and organizations at these levels. The exclusion of a majority of the intermediate class in areas like the FATA and Khyber Pakhtunkhwa eventually led to their successful mobilization by informal

religious organizations and pushed the country to the brink of civil war. This ensured the gains from the early years Musharraf's tenure could not be consolidated.

7.6 Contemporary Pakistan—Deepening of a Crisis of Legitimacy

GDP	3.8
Agriculture	2.2
Industry	4
Manufacturing	.9
Services	2.2

Table 7.7. Sectoral and GDP growth rates 2008-10 (constant US\$2000)

Source: WDI, World Bank

For the first time since independence an elected government completed its five-year term in Pakistan 2013. Elections were held in the same with a relatively high turnout that returned Nawaz Sharif to power. Importantly the current Army chief of staff Ashfaq Parvez Kayani has maintained a studied distance from political developments and has passed an order directing senior Army officials to withdraw from civil departments, though Pakistani analysts have also suggested the Army is very active in the political arena, only not visibly. What this means for an organization long used to political power and patronage will be difficult to predict but that this is an organization in transition is not in doubt. The PPP is surviving only because those planning any possible revolt know that in the tradition of South Asian dynastic politics unseating Zardari, now seen as a member of the Bhutto dynasty, will destabilize the party as such parties only coalesce around a dynasty. Both the

military and political establishment's complicity in allowing drone attacks that kill Pakistani civilians on Pakistani soil is ensuring they lose credibility in the eyes of ordinary Pakistanis. In all of this the economy has taken a back seat. As Lieven recounts businessmen do want the government to provide credible direction but do not want what the government is now offering in the way of more liberalization (Lieven 2011), and in some cases even the 'Most Favoured Nation' status to India is being opposed given that India remains the stronger economy. The Army's operations in the north west of the country in the early 2000s actually weakened its hold over organizations it could once direct. According to the International Growth Centre violence in FATA, Balochistan and Khyberpakhtunkhwa increased significantly since 2005. Sind and Punjab had historically been witness to high levels of political violence but the other three provinces remained relative peaceful. It was with Pakistan's involvement in the so called war on terror that violence escalated especially in Khyberpakhtunkhwa. After 2005 the province became the second most violence prone province. On the heels of the Army's operation in Swat and Malakand militant attacks in response to the Army's operations increased by 46 times (Shapiro, et al. 2012). This best demonstrates the reasons for escalating violence with the Army operations pitting the state against organizations that were once part of the ruling coalition. Once again the state thought it could manage the choices of including and excluding organizations at will. But events proved otherwise with the distribution of power being such that organisations like the TPP had the potential to destabilize the country significantly.

Contrary to beliefs that the Army was the dominant organization arching across political, bureaucratic and economic sub-systems a closer analysis through our framework suggests otherwise. While there is little doubt that the Army in Pakistan pervaded all these three sub-systems was by no means uncontested. If anything contestations by informal political organizations increased in the decade starting in 2000. The rents that the Army distributed to its clients came under increasing contestation by other informal, irregular groups we have identified earlier. Given that the Army experienced a crisis of legitimacy due to its support, though strained, of US policy and the drone attacks its role as a dominant player is questionable. A

spate of attacks on defence personnel in 2013 around the country pointed to the fact that the Army no longer had the requisite enforcement capability to direct the irregular forces it once employed for strategic purposes.

Organizational power was embedded within informal religious and quasi religious organizations and their sustained exclusion from the US aid-led distribution of benefits overseen by the Army is pushing Pakistan towards a consistently weakening operational equilibrium. However a distribution of benefits bringing these organizations more in line with their real holding power will require fundamental, non-incremental changes to the Pakistani political settlement that will make the growth stability trade off curve a very steep one. Hence the current political settlement where the Army and bureaucratic and business elites share the distribution of benefits is unlikely to be changed voluntarily by the latter organizations. What we observe therefore is increasing contestations by informal Islamic organizations whose demands for pay-offs are becoming increasingly difficult to meet as they become more rigid in their interpretation of Islam. This is especially evident in attacks on Pakistan's significant Shia Muslim community. Given the high holding power and ability to inflict violence the operational equilibrium between them and formal political organizations is understandably very fragile. The Sharif government has expressed a desire for rapprochement but continued drone attacks have lent little credibility to these efforts. A lack of developmental institutions is hampering growth though there are signs of higher private sector involvement with a consensus towards more pro-market reforms, especially in the financial sector. As a result of this most productive organizations still possess only moderate capability and with little formal support developing further capabilities is difficult. As Table 7.7 shows manufacturing growth was eventually the hardest hit.

