

**PAKISTAN AND EAST ASIA**  
**A Study of Divergence in Development Paths**

**By**

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## **ABSTRACT**

### **PAKISTAN AND EAST ASIA**

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The continent of Asia, in the current millennium, presents a picture of conspicuous divergence in terms of the development experience of its constituent East Asian and South Asian units. While East Asia symbolizes rapid transformation and progress, the South Asian region, typified by Pakistan, presents an image of poverty and misery. Despite the initial similarities between the two regions, the East Asian experience could not be managed in the soil of Pakistan. The tale of Pakistan's development experience in its historical perspective is a telling account that highlights this sad contrast in glaring light, and reveals the reasons for this divergence. It becomes evident that the state, its institutions as well as the governance dimension had a key role in determining this faltered development outcome in Pakistan. Further, the social, cultural and economic policies pursued by the state resulted in a pattern of growth with low human development. Thus, the complex web of state, institutions and society along with the global environment was responsible for determining the distinct development path followed by Pakistan since its inception relative to the more fruitful course followed by East Asian nations.

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*Dedicated to my parents*

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*Three great development waves have swept over Asia in the last five decades. The first wave started in Japan in the 1940s and 1950s when Japan combined its cheap labour with education and technical skills and took over rapidly the global markets in the export of low and medium technology consumer goods. Then came the second wave as the low income East Asian societies stepped into this growing void in the 1960s and 1970s following the same simple but brilliant model where low wages became a powerful engine of competition and growth as they were combined with an educated and skilled labour force and open economies. The third wave emerged in China in 1980s and 1990s and still continues unabated, based on simple human development models as followed by Japan and East Asian industrializing tigers in the past. An intriguing question remains: will the fourth great wave of development touch the shore of South Asia? Or will it miss the opportunity once again, as it has so often done in the past?*

**Mahbub ul Haq**

Dawn, 27 April 1998

## CHAPTER 1

### INTRODUCTION

The continent of Asia, at the turn of the twenty first century, gives the picture of a marked dichotomy in terms of the development experience of its constituent East Asian and South Asian units. While one part of the continent symbolizes rapid transformation and progress, the other part presents a picture of nations caught in the quagmire of poverty and misery. South Asia today is the second most populous region in the world, and carries the burden of the largest concentration of the world's poor. It has, with the exception of Sri Lanka, one of the worst records in human development. South Asia has countries of very uneven size and population, from India with its population of 915 million to Bhutan with 2 million. Largely poor, the region's countries have a per capita income ranging from a high for Sri Lanka of \$ 820 to \$217 for Nepal. All except Sri Lanka and the Maldives have HDI ranks of 128 and below out of a total of 180 countries. South Asian economies have found it difficult to sustain a six or seven percent growth rate. Savings rates are typically lower than in other parts of Asia, and the productivity of capital is also very low. There has been an excessive reliance on official foreign aid flows or borrowings from the IMF and the World Bank to bridge the gap between domestic resources and investment needs. In addition, South Asia continues to be a highly militarized region and an area of violent confrontations both within and between the countries.

In contrast to South Asia, which is today a laggard in Asia, East Asia despite the crisis of 1997 has moved far ahead and achieved rates of economic growth unprecedented in recent economic history. In this region macroeconomic stability provided an ideal launching pad; the rate of inflation through the 1980s and up to 1997 was lower in East Asia than in Latin America and the Caribbean, South Asia, and Sub-Saharan Africa. This stability was leveraged by a significantly more open economy, as measured by the share of trade in gross domestic product (GDP). Saving and investment rates were much higher, and the labor force was considerably more educated, assisting industrialization. As a result, East Asia proved to be the most striking developing region for global investment, and, as its manufacturing capability has improved, so has its appeal to foreign investors.



More than 17 percent of total foreign direct investment (FDI) worldwide between 1990 and 1997 was in East Asia. The benefits of the region's policies also are visible in the growth rates of GDP and progress in poverty reduction. East Asia achieved significant reductions in poverty over this period, with the number of people living on less than \$1 a day (the official poverty line) falling almost two-third, from 720 million in 1975 to 210 million in 2002. This occurred largely because the rapidity of growth outweighed the modest increase in inequality. This impressive performance was interrupted by the crisis of 1997-98, with the poor, the less educated, and unskilled workers among the worst affected. However, today China is fast emerging as a world-class economic power, having enjoyed double-digit growth rate of GDP for two decades. East and South East Asia are experiencing an enviable economic boom, with Japan, South Korea and Taiwan being counted among the ranks of the developed countries. Even Malaysia, Indonesia and Thailand are not far behind and in spite of some set backs are making significant progress.

The economic performance of East and South East Asia and their resilience in the wake of the East Asian financial crisis has dispelled the notion envisaging emulation of the western economic models as an indispensable prerequisite to growth, development and economic management. Countries outside the sphere of this dynamism, having taken inspiration from the success of their East Asian counter parts are engaged in the formulation and implementation of policies that could trigger and sustain economic activity. Pakistan is no exception in this effort for economic and institutional revival. In the recent years the reform efforts have increased in Pakistan and there has been an ongoing debate in the academic circles in Pakistan regarding the breakdown of institutions of the state and the possible ways of salvaging the state and the society. This debate has highlighted the urgency for a serious restructuring of economic policies and social institutions in order to emulate the success of Asian tigers.

The narrative of Pakistan's development experience is a telling tale that typifies this sad contrast in a glaring light and highlights the necessity of a more holistic approach on the issue. While drawing the parallels, the economists and planners in Pakistan remember the era of 1960s as the time when their country was at the same level as many East Asian States. However, in the later years the development paths have diverged

considerably. Today Pakistan, India, Bangladesh and Sri Lanka are among the least developed countries in the world. What went wrong and why? Why the East Asian experience could not be managed in the soil of Pakistan is the crux of the whole analytical endeavor. The aim of the thesis is to analyze the factors behind this divergence in the development experience, but for the purpose of a more focused approach the study shall examine the case of Pakistan in greater detail in the South Asian context. In addition, the study of Republic of Korea shall also be given greater attention in the East Asian context, for having greater analytical and conceptual clarity. This exposition shall involve analysis of the economic and social policies as well as the role of state and institutions, which influenced these policies. It shall also highlight the paradoxes of Pakistan's development with emphasis on an overall impressive growth with low human development. While describing the trends in the East Asian and Pakistani development the role of culture, and institutions as well as governance shall also be given due consideration.

## CHAPTER 2

### REVIEW OF LITERATURE

There are several studies of Pakistan's economic development since 1947. Out of the studies, which map out Pakistan's growth, the important are: (Haq, 2002), (Husain, 1999), (Khan, 1999), (Zaidi, 1999), (Hasan, 1998) and (Noman, 1997). In addition several research papers have also contributed to the debate notable among these are by (Khan, 2003) and (Easterly, 2001)

*Ishrat Husain* in his book, *Pakistan: The Economy of an Elitist State* (Oxford University Press, 1999) analyses the prevailing economic situation in Pakistan and traces the history of economic development in Pakistan during the last fifty years. He provides a political economy perspective to the history of economic development and compares Pakistan's economic performance with other South Asian and East Asian countries. He also outlines an agenda for economic and social reforms based on a model of shared growth. The main argument of his book is that the respective roles of the state and the market have been reversed in the case of Pakistan, with the result that the benefits are reaped by elites only. The small elite enjoys the unjust accumulation of wealth in the midst of widespread poverty and misery. He contends that this situation is not economically and socially viable. *Ishrat Husain* is of the opinion that most of the discussion and debate in the literature of economic development has centered on the dichotomous roles of the state vs. the markets. In the 1950s and 1960s, the received wisdom was that the state through a strong interventionist and directive role, using the instruments of central planning and state-led industrialization, would break the low-level equilibrium trap of poverty in which developing countries were caught. The subsequent experience of majority of the countries traveling this route exposed the weaknesses of this model, and the idealist concept of a benign and benevolent state acting in the larger interests of the population was replaced by that of predatory state guided by the narrow and selfish interests of those in power. The break-up of the Soviet Union completed the on-going intellectual revolt positively in favour of the superiority of markets. 'Government failure' was found to be a greater evil than 'Market failure'. 'Free enterprise' and 'deregulation' became the new buzzwords. *Husain* maintains that a more thoughtful and balanced analysis of the past fifty years experience thus leads to a more

sobering view of respective roles of the market and the state. An effective and capable state combined with properly regulated and well functioning markets in a competitive environment can bring a lot of good to the general welfare of the majority of the population in developing countries. The East Asian economies, notwithstanding the current turmoil in their currency, financial, and stock markets, have demonstrated the power of this combination. The result, accepted by everyone irrespective of ideological predilections, has been a model of shared growth in which rapid economic growth has been accompanied by rapid reduction in poverty and a more equitable distribution of the benefits of development. In contrast to this model of shared growth there is an equally powerful model of elitist growth, which characterizes a number of developing countries. Brazil, Mexico, Kenya, Nigeria, and Pakistan are the leading examples of this particular mode of development. Under this model, there is a reversal of the traditional roles of the market and the state. Markets are normally associated with efficiency and are found to be impervious to the considerations of equity and distribution. The state is usually thought of in terms of ensuring equity and access to opportunities. But under an elitist model, where both economic and political power are held by a small coterie of elites, the market is rigged and the state is hijacked in order to deliver most of the benefits of economic growth to this small group. The markets therefore produce inefficient outcomes that are detrimental to the long-term sustainability of growth, and the state, through its action, exacerbates the inequities in the system. Ishrat Husain's case study of the elitist growth model focuses on Pakistan, which for the fifty years of its existence has followed this model with varying intensity. It traces the consequences of the various policies followed by seven successive democratic governments in the period up to 1958, the dictatorial regimes of Ayub Khan and Zia ul Haq, the socialist democratic era of Z.A Bhutto, and the democratically elected governments since 1988. Thus, Ishrat Husain's main focus remains the elitist development in Pakistan in which there is no significant trickle down to the majority of the population, which remains deprived of the benefits of growth and development. While Ishrat Husain has charted out the economic and social agenda for the future in his book, he does not answer new questions regarding the role of the government under the forces of globalization, liberalization and integration of financial markets. Thus the changed world economic scenario available to Pakistan has not been

adequately taken into account in his study while outlining the policies for the future. Further, the book has not examined and incorporated serious political economy studies for examining the role of institutions in Pakistan and its development experience. He gives little attention to the role of various institutions and instead focuses on policies alone, which have caused the divergence in development.

*S. Akbar Zaidi* in his book, *Issues in Pakistan's Economy*, (Oxford University Press, 1999) develops a factual and interpretive story about the economic growth and development in Pakistan over fifty years and observes that a new economic and political order called the 'middle-class consolidation' has emerged in the country. It is argued that, while as an economic category the middle class emerged and consolidated itself, first in the late 1960s, and then again in the 1980s, it is only now in the new century that it is consolidating itself as political entity and force. His analysis of the institutional issues focuses on the factors and constraints that have inhibited social development. He opines that finances are not the sole problem affecting a sector, but issues of management, administration, and delivery are equally important. Issues like community participation, the role of non-government organizations (NGOs), governance, and decentralization are also evaluated in the light of past experience and current propaganda. He also questions the belief that NGOs provide an efficient and productive development paradigm, since experience in Pakistan suggests that most of these institutions have been co-opted by members of the elite to further their own personal and financial goals. Devolution, decentralization, and local government seem to be emerging as the new liberal panacea in development theory. He argues that, while they are well meant, such concepts need to be placed in a context of power relations and there are numerous structural constraints and prerequisites, which must be addressed to make any of these ideas functional, productive, and successful. In the concluding chapter of his book he looks at the impact of the economy on political formations, the state, and the classes. He suggests that Pakistan's middle classes are beginning to assert themselves collectively, not just in economic terms, but also as a political class. While Pakistan has a long way to go to become a modern, dynamic, educated, and vibrant society, we may see the beginning of such phenomena. However, it is still far from achieving any sustainable and stable order in the economy, in society, and particularly in politics.

Akbar Zaidi's study of devolution, decentralization and introduction of local government institutions in Pakistan has been particularly incisive and has been borne out by later events as the local government institutions have faced grave threats from entrenched classes and institutions because these threaten to alter the existing political and economic power structures. The emerging role of urban classes is also a penetrating new insight, which explains the potential role of these classes in the future political dispensation. However, the missing element in the study of political phenomenon is the lack of appraisal of the role of the armed forces and their secret arm i.e. the intelligence agencies, which have rigged virtually all electoral processes in the last two decades. Thus the political outcomes have been largely predetermined by the armed forces/ military. This, in fact, dilutes the force of his argument that middle classes are the new agents of change in the political order and he downplays the role of the most decisive factor i.e. the military in the political process of Pakistan.

*The South Asian Challenge (Oxford University Press, 2002)* edited by Khadija Haq is about some of the challenges that South Asia is facing at the dawn of the twenty-first century. South Asia, containing nearly one-fourth of humanity, has enormous development potential. Few regions can rival South Asia in terms of cultural and religious diversity; impressive civilizations stretching back several millennia, and human dynamism. At the core of South Asia's strength are the region's 1.3 billion creative and industrious citizens. But many opportunities for a vital breakthrough have been missed in the last fifty-three years, because of poor investment in human capital compared to investment in arms, poor strategies for economic and social development, lack of good governance, elitist power structures and insufficient understanding and attention to poverty reduction. The book, comprising articles by different eminent South Asian economists, articulates the vision of Mahbub ul Haq a renowned Pakistani economist. Mahbub ul Haq felt that the major setbacks in South Asia's human development during the past five decades were, to a large extent, due to poor governance. South Asia had emerged as one of the most poorly governed regions in the world, with corruption, mismanagement, centralized bureaucratic structures and the absence of the rule of law dominating the political, economic, and social landscape. The book analyses the governance crisis in South Asia, It looks at the role of political institutions, judiciary, administrative system, civil

society and the underlying socio-political dynamics. It argues that the lack of good governance has largely been due to the elitist socio-political dynamics and military interventions, which have become part of the political process of South Asia. The elitist model expounded in this book has also been the subject of detailed study by Ishrat Husain in his book mentioned earlier. In an analysis of the divergence of the development outcomes in the two regions i.e. South Asia and East Asia it cites several factors, including the emphasis of East Asia on the importance of high savings and investment, open economies, and land reforms. It contends that opinions differ on the philosophies of economic liberalization of East Asia, but on one point all analysts agree: the central role of education, skill development, and technology in East Asia's accelerated growth. The contrast is sobering between South and East Asia regarding their respective levels of investment in basic education and technical education. The book also compares the economic policies and strategies, as well as their outcome in South Asia with those of East Asia. In South Asia, inward-looking and import substitution policies were adopted rather than open and outward-looking ones; and these policies were largely responsible for South Asia's poor economic performance. A combination of organic nationalism, natural resource-base and access to foreign capital contributed to policy decisions and degrees of government interventions in South Asia. Thus the book gives a broad and comprehensive overview of the development challenges and future directions for South Asia as well as Pakistan. However, here again the need to bring serious theoretical and analytical literature into the discussion is acutely felt. At the same time, some of the discussions and articles by the eminent economists fail to examine the role of military in the political and economic performance of Pakistan. This could partly be regarded as a deliberate attempt not to indulge in criticism of military for the personal cost that it brings for the authors in terms of finding employment with the government of Pakistan. A failure to consider the causes of dismemberment of Pakistan and the creation of Bangladesh, a phenomenon which had economic factors operative in its occurrence, is noteworthy because of its absence in virtually all accounts of the economic history of Pakistan. The book, through its emphasis on governance, highlights the need for incorporating governance and institutional dimensions into an integrated explanation of the divergence in the development experience of Pakistan and East Asian countries.

The book, *"The Post-Colonial State and Social Transformation in India and Pakistan"* (Oxford University Press, 2002) edited by S.M.Naseem and Khalid Nadvi focuses on the work of social scientist Hamza Alavi on social and economic issues in the post colonial South Asia. It analyses the role of state, conflict and coalition among economic and social groups, the character of economic reforms, the role of religion and the status of women. The chapter *"State and Governance as Factors in Development: In Search of a Theory"* by Rehman Sobhan is quite relevant to the present study of economic development in Pakistan and provides insight into the theoretical issues underlying the debate. In the section, *"Economic Development and Structural Change"* the comparative study of land reforms in India and Pakistan provides useful insight into the structural impediments hindering economic development in the region. The emphasis on religion, democracy and gender relations is also quite relevant to the present study and helps in understanding the social issues related to the development process.

William Easterly, in his paper *"The Political Economy of Growth Without Development: A Case Study of Pakistan"*, (KSG, Harvard University, 2001) argues that political economy models of growth and public service provision stress the incentives of the elite under high inequality to under-invest in the human capital of the majority. Other political economy models stress that ethnic divisions will lead to low public goods provision. His paper examines Pakistan as a case study of these two propositions. Pakistan has had respectable per capita growth over 1950-99, intensive involvement by donors and international agencies (\$58 billion in foreign aid), and has well-educated and high-achieving elite and Diaspora. Yet Pakistan, for its level of income, systematically under performs on most social and political indicators i.e. education, health, sanitation, fertility, gender equality, corruption, political instability and violence, and democracy. He calls this pattern "growth without development". Large inequalities exist between men and women, between urban and rural areas, and between regions. The donors-and government-supported Social Action Program that sought to address these lags in the last 8 years has failed. This shows a long history of failed government and aid programs to address social lags. While foreign aid and government programs may have contributed to overall economic growth, they have been an egregious failure at promoting social and institutional development under the circumstances of elite domination and ethnic division.



The findings of the paper reinforce the argument in the thesis that non-egalitarian policies and hijacked institutions have led to the present state of affairs where growth has not been matched by the corresponding phenomenon of economic development.

The paper "*When Is Economic Growth Pro-Poor? Experiences in Malaysia and Pakistan*" (IMF Institute, May 2002) by Mahmood Hasan Khan focuses on two central issues related to the contrasting experiences of Malaysia and Pakistan regarding poverty reduction. First, it examines the structure of economic growth and its proximate determinants in the two countries, including the initial conditions, institutional changes, and macroeconomic policies. Second, it analyzes the links between economic growth and poverty reduction, particularly focusing on public policy mechanisms to reduce poverty and inequality. Malaysia, unlike Pakistan, was able to sustain rapid economic growth with equally impressive reduction in poverty because the governments included the poverty reduction goal in national development plans and pursued policies consistent with the twin goals. His analysis of economic development of Pakistan is particularly well written and comprehensively explains the major trends and policies in Pakistan's economic development. However, the limitation remains that the policies alone have been given attention while analyzing the development experience without going into the institutional arrangements which have fostered policies that caused the particular patterns of economic development. The study is however useful as both Malaysia and Pakistan are Muslim countries and this helps for considering the religious and cultural factors in development.

An earlier work on Pakistan's economic development is "*Economic and Social Progress in Asia, Why Pakistan Did Not Become a Tiger*" (Oxford University Press, 1997) by Omar Noman. The book is a study of the complex web of economic and social policies, which account for the divergence in development paths of Pakistan and East Asia. It tries to identify the reasons for the East Asian success and explains why Pakistan failed to become a Tiger. However, the book has become less relevant in the aftermath of the East Asian financial crisis as well as the publication of a whole lot of literature on the subject in the last few years, which provides fresh insight into the matter.

Regarding the East Asian economic development, a large number of studies have appeared many of which have appeared in the backdrop of the East Asian financial crisis.

The latest of these studies is *Innovative East Asia: The Future of Growth* (A copublication of the World Bank and Oxford University Press, 2003) edited by Shahid Yusuf. The book highlights the importance of East Asia in the global economy but suggests that although the potential of East Asian economies has been amply demonstrated their future performance is by no means ensured. It argues that the crisis of 1997, the uneven recovery, the intensifying trade competition, and the rapidity of technological change require initiatives by governments and by firms on several fronts. East Asia needs to sustain its stability by recalibrating its fiscal and exchange rate policies, strengthening social safety nets and governance and invigorating financial, regulatory and legal institutions. Yet these are only preconditions; future economic performance will depend on keying growth to productivity. One key contribution of the book is that it shows how stability can be a stepping stone to growth that is led by innovation, identifies, and analyses the ingredients of an innovative economy, and discusses how these ingredients mesh with government policy and market initiatives. The book identifies the need for innovation as the key to development in East Asia in future, but it raises the vital question that: what policies should be formulated by South Asian countries which are on the much lower step of the ladder? The fact remains that in a different global environment available now, the challenges for Pakistan and other South Asian countries are quite different.

In studying the political economy of the East Asian 'economic miracle', of particular use is the publication: "*The Political Economy of the New Asian Industrialism*", (Cornell University Press) edited by Frederic C. Deyo. The book seeks to come up with a balanced account of East Asian growth, through an exploration of the developmental role of the state. It also strives to understand the sociopolitical bases for effective state intervention in the market place and also considers the dependency and modernization perspectives to explain the East Asian development. A particularly useful article in the book by Hagen Koo is: "*The interplay of state, social class, and world system in East Asian development: the cases of South Korea and Taiwan.*"

Robert Wade in his book *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization* has provided useful insight into the concepts of Hard and Soft state. His emphasis on nationalism, foreign military threat and

social dislocation in East Asian context gives interesting ideas for comparison with South Asia and more pertinently for Pakistan where these issues have assumed burning significance.

A varied perspective on Korean development experience has been offered by Hun Joo Park in *After Dirigisme: Globalization, Democratization, the Still Faulted State and its Social Discontent in Korea* (*The Pacific Review*, Vol 15 No 1, 2002), who provides an analytical account of the dysfunction of Korean developmental statism in the backdrop of the 1997 crisis. He contends that the reconstruction of Korean statism is necessary for Korea's long-term socio-economic health and development, as democratization has served only to magnify the unfairness of the Korean system, which was characterized by top-down rule, results-driven policy-making and principal-proxy nexus between state and *Chaebol*. His insights into the dysfunction of Korean statism bring forth a perspective for evaluating the dysfunction of the state in Pakistan. In yet another account of the relationship between state and development, (*Between Development and the State: Diseased Dirigisme and Financial Policy Change*)(chapter II of the book under publication), Prof Park argues that, in Korea, contrary to the popular view, the state power holders used their position to direct development and divide the benefits in an imbalanced manner to the benefit of few people who were chosen as proxies to carry out the orders of the power holders. This analysis by Prof Park seems analogous to the various studies of political economy of Pakistan, like those by Ishrat Husain, Akbar Zaidi, and Omar Noman, wherein it has been regarded as a elitist state in which the benefits of development were appropriated by the elites to the disadvantage of the socially and politically excluded mass of the people. The study by Prof Park is also useful for the theoretical insight that it offers in to the issues of political economy.

The Authors, Ho-Chul Lee and Mary P. McNulty in their paper, "*East Asia's Dynamic Development Model and the Republic of Korea's Experiences*" (*World Bank Policy Research Working Paper*, March 2003) while offering a cultural perspective on development, contend that despite its successful economic development, valuations of the East Asian development model have often been capricious, shifting from 'miracle' to 'cronyism'. An explanation of this pattern of conflicting assessments requires a study of the East Asian development as well as the influence of Asian cultural values on it. The

study mainly focuses on cultural aspects of economic progress and analyzes East Asia's philosophical and historical backgrounds to explain the dynamic process. East Asians think that balance between opposite but complementary forces, Yin and Yang, will ensure social stability and advancement. Through repetitive re-balancing to maintain agreement, the society achieves maturity. In traditional East Asian societies, a balance was maintained between Confucianism (Yang) and Taoism, Buddhism and other philosophies (Yin). In modern societies, the challenge is to balance traditional systems (Yang) and Western style capitalism (Yin). This East Asian development model explains Korea's rise, fall, and recovery. Korea was a poor country until the early 1960s, during the time when spiritualism (Yang) dominated. From the 1960s through the 1980s Korea achieved rapid growth by finding a new balance and moving toward materialism (Yin) from spiritualism (Yang). But the failure to maintain a harmonious balance between cooperatism/collectivism (Yang) and individualism (Yin) led to major weaknesses in labour and financial markets that contributed significantly to the financial crisis in 1997. As Korea arrived at a new balance by instituting reform programs, the venture-oriented ICT industry blossomed and led a rapid economic recovery. Since 2000, domestic financial scandals and political corruption have emerged as new social issues. Korea's next challenge is to find a new harmonization between moralism (Yang) and legalism (Yin). While there is hardly any serious study on the impact of culture on the economic development of Pakistan, the paper does identify some common themes like e.g. "cronyism" in the Korean context, which is relevant and comparable to the notion of "elitism" in the case of Pakistan and, therefore, quite relevant to the present thesis. It also makes it imperative that cultural factors in economic development should also be duly studied and incorporated into any explanation of economic development of Pakistan.

