This report is part of the Bertelsmann Transformation Index (BTI) 2008. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 125 transformation and developing countries are evaluated.

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<td>Population growth (%)</td>
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<td>HDI</td>
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<td>Life expectancy (yr)</td>
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<td>UN Education Index</td>
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<td>Gender equality (%)</td>
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<td>Aid per capita ($)</td>
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<td>Urban population (%)</td>
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Executive Summary

Since President Musharraf came into office via a coup, Pakistan has posed a peculiar paradox to puzzled observers. On the one hand, the economy continued to grow by leaps and bounds; calling Pakistan’s macroeconomic performance dramatic is in no way hyperbole. For example, despite the financial burden of the catastrophic earthquake of October 2005, Pakistan’s economy continued to advance strongly, maintaining the robust growth reported in the previous country assessment (BTI 2006); in fiscal year 2004, GDP rose by an impressive 6.4%. This performance was topped in 2005 by an even more impressive growth rate of no less than 8.4%, the highest growth rate in two decades, made possible by a combination of bumper crops, double-digit growth in the manufacturing sector, and a breathtaking expansion in the telecommunications sector. The number of mobile phone connections surged from roughly five million in 2004 to 12.5 million in 2005, to 23.1 million in January 2006, to 34.5 million in July 2006, to an estimated 45 million in January 2007. Not surprisingly, Pakistan is seen as one of the fastest growing IT markets worldwide. On the other hand, and within the same time frame, the state has rapidly moved towards becoming a failed state; the process of democratic transformation from above has faltered, and Islamist forces from below are busily undermining Pakistan’s ever more fragile democracy – or rather the last vestiges of it. Apart from the flagrant mishandling of the October 2005 earthquake, three indicators illustrate the serious problems Pakistan faces at the moment: a) the rise of sectarianism; b) the growing insurgency in Balochistan; and c) the Taliban’s re-emergence in the tribal areas of the northwestern provinces bordering Afghanistan. Combined with the stealthy radicalization of parts of the army, including the all-powerful intelligence service, ISI, this does not augur well for the future of Pakistan, the “Land of the Pure.”
History and Characteristics of Transformation

With regards to Pakistan’s transformation toward a market-based democracy, it is important to note that the democratization of society and the modernization of the economy have proceeded at different paces. The first phase of Pakistani democracy ended in 1958 with a military putsch that brought General Ayub Khan to power. Ayub Khan legitimated his system of “guided democracy,” which was patterned after Sukarno’s Indonesia, with the promise to profoundly restructure Pakistani society by implementing economic and social reforms. However, he failed at this task, as did the populist regime of Zulfikar Ali Bhutto in the first half of the 1970s and the Islamic regime of General Zia ul-Haq between 1977 and 1988. The democracy restored in 1988 was inwardly focused and primarily preoccupied with the breakdown of domestic order in the country, which resulted in the availability of few resources for the sustained pursuit of a strict economic policy. It was not until General Musharraf’s military regime came to power in October of 1999 that the government again focused on economic policy.

Second, it is also important to note that large segments of the population have experienced a dramatic loss of confidence in democracy, and that Islamic extremists are once again gaining ground. In light of these developments, it makes little sense to hope for the democratization of the state in the Western sense. Instead, the international community should content itself with the hope that Pakistan will at least avoid becoming a failed state. The following trends illustrate the magnitude of the government’s problems: a) serious mishandling of the earthquake and its aftermath; b) serious mishandling of Baloch nationalism; and c) inability to curb domestic sectarianism.

Musharraf’s already shaky authoritarian regime was further weakened by the aftermath of the earthquake on 8 October 2005. The armed forces, always priding themselves on their efficiency, proved incapable of managing the national and international humanitarian relief efforts. Their incapability was magnified by the fact that the armed forces actually sidelined all civil administrative bodies (including the parliament), and denied them a role in the operation on the (very thin) grounds that civil authority broke down due to the earthquake in the affected areas anyway. This ill-disguised attempt to further marginalize civil institutions had an unwelcome and unintended side effect, opening the door for militant groups who involved themselves in relief operations for the main purpose of winning the “hearts and minds” of the population affected by the disaster.