7.7 An Evaluation of Liberalization: The Wrong Policy or Poor Implementation?

Liberalization dominated the institutional and policy reform agenda of Pakistan from the 1980s to the 2010s. It was driven by IMF supported Structural Adjustment

Programmes (SAPs) that aimed for a combination of austerity and liberalization, particularly trade liberalization and privatization. While the growth of GDP and per capita incomes both declined in the 1990s they were some improvements in the 2000s. However inequality increased in both periods though poverty data was on a declining trend between 2001-05 (Husain 2010). Total Factor Productivity growth was at its lowest from 1990-91 to 2000-01 (Harber 2009). Pakistani economists attribute much of the adverse outcomes to Structural Adjustment Programmes (SAPs) that Pakistan implemented in this period (Anwar 1996; T. A. Khan 2000; Bhutta 2001; H. N. Gardezi 2004; Anwar 2010; Nosheen, et al. 2010; Khan Ali Ejaz Rana 2011). There are two types of questions about liberalization in Pakistan during this period. The first was whether it was the appropriate policy response to the political and economic problems that Pakistan was facing. The second was to understand how the programme was likely to be implemented given the weak formal enforcement capabilities of the state. Even if the programme had been theoretically appropriate it may not have achieved good results in this context. More interestingly, the manner of its partial and modified implementation may have had specific adverse effects.

Pakistan received six tranches of loans under SAPs since the 1980s. A large body of literature has evaluated their impact (Redelet S 1998; Naiman and Watkins 1999; Baro R. J 2005). The Pakistani criticism of the SAPs suggests that the slowdown and growth in economic inequality is at least in part a result of these programmes. Table 7.8 compares economic growth before and after reforms. The GDP growth rates and rate of growth of exports were both higher in the pre reform period. Pakistan received approximately \$31 billion in IMF loans and other external assistance between 1985 and 2000. The most damaging phases of structural reform seem to have occurred under the Nawaz Sharif governments. In 1989-90 the government put 108 of Pakistan's 175 public service enterprises on sale in industries ranging from engineering, oil and gas, telecommunication and fertilizers. At that time their pre-tax profit amounted to \$ 605 million and their total assets were valued at \$ 36.7 billion. A 'fast tracking' of the process resulted in 66 of these being sold but the proceeds yielded only \$3.9 billion, far lower than their asset values (T. A. Khan 2000). The

private sector only continued to do well in a few sectors like cotton textiles and for the most part the growth of the private sector came in the service sector.

Pakistan	Mean BR (1980s)	Median BR	Standard Deviation BEFORE	Mean AR (1990s- 2007)	Median AR	Standard Deviation AR
Real GDP growth rates	6.7	6.5	1.7	4.8	4.8	2.3
Investment rate (% of GNI)	18.7	18.8	0.4	18	17.3	1.4
Current Account deficit (% GDP)	-2.9	-3.3	1.2	-1.3	-2.7	3.7
Real export growth rates	9.8	12	13.2	7.8	7.6	11.3

Table 7.8. Key economic indicators before and during the reform period

Note: BR is before reform, AR is after reform.

Source: (Nosheen, et al. 2010)

Nawaz Sharif also liberalized Pakistan's stock markets in 1991. As a result the market capitalization of the Karachi Stock Exchange increased five times between 1990 and 1994. Net portfolio inflows into the Pakistani economy amounted to \$3.3 billion between 1991 and 1995 (I. Ali and Malik 2009). In 1990 the share of total banking assets owned by the public financial institutions was 92.2 per cent. By 2009 this share had dropped to 18.70 per cent (Waheed 2010). However despite the increase in private sector participation and increased financial flows Pakistani banks performed less than satisfactorily in terms of extension of credit to the private sector. In 2006 Bangladesh had a higher private sector credit to GDP ratio than Pakistan despite being the country with lowest per capita incomes in the sub-continent (SBP 2006). Credit has also not been flowing to sectors like SMEs despite efforts of the government (GoP 2011). Pakistan's GDP growth rates were slightly higher under Musharraf, but then declined again (Table 7.2).