The publication "*The East Asian Miracle: Economic Growth and Public Policy*" (World Bank, 1993) argues that most of the growth in East Asia has been due to superior accumulation of physical and human capital. It contends that these economies have been better able than most at allocating physical and human resources to highly productive investments and at acquiring and mastering technology. It explains the relationship between public policy and growth and demonstrates how realistic and flexible policies can help achieve macroeconomic stability and rapid growth of manufactured exports.

Further it provides an explanation of the equitable growth and the role of the institutions in this process. However, the issues in the book though valid, require updating as the East Asian financial crisis has generated debate on new issues which has been dealt with in later World Bank studies.

In addition to the above-mentioned books, the other publications that have been particularly useful in carrying out the study are "*The Challenge of Third World Development*" (Prentice-Hall, 2000) by Howard Handelman. "*Governance: South Asian Perspectives*" (Oxford University Press, 2001) edited by Hasnat Abdul Haye, as well as "*Pakistan: The Contours of State and Society*" (Oxford University Press, 2002) edited by Soofia Mumtaz, Jean-Luc Racine and Imran Anwar Ali

The review of literature, therefore, unveils the following areas, which require further examination and analysis, and consequently need to be answered in the current thesis:

- There is absence of any serious **integrated and holistic study** of the main causes and factors, which retarded the economic development of Pakistan. Most existing studies have a narrow focus and their analysis has become outdated and irrelevant.
- There is a lack of scholarly analysis and serious **political economy studies** for examining the **role of state and its institutions** in development experience of Pakistan and the divergence from East Asia.
- The examination of **geopolitical, cultural and social factors** as well as **nationalism** as determinants of economic development, in the context of Pakistan, requires a detailed analysis as these issues have been largely neglected while explaining underdevelopment in Pakistan
- Most studies of Pakistan's economic development do not consider **governance dimension** while analyzing the development experience. Further, the **relationship between institutions and governance** in determining economic outcomes requires deeper analysis. This factor becomes more relevant while deliberating upon the causes of divergence between Pakistan and East Asian economies

- **The role of military as an institution and its implications for policies of the state** having bearing on economic development is a question, which has not been addressed in a satisfactory manner in any of the studies. This facet requires to be incorporated in a holistic explanation of the phenomenon of underdevelopment in the context of Pakistan.
- **The weaknesses of the East Asian model**, which became evident in the wake of the **financial crisis**, have to be taken into account while drawing a meaningful comparison between East Asia and Pakistan. These weaknesses have discredited many of the notions and earlier studies which were used to explain the underdevelopment of Pakistan
- There is a need to move beyond the simplistic notion espoused by many economists in Pakistan that lack of **human resource development** and **policy of nationalization** were the only two factors responsible for the trailing performance of Pakistan and other South Asian countries.

The present thesis is an attempt to analyse the above issues and present a unified and comprehensive explanation of the development experience of Pakistan, while highlighting the reasons and factors that caused it to deviate from the development path followed by the East Asian countries

### CHAPTER 3

#### POLITICAL ECONOMY OF EASTERN ASIA: OVERVIEW

An overview of the political economy of East Asia is necessary in order to have a grasp of the factors and undercurrents, which spurred the economic development in the region and shaped its policies towards the achievement of this goal. This study is also imperative in order to undertake a meaningful comparison with Pakistan, which has lagged behind on several counts. However, the Korean example, within the East Asian region, has been given greater attention owing to the striking similarities with Pakistan in the initial phase and a dramatic divergence at later stages.

It is widely accepted that East Asia has achieved rates of economic growth unprecedented in recent economic history, and the determinants of that growth have been studied extensively. The strengths of the East Asian model of growth are best appreciated by comparing East Asia with other developing regions like South Asia and with countries like Pakistan. In this East Asian region macroeconomic stability provided an ideal launching pad; the rate of inflation through the 1980s and up to 1997 was lower in East Asia than in Latin America and the Caribbean, South Asia, and Sub-Saharan Africa. Further it has been observed that this stability was leveraged by a significantly more open economy, as measured by the share of trade in gross domestic product (GDP). Saving and investment rates were much higher, and the labor force was considerably more educated (as measured by enrollment rates in primary and secondary level education), facilitating industrialization. As a result, East Asia proved to be the most attractive developing region for global investment, and, as its manufacturing capability has strengthened, so has its appeal to foreign investors. More than 17 percent of total foreign direct investment (FDI) worldwide between 1990 and 1997 was in East Asia. The fruits of the region's policies also are evident in the growth rates of GDP and progress in poverty reduction. Various studies have revealed that East Asia achieved significant reductions in poverty over this period, with the number of people living on less than \$1 a day (the official poverty line) falling almost two-third, from 720 million in 1975 to 210 million in 2002. This occurred

largely because the rapidity of growth outweighed the modest increase in inequality. This remarkable performance was interrupted by the crisis of 1997-98. During this crisis the poor, the less educated, and unskilled workers were among the worst affected. Unemployment and underemployment rose significantly – in the Republic of Korea, from 2.5 percent in 1996 to 4.6 percent in late 1999; in Thailand, from 2.3 percent in early 1997 to 5.4 percent in 1999 and in Indonesia, from 4.7 percent in 1997 to 5.5 percent in 1998. After the crisis there was also a major shift from formal to informal employment and from the urban to the rural sector. Even in China, which largely avoided the negative effects of the crisis, poverty rose in its aftermath – from 210 million in 1996 to 219 million in 1999 (Yusuf 2002, 143). But despite all the blemishes, the East Asian model still offers enough temptation to undertake a comparative study with the South Asian region.

In the historical context, an understanding of the political economy of East Asia requires the analysis of the 19th century Meiji restoration in Japan and the Chinese revolution, the two major events, which have left imprints on the political economy of the region. It has been contended that the phenomenon of the Meiji restoration helped in creating the base for the inclusive capitalism experienced in much of Eastern Asia. The important features of this capitalism were the abolition of feudalism, the establishment of a mass education system providing universal primary schooling, a strong science and vocational orientation for higher education, a gradual integration with the world economy, and considerable emphasis on the application of modern technology in agriculture and industry (Noman 1997, 107)

It has been argued that the pressure for structural reform on many East Asian societies also came from the Chinese revolution, which has consequently shaped Asia's development. The Chinese revolution in particular and the threat of communism in general, exerted pressure on elites to create an economic environment in which large sections of the society participated. A serious threat of a communist take-over was faced by most of the Eastern Asian countries. In this environment inequitable development strategies such as the functional inequality pursued in Pakistan, could have faced serious political constraints in Eastern Asia, thereby precipitating for a communist revolution. A central component of the strategy to counter this threat was structural changes such as



land reform and universal primary education, which paved the path for equitable development. Even when countries did not undertake major asset redistributions, policy measures ensured that there were curbs on excessive consumption by elite groups.

The pressure of communism on elites was evident across Eastern Asia. The Taiwanese leadership had fled from the Chinese mainland after the communist revolution. Korea was split into two, with the South pursuing a private sector led strategy, and communism across the border. Growing inequities in Thailand led to student uprisings against the military, fuelled partially by the sustained expansion of the Communist Party of Thailand through the 1970s. Shortly after independence, Malaysia was involved in emergency measures against the Communist Party of Malaya. Even in Singapore, Chinese cultural nationalism was mixed with support for communism. It can be argued that repression was only part of the response in East Asia. The elites and state managers responded by pursuing inclusive capitalism (Noman 1997, 107). This phenomenon involved extensive intervention by the state, in support of a private sector led development strategy. Widespread access to basic education and health, as well as restraints on conspicuous consumption in favour of accumulation, occurred under these pressures. Progressive social policy, redistribution of assets, and economic management under a disciplined technocracy were part of the modernizing response. The building of technological and managerial capacities at the top, along with broad based skill-oriented education, was on the pattern of Japanese evolution since the Meiji restoration. Korea in particular, followed a similar mix of market and state but other countries exhibited a broadly similar pattern as well. The most well-known and relevant cases of extensive land reform are Korea, Japan, and Taiwan, China. However, in all these cases land reforms occurred in a framework, which was committed to private sector, led development. Thus the landed elite was compensated in terms of equity shares in industrial enterprises. In a similar fashion, technology policy, both through strong technology orientation of the education system and the openness to joint ventures with foreign firms, was critical to the shaping of growth and sharing from its benefits.

The role of the education sector was particularly important in creating capacities. For this purpose, in Japan as early as 1872, the spirit of the state's intervention in social investments was evident in government circulars: "*Henceforth throughout the land,*

*without distinctions of class and sex, in no village shall there be a house without learning, in no house an ignorant individual. Every guardian, acting in accordance with this, shall never fail in having them attend school”* (Noman 1997, 107). The Japanese model, consisting of state support to the private sector and extensive intervention in markets for social services, has exercised considerable influence on the countries of Eastern Asia. The Korean model is also particularly important in view of its size and similarity and, therefore, the potential for emulation and evaluation by other countries like Pakistan.

The framework for development in East Asia facilitated the creation of a technocratic and competent public service, which used state institutions to intervene in a disciplined manner. This aspect is recognized as critically important for an effective role of the state (World Bank 1993, 135). This intervention was selective and subject to criteria which ensured discipline. Selectivity was achieved by concentrating public expenditures in a few areas, such as education and physical infrastructure, while much of the discipline was provided by the adherence to the imperatives of markets. However, in the wake of the East Asian crisis, there has been a rethinking about the role of the civil services and their relationship with the business. A lot of literature examining these linkages has appeared which raises valid questions regarding cronyism, patronage and corruption as well as political maneuvering of vital economic decisions.

## **THE ROLE OF PUBLIC POLICY IN THE DEVELOPMENT OF EAST ASIA**

The economic success of Eastern Asia has raised important questions about public policy. The main questions are as follows: -

1. What are the essential elements of development strategy as it was followed in East Asia?
2. Can these policies be replicated in regions like South Asia?
3. Why these countries achieved a remarkably rapid increase in incomes and living standards, which was not achieved in South Asia?
4. How and why the remarkable improvement in human development indicators has occurred across the region?

In answering these questions it must be understood that in East and South East Asia a substantial increase in output has been accompanied by a shift from low to high productivity activities. The economies of the region have, typically, diversified from simple agricultural production or mining to sophisticated industrial structures. More complex activities have included the move into internationally competitive services, in areas such as shipping and finance. The increases in output and diversification of activities have required that economies exhibit three capacities: (i) the capacity to absorb technology and build a domestic technological capacity; (ii) the capacity to accumulate physical capital at a rapid rate; (iii) the capacity to allocate resources efficiently.

The relevance of intermediate variables is quite evident in this process. Economies cannot grow and diversify so rapidly without accumulating physical and human capital and using these resources efficiently. The key issue is how development strategy stimulated these intermediate variables. A study of Eastern Asia suggests that success was based on policy-induced incentives within an agreed structural framework. In general, the state did not compete with the private sector in production and trade. Instead, it intervened extensively to build private sector capacities in these activities. Further, state intervention was not restricted to modifications of market signals, which influenced resource allocation. Governments played an active role in investments, which built physical and human capital and did not leave this aspect of resource allocation to market forces. A mix of market failures, co-ordination problems, and initial lack of private sector capacities shaped the rationale for this role for the state. At the same time, the state's socio-economic policy interventions were structured within the lead role assigned to the private sector. This ensured market discipline and efficiency. The basic framework is described below: -

### **Effective Macroeconomic Management**

In Eastern Asia, effective macroeconomic management ensured low single digit inflation and thereby a stable environment for price signals to guide resource allocation. These countries avoided the type of macroeconomic instability, which has caused such inflationary, and debt difficulties in Latin America and parts of Africa. In addition, early adjustment to external shocks also assisted economic recovery. Almost universally,

Eastern Asian governments maintained considerable discipline over domestic and external macro-imbalances. However, in the wake of the financial crisis in East Asia, the conventional wisdom has been challenged and it has been felt that the macroeconomic policies needed revamping and were unable to meet the emerging financial crisis.

### **Social Policy**

Social policy had a positive equity impact in Eastern Asia. The benefits of early investments in primary education, basic health and population planning, and in changing the socio-economic status of women, are quite evident in Eastern Asia. Further, their impact on the labour market, on diversification into higher productivity activities, and on direct human development indicators in the East Asian context has been documented extensively. Public education investments were concentrated on building a broad primary and secondary base. Public tertiary education was limited and institutions were strongly technology and management oriented. The stance of social policy in Eastern Asia was crucial in the expansion of capacities and opportunities, and aided the sense of participation in the 'inclusive capitalism'. It also encouraged progressive change in the socio-economic status of women. (World Bank 1993, 135)

### **Industrial Policy**

Industrial policy in Eastern Asia was not a case of laissez-faire, a variety of policy instruments were used by the state to affect the structure and pace of industrialization. Directed and subsidized credit, support to chosen sectors, export subsidies, establishment of technology acquisition institutions, and a host of other sector-specific state interventions affected industrial development. It is believed that many of the East Asian states would not have fared well if the state had not intervened decisively. Many of these would have remained primary commodity producers or still might have been locked into low productivity industrial activities. Eastern Asia provides sufficient evidence of effective state intervention in support of industrial development. But this effectiveness depended on a disciplined institutional capacity within government along with a policy targeted at harnessing the domestic private sector, and not competing with it like it happened in Pakistan and several other South Asian countries. However, industrial

policies in Eastern Asia also differed in the scale of intervention in markets and in the use of particular policy instruments. In Korea state support resulted in creation of large firms, the *Chaebols*, which had the size and capacity to lead the export drive when Korea shifted from import substitution toward export orientation. In other instances, industrial policy also directed credit by size of enterprise, thereby assisting the growth of small and medium enterprises in countries such as Japan and playing a vital role in employment. Malaysia's industrial policy also aimed at assisting the shift from the position of primary producer of basic agricultural commodities to becoming a sophisticated, industrial nation. In short, industrial policy in East Asia was instrumental in altering dynamic comparative advantage. However, lately in the wake of the financial crisis in the region a need has been felt for rethinking about the relationship between state and big business conglomerates as well as industrial policy.

#### **Agricultural Sector Policies**

It is widely accepted that in the agricultural sector, price and marketing policy in East Asia did not impose a severe squeeze and ensured a reasonable rate of return on investment. Exchange rate policy did not generally involve an indirect tax on the sector. Grossly overvalued exchange rates have hampered agricultural exports in many parts of the developing world. But countries such as Thailand and Malaysia experienced a substantial diversification of the sector's output composition, which contributed to a robust growth in agricultural exports. In addition to ensuring that prices were right, government policy aided diversification through technology acquisition and assistance with export marketing. Countries such as Thailand moved from the production of traditional crops to the growing of sophisticated crops exclusively for the export market. In general, agricultural policies supported productivity improvements and limited the transfer of resources out of agriculture. In addition to price incentives, export marketing assistance, and technology acquisition, agricultural sector policy also affected asset ownership and equity. Countries such as Japan, Taiwan, and Korea underwent major land reforms. Rural mobility has also been advanced by social policy, with basic education and health programmes, in particular, being responsible for improvements in human development and productivity.

### **Financial Sector Policies**

In East Asia the financial sector policies encouraged the mobilization of household and corporate savings. Institutions such as post offices and rural savings associations played an important role in several countries. Effective regulation of the banking system enhanced faith in financial institutions. Interest rates were suppressed in most countries, but by and large remained positive in real terms. In many countries, saving was encouraged by high consumption taxes and fiscal incentives for corporate savings. Luxury consumption was taxed heavily and credit denied for consumer items at different points in time by both Korea and Japan. Singapore and Malaysia instituted mandatory provident fund contributions, which was a form of 'forced' private savings. (Noman 1997, 107) Savings were also stimulated by pension schemes and public sector surpluses in some cases. Sound fiscal management ensured that private savings were not frittered away in public consumption. Public sector savings were positive in countries such as Singapore and Taiwan.

In Taiwan directed and subsidized credit was used extensively to promote specific sectors. And countries such as Korea, Thailand, Japan, and Malaysia, stimulated investments through limited financial repression, i.e. interest rates were kept at below market clearing levels. These interventions in financial markets effectively subsidized private firms. It had been contended in several earlier studies that financial discipline, good management, and control of patrimonial influences in these countries prevented the ruin of financial institutions engaged in similar practices elsewhere. However, despite the truth in these estimations, in the wake of the East Asian crisis, many of the long cherished notions in this regard have been discarded.

### **Trade Policies**

Trade policy also played a crucial role in the diversification of economic structures in East Asia. The initial phase of industrialization almost universally involved tariff and non-tariff barriers for the protection of emerging domestic firms. This ISI phase was gradually replaced by subsidies, credit, and tax incentives for export as the dominant aspect of trade policy. Some sectors continued to be protected, and a number of export-

oriented sub-sectors were also provided protection. But, in general, the shift from ISI to an export-oriented trade policy was vital. The focus of policy became the earning of foreign exchange, rather than measures to limit foreign exchange expenditures. The export drive unleashed dynamic productivity gains through rapid technology acquisition. Competitive pressures and the shift into higher productivity activities sent positive demand signals to the labour market. More skilled and better-trained people were needed. This involved investments by the public and private sector in the deepening of human capital.

The dynamic links between the policy areas created positive externalities. For example, social policy at the time of import substitution had assisted in the reduction in the rate of growth of the labour force. At the same time, most of the population had become literate. The positive dynamics of change unleashed by the export drive reinforced the need for better quality of manpower. These trade policy-induced demand signals led to appropriate investments in education and training.

In countries such as Taiwan, Korea, and Japan, government protection of the domestic market coexisted with export incentives; the latter included duty-free input imports, export credit and targets, and a range of tax incentives for exporters, which raised the returns to capital invested in the desired sectors. South East Asian countries also used export credits and fiscal incentives to raise returns to investment in exports. However direct foreign investment has, typically, played a larger role in their export drives than was the case in East Asia. As relative latecomers, the South East Asians gained, as has China, from the regional availability of foreign direct investment

In sum, the six policy areas interacted to generate structural and dynamic changes in Eastern Asia. These policies led to macroeconomic stability, improvements in human capital, reduction in the pace of labour force growth, diversification of agriculture, and sophisticated industrial development. These achievements required high levels of investment, rapid technology acquisition, and efficiency in resource allocation

## **THE INSTITUTIONAL FRAMEWORK: RELATIVE ROLES OF THE PRIVATE AND PUBLIC SECTORS**

### **THE INSTITUTIONAL FRAMEWORK**

The efficacy of policy instruments is related to the wider development strategy and institutional framework of which they are a part. The institutional framework provides the steel frame on which the wider policy framework rests and in the East Asian context, the efficacy and soundness of these institutions was taken for granted. However, there have been several studies, which have highlighted the inherent weaknesses that were exposed in the aftermath of the financial crisis. (mentioned later in the chapter). A brief overview of the institutional framework is however, presented below:

#### **Institutional Capacity**

There were three aspects to the impact of the state on private sector development. First, most of Eastern Asia invested in the managerial and technical capacities of public agencies. Public sector employment policy was important in this regard. The state was not used as an "employer of last resort". Patrimonial influences were generally curbed. Relatively high public sector salaries, particularly for managerial levels, attracted and retained quality manpower. These technocratic groups were typically insulated from narrow political pressures. This ensured a certain consistency and clarity in decision-making, which built market confidence. However, in the wake of the East Asian crisis there have been concerns and questions regarding the role of institutions of the state particularly the politicians and the bureaucracy, and their linkages with the private sector.

#### **Relationship With Private Sector**

The second institutional aspect of importance for economic development was the relationship with the private sector. The ethos of state intervention was within a framework of supporting and building the private sector, and not competing with it. Private sector capacities were built through several mechanisms. In countries such as Korea, Japan, Thailand, and Malaysia, formal deliberation councils were established. Through these, the public sector reduced the information and transaction costs of private



agents. These mechanisms reinforced confidence in policy direction and enabled correction of shortcomings through regular consultations. The state also supported the private sector through direct investments in physical and human capital. These investments were crucial for the launching and sustaining of the export drive. Efficient transport, good ports, and regular electricity stimulated private investment and helped attract foreign direct investment. Similarly, a literate and increasingly skilled labour force was required for the move into higher productivity activities. A much-detailed exposition of the government-business relationship in the Korean context shall, however, follow later in the chapter.

### **Enabling Environment**

A third indirect role of the state was important in the functioning of domestic markets, as well as attracting foreign private capital. A reasonable law and order as well as regulatory environment meant that, inter alia, regulations were enforced where required. This was important, for example, in the development of the financial sector. Prudential regulation and supervision played an important role in increasing faith in financial institutions and thereby stimulating savings. In addition, stability provided the security environment, which was conducive to foreign direct investment. However, in the wake of the East Asian financial crisis serious question regarding the regulation of the financial institutions have arisen as major weaknesses were exposed during the crisis.

### **Role of Civil Society Organizations**

In general, non-governmental organizations were not central to the development strategy in Eastern Asia; nor did they play a significant role in poverty alleviation. In some countries, they were engaged in useful poverty relief and social welfare activities. These institutions worked usually at local levels and with communities, which were being left out of the mainstream and not benefiting from growth. Similarly, in some countries, NGOs were playing a useful advocacy role. But across the region as a whole, poverty alleviation was addressed by direct government intervention in social policy combined with employment generation by the private sector. The role of NGOs was somewhat peripheral, partly because of the strength of public institutions.

## The Development Experience in Republic of Korea

In explaining Korean economic development, several scholars have argued that its development experience can be regarded as a result-oriented, militaristic, top-down one which was led by the state. Further, the developmental state proponents have argued that a rational and autonomous bureaucracy dedicated to development organized and led the phenomenal economic growth process<sup>%</sup>. Developmental state proponents such as Amsden consider that a "strong" state can be compatible with political democracy and point to the link between the authoritarian nature of the "strong" Korean state and the success of its economic policies (Amsden 1989, 10). Wade also views the "authoritarian corporatist" state as a key factor, which contributed to Korea's successful interventionist policies. (Wade 1990, 137) This school considers that the position of a state in relation to its society can be thought of as varying along a continuum from decentralized and constrained by social groups, to centralized and relatively insulated from society, and from soft to hard. It is maintained that the soft states concern themselves mainly with registering the demands of social groups or at the most resisting private demands. While they have the capacity to produce effects in the economy, they lack the capacity to control the direction of those effects in line with their intentions. Hard states, on the contrary, are able not only to resist private demands but also to actively shape the economy as well as the society. They are able to exert more control over the direction of the effects of their interventions. In these terms, the United States can be regarded as a soft state while Taiwan and Korea can be deemed as hard states. European social corporatist states are a mix, where societal influence is strong but is channeled through centralized peak associations, Japan is between them and the other two East Asian cases (Wade 1990, 137)

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<sup>%</sup> Chalmers Johnson, *MITI and the Japanese Miracle*, (Stanford: Stanford University Press, 1982); Frederic Deyo, "Political Institutions and Economic Performance," in *The Political Economy of the New Asian Industrialism*, (Ithaca: Cornell University Press, 1987); Alice Amsden, *Asia's Next Giant*, (NY: Oxford University press, 1989); Robert Wade, *Governing the Market*, (Princeton University Press, 1990); and Peter Evans, *Embedded Autonomy; States and Industrial Transformation*, (Princeton: Princeton University Press, 1995),

Joel Migdal has suggested five sets of factors that contribute towards the making of a hard state: (1) massive social dislocation, which results in weakening of existing patterns of social control, especially if it occurs within a period of previous about fifty years; (2) the existence of a serious military threat from outside or from other communal groups in the country, which threatens the political leadership if it does not assert the state's authority throughout the society; (3) support from the international state system for the strengthening of states in terms of social control (4) the existence of a social grouping, where people are sufficiently independent of existing bases of social control and have the skills to implement the designs of state leaders; and (5) skillful leaders whose ideology is in favor of strong state control.