The Baloch nationalist insurgency is not new; it was always simmering beneath the surface, nurtured by a general feeling of political and economic marginalization and
dispossession. The new outbreak of Baloch nationalism revolves around the construction of the deep-water port of Gwadar, built by Chinese construction workers, and mainly with Chinese money. The kidnapping and murder of two Chinese engineers in 2004 was the first visible sign of this new wave of violence. The government blamed “local mafias” for the two murders, but when Musharraf actually had to cancel his March 2005 visit to Gwadar with the Chinese prime minister due to a general strike and large-scale protests, the resurfacing of Baloch nationalism was no longer deniable. Instead, Pakistan’s government was quick to point at the usual “foreign hand” in Pakistani affairs. Also, the government in Islamabad embarked on a smear campaign, trying to equate Balochi secular nationalism with al-Qaeda style Islamist fanaticism. So far, the crisis remains unresolved, and there is potential for further aggravation.

In regard to sectarianism, the suicide attack on Friday, 14 July 2006, on Allama Hassan Turabi, a prominent Shi’ite Muslim cleric, was just the latest round in tit-for-tat killings between Sunnis (80% of Pakistan’s Muslim population) and Shi’ites (20%) in Pakistan. The deadliest act of sectarian terror took place in April 2006, when 57 Sunnis were killed by a suicide bomber in Karachi. The result was a three-day spree of anti-Sh’ite rioting, especially in Karachi. The government in general and the armed forces in particular are unable to curb this disturbing gradual increase in nationalism and sectarian violence. One of the reasons for this inability is the fact that among the Sunni majority of Pakistan, Musharraf is increasingly seen as President Bush’s lapdog, a traitor to Islam and Pakistan (in this order), which is why he is frequently called “Busharraf” nowadays. For Pakistan’s future, this does not augur well. The only positive trend for 2007 so far is that Pakistan’s economy has been largely unaffected by all of this.
Transformation Status

I. Democracy

1 | Stateness

In principle, the Pakistani government possesses a monopoly on the use of force throughout the country. However, in rural areas, large-scale landowners still maintain clan-based private armies, while in the larger cities, especially Karachi, organized crime groups and militant supporters of political parties such as the MQM(A) and the Pakistan People’s Party (PPP) have formed armed groups. These private militias and street gangs engage in firefight with the police and the army, which result in frequent accusations against law enforcement agencies involved in so-called extra-judicial killings. Ever since the establishment of the Taliban regime in Afghanistan, extremist Islamist groups have also made advances in Pakistan, posing a serious challenge to the government’s monopoly on the use of force. After the collapse of the Taliban regime as a result of the NATO Operation Enduring Freedom, and the influx of battle-hardened Taliban forces and al-Qaeda operatives, the problem of violence has worsened. Also, it can be assumed that this movement has already infiltrated portions of the Pakistani armed forces, including the all-powerful Directorate for Inter-Services Intelligence (ISI).

No one seriously challenges the concept of citizenship, which is understood as belonging to a nation, and hardcore secessionists – for example, those fighting for an independent Balochistan or Sindhistan – remain in the minority; even in those provinces, most relevant actors would settle for more autonomy, or even for fair sharing of revenues.

The relationship between religion and state is problematic and has not yet been resolved. Although Pakistan is officially an Islamic republic, the precise definition of “Islam” and “Islamic republic” remains a matter of dispute. The unresolved relationship between religion and the state has created a hybrid system, in which secular laws and Shari’ah uneasily exist side by side. It also makes for conflicts between different Islamist groups, which are often settled violently, with the Shi’ite and Ahmadi minorities usually on the receiving end of violence.
The two best-functioning institutions in Pakistan, the army and the civilian administration, have been able to maintain law and order, with the glaring exceptions of a) the civil war-like conditions in Karachi, which began in the mid-1980s and have earned the city the title of “the Beirut of South Asia”; b) the rising insurgencies in Balochistan, further accelerated by the killing of well-known tribal leader Nawab Akbar Bugti in August 2006; and c) the (tribal) Pashtun areas along the border with Afghanistan. However, a lack of law and order in tribal areas is a problem that all Pakistani governments have had to deal with.

2 | Political Participation

Despite several military putsches, comparatively free elections have been held in Pakistan since its independence. Elections are generally accepted as an orderly means for selecting those in power. Although women have the legal right to vote, in practice they are frequently deprived of that right in the rural areas of Pakistan. Also, there are recurring reports on irregularities in vote counting, as well as in the establishment of polling places and access to them. However, these irregularities are not widespread enough to affect the countrywide outcome of the elections.