Tables 7.5 to 7.7 show that manufacturing had spurts of growth after the process of liberalization but by the end of the 2010s the industrial and manufacturing sector in Pakistan faced significant challenges. Unlike India and Bangladesh, Pakistan did not develop any new globally competitive sectors in the 1980s or 1990s. According to some studies economy-level TFP improved in the 1990s but this is largely explained by the growth of some high value services like finance, after the liberalization of 1991 and better capacity utilization of in the 1990s as domestic demand was sustained by security-related external rent inflows (Kemal 2007; Husain 2010). Some studies show that growth in the manufacturing sector remained input-driven rather than productivity-driven over this period (Chaudhry 2009). A working paper of the State Bank of Pakistan concludes that trade openness had a negative correlation with TFP growth while government consumption and FDI were positively correlated (S. U. Khan 2006). Most empirical studies of this period agree that growth was driven by the service sector and manufacturing growth suffered from low productivity and competitiveness. A cross country report by UNIDO on competitive industrial performance (CIP) shows that Pakistan's competitiveness since liberalization has shown a downward trend. The same report also identifies an aggregate competitiveness problem in India but its performance was relatively better than that of Pakistan. Pakistan's manufacturing value added per capita was close to India's in 1990 but by 2000 it had fallen to 70 per cent of India's and 18 per cent of China's (Table 7.10). Significantly the value of manufactured exports per capita was 165 per cent higher than that of India in 1990 and even exceeded China by 7 per cent. But by 2000 this figure had dropped considerably to become only 58 per cent higher than India (Ansari 2005). Pakistan's higher manufacturing exports per capita reflect the initially greater export orientation of Pakistan's manufacturing sector. The interesting feature is the time trend in export performance relative to India.

Some level of volatility is expected in manufacturing performance in developing countries, but the trends in productivity and competitiveness in Pakistan's case suggest that liberalization has had an adverse effect on competitive capabilities. This is consistent with our qualitative finding that there were no capability development strategies in the 1980s and 1990s even of the type that Pakistan attempted in the

1960s and the results are validated in productivity and competitiveness indicators for the manufacturing sector (Tables 7.9 and 7.10). The growth of the financial sector did not translate into more innovative credit instruments that could assist capability development in Pakistani manufacturing. Interestingly the ten largest corporate groups in India, including Reliance, Essar and Adani, have an average net debt to EBITDA (earnings before interest, tax, depreciation and amortization) ratio of 5.6 and are probably excessively overleveraged as a ratio above 5 is considered unsustainable (Crabtree 2013). In contrast, Pakistan's corporate sector displays the opposite problem. The equity to debt ratio of 8:2 suggests they rely far too much on internal resources for investment and have limited access to acceptable terms of credit from the banking sector. According to Husain if this ratio could be reduced to 7:3 the country's investment to GDP ratio would move up to 21.2 per cent from 20 per cent (Husain 2007). Arguably, financial liberalization has not served the manufacturing sector even though this was one of the reasons cited for liberalization in the 1990s. In India's case the figure quoted above is probably evidence of liberalization increasingly serving narrow, and increasingly unproductive interests as highlighted in Chapter Four.

Year	60-04	60-69	70-79	80-89	90-99	00-04
Real GDP Growth	5.4	6.31	4.9	6.3	4.4	4.5
Capital	1.9	2.1	1.8	1.9	1.9	1.6
Labour	1.8	1.6	2.0	1.8	1.7	2
TFP	1.7	2.6	1.1	2.6	0.8	0.8

Table 7.9. TFP growth in Pakistan

Source IMF 2005 quoted in (Husain 2010) Table 5

	1990				2000			
	MVA per capita USD	MHT in MVA (%)	MX per capita USD	MHT in mfg exports (%)	MVA per capita USD	MHT in MVA (%)	MX per capita USD	MHT in mfg exports (%)
Pakistan	56	31.9	45	8.1	63	35.1	60	8.9
China	113	57.6	42	34.4	350	57.3	183	44.6
India	60	55.3	17	17.9	90	58.4	38	19.7

*Table 7.10. Pakistan's declining competitiveness
(Competition as measured by the Competitiveness Industrial Performance Index)
MVA- Manufacturing Value Added
MHT- Medium and High Technology
MX- Manufactured Exports
Source: UNIDO quoted in (Ansari 2005), Table 2*