If we examine the region of East Asia in accordance with Migdal's contention, we find that Taiwan and Korea have both undergone social dislocations, in the past half-century, which weakened social control through the society. The military and economic effects of World War II were followed by a devastating war in Korea and on the Chinese mainland. Mass migration also accompanied these upheavals. Therefore, it is evident that the postwar rulers had significant scope to mobilize the population around their symbols and codes of behavior as well as their policies in the agricultural and industrial sector. At the same time, both countries faced a continuing severe threat from outside, South Korea from a hostile North Korea and Taiwan from a vast army across the straits. This external threat posed to the rulers the unpalatable prospect of their political and physical elimination if they failed to mobilize resources and assert the state's authority over the society. This social disorganization and external military threat presented both an opportunity and a need to strengthen state's control and organization over the society, a situation which has been appropriately described by Sun Yat Sen's dictum, "The nation without foreign foes and outside dangers will always be ruined". Thus, it can be argued that the rise of East Asian trading states had been helped by the military discipline and forms of organization diffused throughout society as a response to national vulnerability. In this regard, the U.S. aid and the existence of a social basis for an independent and skilled bureaucracy presented the means to achieving that end. The social basis for an independent and skilled bureaucracy also came from the long Confucian tradition of rule by a mandarin elite. Because of their geopolitical position in an area of chronic

international tension between the Soviet Union, China, and the United States, the states received massive amounts of U.S. assistance. The aim was to create economically viable and politically stable regimes on the West's defense perimeter. This aid helped to strengthen the state vis-a-vis non-state organizations. In this kind of political regime, the bureaucracy can more easily demonstrate competence and remain clean because it is neither involved in the struggle between interest groups nor an instrument for ensuring survival of the rulers. Therefore, in short, initial social disruption, threats from other states, poor natural resource endowment, and the social basis for an independent bureaucracy all strengthened the governments' hand and helped to maintain the edge of their commitment to economic development.

In the above context, a contrary view has been offered regarding the dysfunction of the Korean state and the political nexus of power. This view, which offers an interesting commonality with the experience in Pakistan, holds that the state power holders in Korea used their position to direct development and divide its benefits in a lopsided manner, with the result that the majority of the benefits accrued to a certain few who were chosen as proxies in business to carry out the orders of the power holders. (Park 2002, 112) In this argument it is maintained that the aim of people centered development is to secure the well being of people. Also, development is inclusive of freedom and the increased capacity of ordinary citizens, which also includes freedom of participation in the political, economic and social realms (Sen 1999, 125) Therefore, developmental dictatorships like those in Korea were fundamentally flawed as dictatorial suppression of open dialogue and dissent in the name of political stability and economic growth was a key element of dirigisme.

In order to have a deeper insight into Korean economic development one has to focus on two distinct, yet competing schools of thought on the country's economic policymaking. The first school of thought emphasizes the structural position of the Korean state in the international system as the determining factor of its economic policies. According to the Globalization Hypothesis, the imperatives of international competition and the rapidly growing integration of capital, markets and production process have increasingly driven Korean economic policymaking and its liberalization efforts since the

early 1980s. The globalization hypothesis in its strongest form claims that Korea's political economy will converge along the lines of the United States and Britain. According to Robert Wade, a proponent of this school, East Asian success has been historically linked with international factors. These international conditions created opportunities for relatively low cost industrial production sites to be integrated into the world economy. Further, in the 1960s the convergence of several conditions resulted in relatively favourable access to international finance, and increasing relocation of production by multinational corporations to low wage sites. These conditions created opportunities, which were seized by countries possessing certain domestic factors, such as the existence of an industrial base resulting from prior import substitution, a hard state pursuing governed market policies as well as the location and geopolitical importance of the country. The United States collaborated with Taiwan, Korea, and Japan to make them economically strong because of their location on the West's defence perimeter (which made them more strategic than other countries like Pakistan, Philippines, Indonesia, or Brazil). Hence, part of the success of governed market policies in East Asia is due to the favourable historical and international conditions in which they were implemented. Since these factors are different at other times and places, it throws doubt on the possibilities for other countries like Pakistan, which is faced with new and different global realities, to emulate East Asian success. This hypothesis is not a complete picture, however, as Prof Hun Joo Park contends that the globalization hypothesis, overestimates the extent to which international market forces dictate domestic institutional change and economic policymaking. It also underestimates the impact of domestic politics and state structures on government policies, as there is almost always sufficient scope for different states to maneuver in various ways in response to similar external pressures. This is because the international system does not make policies while the powerful states do. International pressures alone cannot generate or determine policy changes, unless they can instigate powerful players of the political regime to respond. Thus, to understand economic policymaking, one needs to know not only systemic constraints but also domestic politics and institutions.

The second school of thought is the Statist Theory of Economic Policymaking<sup>%</sup>. This school focuses on the analysis of the motivating forces behind state action. Max Weber, the founder of this approach, evaluates the issue of state's autonomy and capacity. He views the relationship between chief and staff as well as between rulers and ruled as reciprocal. He contends that, while the ruler is potentially autonomous from the ruled, governance cannot continue unless the ruler provides systems of meaning or cognitive maps as well as meets some material needs of the ruled. Weber argues that governments can be stable if the ruler enjoys legitimacy and a normative sense of moral or appropriate rule based on tradition, charisma, and or legal-rationality. He also emphasizes that state institutions cannot be understood apart from their social context. Thus, a bureaucracy in a legal rational American context functions differently from a bureaucracy in traditional Korea or in Pakistan (Parsons 1964, 114)

Gerschenkron has provided a functionalist argument for explaining the decision of a late industrializing country to choose a statist modernization path. He argues that the more backward a country's economy is on the eve of industrialization, the greater is the required scale of investment capital (Gerschenkron 1962,49) He argues that while in 18th century England, self-financing by firms mainly fulfilled the "historical task" of capital accumulation, in Germany, whose industrialization started in the 19<sup>th</sup> century, large holding banks with the state's backing had to mobilize the required capital. The late 19<sup>th</sup> century industrializing Russia, on the other hand, required the Stalinist state for the necessary investment funds to get into railways. Following in the footsteps of Russia and Japan, in comparison, Korea underwent the painful process of late-late industrialization. 'The state squeezed savings out of people, taxed heavily, rigged domestic market prices, frequently promoted monopolies and oligopolies, and gave lucrative government contracts to a small number of domestic capitalists for mediocre products at high prices, all for the sake of capital accumulation. It did not even mind nationalizing some strategic industries as short-term profitability was of no concern'.

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<sup>%</sup> Statist literature includes: Leroy Jones and IlSakong, *Government, Business and Entrepreneurship in Economic development*, (Cambridge: Harvard University Press, 1980); Johnson, MITI, "Political Institutions and Economic Performance"; Amsden, *Asia's Next Giant*; 1990; Evans, *Embedded Autonomy*, 1995

Johnson also dilates upon the East Asian development states' critical role in the economic miracle. He, along the same lines as Gerschenkron's work, identifies the dominance of economic bureaucracy that "rules," while the politicians "reign," protecting the bureaucrats from political pressures. He argues that the "plan rational" states in Japan, Taiwan and Korea were more effective than both the Communist and the liberal-capitalist states due to their competent and autonomous bureaucracies which intervened in accord with market opportunities. (Johnson 1982, 35) Evans in his comparative study of how different states in Brazil, India, and Korea promoted the growth of local information technology, has given fresh insight into Johnson's developmental state, its relations with society, and its contribution to industrial development. (Evans 1995, 40)

Amsden has also specified the following three characteristics of the developmental state's market intervention in the Korean context: 1) differential allocation of subsidies; 2) In exchange for subsidies, the state imposes performance standards on private firms; 3) the agents of rapid late-late industrialization are Chaebol groups. Amsden also identifies some inherent conflicts in the market that make the state leadership critical in any late industrialization process. Such conflicts include: 1) Countries with low productivity require low interest rates to stimulate investment, and high interest rates to induce people to save; 2) The need for undervalued exchange rates to boost exports, and overvalued exchange rates to minimize the cost of foreign debt repayment and of imports; 3) The need to protect new industries from foreign competition, as well as to have free trade to meet import needs; 4) The need to maintain stability to grow, to keep capital at home, and to direct investment toward long-term ventures. It is also argued that these conflicts most critically affect the least privileged, and the state can balance these conflicting demands much better than the market can. (Amsden 1989, 10)

Prof. Park in his *diseased dirigisme* problematique, while dilating upon the causes of state intervention as well as its problematic consequences, conceptualizes that the state ruling elites created a particular strategy which, while being in consonance with their designs, was both economically and politically viable. This explains why variations in dirigiste strategies exist and can be expected. Thus it was not a technocratically optimal

plan, determined by necessity or based on best practices, “ but rather resulted from sub-segments of the ruling elite vying for legitimacy, authority, and public support”. He sees the dirigiste choices as having been (1) a joint political economic choice and (2) a choice in which those political power holders set the parameters for the technical blueprints that bureaucrats drafted. The systemic and enduring complicity between the state and Chaebol is the chief underlying cause of Korea’s debilitating elite corruption and societal distrust, and he argues that liberalizing the economy without state reform may aggravate the dirigiste disease. It was this growing dysfunction of Korean dirigisme that formed the basis of the 1997 crisis that engulfed the country. Thus, eradicating the diseased, undemocratic state of affairs of dirigisme was certainly essential to rebuild a “strong” state. The resulting reconstructed state can be a shielding organization, empowering ordinary populace and their voluntary associations and thereby supporting a development process.

Several studies have highlighted the underlying causes of the East Asian crisis of 1997. The real issue is, however, to chart out the future path for these economies. Recent studies point out that different countries must pursue different combinations of policies suitable to their income level, institutional development, recent history, and capacity to frame, finance, and implement policies (Yusuf et al 2003, 146). Thus, the principal policy messages that all the East Asian economics can follow in varying degrees are:

- a) There is a need for prudent debt management, as large overall public and private debt leads to vulnerability. This is more important when it includes a significant share of short-term external debt, which is not offset by exchange reserves and government’s contingent liabilities, which at times can be highly destabilizing.
- b) A flexible exchange rate is necessary in order to reduce vulnerability, which is associated with large debts. Exchange rates should be managed with the objective of maintaining a margin of flexibility, possibly with reference to a basket of currencies, which is appropriate for the size, openness, and trading relationships of the country.
- c) East Asian regional coordination can also be useful with respect to exchange rate and reserve policies. The countries can derive sizable gains by focusing their attention on areas such as trade and financial regulation, where mutual interests are strong enough to overcome the barriers to coordination and harmonization.



- d) It is evident that weak, underdeveloped, and unregulated financial systems are detrimental to growth and stability. Countries should not ignore the restructuring of banks and the building of market and regulatory institutions. This should be pursued despite political opposition and with a reasonable pace.
- e) There is a lot of room for deregulation in services sector and for introducing incentives for innovation in order to close the productivity and technology gap between East Asian and leading Western countries.
- f) The legal system should be made an effective instrument for protecting rights and enforcing rules. It should not only encompass the financial sector and corporate governance but also cover the whole of the market economy.
- g) The performance of the region in future will rest on an open innovation system that fully taps the potential of ICT. It implies, firstly, that the role of education and research infrastructure in determining the supply of innovation are critical. Secondly, human capital resources and links between centers of research and the business community shall be vital. Thirdly, for innovative East Asian firms, cooperation, networking, competition, and incentives are quite important. Networked producers with access to many services are much better placed to sustain the momentum of innovation. Fourthly, vigilant domestic, regional, and global trade and competition policies are necessary to keep the system in momentum. Fifthly, a vigorous market system can provide some of the incentives, but government must also be proactive in order to increase and sustain the pace of innovation.

Thus the aforementioned emerge as principal policy messages for East Asian countries as they chart their courses into the twenty first century.

## **CHAPTER 4**

### **EAST ASIA AND PAKISTAN**

#### **A STUDY OF DIVERGENCE IN DEVELOPMENT PATHS**

A comparative study of Pakistan and East Asia with regard to the divergence in the development experience between the two regions is presented in the current chapter. For the purpose of clarity the chapter is divided into three parts:

1. The optimistic and pessimistic views regarding development of the regions
2. Similarities between East Asia and Pakistan in initial period
3. Causes of the divergence between East Asia and Pakistan

#### **THE OPTIMISTIC AND PESSIMISTIC VIEWS**

The story of comparison in development experience begins in the 1960s when after an initial period of convergence, the development paths of Pakistan and East Asia began to display significant divergence. Both Pakistan and East Asian countries achieved high economic growth rates during 1960-90 period, although East Asia led the way. But a comparative study reveals that while in East Asia, the incidence of poverty declined significantly and income distribution improved dramatically leading to social cohesion and political stability, the opposite was the case in Pakistan. This situation calls for a detailed examination. In the present study, the case of Pakistan has been examined in a comparative perspective with East Asia, in general, and Republic of Korea in particular. (See Tables at end of thesis)

While there are both optimists and pessimists regarding the development prospects of Pakistan, both reveal the possibilities for the future. In a recent study Gustav Ranis and Rashid Naseem hypothesize, along optimistic lines, that the economic development in East and South Asia is analogous to the old fable of the tortoise and the hare and the growth rates between the tortoise (India, Pakistan and Bangladesh) and the hares (Taiwan, South Korea and China) will ultimately converge. The hares that try to sustain high levels of growth will slow down in the future as they attain developed economy 'steady state' growth rates. The tortoises on the other hand are likely to experience an upward shift from their slow growth rates of the past approaching those

now enjoyed by East Asia, benefiting largely from the catch up stemming from their liberalization policies. In this regard Pakistan may have difficulty in achieving convergence, barring major structural change.

The seeds of East Asia's descent to a lower, steady state balanced growth path were sown during its rapid economic growth over past decades. As the hares now close the gap with the currently developed countries and approach the world's technological frontier it will become harder for them to grow at the "miracle rates" in the magnitudes witnessed during the 1970s and 1980s. In the case of Japan it has reached this stage and its growth has dropped below its high rates of growth during the 1950-80 periods. Evidence also points out that the East Asian countries may probably to grow more slowly in the future as they become less proficient at finding productive investments. According to some estimates, per capita GDP growth rate for Korea, Taiwan and China are projected to be 3.5, 3.1 and 6 percent annum respectively between 1995 and 2025 (Radelet and Lee, 1997, 122). Simultaneously, those South Asian countries, which adopt well-sequenced liberalization programmes that strengthen market discipline and assist in improved productively performance will grow rapidly in the years. However this convergence will not be automatic or uniform across countries and will tend to be held back by inappropriate policy responses in some of the tortoise cases. The World Bank study, *Innovative East Asia: The Future of Growth, 2002* also argues that East Asia shall have to focus on innovation for continuation of its development trend.

The basic proposition by Gustav Ranis and Rashid Naseem is that the issue of accomplishing politically difficult changes in the development policy is a function of subtle processes related to political economy. They contend that the transition to a higher, steady state balanced growth path represents a politically difficult process in developing countries as it require a shift away from import substitution to export orientation which is generally associated with the gradual withdrawal of political influence by government. It requires radical changes in the rules of game as economic agents; in particular the new industrial classes have to be persuaded to start operating in a radically different, much more competitive environment. It is this process which is influenced by the initial condition which helps to determine the growth path of a country. By understanding initial

condition we can understand the policy responses and choices better and resulting growth outcomes can be rendered fully endogenous.

The policy makers in South and East Asia chose different policies, especially given their common beginning with import substitution policies and pronounced governmental intrusion in their economics because of number of possible reasons: Firstly, some countries demonstrated persistent enhanced flexibility and commitment to pursuing adjustment in policy regimes, in response to the inevitable exogenous shocks, while others did not. Secondly, some countries embarked on a more or less linear path of depoliticized policy making much earlier and others only much later or not at all. Thirdly, the explanation for the observed divergence in policy choice is to be found in a combination of initial typological differences between these sets of countries at the outset. Also various political and economic forces shaped the adoption or rejection of different institutional and policy changes over time (Ranis and Naseem 2002, 123)

Thus an analytical study of this divergence in development ethos should begin with identifying the initial conditions, which were similar and subsequently led to different outcomes. In this regard the study initially focuses on the similar initial conditions and subsequently identifies the varied outcomes caused by the divergent processes, which were a result of different policies pursued by the regimes in the two Asian regions.

#### **INITIAL SIMILARITIES BETWEEN EAST ASIA AND PAKISTAN**

The main similarities between East Asia and Pakistan in the decades of 1950s and 1960s can be described as follows: -

- Both South Asia and East Asia had comparable modernizing elites along with technocratic bureaucracies
- The state intervened extensively in market and resource allocation.
- The economic activity was carried out within the parameter of a private sector led strategy.
- Both the regions initially persuade a policy of import-substituting industrialization with policy-induced high rates of return to industrial capital.

- The socio-cultural policy was mildly progressive and was characterized by the protection of rights of women and the launch of family planning program.
- The corruption level in Pakistan and South Asia was no different from that in East Asia.
- The state institutions in Pakistan operated with considerable efficiency and were able to ensure sound macro economic management and disciplined intervention in markets.
- Both Pakistan and East Asian countries achieved high economic growth rates during 1960-90 period.

The divergence between **Pakistan and Korea** in terms of development experience is more significant because of the striking similarities between the two countries in an initial phase. The key features of this similarity in patterns, in addition to the above-cited factors, are as follows:

**Partition:** Korea suffered a partition as painful as that of South Asia, a partition that created two countries and led to an international war. The division was ideological and not along religious lines like in South Asia. Japan's defeat in the Second World War ended three decades of its colonial rule over Korea and the territory of Korea was divided into a communist-dominated north and a US-supported south. Attempts by the United Nations to create a unified Korea did not bear fruit. While the communists dominated the north, they also had considerable influence in the south. In the late 1940s, communist and left wing organizations were a powerful force and a source of intense political friction. The military vacuum created by the withdrawal of the United States forces from the south in 1949 led to an invasion from the north. Result was a three year internationalized conflict. Apart from the two combatants, the United States, the Soviet Union, China, and 14 other countries as part of the troops supplied by the United Nations, were involved in the Korean War. The end of the war in 1953 formalized the creation of two countries.

**Political system and democracy:** South Korea failed, like Pakistan, to establish a democratic system in the 1950s; in 1961 the military *coup* led by Major-General

Chung Hee Park was similar to Ayub Khan's *coup* in 1958. The civilian administration under Prime Minister Chang was as ineffectual as Pakistan's civilian regimes of the 1950s. The regimes before Chang's were also beset by numerous political and social challenges, which had produced insecurity and uncertainty regarding Korea's future direction. The political system in Korea was also corrupt, an aspect that has persisted over the years as the former politicians have demonstrated. As in Pakistan, the political system has remained unstable. In the 1970s, South Korea experienced political assassinations, student unrest, and violent struggles for the restoration of democracy. Recourse to political repression, censorship, and the important role played by students in rebellion are among the other common features. Further, President Park created an electoral college for presidential elections in 1973, which was reminiscent of President Ayub's basic democracies. In other aspects too, the political paths have been similar. Electoral democracy was reinstated in Korea in 1988, the same year as in Pakistan. Both countries had spent the 1980s under military rule.

**Defense Expenditure:** Internal political turmoil, and the security situation *vis-à-vis* North Korea, has entailed high defence expenditures for ROK. Nearly 25% of government spending is on defence; defence expenditure typically exceeds the joint spending on education and health. These high defence expenditures are not dissimilar to Pakistan, although not quite as high in proportion to income. However, as evident from the cases of countries such as Israel and Korea, high defence spending *per se* does not explain poor economic performance

**Foreign Aid:** Aid inflows played an important role in creating the transport and other physical infrastructure in Republic of Korea. A similar role was played by aid in Pakistan. During the 1950s, both Korea and Pakistan had low growth or stagnation in per capita incomes. Korea began to grow rapidly in the 1960s, as did Pakistan. However there was a sharp divergence in the 1970s as Korea stepped up its rate of growth and Pakistan stagnated in exports as well as in income. Korea moved into more and more sophisticated areas while Pakistan concentrated on relatively simple manufacturing. From the late 1960s till the early 1980s, the growth rate in GNP diverged considerably, as Pakistan was initially affected by a civil war and

dismemberment, followed by nationalization of industrial and financial sectors. During this period, the economic gap with Korea widened substantially.

The similar development paths subsequently led to divergent outcomes, which affected the fortunes and future of the people of South Asia in a negative fashion and left them in a mire of misery, poverty and hopelessness. While it is not easy to point out the precise causes, an attempt is being made to offer an explanation for the main factors in the divergence in the development ethos between East Asia and Pakistan.

## CAUSES OF DIVERGENCE BETWEEN EAST ASIA AND PAKISTAN

### I. STATE AND DEVELOPMENT

#### a) Debate in Light of Contemporary Theories

The key issue to be analyzed in the context of divergence between Pakistan and the East Asian countries is the primacy of the state in determining development outcomes. To present a background of the debate in the light of contemporary theories, the studies of several contemporary political economists can be discussed who, while analyzing the evolution of developing societies many of which are in a pre-capitalist stage of development, have focused on the nature and characteristics of the state in influencing development strategies and distributional outcomes. Mirza Hasan in his paper has focused on the nature of the state as the instrumental variable in explaining development outcomes. He has distinguished between the *neo-Marxist paradigm* and the *modernisation* or *developmentalist paradigm* (Hassan 1995, 63). The main point of distinction in these two interpretations relates to the priority they attach to distributional and development concerns. The neo-Marxist's preoccupation is with issues of distribution. It is the social forces dominating the state, which determine the development strategies that, by definition, are designed to serve the interests of the dominant group. In this context, the presumption that the interests of the dominant class influence the structure and the policy orientation of the state runs through the works of a variety of authors. These range from the dependency school, which includes the world system theorists such as Samir Amin and Gunder Frank, who viewed the national bourgeoisie of the Third World as subordinate instruments in a global division of labour controlled

by transnational capital, or the 'pact of domination' articulated by Cardoso and the *dependencia* school, between a metropolitan and a national bourgeoisie. There are also the writings of intermediate regime theorists, such as Kalecki and Raj who analyse the properties of a state where an intermediate or non-capitalist class dominated the state. For all of them, the class-derived policies determine the structural properties of the economy, which in turn influence both growth and distribution. (Sobhan 2002, 132)

The Modernist/developmentalist School, led by Samuel Huntington, differentiates the developmental state run by its praetorian elite, committed to modernisation, from most other states with more confused and parochial or personal concerns. It was the modernist school, which ideologically legitimized the successful developmentalists such as Park Chung Hee in South Korea, Lee Kuan Yew in Singapore, the *Kuomintang* regime in Taiwan, as well as less durable and successful variants such as the Ayub Khan regime in Pakistan and some contemporaneous Latin American regimes.

According to Sobhan, the problem with these earlier versions of the exponents of the criticality of the state in determining developmental outcomes, which brings into focus the divergence between Pakistan and East Asia, is their underlying determinism. At a theoretical level both the schools of thought come together in their assumption that a given type of state, with a certain type of leadership and class composition, will give certain results in terms of the pace of accumulation, structure of the economy, extent of external dependence and distribution of income. However, the underlying holistic vision, which forms the basis of these state-centric theories of development, does not satisfactorily explain the wide variations in the developmental outcomes of states with broadly similar characterizations. Thus, two praetorian regimes, Park Chung Hee's military dictatorship in South Korea and Ayub Khan's in Pakistan, co-existed in time and both inspired Huntington's theories but the two states experienced widely different fortunes. The Pakistan nation state disintegrated with each constituent unit remaining a backward, low-income economy. South Korea progressed to become a newly industrialized economy (NIE), which has evolved from a low income to an upper middle-income economy. However, the above-cited argument by Sobhan



while suggesting that 'state paradigms' remain far from satisfactory explanatory variables for developmental outcomes does not take into account the widely divergent policies pursued by the two states. The purpose of the thesis is to explain this very phenomenon where the similarity in structure of the polity and the apparatus of the state albeit with different policies led to widely divergent outcomes in the case of Pakistan and South Korea (ROK).

Looking from another perspective, in continuation of the concepts of *Hard* and *Soft* State introduced in the Korean context, the political economy of development in the case of Pakistan can also be explained by taking into account the distinction between a hard state and a strong state. A hard state is not a strong state it mainly relies on coercive and administrative instruments in penetrating into the society. The strong state, on other hand, relying on flexibility and persuasiveness, demonstrates capacity to carry out developmental tasks through collaboration with centers of power in society rather than exercising domination over them. A distinction between 'despotic' power and 'infrastructural' power goes to the heart of the matter. A hard state excels in despotic power, the strong in infrastructural power. The despotic power of a state, released from legal restraints, enables it to act in an arbitrary manner and conveys an impression of omnipotence. This impression is dispelled before long when cracks are visible in translating its commands into reality. It uses symbolism and imagery as aids to ruling but seldom seeks legitimacy through performance and good governance. The infrastructural power is reflected in the capacity to penetrate society and to organize social relations. The capacity of a state to collect revenue through direct rather than indirect taxation is a reliable indicator of intrinsic strength and acceptance by public of its legitimacy on the basis of performance.