Our comparison of Pakistan with India suggests that while there are differences there is also much in common in the challenges faced by the two countries. Their per capita incomes are fairly close and in terms of indicators like poverty and inequality they are also very similar. Both adopted liberalization reforms in the early 1990s that led to the rapid growth of the service sector. However as outlined in Chapter Four India adopted liberalization reforms when at least a few of its important manufacturing sectors like automobiles and pharmaceuticals had achieved global competitiveness. Despite this, the Indian economy still suffers from market failures in finance that impede manufacturing companies from achieving greater competitiveness and new manufacturing sectors emerging. In the case of Pakistan, liberalization happened at a time when it did not have any major sectors of manufacturing that were reasonably close to the global competitiveness frontier.

Yet Pakistan's manufacturing included sectors like textiles, simple electronics and surgical instruments that could have benefited from capability development strategies. There is no evidence in Pakistan of the type of capability development strategy in the Indian automobile sector outlined in Chapter Four and Khan (2009a). This is despite Pakistan having an auto components and assembly sector which may

have benefited from similar incentives for technical and organizational capability development. The textile industry is Pakistan's most critical industry in terms of its contribution to the economy. Pakistan is the fourth largest producer of cotton with a nine per cent share of the world market. Its textile industry accounted for 54 per cent of exports, 38 per cent of industrial employment and 8.5 per cent of GDP in 2011. But the textile sector also faces 'significant productivity and quality gaps' (Iqbal, et al. 2010). It still operates at the low end of the value chain rather than high value added products. The chief constraint in the sector despite relatively low wages is the lack of technical and organizational capabilities to compete in global markets. Pakistan is also trying to be a significant player in the ready-made garments sector but has some way to go before it can catch up with Bangladesh. Given that the average total cost per operator hour in the case of Bangladesh is \$0.31 and Pakistan's is almost double that at \$0.56, it faces a significant challenge in raising productivity and quality enough to compensate for its initial cost disadvantage (PRGMEA 2010). These are unlikely to happen without adequate policies.

The Sialkot industrial cluster producing high quality surgical instruments for western export markets is one of Pakistan's successful manufacturing sectors. The sector exports close to 90 percent of its production and was established in the 1960s under Ayub Khan's industrial policies. It was an early beneficiary of export incentives. It is already at a higher end of technical competence than the cotton textile industry and exports to high income markets. In 2008-09 Pakistan exported surgical instruments worth \$250 million mostly to the US with the sector employing about 150,000 workers. Like much of the developing world's success stories government policy was important in pushing the sector up the value chain. In 1994 significant quality requirements were imposed by the American Food and Drug Authority (FDA) on imported surgical instruments. Given the importance of the sector, manufacturers reached an understanding with the government to provide the necessary training to employees that would enable the sector to compete on the terms required by the FDA (Nadvi 1999). This collaboration required limited public funds or monitoring because the sector already had high capability and a strong incentive to improve its quality to keep its market. It was one of the few examples of successful capability

improvement with government assistance in the 1990s when the political settlement was competitive clientelist. The effort proved a success and Pakistan was able to regain its lost share in the export market.

The Pakistani government has since delinked itself from direct involvement in the sector, but the successful outcome suggests that these linkages should be maintained for pragmatic capability development initiatives. The PML-N government of Sharif that was involved in this initiative was not anti-industry but it was also not pro-actively promoting industry. The extensive privatization programmes of the 1990s provided the PML-N with enough opportunities for rent allocation without difficult strategies of promoting industrialization through capability development. A report of the Rawalpindi Chamber of Commerce identifies why government assistance is necessary for addressing productivity and competitiveness problems (Aaliya 2010). Training and re-skilling are consistently identified as bottlenecks and we would add the problems of organizational capability development, which requires learning-by-doing strategies. All these competitiveness enhancing strategies require financing and an appropriate design of the governance of the financing strategy so that financing is not captured as an unproductive rent. The report says that despite the presence of many banks and leasing companies, access to finance is only easy for large companies who have good personal relations with the banks. Small vendors have limited access and face higher financing costs, making investments in raising competitiveness risky and costly. Small and medium manufacturing and agro based industries remain 'credit-starved' (Husain 2007).

A sector that has the potential to transform the fortunes of Pakistan's manufacturing industry is the auto and auto components sector. Till the 1970s the automobile sector in Pakistan relied on simple assembly of imported kits and early attempts at localization did not succeed. The Pakistan Automobile Corporation (PACO) was set up under the Bhutto administration to manufacture cars locally and consisted of two segments: Pak-Suzuki in collaboration with Suzuki of Japan and Millat Tractors (the latter was nationalized having been established in 1964 to market Massey Ferguson Tractors in Pakistan). While the economic policies of the Bhutto era are often

criticized for setting back the pace of Pakistan's industrial growth some sectors actually benefited from these dirigiste policies. The automotive sector was certainly one of them. Pak-Suzuki was the largest auto company in the country and Millat Tractors emerged as one of the country's leading manufacturing companies looking to export to markets like Afghanistan and some African countries by the early 2000s.

A comparison with India's auto sector is useful here. It is significant that Maruti Suzuki made its entry into India's protected market almost a decade after PACO was established and played the role of a catalyst in developing India's auto sector. One difference stands out clearly. Unlike India where the auto sector was protected till liberalization in the 1990s the Pakistani auto market was dominated by imports till 1971. The long period of protection had allowed India to achieve significant learning by doing even if it produced very low quality cars and heavy commercial vehicles. Nevertheless, India had achieved the capabilities to make these vehicles entirely within India. When Suzuki came to India it was promised significant implicit rents in the protected market (as well as other explicit subsidies like the allocation of prime land) as long as it achieved significant local content in five years based on developing the technological and organizational capabilities of tier one and two component producers. The ex-post rents offered to Suzuki and the possibility of actually achieving the indigenization given the high initial capabilities encouraged Suzuki to accept this deal. It was able to roll out cars with the required levels of indigenization by the 1990s. The consequent development of Suzuki's vendor base led to the growth of India's auto component sector that today has two successful indigenous auto manufacturers, Mahindra & Mahindra and Tata Motors. India's auto component manufacturing sector is also one of Asia's most competitive. It would not be inaccurate to say the long period of protection had positive dynamic consequences for India despite significant short-term inefficiencies (M. H. Khan 2009a, 2013b, 2013a).

Pakistan did not have a strong initial capability base in automobile manufacturing in 1971 and could not set ambitious targets for Suzuki in the 1970s that India could in the 1980s. Given that the manufacture of tractor parts was technically and

organizationally less complex compared to car components it was this sector that saw the most growth (Ghani and Khan 2004). However since the 1990s a process similar to the one observed in India’s auto sector was unfolding in the Pakistani auto sector in scope if not in scale. The opening up of the market to foreign manufacturers meant they were able to make use of the base developed by Pak Suzuki, and Honda and Toyota also set up assembling and manufacturing operations. As a result some auto component producers like Ragstar Engineering achieved high levels of export competitiveness. The Pakistani government established programmes like the National Trade Corridor Improvement Program (NTCIP) and the Auto Industry Development Program (AIDP). However, policymakers failed to come up with instruments for financing capability development that ensured compulsions for high-effort learning. This failure can be understood given the difficulties of enforcing formal instruments in the political settlement in Pakistan that was gradually moving in the direction of weaker enforcement and time horizons.