The state in Pakistan has exhibited, in a large measure, the characteristics of a hard state. The ideals of good governance and participatory development had never gained foothold in the South Asian soil ever since the medieval times, except for the British interlude. The British, when they took over from the Mughal rulers, introduced certain stable and organized institutions but they also partly reinforced this trend, as they were responsible only to the imperial masters in London and not the local people. Later, in the case of Pakistan the military rule undermined the public participation in decision-

making and hence the state adopted the character of a hard state where coercion and not persuasion became the order of the day. The breakup of East Pakistan (1971) resulting into the creation of Bangladesh testifies to the brute and despotic handling of the matters, which resulted in a deadlock paving the way for secession of a part of the country.

### **b) State and Development Nexus in Pakistan**

The primacy of the state in determining development outcomes has been a key issue regarding East Asia. This issue assumes greater weight when the role of state in other countries like Pakistan is compared and contrasted with the East Asian experience. Since, it is imperative to have an understanding of the role of state in Pakistan at a broader level, therefore, for this purpose the following four areas have been identified for analysis:

1. The archaic state in Pakistan
2. Development vision, commitment and capacity of state in Pakistan
3. State-business relations and their role in development of Pakistan
4. The development of a highly intrusive state: Industrial policy & Nationalization

#### **1. The Archaic State in Pakistan**

In Pakistan government has historically played a primary role in economic and social development. Gustav Papanek concedes the role of the government in Pakistan's development when he writes of the 1960s:

*Government played an important positive role in protecting infant industries and thereby making rapid industrialization possible in Pakistan despite the shortage or virtual absence of experienced industrialists, industrial labour, professional and technical personnel, infrastructure, experienced bankers, and so on. It subsequently provided heavy subsidies to industries to export to the world market, a difficult challenge at first. Government also played a crucial role in the Green Revolution by guaranteeing the price of some agricultural products and heavily subsidizing some inputs. And it carried out a labour intensive public works*

*programme that was effective for several years in creating rural infrastructure and providing jobs in the agricultural off-season. Finally it developed the physical and institutional infrastructure essential for economic functioning and development. (Papanek 1967, 111)*

However, in subsequent period the state and its institutions lost their efficacy and vitality, so that in the present day Pakistan there is obvious and growing disillusionment with the state and its institutions. The general impression is that over the years the state has failed to deliver on basic issues, that it can no longer govern, administer justice, provide essential and basic social services, or collect taxes, and its only function seems to be coercive, with institutions of law and order increasingly turned not towards protecting the life and property of citizens, but against the people of Pakistan. Corruption is noticeably rampant, and affects all institutions of the state. This loss of effectiveness of the state and its institutions is one potent factor, which contributes towards explaining the underdevelopment of Pakistan

The state, over the decades, has become a static entity in Pakistan, which hardly undergoes reform and adaptation to the new emerging realities. While the state in Pakistan did not adapt to the needs of society, the East Asian countries did a more consistent job of keeping the state well equipped to deal with the changing realities. The key crisis of the state in Pakistan is that the state and its institutions have not kept pace with the society, which has been transformed quite radically. The crisis in Pakistan exists due to the mismatch of the state with the needs, demands, and aspirations of the new Pakistan. While the old order had become redundant, its persistence in the realm of state and its institutions resulted in frequent crises. The key political struggle of the emerging economic and political classes in Pakistan will have to be concerned with the nature of the state, which reflects the new and emerging society. Thus an outdated state apparatus and ineffective institutions are the primary cause, which calls for a thorough reform in order to bridge the gap of development vis-à-vis East Asia.

## **2. Development Vision, Commitment and Capacity of State**

A sense of vision backed by political commitment is essential to establish the autonomy of the state and to endow it with a capability to direct the development agenda. In South Asia there were hardly a few occasions when the state was driven by a clearly articulated vision of its leadership. In the earlier phase, some of the founding fathers of the South Asian post-colonial state such as Jawaharlal Nehru (India), Sheikh Mujibur Rahman (Bangladesh), and Z.A. Bhutto (Pakistan) came up with definite agendas, about the direction they wanted to give to their countries. But at later stages there has been an acute dearth of such visionary leadership. Further, even in the case of visionary leaders like Zulfikar Ali Bhutto of Pakistan, subsequently, the merits of their vision have been questioned. That faulty or questionable vision partly resulted in staggered development of the country, which in turn explains the divergent and differential development outcomes of East Asia and Pakistan.

In contrast, East Asian states were driven by the developmental vision of leaders such as Mao Tse-tung, and Deng Xioping in China (PRC), Park Chung Hee in Korea (ROK), Lee Kuan Yew in Singapore, Mahathir Mohammed in Malaysia and Suharto in Indonesia, who all enjoyed long tenures in office which enabled them to realize their vision to some degree. They also displayed far greater foresight, which made their policies sustainable and long lasting and also delivered the desired results. Further, in contrast to the experience in South Asia and particularly in Pakistan, the East Asian tradition has fostered a class of professionals who have been inducted into high political office, defined popularly as technopols, who have remained relatively insulated from political pressures, in their management of the economy often due to the backing of strong visionary leaders. However, according to the revisionist approach on the issue, the power of such non-elected technopols remains open to question since their lack of accountability, except to their leader, is now held as being partly responsible for the crisis in the East Asian region.

The situation arising from a lack of developmental vision amongst the leadership in Pakistan as well as South Asia was compounded by their weak commitment and capacity to realize such a vision. A significant measure of commitment to realize the

vision through a holistic, time bound, practical agenda for achieving those goals has traditionally remained absent in all South Asian states and particularly in Pakistan. Further, it also has an impact on the capacity for translating the vision into reality, as in the absence of any commitment to realize a clearly articulated developmental mission, capacity to implement the development agenda remained weak. In every South Asian state, and particularly in Pakistan, the style of politics has remained highly confrontational. This process precluded any effort at promoting political dialogue to build a consensus behind a development agenda thereby undermining the commitment to development. Parliament has always tended to be an arena for rhetorical exchanges rather than a vehicle for political consensus building. Further, the political process has been repeatedly derailed by the military takeovers, which have been justified on the grounds of political instability. This political instability has been harmful to the establishment of consensus and commitment and the development process has also suffered from the lack of institutional support.

The administrative capacity has also been weak in Pakistan as well as every state of South Asia, being increasingly compromised by the growing embeddedness of public officials with particular interest groups. The growth of such linkages and tendencies in the executive and legislative branches of the state, deprived of any motivation or direction from a leadership with vision, appears as a plausible explanation for the failure in carrying through any developmental mission to a positive conclusion. In the context of Pakistan, from the time of Zulfiqar Ali Bhutto (since 1970) up to the regime of Nawaz Sharif (1999), the election manifestos, political programs, and reform efforts have invariably been empty political slogans without any solid commitment to realize the objectives of the programs. The *Nationalization* and *Islamic Socialism Programmes* under Z.A. Bhutto, *Privatization* as well as *Self-Reliance Programmes* under Nawaz Sharif and *New Social Contract* under Benazir were all shibboleths that their exponents never seriously followed or implemented for the purpose of economic and social uplift of the people.

The issue of vision and commitment and its impact on development can best be illustrated through the populist rule of Zulfiqar Ali Bhutto. Despite his professed ambition to bring transformation in the socio economic scenario of Pakistan, he did not

live up to his commitment of social and economic transformation. In the beginning organized labour, peasants, middle farmers, the urban and rural middle class, and the educated professional urban middle class all supported Bhutto's left-leaning economic policies. The bureaucracy and industrialists were the key victims of the new social programme of the early 1970s, while the discredited military, although not such a direct target as the other two was marginalized and sidelined. The large landowning lobby, too, suffered from the radical socio economic agenda and the 1972 land reforms were meant to break their political ambitions. However, the political settlement that emerged in the early years of the Bhutto regime soon changed, and the same classes, which had been targeted, regained their prominence and were accommodated in the new dispensation. The 1972 land reforms were mainly a political ploy. These did not really break the hold of the large landowners and Bhutto brought them back into his fold, despite the avowed political programme of the Pakistan People's Party. With massive nationalization, the bureaucracy was back in favour and began to consolidate its hold over the means of production. The military too, found favour when Bhutto had to quell the armed rebellion in Balochistan. Hence, the political groups, which had been discredited in the early Bhutto period, re-emerged, as Bhutto needed their assistance. The industrialists, however, were not welcomed back. The nationalization of banks broke the critical link between finance and industrial capital, and much of the capital held by industrialists fled overseas. While this class of industrialists was discriminated against and hounded out, not just from the economy, but also from the country. Bhutto, in fact slowly but consistently deviated from his agenda to further his own personal rule. Under him no institutional edifices were either erected or strengthened to consolidate and perpetuate his agenda of reform and change. The result was a crumbling of his agenda due to lack of commitment and capacity.

Amongst the later leaders, Benazir and Nawaz Sharif did not display any visible sense of vision and commitment to any development agenda. Thus the questionable vision coupled with weak administrative and political commitment and capacity resulted in several decades characterized by lack of vision, reversal of policies and missed opportunities.

### 3. State-Business Relations and Their Role in Development of Pakistan

It has been argued by Peter Evans in his work, *Embedded Autonomy* that successful development outcomes initiate in a strong state, which can work in close intimacy, defined as *embeddedness*, with the business sector, whilst retaining its autonomy of governance from the pressures of special interest groups. There is, however, virtually no attempt to conceptualize this notion of embedded autonomy within a Pakistan specific or South Asian context and no empirical effort to assess its prevalence in any state of South Asia. Peter Evans has used India along with the Republic of Korea (ROK) and Brazil, to test his hypothesis of embedded autonomy where he points to ROK as an effective example of such embedded autonomy compared to India and Brazil. However, his analysis about the links between the state and the business sector in ROK has become weaker after the revelations emerging from their financial crisis

The Pakistan experience, which can be extended to the whole of South Asia, reveals that this region inherited a relatively strong state at independence. This manifestation of state power originated in the all-powerful bureaucracy established by the British in the Indian subcontinent and Sri Lanka as a steel frame to sustain imperial rule. The legacy of the steel frame served to establish the ascendancy of the state in South Asia, and enabled it to exercise considerable authority in their relations with civil society. In post-colonial South Asia, the authority of the state was used to empower particular segments of the feudal elites and the bourgeoisie through dispensation of state patronage. The once powerful state in South Asian countries has, with the passage of time, been exposed to process of disempowerment which has gradually eroded the autonomy of the state, compared to what it was in the post-independence period and also in relation to the East Asian states of South Korea, Taiwan, China, Indonesia, Malaysia and Singapore. It can be argued that in each of these East Asian and some South East Asian countries, the state has been far more powerful in relation to civil society in general and various sections of the elite groups, than is evident in any South Asian state. (Sobhan 2002, 132) This supremacy of state power in the East Asian states has given it greater autonomy in its dialogues with the business community and other elite groups in particular, as well as enabled the state to provide more decisive direction to the development process. By

contrast, the over-regulated states of South Asia have remained much weaker in their capacity to influence development outcomes.

In general, state-business relations in Pakistan have remained uneasy and far more contentious than in East Asia. This over-regulated but weak state in Pakistan encouraged the emergence of private rather than institutionalized state-business rent seeking coalitions. Such private rent-seeking coalitions became pervasive and led to the spread of corruption to all levels of the state. This contributed to delay in decision-making as well as inefficient implementation of such decisions. Politicians have traditionally drawn upon the business sector to finance their election campaigns and in the process incurred political debts. The debts are repaid through patronage when in office or when in opposition by their failure to take business groups to task for particular acts of malfeasance. Bureaucrats enter into their own collusive transactions with business houses whilst in office or expect to join business houses on their retirement, tempted by lucrative compensation packages. Bureaucrats also socially interact with the business community and marry into each other's families. These bureaucrats, along with the politicians and the army, in association with a select class of businessmen constitute an exclusive ruling elite, which draws benefit from the resources and patronage of the state. This form of state embeddedness is, however, far from autonomous in the way that a state guided by its own vision creates its embeddedness with business to realize the state's developmental goals. Thus in Pakistan, there has been an evolution from the relatively autonomous post-colonial state, living in a relationship of dominance rather than embeddedness with the business community, to that of an embedded state, which has surrendered its autonomy to accommodate the appetites of specific interest groups. Further, it has been argued that in the case of Pakistan exclusive elites have virtually hijacked most of the benefits of economic development (Husain 1999, 70)

#### **4. The Development Of A Highly Intrusive State: Industrial Policy & Nationalization**

The development of a highly intrusive state in Pakistan and other South Asian countries also accounts for the divergence of development experience of the region from



that of East Asia. The model of closed economy coupled with interventionist state was spearheaded by India in the South Asian region while Pakistan followed suit. In India, the state had a strategic role in determination of the direction of economic development. The private sector operated within the highly restrictive framework defined by the state, which allowed it only a marginal role. This practice was continued till 1991 when it was abandoned due to serious balance of payments crisis. The South Asian countries like Pakistan that followed an economic strategy based on state intervention, directly managed the economic assets. This elaborate system of Government control and subsidies was described as "*the license Raj*". (Burki 1999, 32) The process was led by India from the time of its independence in 1947. Pakistan and Bangladesh adopted the practice in 1971.

Pakistan followed a policy of nationalization of industrial and financial assets in the early 1970s. In 1971, with the secession of East Pakistan, the Pakistan's People's Party came to power under the leadership of Zulfikar Ali Bhutto. The PPP had opted for socialism as the main plank of its economic policy. Therefore, nationalization of large-scale industry after the PPP government assumed power was according to expectations. In January 1972, in one of the most dramatic economic reforms in Pakistan's history, the banking and insurance companies were nationalized, and the government took over the management of thirty one major manufacturing enterprises covering ten sub sectors, including engineering, oil refining and vegetable oil industry. A Board of Industrial Management (BIM) was set up to supervise the entire structure. By 1974, ten public sector corporations had been established to run various industries, including fertilizer, automobiles, steel, and cement. Spurts of nationalization continued intermittently throughout the Bhutto years.

The main reasons advanced to justify nationalization were: Firstly, there was the attempt for the state to take over the "commanding heights" of the economy and assume responsibility for investment and growth. Secondly, the nationalization campaign was a response to the perceived failure of the "trickledown" growth that had been prominent in the first two decades of Pakistani's existence. The idea was that only through large public investment and redistribution could income distribution be improved and workers earn

higher wage incomes. Nationalization was grounded in the idea that correct allocative decisions could be made only through governmental control of industry. Throughout the world, the state had taken over sectors of the economy for a variety of reasons: regulation of market failures, command of strategic sectors, provision of physical infrastructure, the assurance of equitable prices, and distribution of goods to the population. Nationalization represented an attempt to expand the locus of the state still further. Thirdly, the reforms were meant to reduce the concentration of economic power among the leading industrialists, the famed "twenty two families". The growing concentration of wealth in Pakistan had provoked major concern, and the PPP represented the popular demand for greater economic equality. Fourthly, the policy of nationalization was grounded in the belief that pursuit of functional inequality was a negation of the principal of equity and opportunity inherent in the independence movement, which led to creation of Pakistan.

A major consequence of this policy of nationalization was that it undermined the confidence of the bourgeoisie and the entrepreneurs. Due to the nationalization of small and medium units in 1976 the private sector investment diminished and the credibility of the government as well as the growth process of the economy took a down turn. The policy of nationalization also resulted in exacerbating the ethnic and provincial tensions within the country. The urban industrialist classes saw the nationalization drive as an attempt of the rural landed elites to dominate the economy through the instrument of the state and its policy of nationalization. This sparked clashes in the latter years between the urban *Mohajir* and *Sindhi* rural population, which depicted a serious ethnic rift in the society. The discriminatory government policies, which on one hand resulted in nationalization of industrialist and financial assets belonging to the *Mohajir* industrialist class and on the other hand did not undertake land reforms which affected the rural landed elites and feudal reinforced the cleavages within the society and its institutions. The process of nationalization resulted in creation of serious insecurity, which caused a decline in production as well export performance.

The East Asian countries had followed a different strategy wherein the role of state was essentially in identification of key areas for development and in helping to find

resources for investment in these areas. The role of state in the East Asian economic miracle has been explained in World Bank report:

*"In most of these economies, in one form or another, the government intervened---systematically and through multiple channels---to foster development, and in some cases the development of specific industries. Policy interventions took many forms: targeting and subsidizing credit to selected industries, keeping deposit rates low and maintaining ceilings on borrowing rates to increase projects and retained earnings, protecting domestic import substitutes, subsidizing declining industries, establishing and financially supporting government banks, making public investments in applied research, establishing firm, and industry-specific export targets, developing export and marketing institutions, and sharing information widely between public and private sectors. Some industries were promoted while others were not."* (World Bank 1993, 138)

It is also pertinent to mention the example of Malaysia, which also experienced racial tension. But these tensions did not lead to the nationalization of Chinese industrial assets. Positive discrimination by the state in favor the Malays helped them but it did not lead to the undermining of the private sector led development strategy. The consensus on the role of private sector enhanced its confidence and helped in shift from an inward looking import-substituting industrialization to a greater and more vibrant export orientation of the economy in Malaysia.

The process of economic liberalization in South Asian region was a move away from this model of nationalization and direct control, but it started late in the day, and gained momentum after 1991 by which time enough damage had already been done. The belated transition, however, has been difficult due to political and economic considerations and is yet not complete in Pakistan.

## II. THE ROLE OF INSTITUTIONS IN DEVELOPMENT OF PAKISTAN

Institutions and economic development are inextricably linked and an insight into the comparative economic development of Pakistan in relation to East Asia can be had through a study of the institutions and their functioning. It is argued that in a state the institutional mechanisms provide the checks and balances that lead to good governance. To be enduring and credible, these mechanisms need to be anchored in core state institutions. Further, the power and authority of the state can be divided horizontally among judiciary, the legislature and the executive, and vertically between central, provincial and local authorities. Beyond the institutions within the state structure, voice and participation from civil society e.g. vigilant NGOs and watchdog bodies, independent but impartial media, user participation surveys, public dissemination of governance benchmarks can exert external pressures for better government performance and reduced corruption. In addition to formal institutions, informal institutions also exist and in many instances are equally powerful. Examples of informal institutions are trust, values and norms. Trust has been found to play a positive role in the functioning of large public and private organizations while norms usually constrain the behaviour of politicians and bureaucrats. In brief, well functioning institutions affect economic growth and distribution through a variety of channels:

- a) The predictability and transparency in enforcement of contracts, efficient and honest bureaucracy and tax collection facilitate inflow of foreign investment and discourage domestic investment from flowing into the underground economy.
- b) A reduction in the incidence of corruption is associated with an increase in the rate of per capita growth
- c) Presence of trust and social capital help reduce transaction costs and avoid diversion of resources towards security and protections of life and property.
- d) Strong and inclusive institutions reach out to the poor segments of the population and assist them in the delivery of basic social services.

An evaluation of the role of institutions in development of Pakistan involves the three pillars of the state: Executive, Judiciary and the Legislature.

### **a) THE PARLIAMENT & LEGISLATURE**

In order to explain the impact of functioning of parliamentary institutions on the divergence between East Asia and Pakistan, the following areas require detailed analysis:

1. Leadership Dimension & the Role of the Chief Executive
2. Accountability of the Political Leadership
3. Role of Political Culture
4. Degeneration of Democratic Institutions
5. Role of Political Parties

#### **1. Leadership Dimension & Role of Chief Executive**

Good governance invariably determines development outcomes. It depends on effective and representative democratic institutions, which give voice and participation to citizens and hold both the legislature and executive accountable to the electorate. In South Asia, in general, and Pakistan in particular, a considerable gap has existed between the form and substance of democracy. In all the South Asian countries, considerable executive power devolved to or was appropriated by the prime minister, whose office thereby acquired many of the trappings of an executive presidency. This situation, which began with M.A. Jinnah, the founder of the country, persisted in Pakistan under successive prime ministers from Zulfikar Ali Bhutto to Benazir Bhutto and Nawaz Sharif. This accumulation of power in the office of the chief executive originated in the weakness of political parties and the erosion in the grassroots strength of ministers, who tended to hold office less on their own political authority and more so on the patronage of the chief executive. Further, in the case of Pakistan, successive Martial Laws spanning over half of its life have sounded the death knell of democracy. In that dispensation the President or Chief Martial Law Administrator usurped and arrogated all authority to himself. This resulted in developing dictatorial and autocratic tendencies and weakened political channels as well as reduced accountability of public functionaries thereby causing deterioration in governance of the state. In such an environment the development of the country clearly received a setback.

It can be argued that the hazard posed by strong leaders to good governance lies in the complete dependence on such a leader to articulate the vision and demonstrate the commitment to realize that vision. If the leader's vision is weak or defective this permeates the direction of party politics as well as the quality of governance and seldom survives after the leader has left the stage. However, some strong executives may use their power to impose a vision and proclaim a commitment behind an agenda of good governance. The late President Park Chung Hee of the Republic of Korea or former Prime Minister Lee Kwan Yew of Singapore were no democrats, but they imposed a vision and commitment on their respective countries which upgraded the quality of governance and thereby helped to transform the living conditions of their citizens. While recognizing the role of the charismatic and visionary leadership, which uses unbridled authority to enforce good governance, it is improbable that such leaders can bequeath their mantle of authority to their successors. The Pakistani experiences suggest that the country did not get any visionary leaders who could propound a viable development agenda. Bhutto, Benazir and Nawaz Sharif were political leaders but without any concrete and workable plan for development. Further their rule contributed to the weakness of all the three main institutions of democratic polity i.e. executive, legislature and judiciary.

## **2. Accountability of Political Leadership**

It is a widely accepted principle that the exercise of executive power needs to be accountable and democratized. The absence of this principle in Pakistan's political culture has indeed impeded its development. The struggle for making the national leadership and executive accountable to the people in Pakistan predates independence. The political parties, which led the struggle for independence in South Asia and creation of Pakistan, were elitist by their composition and led by charismatic leaders like Muhammad Ali Jinnah, whose authority bordered upon autocracy. This tendency to vest absolute power in such party leaders accounted for the weak foundations of the democratic system in South Asia. The weakening of the cabinet system of government and emergence of a viceregal tradition with executive power being monopolized in the office of the chief executive emerged as the outcome of this tradition of weak accountability. In Pakistan, military rule resulted in almost absolute lack of accountability for the chief executive,

and in political governments also the Prime Ministers arrogated absolute authority thus marginalizing the parliament. Such a system bred weak governance within the administration as well as the political parties, who remained organizationally weak and financially non-transparent in their practices.

Pakistan has been rated as one of the most corrupt countries owing to the lack of transparent practices, which could in no small measure be attributed to the lack of accountability through the political channels. Thus, institutional restraint and democratic political practice must remain the main pressure points needed to extract good governance from the political leaderships.

### **3. Role of Political Culture**

The political culture of a country contributes significantly towards issues of governance and development. In South Asia democratic politics has always been confrontational. An earlier tradition of consensual political debate depended mainly on the stature of the leaders and the immunity of the ruling regime from political challenge as evident in the case of the Congress Party in India and Muslim league in Pakistan. As the politics moved to incorporate a wider spectrum of social forces, the struggle of these forces to assert within a more plural system turned parliament into a more contentious arena. This process has culminated in the decline of the Congress and the emergence of local and caste based parties more representative of the pluralism of Indian politics. In Pakistan also regional parties have reasserted as a result of this trend. This process of democratic assertion and of widening the representative base of politics has not only made South Asian politics more confrontational but has contributed to destabilizing the national governance, which is increasingly dependent on a coalition of disparate political elements built around a coalition of regional and caste interests. Pakistan had four elected regimes and two interim regimes in the 10-year period between 1988 and 1998, which reflects the fragility of the political system and the confrontational dimension of politics in the country.

In Pakistan loyalties within the dominant parties have remained ephemeral so that the coherence of the parties remains far from assured, given the opportunism of the individual party members. Such a confrontational and opportunistic political system

diverts attention from development and prejudices good governance by making it difficult for any government to build a consensus behind its development agenda. In this confrontational system the opposition seeks to destabilize a sitting government before it completes its scheduled term in office. These attempts to prematurely terminate the life of the regime draw upon a variety of tactics such as encouraging defection, provoking street agitation and even conspiracy with the armed forces. In response, sitting governments have become increasingly repressive in the treatment of their political opponents and less mindful of the legitimate rights of a parliamentary opposition.

Such a confrontational political environment had been virtually unimaginable in most of East and South East Asia over the last three decades, where governments in office could expect to remain there undisturbed for fairly long tenures. Regime stability in East Asia has encouraged continuity in policies and a more consensual approach to politics. Some of this consensus was obviously built around suppression of dissent but this was to some extent compensated by a more inclusive development agenda. However, the political unrest in South Korea, Indonesia and the protests at Tiananmen Square in Beijing indicate that successful development outcomes are not sufficient compensation for suppression of the democratic expression in a country.

#### **4. Degeneration of Democratic Institutions**

The degeneration of the political institutions has cast a long shadow on the development path of Pakistan. Further, the most serious threat to the democratic process in Pakistan lies in the deterioration of democratic institutions, which has always entailed mismanagement and anarchy in the country. In Pakistan the quality of parliamentary discourse has over the period of time significantly deteriorated. Instead of sober discussion on issues of democratic public concern designed to improve the quality of governance, the parliament has been exposed to intemperate exchanges, horse trading, periodic walkouts by the opposition, and even the resort to violence on the floor of the House. The degeneration in the quality of the legislatures has been compounded by the increasingly confrontational style of national politics. The use of the parliament as a political battleground has compromised its effectiveness as an instrument of restraint on executive behaviour as well as the highest law-making body in the country. A dysfunctional



parliament, however strong the opposition, has the perverse effect of giving the executive more latitude to do what it pleases. The military interventions have bred a style of governance, which has largely been grounded in aloofness from public sentiment and insignificant attention to its input on issues of policy and governance. This militaristic outlook has been catastrophic for the country, which was torn asunder geographically (1971) due to the blocking of channels of democratic discourse, and has fared relatively badly in terms of social and economic development.

### **5. Role of Political Parties**

The weak democratic structures of the major political parties in Pakistan have led to the arbitrary exercise of power by the prime minister, which has affected the development outcomes. Lack of a democratic culture in party politics elevated family, tribal, sectarian and personal considerations into important factors within the organization of political parties. Lack of intra-party democracy has been a poor foundation for democratic governance within the state. The governance of major political parties in Pakistan, like the Pakistan Peoples Party and Muslim League, has been marked by undemocratic leadership structures and the representative authority has traditionally been usurped by factions and sectional coalitions assembled for opportunistic reasons. Potential defectors, whose links to parties are not governed by firm principles, have populated every major party in the country. The parties also did not train their cadres or educate them on aspects of public policy and good governance. Nor did they generate and distribute party funds in a transparent and accountable way. Most parties in office remain exposed to corruption because their undisciplined, ill-motivated party cadres resort to desertion if their appetite for power and patronage was inadequately served.

In conclusion, it can be stated that malfunctioning political organizations and a decadent political culture have been inimical to economic development of Pakistan and have been unable to promote the ideals of empowerment of people and accountability of public office-holders.

## **b) THE JUDICIARY**

### **1. The Authority of the Judiciary**

Development can only take place in the presence of sound legal institutions. Effective democracy and developmental regimes presuppose an independent judiciary. The British tradition in united India supported a strong, independent judiciary, which aimed at preserving rule of law and imposing accountability on the administration. This system remains functional in India and Sri Lanka. However, in Pakistan, years of autocratic governance compromised the independence of the judiciary and it virtually became an extended arm of executive by according legal sanction to all the unconstitutional and illegal measures. The lack of muscle of the judiciary became evident soon after creation of Pakistan when it began to legitimize military rule under the doctrine of state necessity. The confrontation of 1997 between the prime minister and the chief justice of the Supreme Court and the overt collusion between the military regime and Supreme Court during the present regime (1999-todate) also suggests that the superior judiciary has lost its independent character. In Pakistan, the wave of judicial activism, which arose in 1990s, has largely subsided and it has become an ineffective and thoroughly discredited institution. Such an environment where judiciary loses virtually all credibility, the confidence of the domestic and international investors has been shaky as they found that their rights could not be protected. This lack of credibility of judiciary and its tainted image has been a relevant factor in determining the development outcomes.

### **2. The Inequity in the Legal Process**

In Pakistan inequity in legal processes has perpetuated the injustices and resulted in social disorder, which has invariably cast a negative bearing on the polity and the economy. The erosion in the integrity of the lower judiciary and the increasing corruption and arbitrary behaviour of the law enforcement agencies has been generating contempt for the rule of law. The malfunctioning of the legal system has led to an accumulation of a backlog of cases in the courts thereby delaying the delivery of justice. This makes it possible for the rich to use the law to protect themselves from financial discipline and to oppress those unable to afford adequate services. In contrast, the jails remain clogged with a

large number of prisoners awaiting trial, largely from the ranks of the poor, who often end up serving long jail sentences without ever being convicted of any crime. The law in Pakistan is seen by the poor as a rich man's resource to be used, along with the police, as instruments to oppress the poor, undermine their democratic rights and perpetuate an unjust and inequitable social order. The emergence of a variety of dedicated legal aid organizations targeted to the poor, and to help women is a promising development but cannot substitute for the emergence of a more equitable legal system.

### c) THE EXECUTIVE

The critical role of executive in determining the development processes and policies in Pakistan is to be seen in the context of the period of supremacy and the influential position it had in the political dispensations that were in place in the country during the last 57 years.

#### 1. Bureaucracy Led Development

The economic and political history of Pakistan has seen two phases of supremacy of the bureaucracy wherein the policies flowed from pens of civil servants and thereby determined the development outcomes. The first phase of bureaucratic supremacy lasted from 1947 to 1958. It began from the violent partition of India that resulted in the wake of the departure of the British from India. In the early years soon after Pakistan came into being in 1947, the state was run by a select group of bureaucrats who were responsible for formulating policies to ensure the survival of the country at a time when the odds were clearly stacked against it. With seven million migrants, a political system that was devised by the British to preserve and extend their role as a colonial power, and without much industry, during the first few years, the civil service appeared to be the only institution organized and modern enough to run the country. In terms of political entities, there were a large number of big landowners, mostly feudal, and an equal number of *sardars* and tribal leaders. Since there was no industry, there was no class of individuals related to the industrialization process. Essentially, bureaucrats dominated the political scene in Pakistan for the first few years, with a collection of land owning politicians, *nawabs* and *sardars* comprising the core political equation. However, mercantile capitalists soon, after making enormous gains from the Korean War, consolidated their

economic position. The traders who had made fortunes in the early 1950s, began to invest their profits in industry, and emerged as the main industrialists of the 1960s.

The industrialization process that took place in Pakistan in the mid and late 1950s was ably guided by the bureaucracy, which played key role in establishing industrial units in the country. State-owned institutions like PICIC and PIDC were fundamental in encouraging the development of industry in key sectors. Moreover, a trade policy that had a formative influence on industry was also actively pursued, so that a particular type of industrialization process could take root. (Zaman 2002, 150) Industrialists, while gaining economic clout through high profits made in the early years, never become a political force and depended on the benevolence of the *licence-raj* of the civil servants. Political tussle between different players of the landowning class also did not allow those politicians to emerge as a strong and united political force. With disarray in the ranks of the political groups that existed, the military stepped in to restore law and order and to continue and perpetuate the bureaucratic capitalism that had emerged in the 1950s.

The second phase of Civil and military bureaucratic capitalism ushered in the decade of development, which lasted from 1958 to 1971. The military emerged as the protective shield under which industrialization, with the help of the bureaucracy and the emerging industrialists, could develop further. The very high growth rates in the economy and in large-scale manufacturing would not have been possible without a central command, and the only institution capable of providing that sense of order at the time was the military.

Industrialization, which began in the late 1950s, was insufficient to lead to economic growth and development, unless there was a change in the rest of the economy as well. Industrialization requires consumers, and consumers can emerge only if there is a class of individuals who has purchasing power in excess of its subsistence wages. With a majority (75-80) per cent of the population in a rural economy where agriculture was the only mainstay, and that too an agriculture with a declining output each year, it is unlikely that the consumer boom of the 1960s, and hence the phenomenal growth in agriculture, could have taken place unless agriculture had developed and unless rural areas and semi-urban areas had become more than just crop-producing areas. Without an agricultural revolution, the industrial revolution in Pakistan could not have taken place. This

symbiosis between industry and agriculture was critical to any development or growth plan for the economy.

*“If the development of agriculture following the land reform of 1959 was indeed a thought-out process and policy of the military-civil bureaucracy-industrialist nexus, it shows the deep political and economic insight of the main policy makers of the time. If it was a matter of accident, then this is one of the many fortuitous moments in Pakistan's history which have changed its destiny on numerous occasions” (Zaidi 1999, 147)*

The 1960s witnessed the emergence and consolidation of many political groups and economic classes. In agriculture, the hold of the large landowners was certainly shaken enough to allow other economic categories, to emerge. Many of the large landowners accepted the Green Revolution technology package introduced by the government. Although this was an elite farmer strategy, given the high costs but the state subsidization gave the middle farmers, also, the opportunity to adopt this technology. As a consequence of the Green Revolution, the middle farmers, along with many other farmers at both ends of the spectrum, emerged as capitalist farmers, preparing to soon become a dominant economic and political force in the country.

In the rural areas, alongside this emerging capitalist farmer there was also the genesis of the small-scale manufacturers, and the skilled and technical workers, the growth of an ancillary service sector in order to service the new economy, and a disenfranchised, landless agricultural wage-labour class. To some extent, the political ambitions of the newly emerging agricultural capitalists were accommodated in the Basic Democracy Scheme of Ayub Khan, but without giving them any real political power. This was perhaps the beginning of the apprenticeship of this class of rural politicians, which was to emerge, especially in the Punjab, in the 1970s and was to stamp its mark on the political economy of the country. According to Shahid Javed Burki:

*“The military and civilian bureaucrats under Ayub had forged a strong political alliance with a number of middle class urban and rural groups which helped in fostering economic development and political participation. Moreover, the Basic Democracies system not only gave a voice to the middle class peasantry of Punjab and the NWFP, but also*

*converted Pakistan's powerful civil bureaucracy from an apparatus for maintaining law and order into a remarkable vehicle for promoting development". (Burki 1986, 30)*

On the industrial side, with excessive profits in industry and an industrial class protected by government policies, there was a consolidation of the economic power of this class. However, despite the emerging excessive wealth, the industrial capitalist class did not emerge as a political class in terms of seeking political office. Its relationship was that of a partner with the bureaucracy, through which it sought economic gain and wealth. While the military governed in the 1960s, it was not involved then in the economic process, as it was to become involved in the period under Zia (1977-88) and Musharraf (1999 to date).

Thus the political settlement in the Decade of Development was one wherein the military and the bureaucracy governed Pakistan, assisted by allies in the industrial and agricultural sectors. Economic power lay essentially with industrialists, but with the capitalist agriculturists swiftly emerging to stake their claim. Moreover, this period also saw the rise of a small but aspiring educated middle class that had a political vision of its own but which lacked the economic power to do so. In Zulfiqar Ali Bhutto, it found a leader who propagated a socio economic agenda grounded in Islamic Socialism.

The bureaucracy suffered a setback initially in the days of Zulfiqar Ali Bhutto due to the civil service reforms, which aimed at curtailing the influence of the civil servants. There was, however, a come back when under the nationalization program the bureaucrats were assigned the task of managing the state owned enterprises.

The Zia era was a period of civil- military partnership wherein the military was the dominant partner. The military men made huge fortunes in the wake of the Afghan war that erupted in 1979. The bureaucracy was relegated to a secondary role and the military men placed at key decision-making positions made major decisions having impact on polity and economy. However, the bureaucracy had independence in terms of political oversight and scrutiny. The economy received impetus from the remittances from the Gulf countries as well as the aid inflows during the Afghan war.

The governments under Nawaz Sharif and Benazir Bhutto were partnerships between military and politicians with civil bureaucracy having the role of a facilitator and

executor. An important step during this eleven-year period was the privatization of state enterprises, which was a paradigm shift insofar as the management of the economy by the state was concerned. The economy displayed a downturn, as the GDP growth rate became lower and the country found it hard to manage the mounting external debt.

The current regime under President Musharraf has introduced a drastic step of devolution of power, which has decreased the leadership role of the bureaucracy. The economic reforms instituted during the last four years have resulted in improved economic indicators; however, the democratic processes have been impaired owing to the overarching influence of the military in policy-making.

The above synopsis leads us to an evaluation of the various ramifications of the role of the bureaucracy and its supremacy in the political and economic dispensation:

## **2. Rule of Law and the Degeneration in Law Enforcement**

The concept of rule of law has become seriously undermined in Pakistan. This factor had considerable influence on economic development, as the investors consider security as a primary concern in their investment decisions. Law enforcement agencies and particularly the police has increasingly become a negotiable commodity in South Asia, where the rich and influential can purchase police intervention or inaction. To the extent that the police may connive with and protect criminals and be used both by the ruling political party as well as by men of property to promote their interests, the forces of law and order are seen to be part of the problem of the criminalization of society rather than its solution. The violence in Karachi, the principal port and commercial city, has underlined the importance of a stable law and order framework for economic activities involving private capital. One of the reasons why authoritarian governments in Eastern Asia did well on economic accumulation was effective control over law and order, which created an environment conducive for private investment. On the contrary, ethnic and religious tensions in Pakistan contributed to an ever-worsening law and order situation, which proved a major stumbling block in the way of economic development of the country.

### **3. The Deterioration in Quality of the Administrative System**

South Asia inherited a reasonably effective system of administration, which was mainly devoted to the enforcement of law and order and the collection of revenue. This system was unaccountable to the people, but was effectively regulated through a system of top-down accountability. In the post-colonial era, the administration remained more accountable to the democratic process and had broadened its responsibility to promote development. However, its quality degenerated throughout South Asia and more so in the case of Pakistan. Politicization and the gradual increase in patrimonial influences affected the public sector's efficiency in Pakistan. As a result, the country presently exhibits many of the characteristics of the 'soft state' described in Myrdal's *Asian Drama*. In Pakistan, an over manned, poorly paid, and politicized civil service has led to a general deterioration in public institutions. One of the major negative consequences has been the lack of a regulatory framework to enforce contracts in the financial sector. A number of financial scams have gone unpunished, creating uncertainty about the security of savings. In such an institutional environment, savings mobilization has suffered and a weak institutional framework has hampered accumulation. The law and order conditions have also affected development. This degeneration in the administration remains the source of weak governance in the region. Further, the transparent mechanisms of recruitment to civil service have been undermined. Part of the explanation for this lies in the expansion in the size of the administration, the need to accommodate backward areas, castes, tribes, women and other hitherto deprived interest groups. This has led to relaxation in the norms of recruitment, which has consequently compromised the quality of the administration without making it more democratic or accessible. Thus this process of politicization has taken its toll on the administration by encouraging corruption, eroding quality and affecting financial and economic decision-making.

### **4. Devolution and Decentralization of Government**

Representative government demands representation at all levels, but has notably remained absent in Pakistan. It is generally accepted that the quality of governance will also improve if governance is brought closer to the governed. Thus two measures of good governance, effective representation and accountable administration, are captured within a



process of devolved and decentralized governance. The inherited British tradition, in Pakistan as well as India, concentrated crucial decision-making for the British Empire in the Colonial Office in Whitehall, but delegated enormous power to the Viceroy in Delhi. The colonial system thus encouraged the emergence of a highly centralized system of governance. The delegation of power bypassed the state government and devolved on the district magistrates or collectors who, as servants of the British Raj, were invested with administrative, judicial and revenue collection powers. This inherited colonial tradition of centralized power has not been significantly modified in the post-colonial phase. The partition of India ultimately rested on the failure to reach a satisfactory political agreement over the devolution of power to the federating units of a post-colonial India. Pakistan broke up again, leading to the creation of Bangladesh, because of the unwillingness of an all-powerful center to devolve power on the provinces, and particularly to the majority province of East Bengal. The Tamil insurgency in Sri Lanka is ultimately centered on the failure to achieve agreement on a formula for the devolution of power to sub-regions where the Tamil minority is concentrated. Post-independence India has dealt with devolution more satisfactorily, but has yet to accommodate adequately the sub-national aspirations of the people of Kashmir or of the North Eastern states of India.

Effective governance must ensure that local officials responsible for delivering social services like primary education, health care, infrastructure development, irrigation services, land administration, law enforcement and other such public services, must be accountable to the people they serve. This accountability should ideally derive from their being made responsible to empowered local bodies. Devolution of power can, however, only be effective if the local bodies are themselves responsive to popular needs. The Pakistani tradition has numerous examples of local bodies being captured by local elites, who remain unresponsive to the needs of their constituents. Control over power and resources by these elites, is thus used to perpetuate power by appropriating resources and using it as patronage to purchase electoral support. While devolution remains an essential first step towards accountable governance, there is the need to take a realistic view of the representative and accountable character of these local elective bodies. The devolution of power at the level of districts in Pakistan has been mired in controversy and faces the threat of a reversal, as it is perceived as an attempt to curtail provincial autonomy and dilute the

powers of the bureaucracy. Thus, in a nutshell, the centralized political and administrative mechanism in Pakistan has been unable to incorporate local aspirations and needs in the process of planning and development, thereby impeding the process of formulation and execution of a holistic and all-embracing national development and progress agenda.

#### d) THE ROLE OF MILITARY AND DEVELOPMENT EXPERIENCE IN PAKISTAN

It is imperative to analyse the relationship between military rule and development of Pakistan in the present thesis. In this context, it is evident that the seemingly generic failure of politicians as a class to reform policies and improve governance inspired military adventurism in many of the developing countries including Pakistan. This happening found favor with scholars like Samuel Huntington who believed in the ability of 'modernizing generals for delivering results on the economic front. It was believed by some amongst the national elites of the Third World that single-minded, visionary generals, as were believed to exist in Pakistan, South Korea, Brazil, and much of Latin America, would evict the failed politicians from the arena of governance and could thereby move ahead without fear of political opposition to provide efficient and corruption-free governance. For much of the 1960s, with some conspicuous exceptions such as India, Sri Lanka, and Costa Rica, politics was the monopoly of the generals or was practiced under the patronage of the military. The *realpolitik* of the Cold War made such militarized regimes more convenient clients of the principal Cold War warriors. (Sobhan 2002, 131) In Pakistan, the myth of the modernizing general collapsed with the fall of Field Marshal General Ayub Khan and the eventual break-up of the country (1971). Throughout the Third World, military regimes proved to be no less corrupt and no more efficient than their civilian counterparts. Some generals, such as Mobutu in Zaire, became legendary for their misgovernance and inspired the concept of the 'failed state'. Even successful pro-development generals such as Park Chung Hee in South Korea could not contain the growth of corruption in the regime and had to fiercely suppress dissent. Park Chung Hee was eventually assassinated and his military successor generals to the Presidency ended up in jail for corruption.

The experience with military dictatorships around the world and particularly Pakistan is that military regimes and similar autocratic rulers tend to be both more virulent and more

self-perpetuating in their rule because they protect their wrongdoings by denying their citizens the free choice to punish them at the polls. Much blood had to be shed through mass mobilizations and even civil war to remove failed generals such as General Ayub Khan in Pakistan, Husain Mohammad Ershad in Bangladesh, Mobutu in Zaire, Ferdinand Marcos in the Philippines, Suharto in Indonesia, and various other Third World despots. Most of the military regimes of the 1960s and 1970s had been backed by the Western powers and sustained by their aid, in the belief that they could be used as assets in the Cold War. It took the end of the Cold War for the West to discover that governance failure was not the outcome of anarchic democracy but the lack of democracy. The belief that democracy was an encumbrance on accelerating development has thus given way to a selective belief in the importance of democracy for promoting sustainable development. Today, without external patronage to sustain their arbitrary rule, failed generals have been exposed to the wrath of their citizens, emboldened by episodic pressure from particular aid donors on some despots to democratize their politics. This recent restoration of faith in democracy amongst the Western powers is a marked change from the days when the World Bank and the United States Agency for International Development were the principal life support of military rulers in Pakistan and Bangladesh, under the belief that such unaccountable regimes would be more willing and able to carry out World Bank-sponsored economic policies. However, we still find deviations from this policy and the American support to the current quasi-military regime in Pakistan is a stark reminder of this fact.

The historical record of military rule in Pakistan shows that it has followed a cycle of promised good governance and reforms followed by restoration of patronage to the same corrupt elite whose depredations were used to justify the coup. The military could never distance itself from the elite and remained linked to these elite by ties of blood, marriage, education, land, and commerce. (Jalal 1991, 78) It was largely a matter of time before the same military rulers aspiring to end corruption and practice good governance began to draw upon their linkages to the elite to resort to corruption often with the generals and their families in the vanguard. As a result South Asia's experience with military rule, over a period of time could realize little improvement in governance either in the way of improved efficiency, transparency or accountability in public administration.

The role of the armed forces / military in the body politic and their relevance to economic development can best be understood from the alternating transition periods between covert and overt military rule. While, as explained earlier, the period between 1958 and 1971 was a period of civil-military supremacy, the period most illustrative of the characteristics of the rule of the military is the rule of Zia ul Haq (1979-1988). This period crystallized the hegemony of the civil and military bureaucracy, not only on the politics but also on the generation and distribution of economic resources and wealth in the state. Despite the pro-private sector leanings of Zia's regime, much of the industry nationalized under Bhutto was not returned to the original owners because it permitted the bureaucracy to continue to play an important role in the economy. The bureaucracy, particularly the men in uniform, emerged as a critical ally for Zia, and he had no need to undermine their role by distancing them from key areas of economic control and power. The role of the military also changed compared to when it was first in power under Ayub. Earlier, the military had played primarily an administrative role, but under Zia it became more visible in the economic sector as well. The military men owned and established large businesses and enterprises and joined the ranks of the industrialists, thanks to the links established under the rule of General Zia.

The economic aid that resulted from the Soviet invasion of Afghanistan was also an important conduit for making personal fortunes. There is extensive evidence of corruption, smuggling, and the emergence of a drug and arms mafia as well as economy due to the fallout from the Soviet invasion of Afghanistan. In an economy of defence, military personnel used contracts of different types to further their personal fortunes. Moreover, the armed forces also emerged as a collective economic institution, where the different welfare foundations of the army, navy, and air force became more involved in economic activities and even in direct economic production. In economic terms by amassing huge fortunes, the military was a major beneficiary of the rule of General Zia ul Haq.

The emphasis on local governments is almost generic with the military regimes. Local Governments seem to work well under military dictators, and under Zia they seemed to work rather better, because of the relative importance given to this tier of government by the large development funds channeled through it. Urban and rural

councilors were the only elected representatives of the regime, and were responsible and accountable, given their limitations, to the needs and demands of the electorate. Elections were held in 1979, 1983, and 1987, which allowed the same sections of the economic middle class to emerge as members of the political classes. General elections in 1985 even allowed some of the members to contest and win elections at the national level, when parliamentary elections on a non-party basis were held. Foreign remittances also contributed to the well being of the middle classes, which had many of their members working in the Gulf countries.

Thus the main beneficiaries of the Zia regime were members of the urban and rural middle classes as well as the civil and particularly military bureaucracy. The large industrialists of the Ayub era also returned to Pakistan, but there was probably less concentration at the top under Zia than under Ayub. However, despite this emergence of the middle class under Zia, political power was clearly retained in the hands of the military with a subservient bureaucracy alongside. Large landowners, too, had made a comeback under Zia, hovering around the political establishment and being allowed some room in the 1985 elections. In terms of development of political institutions, the era of Zia was a disastrous decade, which retarded the genuine political processes.

The next phase of the military influence is seen in the period between 1988 and 1999, when military operated from behind the curtains. The most noticeable phenomenon on the political, economic and social scene in Pakistan during that period was the middle-class resurgence in the country, which coincided with the failure of governance. Further, capitalist development with the private sector playing an aggressive role, seemed to be the norm for the economic development over that period. This phenomenon marked by diminishing role of the state also caused severe inequities. If growth and prosperity exclude sections of the population, the potential for social strife increases. The military intervention in politics destabilized the political setup on several occasions and on three occasions it led to the dissolution of the parliament. Thus military interference had a negative impact on the political as well as the economic scenario of the country during this period.

In the realm of politics, after the death of General Zia ul Haq in 1988, Nawaz Sharif emerged on the political scene as a spokesman for the upwardly mobile,

indigenous urban middle class with the support of the military. The main beneficiaries during this period were the industrialists, the traders and the salaried classes. While the Pakistani middle-class capitalist revolution appears more advanced and progressive than the feudal system, "it is an evolving, immature, crude, greedy, selfish, narrow-minded middle class, whose only pursuit is self-interest"(Zaidi 1999, 147). Nawaz Sharif was overthrown when he attempted to challenge the military hegemony over national policies and other institutions of the state. The rule of Benazir Bhutto, from 1989 to 1991 and again from 1993 to 1996, also met with abrupt end, as it seemed to challenge the hegemonic policies of the military.