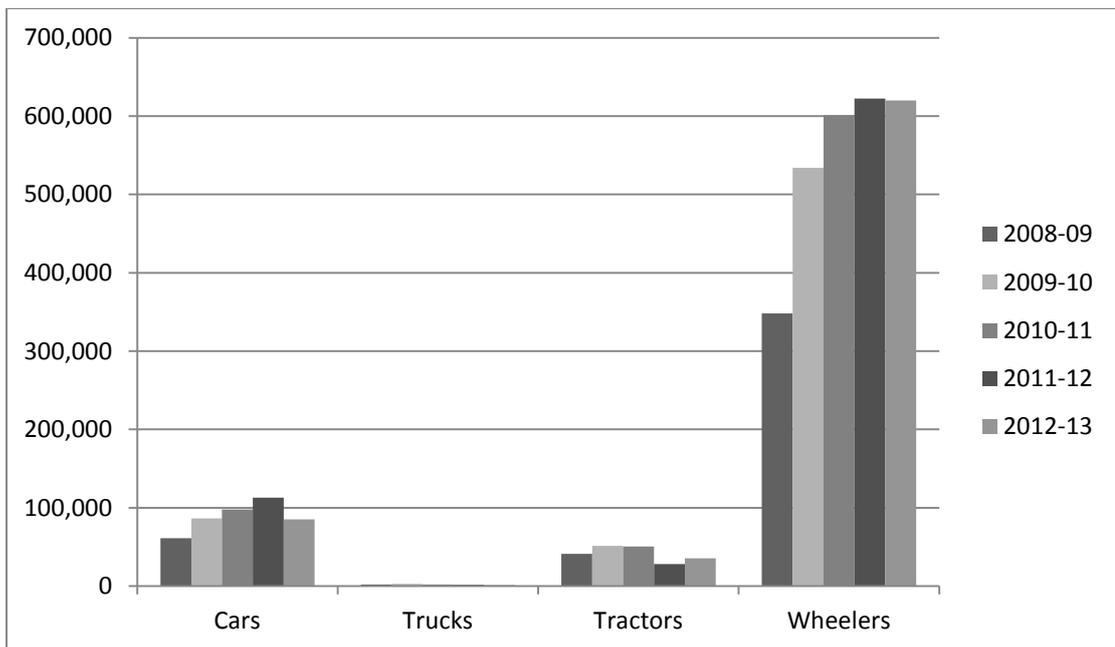


Figure 7.2. Automobile sales figures from 2008-09 to 2012-13

Source: (PAMA 2013)

Note- Wheelers are 2/3 wheelers (scooters, motorcycles, ‘tempos’)

Automobile production has not broken through to achieve global competitiveness. Production was low in the 2010s with production in 2012-13 being at its lowest level since 2009-10 (Figure XXX). Tractor production figures are somewhat better, picking up in 2012-13 after a period of low growth, but two and three wheeler sales have been the most robust reflecting the relative competitiveness of Pakistani vehicles at the lower end (PAMA 2013). The policy and academic literature on the automobile sector uniformly mentions the important role of government and why it needs to do more despite initiatives like the NTCIP and AIDP. A crucial problem here is the relationship between economic organizations in the sector and the ruling coalition. The Indian auto and auto components producers in Tamil Nadu had historical links with different parties who could constitute the ruling coalition. The ability of the ruling coalition to direct rents to their clients in the business sector in a context of competition between firms and between political parties made rents available for capability development with competitive compulsions for raising productivity. The configuration of economic and political organizations in Pakistan was less favourable for rent allocations that could create compulsions for capability development. There were too few players in the automobile sector, their capabilities were not close to global competitiveness and political organizations in the 1980s and 1990s had weak implementation capabilities and short time horizons. Credible support for high effort capability development therefore did not emerge.

A few qualifications on the measures of competitiveness in existing studies are needed here. Studies on competitiveness carried out by the World Bank, the Asian Development Bank (ADB) and the Competitiveness Support Fund (CSF) have been influential in policy circles but they have also and rightly come in for some criticism for the particular indicators they use. They rely on indicators like education or infant mortality that are useful in their own right but have little necessary bearing on levels of competitiveness. Some of the data also suffers from selection bias and is unrepresentative. For instance the Executive Opinion Survey in the CSF report was conducted among Pakistani executives who work in firms with more than 100

employees, when most of Pakistani business is concentrated in the small scale sector (McCartney 2011). The UNIDO report is less biased towards inappropriate 'good governance indicators' of the sort used in the ADB, WB and CSF reports and relies more on measures of per capita MVA or manufactured exports, but these measure competitiveness by looking at its outcomes. In the UNIDO report there are also problems with assigning equal weight to all indicators and not adequately differentiating between assembly and manufacturing (Ansari 2005). Yet it is arguably the index that comes closest to measuring true competitiveness (see our discussion in Chapter four) unlike measures based on good governance indicators of competitiveness like security of property rights and democracy.