The era of President Musharraf starting from the military take-over in 1999 has been a period of revival of the direct military hegemony. It has largely offset the vibrant yet blemished, democratic progress made in the decade of the 1990s and has also entrenched the military in all spheres of the political system. The military government promoted an agenda of reform of the economy and accountability of the civil bureaucracy and the politicians. It also embarked on an ambitious program of devolution of power, through the installation of Local Governments. The initiatives of the military government continued despite the induction of a civil-military coalition in the name of revival of democratic rule. The economy has generally registered an upturn with the GDP growth rate around 6%, but the reforms introduced in the police and the introduction of Local Government have met stiff resistance from various quarters. The dominant view is that the sustainability of the reforms in all spheres would require a more participatory approach, which alone can ensure that the reforms outlast the present regime and are not swept away like the Basic Democracies of the Ayub era by the winds of political change.

To conclude about the role of military rule in Pakistan, it can be stated that it inhibited the development of political institutions and created serious cleavages along political, ethnic, religious and linguistic lines in the society. These fractures in the society negatively influenced the development process by diverting the energy and resources towards the resolution of these conflicts rather than the forging of a single-minded consensus on the development agenda.

Thus, in a nutshell, the political institutions, the civil and military bureaucracy as well as the judiciary faltered in their respective spheres by failing to undertake meaningful institutional reform and therefore cast a negative shadow on the development process in Pakistan.

### III. GOVERNANCE DIMENSION IN DEVELOPMENT

Governance refers to the manner in which power is exercised in the management of a country's economic and social resources. Good governance requires checks and balances in a country's institutional infrastructure, such that politicians and bureaucrats have the flexibility to pursue the common good, while restraining arbitrary action and corruption. The state's monopoly on coercion, coupled with access to information not available to the general public, creates opportunities for public officials to promote their own interests, or those of allies, at the expense of general public interest. In such a scenario the possibilities for rent seeking and corruption are considerable.

Governance failure in Pakistan over the last five decades is a major factor that explains its underdevelopment and trailing performance vis-a-vis the East Asian countries. Economic performance and social relations are shaped by the degree to which accountability and participation characterize governance; by the way in which information is generated and disseminated within the society; by the legal environment within which contracts are drawn and executed; by the transaction costs associated with trust within the group or society.

Democratic rule has remained elusive in Pakistan. The unending contest for power has not allowed the roots of democracy to find solid ground. The periods of military rules totaling over twenty-five years in all did not help either. The more recent experience of democratic rule (1988-to 1999) has been one of instability, fragility, and shakiness. There is a growing consensus in Pakistan that the state and its institutions are teetering on the brink of a collapse today; the country is faced with numerous crises or fault lines, ranging from a crisis of the economy to a crisis of governance, incorporating crises of the institutional collapse. The general prognosis seems to be that, unless some action is taken in the immediate future, these fault lines will grow into gaping holes, into which this

country and society will collapse. The most obvious reason for the institutional collapse in Pakistan is that most of the state institutions in Pakistan are obsolete in the present social and economic reality. Long time back when the structures and systems of general administration, law and order, revenue collection and expenditure were put in place, Pakistan's social and economic structure was very different from what it has evolved into today. In the 1950s and 1960s, Pakistan's economy was principally agricultural and rural, with large landowners enjoying both economic and political power. The deputy commissioners in the districts were lord and master of their terrains, usually in cohorts with the large landlords and other influential in the district. There was very little mobility in rural areas, both geographically and socially. Local ties of culture, kinship and economic exchange dominated this world. In addition, literacy levels were low and infrastructure and opportunities little developed. The level and nature of development and hence of culture, all across Pakistan, was rural, if not feudal. All this has now changed. Today there are few pockets in Pakistan which can be considered to be remote or isolated, with economic and communication links not only integrating the whole country internally, but integrating far-flung areas with the rest of the world. Moreover, the share of urban population, which was only 17 per cent in 1951, is estimated to be at least 40 per cent today, and by 2010 the majority of Pakistanis will be living in cities. Literacy and education, still low by international standards, have grown markedly over the last three decades and have even spread to many remote rural areas. Mobility and migration from rural to urban areas and to other countries has become a part of Pakistani society and cultures, and remittances, both international and domestic, now contribute a large share to the economy. Agriculture provides less than a quarter to GDP, with the service sector now providing more than half of the total. These changes put together represent a new Pakistan, with a vibrant urban sector, a growing and aggressive urban and rural middle class, and a more modern economic order integrated into the wider world market. This changing economic and social structure in Pakistan has come into conflict with the old institutional setup, and hence explains the reasons for the institutional collapse.

The old order of governance was structured upon a highly centralized system of governance, perhaps best epitomized by Pakistan's "One Unit". In the Pakistan of the recent past the extent and nature of centralization at the federal and provincial level



seemed at odds with the requirements and ability to address the most essential issues, most of which are of a specifically local nature. It is generally accepted that sanitation, sewerage, water, health and education, to name a few, are local issues which are far better addressed by effective, autonomous and elected municipal and district governments than by officials in the national or provincial capitals. The situation has however taken a drastic turn with the introduction of the Devolution Of Power Plan (2001), which promises resolution of problems at the grassroots level. The devolution of power and authority in Pakistan has been regarded as one of the major steps towards institutional reform. It has resulted in insuring political, administrative and financial devolution to the level of districts thereby making them functionally autonomous. However there is a growing disenchantment with the process of devolution owing to the capture of these institutions by local elites as well as the clash of interests between members of parliament and the local government bosses with the bureaucracy being a silent but active participant in the battle for turf and power.

Transparency and accountability are generally recognized as important aspects of good governance. These instruments expose the state to regulation and public scrutiny. It a system of accountability to the people reinforced by top-down accountability, which can ensure that policy reforms are being implemented and that malfeasance will be discouraged through exposure to public scrutiny. Transparency in all government transactions, through full public disclosure before the parliament and in the press serves as an instrument of accountability for the government before the people. (Sobhan 2002, 132)

The absence of strong mechanisms for these putting into effect these instruments of accountability and transparency has resulted in retarded development of Pakistan. Traditionally in South Asia, and particularly in Pakistan, accountability of the executive by the legislature and beyond it to the citizens has remained weak. This was a consequence of the colonial legacy where during imperial rule the Government of India was accountable to Whitehall and not the people of India. In a state such as Pakistan, with a long tradition of autocracy, there were no institutional mechanisms of accountability. Even during episodes of electoral democracy the tradition of the all-powerful chief executive, with no civic and parliamentary accountability has persisted. In countries

where accountability to the legislature remains weak, the confrontational posture of the opposition has itself been far from conducive to promoting Westminster style accountability through parliamentary debate and pro-active parliamentary committees. In Pakistan as well as in other South Asian countries, the inherited imperial tradition of lack of accountability to the people was, compensated by a potent system of bottom-up accountability. The British put in place a mechanism where every official was accountable to a superior. Institutional mechanism of reporting up and surveillance of subordinates was a key feature of the imperial system. This tradition persisted into the post-colonial state where the inherited administrative structures maintained this tradition of bottom-up accountability. However, in the post-colonial phase of each South Asian country these systems of bottom-up accountability progressively weakened so that in states such as Pakistan, this system of accountability has nearly disappeared. It can be concluded that the weak capacity to implement development programmes leading to weak developmental outcomes, in large measure originates in the virtual absence of executive accountability. This process perpetuates corruption, mal-distributes its benefits and raises the costs of development. In Pakistan four governments have been dismissed on account of corruption in a decade. This has generally served to discredit the political institutions and their effectiveness in ensuring good governance resulting in unsatisfactory development outcomes. Weak accountability in a system discourages transparency. In Pakistan parliament has been relatively ineffective in performing this vital role. The causes probably lie in the weak capacity of parliamentarians, the conservativeness of the governments and the tradition for secrecy.

It is also recognized that an investigative press and a pro-active judiciary remain a vital resource for enforcing accountability on the executive. However, the best instrument for ensuring transparency remains a free media serving an alert civil society. In Pakistan and other South Asian countries, compared to East Asia, the press has remained relatively free, at least whenever military rule has not sought to curb the press. However, the press in most countries of the region tends to be managed or owned by big business houses, some of which have their own political and business agendas, which may compromise their editorial independence. In contrast, the electronic media in most countries of South

Asia and particularly Pakistan has remained largely under the control of the state, which has undermined both its independence as well as its quality.

The sustenance of the process of transparency also demands an alert civil society keen on taking the state to task for its acts of misgovernance. Such a conscious civil society remains the strongest pressure group that can make governments both accountable and transparent since the natural tendency of the states in South Asia is to minimize the public scrutiny of its governance. Thus on the twin yardsticks of transparency and accountability, which indicate the performance with regard to good governance, Pakistan has not been doing particularly well which can be regarded as one potent factor explaining its underdevelopment.

#### **IV. ALLOCATION OF ECONOMIC RENTS & DISCREPANCY BETWEEN SOCIAL AND PRIVATE PROFITABILITY**

The allocation of economic rents and the manifest discrepancy between social and private profitability also contributed to the differing economic performance. Governments intervened in markets both in East Asia and Pakistan to create economic rents. In the former, the governments reallocated rents to participants on the basis of performance-based criteria. Firms, which were able to increase exports and thus expand employment opportunities and incomes in the domestic economy, were rewarded through allocations of credit and foreign exchange. These incentives, in turn, encouraged the adoption of international standards, accelerated the diffusion of technology, and helped the exporting firms in capturing a growing share of a much larger world market. Government support to industry, by establishing research and science centres and quality control standards, was important both in attracting foreign investment and in encouraging domestic investors. Government interventions helped to realign private and social profitability together, and thus economic growth and social justice moved hand in hand. (Husain 1999, 70)

In the case of Pakistan, government controls on the allocation of resources and interventions in the markets were equally strong, but the institutional and political character of the successive governments was entirely different. The power relationship in Pakistan has been characterized by a 'feudal' mind-set and behaviour. The 'feudal', or the

narrow class of ruling elites that moved in and out of power at various intervals of time, captured most of the rents for themselves and their families. This class of elites, which includes politicians, big businessmen, bureaucrats, military officers, and landlords, was attuned to the patron-client relationship. The economic rents created through import licensing, industrial permits, foreign exchange allocations, credit by government development banks or nationalized commercial banks, discretionary tariff concessions, award of contracts, subsidized agriculture credit, cheap urban land, evasion of taxes, and a host of other government policies, in fact widened the discrepancy between private and social profitability. Though economic growth was stimulated but as the allocation of these rents was not guided by any performance-based criteria, the benefits of growth were concentrated disproportionately among a very small segment of the population, the top five per cent of income distribution, neglecting the general population. This also partly explains the underdevelopment of Pakistan vis-à-vis East Asia as the rents were unevenly and inequitably distributed.

## **V. GEOPOLITICAL, CULTURAL AND NATIONALISTIC FACTORS IN PAKISTAN'S DEVELOPMENT**

### **Geopolitical Dimension and Development**

The functioning of a developmental state has to be viewed in the context of regional and international geopolitical environments. In the case of Pakistan it has to be visualized in the context of a troubled relationship with India, which has cast a lengthening shadow across its path of development. Second, in Pakistan the achievement of political independence coincided with the onset of the cold war. A bipolar world, where the contending superpowers were vying with each other to win the allegiance and support of the fledgling states, virtually sucked the developing countries into the geopolitical game, which was being played on the global stage and deflected their attention from tackling developmental issues on the home front with a sense of urgency. Third, the cold war provided Pakistan with opportunities to tap external sources for balance of payments and for project aid and also facilitated it in securing supply of arms on concessional basis. In fact, this prolonged and large-scale dependence on assistance

from highly industrialized countries hardened into an addiction to it. Instead of progressively phasing out aid, it became virtually permanent prop of the status quo. Finally, the Soviet invasion of Afghanistan in 1979 and American invasion in 2002 saddled Pakistan with serious problems of terrorism, inflow of arms, drugs, refugees, and tore asunder the social fabric of a soft state. In the post-cold war era, where geo-economics seems to be replacing geopolitics as determinant in international relations, Pakistan needs to make a creative adjustment to the emerging realities, and renew its commitment to development in an era of diminishing availability of external resources.

### **Culture and Development in Pakistan**

The role of culture in determining development outcomes is the subject of a considerable quantum of recent literature. While several studies on East Asia are available, it is hard to find any serious study on the role of culture in a Pakistan or South Asian context. The role of culture and its linkage with institutions is best captured in the dictum by Napoleon: "*Culture is the mother of institutions*" and also "*Men are powerless to secure the future; institutions alone fix the destinies of nations*". Culture can be defined as the values, attitudes and beliefs that shape behavior and institutions. People are ruled by passions, ideologies and their values and even when economic interest prevails, they need to be justified by values. A developmental state as against a development resistant state has to change traditional mental models, bring about a change in the culture and create a climate congenial (a) to dissemination of knowledge and skills among the youth through education; (b) to selection of people for jobs on the basis of competence and merit; (c) to provide opportunities to individual or collective enterprise and fostering competition; and (d) to endorsing entitlement of people to the fruits of their labour and deferred gratification. According to Landes, the political and social institutions geared to achieving self-sustaining growth would:

- Secure rights of property.
- Secure rights of personal liberty.
- Enforce rights of contract.
- Provide responsive government

- Provide honest government, there should be no rents to favour and position. (Landes1988, 90)

Sen comments: "*Individual lives and operates in a world of institutions. Our opportunities and prospects depend crucially on what institutions exist and how they function*". (Sen 1999, 128) Fukuyama has expressed the view that social capital is as important as physical capital and a sine qua non of rational economic behaviour. He defines social capital as a "*set of informal values and norms shared among members of groups that permit them to cooperate with one another. If the members of the groups come to expect that others will behave reliably and honestly, they will come to trust one another. Trust acts like a lubricant that makes any group or organization run more efficiently and it has a large and measurable economic value.*" (Fukuyama 1995, 46)

Power in a society is inextricably linked with culture. It is the cultural dimension that creates the values, norms symbols and practices for the exercise of power. The longing of the public for charismatic leadership in Pakistan is fed by myths and historical memories that legitimize the concentration of power in a single individual. Charismatic leadership retards the growth of institutions required for modernisation and has recourse to symbolic solutions of problems. In Pakistan culture and traditions have also impeded the growth and strengthening of the institutions. The British colonial rulers had established strong and vibrant institutions but in the later years these institutions have become weak and hostage to the ruling elites, which traditionally possessed power and authority. In the case of Pakistan, charismatic leaders like Ayub, Z.A Bhutto, Benazir Bhutto and Nawaz Sharif have undeniably impeded the development of institutions by personalizing and concentrating power and authority in them. It has also at times resulted in clash between institutions like executive and judiciary. The present day Pakistan appears as an economy dominated by a middle class, which is now trying to consolidate its hold on political power. Large landowners do wield political clout in areas that they dominate, but as a consolidated political category they have diminishing political representation and strength. Traders, small and large industrialists, transporters, educated and semi-educated urban dwellers, capitalist farmers, and small-scale manufacturers dominate the economy, and are now trying to cash in on their economic strength for political power. Even sections of the petit-bourgeoisie and lower middle classes, who

have little economic power, in the sense that they do not own assets, are now important holders of political power. The political equation has, changed from one where large landowners held sway, to one where they are now for the most part marginal, replaced by middle-level industrialists and other elements of the service sector, in urban and rural society. The military still holds formidable power over the institutions of state. This is more marked in its coercive functioning. It has made inroads in all sectors of the economy and has become virtually a political entity which alternates in powers like the other key political parties in the country.

### **Organic Nationalism and Development**

Political Economists like Robert Wade and Amsden have highlighted the importance of social cohesion, homogeneity and nationalism in explaining the phenomenal development experience of East Asia. In this regard social dislocation and heterogeneity also have a considerable impact on the development process. According to Ranis and Naseem, 'organic nationalism' refers to a community of feelings grounded in a common historical past. It is binding cement, which may be felt especially strongly, either because of the perceived threat from an outside enemy or due to the ethnic, religious, or linguistic homogeneity in a country. When a country benefits from the existence of organic nationalism it does not have to create some synthetic substitute; this means the government is less likely to over-promise and over-commit itself. In that process, it may ultimately find itself unable to carry out the major critical developmental functions, losing its credibility in the process. A country with a relatively weak degree of organic nationalism (for example due to ethnic heterogeneity) may be faced with a situation in which it feels it must initially expend its energies in a large variety of areas, leading to over-commitment and difficulty in pulling back at a later point. Substantial geographic, cultural, and sectarian diversity creates a need among typical developing and least developed countries (LDCs) like Pakistan to create synthetic nationalism, which encourages the prolongation of overly interventionist behavior by governments and thus leads to a relatively longer and more severe import substitution sub-phase and lower growth. Studies reveal that, as a group, ethnically heterogeneous countries were far poorer in 1990 than ethnically homogeneous countries and achieved a much lower

growth rate of real per capita income during 1965-90. Moreover, ethnically heterogeneous countries were under-represented among the countries that were unable to raise per capita income markedly during that same period. Although ethnic homogeneity is neither a necessary nor a sufficient condition for growth, it does add to it (Ranis and Nasim 2002, 123) Taiwan and South Korea clearly benefited from relatively strong initial organic nationalism because of their ethnic and religious homogeneity, and the existence of a clearly defined external threat. This helps explain their subsequent policy choices, which resulted in a relatively brief and mild import substitution sub-phase. India, Pakistan and Bangladesh, on the other hand, were faced with a relatively weak degree of initial organic nationalism, given their vast geographical/spatial spread and the multicultural composition of their population. In an effort to create synthetic nationalism these countries followed a development strategy that emphasized import substitution, protectionism and government intervention for a much longer period after independence. Ultimately, however, these policies led to an over-extension of the government's role, and their isolation from the world economy. For example, India's share in world imports fell from 2 per cent in 1951 to 0.4 percent in 1980. The relative strength of its import substitution sub-phase delayed its entry into a competitive export led sub-phase and rapid economic growth. However, once these countries embarked upon a gradual, though cautious, road to reforms these structural changes helped to jump-start their economies. India and Bangladesh have benefited from the general improvement in their policy environment, with GDP growth rates of over 6 per cent per annum, during 1991-98. Pakistan, in contrast to Taiwan and South Korea, failed to benefit from a relatively early end to its import-substitution sub-phase. It was unable to emulate the East Asian pattern in the direction of external orientation and a more pronounced use of market mechanisms. It has only very recently begun to emulate the type of development strategy adopted more recently by India. Pakistan's record of economic performance has, instead, been an oscillatory pattern of practices and policies; with more market-oriented episodes of the 1960s halted by a return to import substitution-type policies in the early 1970s. Those policies in turn were followed by a policy reversal once again in the late 1970s, with subsequent unsuccessful attempts to regain the lost growth momentum of the market-friendly 1960s.



Thus, in conclusion, the weak organic nationalism can be regarded as a contributory factor in the divergence, which was observed in the development paths of Pakistan and East Asia. The absence of a political and social consensus, resulting from inherent ethnic, social and political cleavages, contributed to inhibiting the forces of growth and development in the South Asian region. South Asian region found it difficult to develop political consensus on the issues related to social and human development that produced impressive result in East Asia and in East Europe. The existence of caste system in India, the political clout of the landed aristocracy and tribal chiefs in Pakistan and the difference between the Sinhalese and Tamil communities in Srilanka have developed serious cleavages within the society making formulation and implementation of egalitarian policies difficult.

## **VI. ROLE OF TECHNOLOGY POLICY AND HUMAN CAPITAL ACCUMULATION IN DEVELOPMENT**

An impressive feature of Korean development, in contrast to experience in Pakistan, has been the swift movement up the productivity ladder. From a basic agricultural society, the country has gradually moved into textiles and light industry, and then into sophisticated engineering and electronic production. South Korea (ROK) has the largest ship building industry in the world, is the third largest producer of electronic parts and one of the world leaders in semiconductors. While textiles remain a major export, electronic products provide the country's largest export earnings. The move into higher productivity activities has been led by the private sector, but within the framework of a technology policy that has been shaped by the government. Three aspects of policy have assisted technological acquisition. First, the export-oriented strategy outlined in the first plan (1962-6) created a framework for joint ventures, licensing arrangements, and competitive exposure to new technology. Second, government policy built on this outward orientation by providing generous tax concessions as well as institutional support for private firms to spend on Research & Development. Finally, education and training policy has helped create the managerial and technical orientation. This has built capacities and a created a conducive environment for the acquisition and up gradation of technology.

Sector specific institutes, relating to textiles, metals and light machinery, aided Pakistan's industrial technology acquisition. Similarly management institutes were established in provincial capitals. An advanced technological capacity in nuclear and missiles sector has also been established, although it has little or no economic benefit. A few centers of excellence have emerged in chemistry and physics. But in general, the efforts are halfhearted and inconsistent. There has been no significant export drive to provide the impetus. Private sector R&D expenditure is virtually non-existent. There is a general lack of educated manpower, particularly those with technical skills. As with other areas, once the economic gap with Korea started growing, the divergence in technological capacity grew also. An outward-looking, dynamic Korea built skills and rewarded professional development but in Pakistan the professional opted to emigrate thereby resulting in a brain drain.

## VII. NATURAL RESOURCE ENDOWMENT AND POLICY IMPLICATIONS

Natural resource endowment plays an important role in development and especially when it is characterized by overall scarcity of natural resources. This factor can therefore be considered for explaining the trailing performance of Pakistan. It is important in three respects. First, generous natural resource endowments provide greater opportunity and incentive for rent seeking and corruption. Therefore, the larger the natural resource endowments, the greater the rents and the more animated the resulting struggle among various interest groups in trying to appropriate them. Second, a large exportable natural resource base may not only result in an over-valuation of the exchange rate, to the disadvantage of non-traditional exports, but also influence the decision making process by taking the pressure off governments, thereby delaying much-needed policy change. Third, the larger the natural resource endowment, the more exposed the system becomes to exogenous fluctuations in terms of trade. The amplitude and periodicity of such fluctuations also affect organizational and institutional change, including the pace and sequencing of the liberalization process (Ranis and Nasim 2002, 123). Recent evidence also shows that natural resource scarce economies tend to grow

more rapidly than resource rich economies. For example, countries with primary product exports valued at less than 5 per cent of GDP recorded growth per person of over 3.2 per cent between 1965 and 1990, whereas countries with primary product exports equivalent to over 20 per cent of GDP grew just 0.8 per cent per person per year.

Pakistan, India, Bangladesh, and Sri Lanka are rich in natural resources relative to their East Asian counterparts. This acted as a favourable initial condition for the East Asian countries. The overall scarcity of natural resources in China, South Korea, and Taiwan not only forced early attention to human capital and, thus, a broad enhancement of human development, but also helped mitigate some of the policies that retarded the development of many other developing countries. Pakistan also having resource rich did not pay required attention to human resource development, which has consequently caused a drag on its development process and it struggles now to improve its literacy and other indicators.

### **VIII. ROLE OF FOREIGN CAPITAL AND EXPORT ORIENTATION IN DEVELOPMENT**

The access to foreign capital acts as a critical dimension in determining development outcomes. The ease of access to foreign capital is closely related to the natural resource endowment variable. Not only does the natural resource endowment (for example, oil reserves) attract additional investor interest during an upturn, but also the whole society is viewed as a more favourable investment opportunity. Foreign investors and donors are often bullish when natural resources are abundant, especially in externally favourable times, and more likely to be bearish during unfavourable times. Foreign capital not only affects the size of rents which can be fought over and reallocated, but also gives rise to fluctuations associated with the quick entry and exit of short-term foreign capital. That process occurred during the debt crisis of the 1980s and again during the Asian financial crisis of 1997-98, both of which represented this pro-cyclical phenomenon. Natural resources and additional foreign capital in theory are potentially helpful, not only to provide additional capacity to buy out opposed vested interest groups but also to facilitate a country's ability to achieve any agreed-upon set of objectives. Such

flows have to be used as a tool for promoting the domestic ownership and implementation of reforms that encourage rapid growth with equity. Much of the success of East Asia has been attributed to its more pronounced external orientation and greater willingness to subject itself to the competitive discipline of the markets. However, this approach has also placed those economies at greater risk through increased exposure to the vagaries of international fluctuations, changes in the terms of trade and business conditions.

Ideological considerations played an important role in promoting closed economies in the South Asian region. The colonial rule in India, which has been described as British Raj, created a perception among the political and bureaucratic classes that British colonial administration had transferred significant resources out of British India to Britain during the two hundred years of colonial rule. This perception resulted in inhibiting development of close economic ties with the West. This tendency was most pronounced in case of India in the South Asian region. In contrast the East Asian countries developed a strong economic relationship with the west and particularly with United States. These ties were strengthened due to the role played by the United States in the Second World War and the Korean War. Thus South Asian countries, including Pakistan, largely opted to remain out of the global economic system and promoted close economies.

Pakistan also had a policy of export orientation and liberalization during the Ayub regime. It was reinforced by Pakistan's membership in SEATO and CENTO defence pacts. As a result, by the mid 1960s net foreign aid flows were financing over one third of total investment spending, over 45 percent of imports and meeting much of the food grain gap. Z.A.Bhutto however, reversed the trend of liberalization leading to decline in growth despite an expansionary fiscal and monetary policy. This reversal was mainly due to the lack of ownership of the liberalization agenda as well as due to the lack of consensus regarding the orientation of the economy and the political institutions.

The donors and particularly the Bretton Woods Institutions (BWI), the World Bank and International Monetary Fund (IMF), have traditionally played a dominant role in the policymaking process of Pakistan. This pervasive influence by donors over policymaking in Pakistan and other South Asian countries derives from the high degree

of aid dependence of each country in financing the development process. This high degree of aid dependence has to some extent been reduced in Pakistan and Bangladesh in the 1990s compared to the 1970s and 80s, but still remains high compared to India. This heavy dependence on aid is to some extent tied to the importance of aid in assuring the political survival of particular regimes. Virtually every regime that held office in these countries believed that a regular inflow of aid was needed for their political survival. This conviction about the importance of the aid donors has remained a stringent constraint in the response of each regime to the donors. The continuation of military regimes in Pakistan and Bangladesh for over a decade is in considerable measure due to the patronage of aid donors who made little effort to use their leverage over these military regimes to show them the path towards democracy. In contrast to the military regimes, elected regimes appear no less vulnerable and weak-kneed before the donors even where such donor-driven policies expose them to electoral risk. Rather, in South Asia and particularly in Pakistan elected regimes have been quite willing to give greater attention to the concerns of aid donors than to those of their electorate.

Successive administrations in Pakistan have pursued the BWI agenda without much effort to assert any ownership over these agendas either through domestic professional inputs or through attempts to build political support behind the BWI agenda. Thus, the donor-driven reform processes have generally remained without official ownership. Many of the policy agendas promoted by the donors originate in long standing problems that have remained inadequately addressed by successive governments. It is widely accepted that in South Asia economic activity has been over-regulated as well as insular in its orientation and that a degree of liberalization in trade policy was in order. The point at issue was the pace of liberalization and its sequencing. It was, thus, argued that other aspects of the reform process, such as creating an appropriate environment of investment and production which would have moved to, at least partially, level the playing field for domestic industries to compete with freer imports, should have been, *ab initio*, put in place. It has been observed that in Bangladesh, Nepal, Sri Lanka, and Pakistan, a more graduated import liberalization process, compatible with the slower pace of liberalization would have enjoyed more ready domestic acceptance. Externally driven reform agendas, no matter how meritorious and acceptable, will fall victim to weak

implementation in a country. No policy initiative, unless backed by firm conviction, which translates, into a strong commitment manifest in a willingness to develop capacity, is likely to be sustainable. Thus weak governance originates in lack of commitment, which in turn derives from weak ownership. Developmental failures originating in weak governance thus originate generally in the donor driven reform process. Few governments in South Asia and Pakistan have sought support for such reforms through parliamentary debate. Nor have these regimes made the donor driven reform processes part of their election campaigns. Weak political support for any policy is one of the measures of weak governance and accounts for poor developmental outcomes. Thus, the reversal and disruption in policy of export orientation and liberalization as well as the lack of ownership of agenda of donors has resulted in inadequate and dissatisfactory development outcomes in Pakistan.

The trend of closed economies in the South Asian region is also manifest in the low intra region trade and less emphasis on regional integration. South Asia is the only major region in the developing world that has not gravitated toward regional integration. Although SAFTA, signed in Jan 2004, is a step towards integration in the region but political imperatives and national security doctrines may also strangle the new initiative. The strained relationship between Pakistan and India has mainly prevented the two countries as well as the whole of South Asia from coming together. In contrast, with East Asia where 40% of trade is intra- regional a very small proportion of South Asian trade is intra regional. This difference has also contributed to the divergence in development experience of the two regions. (Burki 2002, 28)

The abysmally low rates of domestic savings and consequent dependence on external capital flows also had a share in the emergent economic scenario. The rates of saving and investment rate are relatively low in South Asia. In this regard the lack of culture of saving and absence of institutions that could have encouraged household saving is important factors. In 1997 South Asia saved 15% of its GDP and invested 22%. The investment saving was financed by combination of foreign aid, worker remittances and foreign direct investment. In 1997 East Asian countries saved 31% of their GDP and investment 32.6%, which resulted in smaller saving gap. Thus this factor could also be regarded as a key ingredient that explains the differential in development experience

## IX. POPULATION AND ECONOMIC DEVELOPMENT IN PAKISTAN

Pakistan's population has been growing at a rate of over 3 percent since the early 1970s, in comparison to a rate of 2 percent in the first two decades of its history. The current population of Pakistan, estimated at around 130 million, makes Pakistan the seventh most populous country in the world. The population growth rate has been so rapid that population has quadrupled since the early 1950s. Pakistan compares unfavorably with a broad spectrum of developing countries with regards to population growth. While the average annual population growth rate for Pakistan is estimated at around 3.1 per cent for 1980-92 and 2.7 per cent for the rest of the decade, the corresponding figures in low-income countries are 2.0 and 1.7 per cent. This figure shows the large difference that is present between the success stories like Korea, Indonesia and Malaysia and the countries like Pakistan, which are lagging behind. Furthermore, while the Pakistani crude birth rate (CBR) was significantly above the developing country average of 28 per 1000, the total fertility rate of 5.6 was higher than the average of 3.4 for low-income countries. By contrast, the crude death rate of 10 per 1,000 has been at par with the rate of other developing countries, suggesting that improvements in sanitation and vaccination have had a non-differentiated global impact. Another telling statistic has been the extremely low rates of contraceptive prevalence in Pakistan, which stands at just over 10 per cent in the last decade, in contrast to the 25 per cent of developing countries.

Impact of population growth on economic development in Pakistan has to be analyzed on the basis of theoretical literature on population, which is quite vast and complex. The linkages between population growth rates, economic development, and human capital formation are quite ambiguous. Growth remains much of a mystery in the neoclassical formulation, and a variety of conflicting hypotheses contest the terrain. Also efforts to use aggregate country data to examine the possibility of empirical evidence for a significant relation between the population growth and per capita income growth have yielded few significant results. In spite of some research suggesting that slower population growth would be beneficial to economic development, a large arsenal of

econometric work has not resolved the issue in any significant way. Nevertheless, it is evident that population growth has had a detrimental impact on developing countries through its adverse impact on the quality of human resources and through the pressures on government resources and infrastructure.

In the context of Pakistan the impact of population can be seen in the following ways: Firstly, population growth in Pakistan has had an adverse effect on food security. High growth rates have constrained government policies to provide food for all and forced the country to embark on an expensive wheat import policy. It is obvious that population growth has resulted in an exacerbation of rural poverty and an increase in landless labourers, identified as the most vulnerable group in a series of poverty assessments. One important study suggests that high population growth rates in Pakistan, affecting the poor disproportionately since they bear more children than the rich, have perpetuated the intergenerational transmission of poverty by lessening the resource investments of the children of the poor.

Secondly, population growth has had a negative effect on the quality of human resources by lowering investments in education, health and nutrition, and thus on overall macro-economic performance. A large annual increase in population has created pressure on a constrained government exchequer and reduced per capita allocations to health and schooling. It is argued that had Pakistan had lower growth rates it could have enrolled far more children than it did, thus following the East Asian 'virtuous circle' of linking the elimination of the gender gap in basic education with the increase in primary enrolments. Part of the success of the East Asian societies was attributable to the rapid rise in the educational level of women contributing to the sharp decline in fertility rates, which in turn increased the affordability of expanding educational opportunities. The pressures on Pakistan government have been strong, however, making it difficult to finance the investments in education and infrastructure that would have insured sustained economic growth.

Thirdly, high growth rates have had a negative effect on the urban economy. A combination of evidence and survey research shows that urbanization in



Pakistan has led to an exacerbation of unemployment, air pollution, congestion, social disturbances, and crime. The complex cluster of services i.e. housing, traffic, sewerage and water, that provide the foundations for a vibrant urban economy have been badly affected by the 3 per cent growth rate. The impact of migrants to the urban areas has been mixed. While the skilled and educated among them have contributed positively the same cannot be said about the unskilled migrants. The low employment generation capacity of the industrial sector has not allowed many of these unskilled migrants to find productive work. In turn, this impoverishment and uprootness has translated into resentment and frustration, which was easily channeled into riots and violence. The ethnic problems in Pakistan's major cities are partly attributable to this migration. The pressures on urban infrastructure in Karachi, Lahore, Peshawar, Quetta, Faisalabad and Hyderabad have been tremendous.

The fourth pernicious effect of population growth has been a detrimental impact on women. According to a survey done in 1991, women of childbearing age cited the refusal of the husband as the major reason for not using contraception. While the number of children desired by women was 3.9, those desired by the spouse was 4.3. Thus, it stands to reason that a reduced population growth rate would improve the choices for women and reduce the current burden on them.

Thus, population growth in Pakistan has had a deleterious effect on macroeconomic performance, on food policy, on infrastructure, and on the status of women. The economic and social losses to Pakistan have clearly outweighed the gains of high growth rates.

## **X. ELITIST DEVELOPMENT STRATEGY AND SOCIAL EXCLUSION**

The role of elites in Pakistan's economic development has been the focus of a growing corpus of literature.<sup>%</sup> The elites in developing countries like Pakistan, comprising those who have access to education, power and wealth, have historically

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<sup>%</sup> Several economists like Noman, 1997; Husain, 1999; Zaidi, 1999; Burki, 2002; Sobhan 2002; Zaman, 2002 have analyzed the nature as well role of elites in Pakistan's economic development.

served to undermine the processes of development. These elites, in Pakistan, primarily consist of the politicians, the military, the landowners, the civil servants, the businessmen and the intelligentsia.

The role of elites in late developing countries is of pivotal importance in modernisation. The great majority of the people have to be awakened from their deep slumber and stirred into action to reconstruct their lives and their environment. The elites have to exemplify new values in their conduct and performance; they have to set a high standard of achievement in high offices occupied by them; they have to provide an agenda setting forth goals and priorities; they have to take upon themselves rather than delegate the all important task of organizing a functioning delivery system.

For elites in countries like Pakistan that had experienced foreign subjugation, the challenge from the West was met by the political and legal systems patterned after the Western model. They perceived the gap in relation to the West as essentially constitutional and political rather than educational and technological. Given the East-West conflict in the cold war which lasted almost 50 years, their goals shifted from national self-reliance to foreign dependence, from mobilizing domestic resources and shaping national consensus to negotiating loans and grants from abroad and from grass roots development to planning tailored to meet the specifications of aid givers. Exploitative, parasitical, and sub-national in outlook, their involvement in fomenting ethnic and regional splits in Pakistan has been evident. The elites have demonstrated that they have become a constituency for the maintenance of the status quo. The growth of the middle class linked to the diversification and modernisation of economy has become imperative in order to clip the wings of elites and build a strong coalition for change. The verdict of economic history has been that an expanding and flourishing middle class is the backbone of sustained growth and democracy and the diminishing influence of this class has been the bane of Pakistan.

Pakistan serves as an apt case of social exclusion. The cultural, social, and economic barriers erected since the creation of Pakistan have effectively excluded most of the population from full involvement in the economy and have reinforced the inequities and skewed distribution of economic and political power. In many countries, social relationships have proven to have a positive impact on the quality of development by

enhancing collective action, mitigating risks, promoting accountability, and reducing transaction costs. In Pakistan, on the other hand, social relationships have been used by a small elite to control and acquire publicly owned resources for private enrichment, and to exclude the majority of the poor from the benefits of development. At the time of independence in 1947, state power was predominantly in the hands of the bureaucracy and the military. The leading political party, the Muslim League, was unable to organize itself at the grassroots level and thus found it difficult to dominate more sophisticated and educated members of the civil service and the army. The Muslim League needed them badly to consolidate the power of the new state and to lay the foundation of administrative machinery and a security apparatus. The weakness of the Muslim League leadership and the rivalries and factions within the party did not allow the party to strengthen its hold on the state machinery. The protracted negotiations on the constitution, the erosion of the popular mandate, and the growing chasm between the East and West political leaders provided further opportunities to the non-elected elites to exercise power both formally and informally. The state sponsored 'Islamization' campaign launched in late seventies and which continued into eighties and nineties created another powerful elite, i.e., the religious oligarchy that has since played a major divisive role in the country's polity and society. By fanning' the differences between various sects, this elite sowed the seeds of further polarization and friction that has engulfed the country. These forces have also put a brake on any modernisation of the society on the lines adopted by two East Asian Muslim countries, Indonesia and Malaysia. The emergence of this new but powerful group has introduced a new dimension into the debate about the kind of development strategy Pakistan should follow in the future. This policy involves being isolationist, cut off from the technological and scientific revolution, and self-sufficient internally.

One of the most critical factors, which had a negative impact on the development process, was the pursuit of elitist development strategy, which was evidently manifest in the policy of functional inequality, pursued by the government in the sixties. The rationale of the policy was a redistribution of incomes towards profits, which would raise the rate of private saving and in this way accelerate the rate of growth of economy. On the contrary, the East Asian countries did not take the view that it was necessary to increase inequalities to raise saving and that the resulting higher levels of accumulation

would generate growth which would then trickle down. Thus the approach to equity was fundamentally different. In Pakistan this policy had a number of implications in various sectors:

**Land Reforms:** The impact of land reforms can best be understood by comparing the East Asian reforms with Pakistani reform effort. It is pertinent to mention that land reforms had the most far-reaching effects in Japan out of all the postwar reforms. The land tenure changes resulted in a major redistribution of land affecting seven million farmers and in the transformation of rural society. The acid test of a land reform programme is the percentage of the total cultivable area released for distribution to landless. 37.5 percent of the entire cultivable area in Japan was transferred to 4.7 million tenants. The owner farmers, who constituted about 30 percent of farming families in 1945, had risen to 65 percent in 1950. Tenanted area dropped from 46 percent to 10 percent of the agricultural land. Tenant farmers, who owned no land themselves, dropped from 28 percent to 5 percent of all farm households. Keeping in view the high level of rents in prewar Japan, rents which amounted to 16.6 percent of total agricultural income in 1934-36 dropped to about 0.2 percent in 1953. Like Japan, the pressure of communism influenced South Korea's equity-enhancing reforms. The Land Reform Acts of 1947 and 1948 were enacted at a time of internal turmoil and responded to demands for greater equity. These Land Reform Acts provided the basis for the owner-operated farms, which supported the regime. Since then, agriculture has received considerable tariff and quantitative protection and price supports for the main crops such as rice. The country also grows potatoes, wheat, beans, and barley. But Korea's does not have a particularly productive agriculture. The focus of policy has been on industrial development. As the share of agriculture has fallen and domestic incomes have risen, Korea has emerged one of the largest importers of agricultural products. Korea's early land reform has ensured that large rural interests have not emerged as a constraint to industrialization or as regressive forces in control of the state apparatus. Korea's social policy was based on the education structure built by the Japanese. A relatively high literacy rate of 50% was an asset and further investments in basic education have ensured virtually universal literacy. Literacy and health improvements, coupled with a rapid increase in female participation in the labour force, have led to major human

development gains as well as an effective control on the demographic growth rate. This in turn has reduced pressures on the labour market, and has further enhanced per capita expenditures on education. This sustains quality improvements, which help both productivity and healthier life styles.

In contrast, the size of land actually redistributed Pakistan after independence has not made a significant dent on property relationships in the agricultural sector. The numbers of tenants, who have become owners of land cultivated by them, have not been large. Given this grim reality, the security of tenancy assumes the proportions of a crucial problem. The measures adopted in tenancy legislations in subcontinent have proved ineffectual in safeguarding the rights of tenants. Their ejections continue under the guise of voluntary surrenders and informal sharing cropping arrangements remain uncontested in substantial regions. Myrdal had commented in 1968 that, "*In the social environment of South Asia, impartiality in the administration of tenancy laws can hardly be expected, even in the absence of corruption*". (Myrdal 1968, 99) This observation continues to hold true even in present day Pakistan. Since it is possible for the landlord to win the active support or acquiescence of the coercive apparatus of the state to lead with impunity a parasitic existence and to collect rents, there is clearly little motivation to comply with agricultural laws in Pakistan.

Prosterman and Riedinger (1987), authors of *Land Reforms and Democratic Development* have remarked that:

*"The acute form of land tenure problem on our planet is now highly concentrated. Of the 50-54 million agricultural laborer families in all of the non-industrialized countries, between 36.5 and 40 million, or 73-74 percent, are found in five Asian countries: India, Pakistan, Bangladesh, Indonesia and Philippines. Of the estimated 33 to 46 million tenant families, between 28 and 40 million are in the same five countries and of the 83-100 million landless agricultural families in the non-industrialized countries, approximately 78-80 percent are concentrated in these five countries."* (Prosterman and Riedinger 1987, 121)

An inequitable land tenure system leads to large-scale landlessness, which undermines political stability. It is also a major impediment to the improvement of agricultural productivity, to the elimination of poverty and in fact to entire development process. The peasant has to be transformed into a farmer producing for the market instead of his own consumption and that of the overlord. Land reforms and their effective implantation are to be accorded high priority in a redesigned strategy for development in the clear knowledge that it will encounter protracted and stiff resistance from the beneficiaries of the status quo. History has yet to witness an economic take-off in a sustained manner in late industrializing countries without authentic land reforms. Historically, in Pakistan asset redistribution in the form of land reforms was never effectively executed. The partition of subcontinent in 1947 afforded an opportunity of restructuring the power and economic base of the society but this opportunity was not adequately utilized. The post 1971 war dislocation also did not result in a change toward egalitarianism. The Muslim League, the party which led the Muslim struggle for independence, was mainly supported by landed classes who were opposed to land reform. The proponents of land reform were not sufficiently organized to challenge the deeply entrenched feudal classes. The post war situation in East Asia resulted in implementation of land reforms. An environment in which there was a threat of communist revolution aided it and hence the policy makers under took a redistribution of economic resources in order to avert a possible violent cataclysm that could have overthrown the capitalist model of economic management. In Korea, Japan, and Taiwan, land reforms were important in the initial stages of development. They had three effects: they increased rural productivity and income and resulted in increased savings; higher incomes provided the domestic demand that was important in these economies before export markets expanded; and the redistribution of income contributed to political stability, an important factor in creating a good environment for domestic and foreign investment. In Pakistan, half-hearted attempts at land reform did not unleash the productive forces of the small and landless farmers, which could have had similar beneficial effects.

**Social Policy:** Since the development strategy in Pakistan was basically elitist in nature, it did not address the challenges posed by poverty, education and health sectors, which

could have helped in bridging the socio economic cleavages in the body politic. The development ethos in Pakistan provided for government expenditure in order to support the higher income bracket of the society. This lopsided pattern of government expenditure resulted in the neglect of social investments at primary level. The consequence was that those without effective demand were not provided with basic education, health, sanitation or population planning facilities. It resulted in building up of significant demographic pressures and also caused reduced female participation in labor force. On the contrary, East Asia invested heavily in social sectors, which resulted in the creation of highly trained, and skilled manpower, which played a significant role in reducing the supply side pressure on the labor market in East Asia. A persistently low level of human development has characterized the South Asian states. The South Asian states unlike the socialist regimes in East Europe and East Asia did not focus on human development. While the aim of these governments in India, Pakistan and Bangladesh was poverty alleviation, they did not accomplish the required result. The level of human development in South Asia remains quite low and as a result the poverty remains at a high level. Srilanka is exception where the state managed to bring significant change in the level of poverty by focusing on human resource development element. A report published by Human Development Centre Islamabad, Pakistan aptly paints the following picture:

*South Asia is fast emerging as the poorest, the most illiterate, the most malnourished, and the least gender-sensitive—indeed the most deprived region in the world. There are many lessons that South Asia can learn from divergence in the two Asian regions that started at roughly the same nominal per capita income three decades ago, but East Asia (excluding China) now enjoys 27 times per capita income of South Asia and twice its Human Development Index”*

*(Haq, 1997 pp-2-3)*

In Pakistan literacy and education have been consistently neglected in developmental planning. The leaders of Japan in 1870s after the Meiji Restoration fully realized the indispensable role of universal elementary education in achieving equality

with the West. This pattern was also a contributory factor in the East Asian economic miracle. In Pakistan the politicians and planners have relegated basic education to the bottom rug in mapping out priorities and allocating resources. Analysis reveals that: Firstly, South Asians and particularly Pakistanis are not an education and literacy conscious society compared to the Confucian nations in East Asia. Secondly this tradition of relegating literacy to back burner has some connection with the aftermath of the British rule in subcontinent. The British society was elitist in character; in Pakistan elites adopted the British educational model and paid scant attention to educating the low-income classes. Thirdly, feudalism is the bane of diffusion of education in Pakistan. Landowning class is viscerally inimical to the greater awareness and consciousness coming to the tillers of the soil through grass roots learning. Leaving aside the rural areas, feudal values have penetrated all segments of the society including the urban elite and ruling circles. Fourthly, policy makers in Pakistan have had traditionally a short-term horizon and they have been reluctant to look upon education as the due from the present to future generation. Education is a lead-time investment and quick results cannot be expected. A rising standard of living of a country depends upon an upward movement in productivity; the increase in productivity itself hinges on rise in the average level of capacity. Thus education and development are directly correlated. The East Asian countries pursued policies ensuring universal literacy while only one-third of the adult population in Pakistan is literate. Universal literacy in East Asia both increased productivity and promoted greater equality. The emphasis on, female education led to reduced fertility, thus mitigating the adverse effects of population pressure, and directly increasing the supply of educated labour. The education of women can be thought of as a high-return way of enhancing labour force productivity. In Pakistan, female education rates remained dismally low, with the attendant problems of high fertility rates, high population growth rates, and a low-productivity labour force. (See charts at end)

In addition, a key factor, which accounts for the deviation from the East Asian development path, was a drastic change in the social and cultural policies pursued by the state whereby a menacing ideological *Puritanism* gripped the state during the 1970s and 1980s. Women were the real affectees of this shift in orientation of the policies of the state. The consequences of this myopic policy were manifest in the declining social



indicators, which were in sharp contrast to the East Asian scenario. At the same time, women in East Asia improved in terms of health, education and life expectancy. Thus a retrogressive social and cultural policy inhabited the economic development process in Pakistan. Pakistan was unable to adequately accommodate the ethnic, class and religious frictions latent in the society, which invariably affected the process of growth and development. Lately the tide of social and political discrimination against the various segments of the society has been considerably stemmed. However it has caused considerable harm by now. Further the civil society organizations and democratic institutions since 1990's have brought a semblance of egalitarianism into the society.

To conclude, a variety of factors outlined above contributed to the different outcomes in the two regions. In this regard it is essential to understand that institutions, culture, policies and international environment all are inextricably linked and contribute towards the determination of development outcomes.