Finally, privatization has been a much bigger programme in Pakistan than in India but it has not achieved significant results. Privatization will only lead to greater static and dynamic efficiency if firms are capable of competing in a more open economy *and* if privatization reduces the unconditional support given to firms by different types of explicit and hidden subsidies. Hidden subsidies to large business organizations in Pakistan come from a variety of mechanisms including bank loans on soft terms, and these remain politically easy to access for large private sector firms (Khwaja and Mian). Indeed, privatization was a mechanism for directing further rents the politically connected business organizations. Between 1990 and 2004 the sectors that accounted for the largest share in privatization proceeds were banking, energy and telecommunications, sectors (Syed, et al. 2012) that are not linked directly to manufacturing growth and capability development. The preponderance of privatization in banking would also support our conclusion in Section 7.5 that this sector provided easy rents for both political and business organizations while leaving out the intermediate class from the processes of accumulation. Thus, the implementation of privatization and liberalization in the context of the configuration of power in Pakistan did not create significant pressures for capability development and more importantly, reduced the policy space for interventions that could assist capability development except in a small number of cases.

A Government of Pakistan Labour Force Survey in 2003-04 concluded that the majority of new jobs were created in the country's unorganized, informal economy the share of which in non-agricultural employment was 70 percent (Aftab 2006). Two recent studies on the impact of the SAPs have found they have had an adverse effect on indicators like employment, poverty, income distribution and export performance (Nosheen, et al. 2010; R. E. A. Khan, et al. 2011). As Table 7.8 and 7.9 suggest per capita GDP growth rates remained low throughout the period of SAP reforms and export growth suffered. Liberalization reforms in Pakistan had poor effects because the country was neither politically nor economically ready to be an open economy. It did not have a broad base of economic organizations close to the competitiveness frontier and its political organizations were becoming weaker and facing greater contestation, which reduced their enforcement capabilities and eventually resulted in high levels of political instability and violence. Liberalization enabled a very small section of the population to reap benefits through the growth of the service sector and through informal rent allocations that continued through the banking system, through privatizations and overt forms of 'primitive accumulation'. Most economic and social indicators suggest the majority of Pakistan's population remained outside this 'globalized' economy. This is where significant structural similarities remain with India whose liberalization strategies are proving to be inadequate for driving further growth (M. H. Khan 2011b). The structural exclusion of Pakistan's excluded social groups is however greater than in India and the declining legitimacy of the traditional political organizations creates challenges for maintaining stability.

7.8 Conclusion

The application of the political settlement approach to Pakistan provides a number of insights. The mainstream discourse on Pakistan highlights the absence of right institutions especially democratic ones, the presence of corruption and the growth of Islamism as the sources of Pakistan's problems. Our analysis suggests a different set of problems. First, the founding myths of Pakistan and the security prioritization it allowed created a more centralized rent distribution system that failed to increasingly integrate emerging mobilizations within the intermediate classes. At the

same time, the political settlement that had allowed substantial capability development interventions in the 1960s became progressively less conducive for interventions that could address these market failures in the 1980s and 1990s. Exacerbating the problem was the strengthening of liberalizing ideologies in this period that led to the deliberate abandonment of capability development strategies in this period. By the 2000s Pakistan was in the double bind of lacking capability building strategies for its economic organizations while its political organizations faced growing challenges from new more informally organized political organizations that want to overthrow the system and not just claim a share of rents.

Capability development strategies were most successful in Pakistan immediately after the onset of military rule in 1958 under Ayub Khan. The ruling coalition did not have the capacity to discipline subsidy recipients as in East Asia, but significant capability development happened, financed by public subsidies. The problem was that that vulnerable patrimonialism excluded too many powerful organizations and resulted in political conflict and the violent rupture of 1971.

This was followed from 1972 to 1977 by Bhutto's attempt to create a dominant party in a version of constrained patrimonialism with authoritarian characteristics. He used the populist slogan of Islamic socialism to sustain an authoritarian party. There were a few successes in setting up capability development projects, as in automobiles, and some public sector investments, but his period was marked by an attack on Pakistan's big capitalist that generally served to destroy productive and organizational capabilities. A second phase of military rule under general Zia-ul-haq was a significant turning point towards Pakistan's current impasse. The availability of centralized security-related rents associated with support for the Americans in Afghanistan and a failed attempt to destroy the old political organizations without successfully incorporating organizations representing the lower intermediate classes set the characteristics of the unstable political settlement that continues to affect Pakistan. Economic liberalization began in the 1980s as the military ruling coalition relied more on external rents and took less interest in capability development.