## TABLES

<b>TABLE 1</b>				
<b>East Asia &amp; Pacific Data Profile</b>				
	1998	2001	2002	
<b>People</b>				
Population, total	1.8 billion	1.8 billion	1.8 billion	
Population growth (annual %)	1.1	0.9	0.9	
Life expectancy (years)	..	69.2	69.4	
Fertility rate (births per woman)	..	2.1	2.1	
Infant mortality rate (per 1,000 live births)	..	33.8	33.1	
Under 5 mortality rate (per 1,000 children)	..	43.6	41.0	
Child malnutrition, weight for age (% of under 5)	15.6	..	..	
Child immunization, measles (% of under 12 mos)	90.0	76.3	..	
Prevalence of HIV (female, % ages 15-24)	..	0.2	..	
Illiteracy total (% age 15 and above)	15.0	13.2	12.7	
Illiteracy female (% of age 15 and above)	21.6	19.2	18.4	
Net primary enrollment (% relevant age group)	94.3	..	..	
<b>Environment</b>				
Surface area (sq. km)	16.3 million	16.3 million	16.3 million	
CO2 emissions (metric tons per capita)	2.3	..	..	
Energy use per capita (kg of oil equivalent)	852.1	..	..	
Electricity use per capita (kWh)	670.0	..	..	
<b>Economy</b>				
GNI, Atlas method (current US\$)	1.4 trillion	1.6 trillion	1.7 trillion	
GNI per capita, Atlas method (current US\$)	800.0	900.0	950.0	
GDP (current \$)	1.4 trillion	1.7 trillion	1.8 trillion	
GDP growth (annual %)	0.7	5.5	6.7	
Value added in agriculture (% of GDP)	18.0	14.5	14.8	
Value added in industry (% of GDP)	45.1	47.6	48.5	
Value added in services (% of GDP)	36.9	37.9	36.7	
Exports of goods and services (% of GDP)	39.0	40.9	39.9	
Imports of goods and services (% of GDP)	32.0	36.3	35.8	
Gross capital formation (% of GDP)	30.2	31.3	31.5	

Current revenue, excluding grants (% of GDP)	10.2	..	..	
Overall budget balance, including grants (% of GDP)	-3.0	..	..	
<b>Technology and infrastructure</b>				
Fixed lines and mobile telephones (per 1,000 people)	78.3	207.4	..	
Telephone average cost of local call (US\$ per three minutes)	0.0	0.0	..	
Personal computers (per 1,000 people)	10.0	19.1	..	
Internet users	4.8 million	50.9 million	..	
Paved roads (% of total)	18.0	..	..	
Aircraft departures	1.2 million	1.5 million	..	
<b>Trade and finance</b>				
Trade in goods as a share of GDP (%)	54.0	61.0	..	
Trade in goods as a share of goods GDP (%)	83.3	69.7	..	
High-technology exports (% of manufactured exports)	28.9	30.6	..	
Foreign direct investment, net inflows in reporting country (current US\$)	57.6 billion	48.9 billion	57.0 billion	
Total debt service (% of exports of goods and services)	12.8	12.1	10.9	
Short-term debt outstanding (current US\$)	86.3 billion	92.8 billion	93.5 billion	
Aid per capita (current US\$)	4.8	4.1	..	
<b>Source: World Development Indicators database, August 2003</b>				

<b>TABLE 2</b>			
<b>South Asia Data Profile</b>			
	<b>1998</b>	<b>2001</b>	<b>2002</b>
<b>People</b>			
Population, total	1.3 billion	1.4 billion	1.4 billion
Population growth (annual %)	1.9	1.7	1.7
Life expectancy (years)	..	62.6	62.8
Fertility rate (births per woman)	..	3.2	3.1
Infant mortality rate (per 1,000 live births)	71.3	70.6	70.6
Under 5 mortality rate (per 1,000 children)	..	98.6	..
Child immunization, measles (% of under 12 mos)	54.0	58.1	..
Prevalence of HIV (female, % ages 15-24)	..	0.6	..
Illiteracy total (% age 15 and above)	46.9	44.7	43.9
Illiteracy female (% of age 15 and above)	59.1	56.4	55.5
<b>Environment</b>			
Surface area (sq. km)	5.1 million	5.1 million	5.1 million
CO2 emissions (metric tons per capita)	0.9	..	..
Energy use per capita (kg of oil equivalent)	438.8	..	..
Electricity use per capita (kWh)	320.3	..	..
<b>Economy</b>			
GNI, Atlas method (current US\$)	548.5 billion	623.2 billion	640.5 billion
GNI per capita, Atlas method (current US\$)	420.0	450.0	460.0
GDP (current \$)	549.3 billion	618.0 billion	655.0 billion
GDP growth (annual %)	5.4	4.9	4.3
Value added in agriculture (% of GDP)	27.4	24.8	23.1
Value added in industry (% of GDP)	26.0	25.4	25.4
Value added in services (% of GDP)	46.6	49.8	51.5
Exports of goods and services (% of GDP)	13.0	14.9	16.1
Imports of goods and services (% of GDP)	15.0	16.3	17.5
Gross capital formation (% of GDP)	21.1	21.6	21.1
Current revenue, excluding grants (% of GDP)	12.1	13.4	..
Overall budget balance, including grants (% of GDP)	-5.5	-4.9	..

<b>Technology and infrastructure</b>				
Fixed lines and mobile telephones (per 1,000 people)	20.8	38.1	..	
Telephone average cost of local call (US\$ per three minutes)	0.0	0.0	..	
Personal computers (per 1,000 people)	2.8	5.3	..	
Internet users	1.5 million	8.0 million	..	
Paved roads (% of total)	28.2	..	..	
Aircraft departures	323.4 thousand	304.3 thousand	..	
<b>Trade and finance</b>				
Trade in goods as a share of GDP (%)	22.1	23.4	..	
High-technology exports (% of manufactured exports)	4.2	..	..	
Foreign direct investment, net inflows in reporting country (current US\$)	3.5 billion	4.1 billion	5.0 billion	
Total debt service (% of exports of goods and services)	18.5	12.7	11.4	
Short-term debt outstanding (current US\$)	7.1 billion	5.1 billion	5.7 billion	
Aid per capita (current US\$)	3.7	4.3	..	
<b>Source: World Development Indicators database, August 2003</b>				

<b>TABLE.3</b>				
<b>Pakistan Data Profile</b>				
<b>Click on the indicator to view a definition</b>	<b>1998</b>	<b>2001</b>	<b>2002</b>	
<b>People</b>				
Population, total	131.6 million	141.5 million	144.9 million	
Population growth (annual %)	2.4	2.4	2.4	
National poverty rate (% of population)	..	..	..	
Life expectancy (years)	..	63.4	63.8	
Fertility rate (births per woman)	..	4.6	4.5	
Infant mortality rate (per 1,000 live births)	..	84.0	..	
Under 5 mortality rate (per 1,000 children)	..	109.0	..	
Prevalence of HIV (female, % ages 15-24)	..	0.1	..	

Illiteracy total (% age 15 and above)	58.4	56.0	55.1	
Illiteracy female (% of age 15 and above)	73.8	71.2	70.3	
<b>Environment</b>				
Surface area (sq. km)	796.1 thousand	796.1 thousand	796.1 thousand	
Water use (% of total resources)	..	..	1,175.3	
CO2 emissions (metric tons per capita)	0.7	..	..	
Energy use per capita (kg of oil equivalent)	450.6	..	..	
Electricity use per capita (kWh)	329.0	..	..	
<b>Economy</b>				
GNI, Atlas method (current US\$)	62.1 billion	60.0 billion	59.2 billion	
GNI per capita, Atlas method (current US\$)	470.0	420.0	410.0	
GDP (current \$)	62.2 billion	58.6 billion	60.5 billion	
GDP growth (annual %)	2.6	2.7	4.4	
GDP implicit price deflator (annual % growth)	7.5	5.7	4.5	
Value added in agriculture (% of GDP)	27.3	25.0	24.2	
Value added in industry (% of GDP)	23.8	22.9	22.4	
Value added in services (% of GDP)	48.9	52.1	53.4	
Exports of goods and services (% of GDP)	16.5	18.0	17.7	
Imports of goods and services (% of GDP)	17.5	19.4	18.0	
Gross capital formation (% of GDP)	17.7	15.9	13.9	
Current revenue, excluding grants (% of GDP)	16.2	15.7	..	
Overall budget balance, including grants (% of GDP)	-6.4	-4.7	..	
<b>Technology and infrastructure</b>				
Fixed lines and mobile telephones (per 1,000 people)	22.7	28.9	..	
Telephone average cost of local call (US\$ per three minutes)	0.0	0.0	..	
Personal computers (per 1,000 people)	4.3	4.1	..	
Internet users	61,900.0	500.0 thousand	..	
Paved roads (% of total)	43.0	..	..	
Aircraft departures	68,600.0	52,600.0	..	
<b>Trade and finance</b>				

Trade in goods as a share of GDP (%)	28.7	33.8	..	
High-technology exports (% of manufactured exports)	0.1	0.3	..	
Net barter terms of trade (1995=100)	120.3	..	..	
Foreign direct investment, net inflows in reporting country (current US\$)	506.0 million	383.0 million	..	
Present value of debt (current US\$)	..	25.5 billion	..	
Total debt service (% of exports of goods and services)	19.7	25.8	..	
Short-term debt outstanding (current US\$)	2.2 billion	1.3 billion	..	
Aid per capita (current US\$)	8.0	13.7	..	
<b>Source: World Development Indicators database, August 2003</b>				

<b>TABLE.4</b>				
<b>Korea, Rep. Data Profile</b>				
	<b>1998</b>	<b>2001</b>	<b>2002</b>	
<b>People</b>				
Population, total	46.3 million	47.3 million	47.6 million	
Population growth (annual %)	0.7	0.6	0.7	
Life expectancy (years)	..	73.6	73.9	
Fertility rate (births per woman)	..	1.4	1.5	
Infant mortality rate (per 1,000 live births)	..	5.0	..	
Under 5 mortality rate (per 1,000 children)	..	5.0	..	
Child immunization, measles (% of under 12 mos)	85.0	97.0	..	
Prevalence of HIV (female, % ages 15-24)	..	0.0	..	
Illiteracy total (% age 15 and above)	2.6	2.1	2.0	
Illiteracy female (% of age 15 and above)	4.2	3.4	3.2	
<b>Environment</b>				
Surface area (sq. km)	99,260.0	99,260.0	99,260.0	
Water use (% of total resources)	..	..	102.9	
CO2 emissions (metric tons per capita)	7.8	..	..	
Energy use per capita (kg of oil equivalent)	3,564.3	..	..	
Electricity use per capita (kWh)	4,727.1	..	..	
<b>Economy</b>				
GNI, Atlas method (current US\$)	393.4 billion	449.4 billion	473.0 billion	
GNI per capita, Atlas method (current US\$)	8,500.0	9,490.0	9,930.0	
GDP (current \$)	317.1 billion	427.2 billion	476.7 billion	
GDP growth (annual %)	-6.7	3.1	6.3	
GDP implicit price deflator (annual % growth)	5.1	2.5	1.7	
Value added in agriculture (% of GDP)	4.9	4.3	4.0	
Value added in industry (% of GDP)	43.8	42.0	40.9	
Value added in services (% of GDP)	51.2	53.7	55.1	
Exports of goods and services (% of GDP)	49.7	42.2	40.0	
Imports of goods and services (% of GDP)	36.3	40.0	38.6	



Gross capital formation (% of GDP)	21.2	26.9	26.0	
<b>Technology and infrastructure</b>				
Fixed lines and mobile telephones (per 1,000 people)	734.5	1,106.4		..
Telephone average cost of local call (US\$ per three minutes)	0.0	0.0		..
Personal computers (per 1,000 people)	168.8	256.5		..
Internet users	3.1 million	24.4 million		..
Paved roads (% of total)	74.5	..		..
Aircraft departures	207.9 thousand	225.7 thousand		..
<b>Trade and finance</b>				
Trade in goods as a share of GDP (%)	71.1	69.1		..
Trade in goods as a share of goods GDP (%)	149.1	152.6		..
High-technology exports (% of manufactured exports)	26.2	29.1		..
Net barter terms of trade (1995=100)	84.1	..		..
Foreign direct investment, net inflows in reporting country (current US\$)	5.4 billion	3.2 billion		..
Total debt service (% of exports of goods and services)	12.9	13.9		..
Short-term debt outstanding (current US\$)	28.1 billion	35.1 billion		..
Aid per capita (current US\$)	-1.1	-2.3		..
<b>Source: World Development Indicators database, August 2003</b>				

**TABLE 5**  
**Corruption Perception Index for South Asia, 1998**

Country	Transparency International Index 1998
Pakistan	2.71
India	2.9
Bangladesh	2.29
Denmark	10.0
Sweden	9.5
United States	7.5
Chile	6.8
Botswana	6.1

Note: The CPI score ranges from 0-10 being perfectly corrupt and 10 perfectly uncorrupt.  
Source: <http://www.transparency.de/documentsts/cpi/index>

**TABLE NO.6.**  
**South Asia: Population and size of the Economy**

Countries	Population (1998) (Million)	GNP (\$b) 1998)	GNP Per Capita (\$b)	GNP (\$b) (PPP)	GNP Per Capita (\$b) (PPP)
Bangladesh	126.0	44.0	350	137.7	1100
Bhutan.	0.8	-	-	-	-
India.	920.0	421.3	430	1660.9	1700
Maldives.	0.3	0.3	1230	-	-
Nepal.	23.0	4.8	210	24.9	1090
Pakistan.	132.0	63.2	480	204.9	1560
Sri Lanka.	19.0	15.2	810	-	-
Total:	1221.1	548.8	3510	2028	5450

Source: The World Bank, 1999a, Table 1, pp.230-231.

**TABLE NO.7**  
**Growth of Real GDP, 1996-1988(% per year)**

Area.	1966-73	1974-90	1991-98	1998
World.	5.2	3.0	2.5	1.9
High Income Countries.	5.0	2.8	2.3	2.0
Developing Countries.	6.2	3.8	3.2	1.6
East Asia	7.8	7.5	8.5	0.1
South Asia.	3.6	5.0	5.9	5.2

**TABLE NO.8**  
**Regional Distribution of The World's Poor**

Area/Region.	Number of People in Poverty (million)		Proportion of World's poor (%)	
	1987	1983	1987	1993
South Asia	480	515	39.1	39.1
East Asia.	464	446	37.8	33.9
Sub-Saharan Africa.	180	219	14.7	16.6
Latin America and the Caribbean	91	110	7.4	8.4
Europe and Central Asia	2	15	0.2	1.1
Middle East and North Africa.	10	11	0.8	0.8
<b>Total:</b>	<b>1227</b>	<b>1316</b>	<b>--</b>	<b>--</b>

Source: World Bank, 1999

**TABLE NO.9**  
**South Asian Trade Performance**

	Merchandise exports (\$ Million)		Exports of Commercial Services (\$ Million)		Exports of goods and services (% Of GDP)	
Bangladesh	725	3778	164	266	4	14
India	9148	33210	3167	8679	6	12
Nepal	94	402	107	795	12	23
Pakistan	3077	8370	668	1463	12	16
Sri Lanka	1066	4770	282	850	32	36
	14110	5053	4388	12053		

source: World Bank. Country Data

**TABLE NO.10**  
**Capital Inflows into South Asia (Millions of US\$)**

	1977	1987	1997	1998
<b>Bangladesh.</b>				
Private Creditors.	-1	1	-28	-23
FDI	0	2	-116	252
Portfolio Equity	--	--	--	--
<b>Total.</b>	<b>-1</b>	<b>3</b>	<b>-114</b>	<b>229</b>
<b>India</b>				
Private Creditors	-14	2793	-147	2520
FDI	0	208	2651	3525
Portfolio Equity	0	0	3312	1828
<b>Total.</b>	<b>-14</b>	<b>3001</b>	<b>5816</b>	<b>7873</b>
<b>Nepal</b>				
Private Creditors	-1	38	-11	-11
FDI	0	1	23	--
Portfolio Equity	0	0	0	--
<b>Total</b>	<b>-1</b>	<b>39</b>	<b>12</b>	<b>-11</b>
<b>Pakistan</b>				
Private Creditors	32	-41	888	-378
FDI	--	--	682	601
Portfolio Equity	--	--	268	221
<b>Total</b>	<b>32</b>	<b>-41</b>	<b>1838</b>	<b>444</b>
<b>Sri Lanka</b>				
Private Creditors	-53	-63	47	126
FDI	-1	60	430	200
Portfolio Equity	0	0	98	6
<b>Total</b>	<b>-54</b>	<b>-3</b>	<b>575</b>	<b>332</b>
<b>Total of 5 Countries</b>				
Private Creditors	-37	2728	749	2257
FDI	-1	271	3770	4326
Portfolio Equity	--	0	3678	2051
<b>Total</b>	<b>-38</b>	<b>2999</b>	<b>8097</b>	<b>8638</b>

Source: World Bank. Country Data

**TABLE NO.11****Saving and Investment Rates in India Pakistan**

	Gross Domestic Investment % of GDP		Gross Domestic Saving % of GDP		Resource Gap % of GDP		(Growth in Domestic Investment (% p.a) 1990-98
	1980	1998	1980	1998	1980	1998	
India	20	23	17	18	-3	-5	5.9
Pakistan	18	17	7	13	-12	-4	2.7

Source: The World Bank, 1999a Tables 11 and 13 pp.250-251 and 254-255

**TABLE NO.12****Basic Human Development Indicators**

Most recent estimates (latest year available)	India	Bangladesh	Pakistan	China	Korea	Taiwan
GNP per capita (US\$)	440	350	480	750	7970	13,198
Poverty (% below national poverty line)	35	36	34	6	--	--
Life expectancy at birth (years)	63	61	62	70	72	77
Infant Mortality (per 1000 live births)	70	57	95	32	9	6
Access to safe Water (% of population)	81	84	62	83	84	--
Illiteracy (% of population)	44	47	59	17	2	6

Source: PRC 1991, ROC 1999, World Fact Book 1999

**TABLE NO.13****GNP per capita (average annual growth rate)**

Country	1978-88	1988-98
Bangladesh	2.3	3.1
India	2.6	3.9
Pakistan	2.9	1.6
Sri Lanka	3.5	3.7
Taiwan	11.0	7.5
China	8.5	8.8
South Korea	5.7	5.5

Source: ROC 1999 and 1988; and World Bank 1999

**TABLE NO.14**  
**Composition of Exports (as a % of total)**

	PRIMARY		OTHER	
	1970	1994	1970	1994
Bangladesh	55.4	22.3	44.6	77.7
India	58.2	42.0	41.8	58.0
Pakistan	47.8	16.7	52.2	83.3
Sri Lanka	99.0	33.7	1.0	66.3
Taiwan	2.6(1981)	0.3(1998)	97.4(1981)	99.7(1998)
China	53.0(1980)	20.3	47.0(1980)	79.7
Korea	35.2	8.1	64.8	91.9

Source: PRC 1999, ROC 1999, and Sachs & Warner 1995b

**TABLE NO.15**  
**Korea Saving and Investment Rates (annual average)**

	Domestic savings (As a % of GNP)	Foreign savings (As a % of GNP)	Investment (As a % of GNP)
1962-66	8.0	8.6	16.6
1971-75	17.6	8.3	25.9
1981-85	25.3	5.2	30.5
1991-95	35.3	1.7	37.0

Source: World Development Indicators 2000

**TABLE NO.16**  
**Growth Projections, 1995-2025**

	GDP per capita relative to the US%		Per capita growth rate (%)	GDP per capita relative to the US (%)	Per capita growth rate (%)
	1965	1995	1965-1995	2025	1995-2025
Korea	9.0	48.8	7.2	82.6	3.5
Taiwan	14.2	56.2	6.2	88.0	3.1
China	3.2	10.8	5.6	38.2	6.0
Bangladesh	9.9	8.5	1.6	17.2	3.9
India	6.5	7.8	2.2	24.4	5.5
Pakistan	7.7	7.7	1.6	18.1	4.4
Sri Lanka	10.1	12.6	2.3	25.3	3.9

Source: Radelet, Sachs, and Lee 1997

**TABLE NO.17**  
**PAKISTANI POPULATION AND LABOUR FORCE IN**  
**INTERNATIONAL PERSPECTIVE: 1992**

	<b>Pakistan</b>	<b>South Asia</b>	<b>East Asia</b>	<b>Low-Income</b>	<b>Middle-Income</b>
Average annual	3.1	2.2	1.6	2.0	1.8
Growth rate	2.7	1.9	1.2	1.7	1.5
Crude birth rate	40	31	35	28	24
CBR change 1992-70	-8	-11	-14	-11	-11
Crude death rate	10	10	8	10	8
CDR change 1992-70	-9	-8	-1	-4	-3
Total fertility rate	5.6	4.0	2.3	3.4	3.0
TRF change 1992-70	-1.4	-2.0	-3.4	-2.6	-1.6
Average Annual	2.9	2.1	2.1	2.2	2.2
Labour force growth	2.9	1.9	1.8	1.7	2.8
Labour force rate	30	36	55	46	31
Female share of labour force	13	22	42	35	32
Change in female share 1992-70	4	-4	1	-1	2

Source: Behrman, Jere, Pakistan: Human Resource Development and Economic Growth into the Next Century, Background Paper for Pakistan 2010, World, Bank, Washington DC (1994)

**TABLE NO.18**  
**PAKISTANI HEALTH AND NUTRITION IN**  
**INTERNATIONAL PERSPECTIVE**

	<b>Pakistan</b>	<b>South Asia</b>	<b>East Asia</b>	<b>All developing countries</b>
Life Expectancy 1994				
Female	63	61	71	63
Male	63	60	67	61
Infant Mortality Rate	80	73	41	64
Population per Physician	2,000	3,704	NA	5,833
Population per Nursing Person	3448	5468	NA	4,691

Source: UNDP, Human Development Report 1997

**TABLENO.19**  
**ECONOMIC PERFORMANCE INDICATORS**

	<b>INDIA</b>	<b>PAKISTAN</b>
Per Capita Income, In US\$	340.0	460.0
In PPP \$	849.0	1604.0
GDP Growth Rates, 1950-80	3.6	5.0
1980-94	5.0	5.9
Trade/GDP(PPP) Ratio	10.0	20.0
Per Capita Trade, in US \$	44.0	121.0
Average Annual Rate of Inflation, 1980-93	8.7	7.4
Overall Budget Deficit/GDP, 1980-94	-6.5	-7.3
Deficit/GDP 1995	-6.0	-6.9
Current Account/GDP, 1980-94	-1.7	-4.4
1995	-0.9	-3.9
Export Growth Rate, 1980-90	5.9	8.1
1990-4	13.6	11.3

Source: World Development Indicators (World Bank, Washington DC 1998)

**TABLE 20**  
**COMPARATIVE SOCIAL INDICATORS**

	<b>India</b>	<b>Pakistan</b>
Life Expectancy ( in years)	62	60
Adult Literacy (per cent)	52	38
Female Literacy (per cent)	38	24
Gross Enrolment Ratio (combined- per cent)	55	37
Access to Health Services ( per cent)	85	85
Daily Calorie Supply Per Capita	2395	2316
Underweight Children Under Five (per cent)	53	40
Infant Mortality ( per 000 births)	68	90
Total Fertility Rate	3.8	6.2

Source: World Development Indicators (World Bank, Washington DC 1998)



**TABLE NO.21**  
**COMPARATIVE SOCIAL INDICATORS OF SOUTH**  
**ASIAN COUNTRIES**

	<b>Pakistan</b>	<b>Bangladesh</b>	<b>India</b>	<b>Sri Lanka</b>
Population growth rate	3.0	2.0	1.9	1.3
Life expectancy	62	58	62	72
Infant mortality	88	79	68	16
Child malnutrition	40	84	63	38
Adult literacy	38	38	52	90
Gross female enrolment	49	105	91	105
Female labour force	26	42	32	35
Share of population below \$ 1/day	12	...	53	4
Daily calorie intake	2,618	2,019	2,395	2,275

**TABLE NO.22**  
**COMPARATIVE ECONOMIC INDICATORS OF SOUTH**  
**ASIAN COUNTRIES**

	<b>Pakistan</b>	<b>Bangladesh</b>	<b>India</b>	<b>Sri Lanka</b>
GDP growth rate 1985-95	1.2	2.1	3.1	2.7
GDP per capita US\$, 1995	460	240	340	700
Consumption per capita PPP\$	1,604	1,049	849	2,373
Trade ratio, 1995	36	37	27	83
Investment ratio 1995	19	17	25	25
Net private capital flows, 1995 (\$ million)	1443	10	3,592	140
Net FDI/GDP, 1995	0.7	...	0.4	0.5
Mean tariff per cent all products, 1990-3	51	84	56	24
Central Government current revenues as percentage of GDP, 1995	19	...	13	21
Official aid flows as per cent of GDP, 1994	2.5	6.9	0.8	4.6
Energy use per capita (kg)	254	64	248	97
Electricity production capita (kwh)	450	83	416	242
Telephone lines per 1,000 people	16	2	13	11
Fiscal deficit/GDP	-6.9	...	-6.0	-8.7
Manufacturing as per of GDP, 1994	18	10	18	16

**TABLE NO.23**  
**INDICES OF RELATIVE ECONOMIC ACHIEVEMENTS**  
**(IN PAKISTAN=100)**

	<b>Bangladesh</b>	<b>India</b>	<b>Sri Lanka</b>
GDP per capita	52	74	152
Consumption per capita PPP	65	53	148
Net private flows per capita	..	35	69
Net aid flows per capita	123	23	253
Trade ratio	102	75	230
Investment ratio	89	131	131
Energy use per capita	25	98	38
Electricity production per capita	18	92	54
Telephone lines	12	81	68
Manufacturing as per cent of GDP	59	117	94

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