Zia's death brought in an era of deepening liberalization and structural adjustments under weak political governments in an intensely competitive clientelist political settlement. Economic organizations were too weak to dominate the political system and negotiate support for capability development, but individual business groups were powerful enough and well-enough connected to political organizations to sustain their rents through informal mechanisms like bank loans, and primitive accumulation based on getting government contracts and land allocations. Sectors like textiles and the successful surgical instruments sector soldiered on but did not enjoy the support for capability development that could have pushed them into more diversified and higher valued products. At the same time, the alienation of excluded groups increased as the traditional political parties engaged in more and more egregious corruption and unproductive rent capture.

Islam in Pakistan gradually progressed from being the identity of Muslim elites in British India mobilizing to protect their access to rents in a democratic independent India where they would be a perpetual minority to the mobilizing ideology of excluded groups within Pakistan. To isolate the ruling groups who are also Muslims but who subscribe to more 'liberal' forms of Islam, it is not surprising that excluded groups would distinguish themselves by defining Islam in a form that is guaranteed to isolate the ruling elites. The sometimes misguided attempt by military and traditional political elites to use Islam to consolidate their own support is only part of the explanation for the growing mobilization of the excluded using increasingly radical Islamic ideologies. The logic of the political contest over rents suggests that radical Islamism would probably have emerged anyway as long as the political organizations controlled by higher level elites failed to rapidly incorporate organizations led by and catering to the political ambitions of lower intermediate class groups.

This is the context in which local religious leaders, or mullahs, who were once at the bottom of the social hierarchy in regions like FATA and Khyber Pakhtunkhwa relative to the landowning maliks and the educated ulemas, gradually became leaders of political mobilizations (Dorronsoro 2002; Lieven 2011). These leaders have

overturned the social hierarchy in many places and displaced the maliks and amirs to fill the vacuum the Pakistani state had never really filled (Lieven 2011). We have argued that the emergence of violent political conflicts and strategies of radically targeting the social order rather than demanding incorporation is similar to the experience of Maoist movements in India. The failure to gradually incorporate marginalized groups in rent distribution systems can result in the emergence of radical rejectionist movements. Class divisions superimposed on the failure of inclusion of potentially powerful groups within the political settlement can explain these outcomes, with culture and ideology playing a secondary role in explaining the mobilization ideologies. The role of class conflicts and failed clientelist strategies of inclusion and exclusion in explaining the rise of movements like that of the Taliban and other rejectionist social movements in Pakistan and India is an area of research that needs to be developed further in the future.

Islamic culture is often wrongly used to explain Taliban radicalism. A distinction has to be made between Islam as a set of cultural norms and its role as a mobilizing ideology for different types of social movements. In fact Islam has been used as a mobilizing ideology by many different types of groups and classes in South Asia with very different strategies that can be understood and explained in the context of specific contests over assets and rents. The new mobilizations using Islam in Pakistan are novel because a history of exclusion of certain classes and groups has resulted in Islam being used for nothing less than a complete restructuring of the political settlement. Our analysis of political settlements adds further depth to approaches that have argued that Islam as culture does not explain much about the specific characteristics of different political and economic mobilizations.

The political settlement in Pakistan in the 2010s seems to be sustainable only in the form of a medium-term impasse. The ruling coalition still has access to enough rents to sustain their hold over power but the excluded organizations are also displaying high holding power through their mobilizations that are often violent. The low enforcement capabilities of political and bureaucratic organizations also mean that strategies of creating new productive capabilities are likely to face significant

constraints. Economic organizations are too weak in terms of political power and economic capabilities to define a productive policy agenda. But many are well-enough connected to benefit from quick rent opportunities that can be shared with their political allies. These emerging features of unproductive business-government relationships are common to both India and Pakistan. The political settlement in Pakistan can and should change but this is a political process and not a technical or economic one that is amenable to policy in any simple way. Clearly, the incorporation of significant layers of new groups and organizations into the political settlement not just marginally, but as important players, is necessary if political stability is to be achieved. How this can be done when established elites still believe that the principle battle they are fighting is against Islamist extremism that on is a political challenge that will have to be faced by Pakistani political entrepreneurs. The political settlement analysis suggests that this type of organizational restructuring can only evolve internally and cannot be achieved through the interventions of external agencies. The conventional security and governance agenda assumes that with appropriate support to the Pakistani elite, groups like the Taliban can be wiped out. By locating the emergence of these challenges to Pakistan's established elites in the context of failed strategies of exclusion we contend that strategies of continuing this exclusion through the use of more force are likely to fail in the long-run and indeed result in even more violent and radical responses from below.

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