No elected civil government since 1988 has succeeded in serving out the whole of its electoral term, due to the strong position of veto actors (i.e., military, bureaucracy, wealthy land owners and tribal leaders). Despite these reservations, there is a functioning and flourishing civil society in Pakistan, especially in the cities.

Numerous non-governmental organizations take advantage of freedom of speech and freedom of the press to engage a broad range of topics, from traditional and puritanical Islamism to the cause of peace all the way to HIV/AIDS or postmodern feminism. A political party landscape, albeit a very fragmented and ephemeral one, has also begun to form in the five decades since Pakistan’s independence, despite efforts by the military and the ISI to exclude secular and Western-oriented parties from the government.

Freedom of opinion and the press exist as core elements of a public debate, but they are subject to sometimes massive intervention that undermines the public sphere. Outright prohibitions on the press are limited to a few cases, but the military and the government control and manipulate the electronic media.
3 | Rule of Law

The separation of powers between the executive, legislative and judicial branches of the Pakistani government is repeatedly compromised by the interference of the former with the latter two. Parliament is usually bypassed in the formulation of laws, and the higher courts of the judiciary are frequently coaxed to pass politically motivated judgments. For example, the government may transfer judges from the secular Supreme Court to the religious Shari’ah Court without their consent. A telling case in point is the removal of Chief Justice Iftikhar Muhammad Chaudry from office, at the behest of President Musharraf, in March 2007. Chief Justice Chaudhry has a well-earned reputation of being politically neutral and independent-minded, and, at the time of this writing (March 2007), his removal is interpreted by both Pakistani lawyers and Pakistani opposition parties as a blatant attempt to intimidate the judiciary in advance of the forthcoming elections, and a prelude to an organized repression of political opponents to secure yet another victory for Musharraf. Interestingly, the removal of the chief justice led to violent clashes between lawyers and riot police units in Islamabad and Lahore.

Beneath the highest levels of power, the judiciary is professionally well differentiated and relatively independent. However, just like in neighboring India, ordinary citizens have no trust in the legal system because of its inefficiency and the massive backlog of cases. Also, some subordinate judges have a bad reputation for being corrupt.

It should be noted that corruption charges are usually only brought forward against opponents of the current regime and its power brokers, but at least corrupt officeholders receive negative publicity in the free press. As a result, it has been possible on a number of occasions to prevent the reelection of politicians who had been recognized as corrupt.

As far as civil rights are concerned, one must distinguish between urban and rural areas. In rural areas, the traditional and conservative climate deprives women and the poor of equal rights and freedom of worship, which is guaranteed by the state but can hardly be exercised if it does not correspond to local custom. Even in the cities, religious conflicts increasingly jeopardize freedom of worship for Shi’ites, Hindus, or Christians. The Ahmadis, having been declared non-Muslims by various Pakistani courts, are frequently targeted with blasphemy charges simply because members of this sect still insist on calling themselves Muslims. It is also noteworthy that Pakistan lacks independent watchdog bodies to protect the rights of religious minorities and to audit and control government actions. This deficiency became obvious in the aftermath of the earthquake.
4 | Stability of Democratic Institutions

Officially, Pakistan follows a Westminster-style parliamentary system, which still seems to be accepted by the majority of Pakistanis, including the more moderate Islamist parties and movements. De facto, however, in the nearly six decades that have passed since gaining independence, Pakistan has not succeeded in building democratic institutions capable of performing their functions, and even the process of nation-building must be regarded as incomplete or, as of January 2007, in reverse. Although a multiparty system is in place, and although elections are held on a regular basis, voter turnout is traditionally very low. For example, in the parliamentary elections for the National Assembly, turnout was 35.8% in 1997 and 41.8% in 2002.

The principle of loyal opposition, which is vital to a functioning democracy, is still largely ignored in Pakistan. Even democratically elected prime ministers generally govern by decree and executive order with blatant disregard of the largely non-functional parliament, and frequently even against the will of the current president. As demonstrated by Musharraf’s putsch against Nawaz Sharif, the 1990s did not bring about the withdrawal of the army from politics, notwithstanding promises to the contrary. After nearly eight years of military rule under President Musharraf, the label “Praetorian state” is therefore more appropriate for Pakistan than ever before.

5 | Political and Social Integration

The failure to bring about a stable, secure and just sociopolitical order, despite promises to the contrary, is certainly the most far-reaching failure of Musharraf’s government (and virtually all of the regimes that came before it). The blame also lies with Pakistan’s political parties, which are not programmatic political bodies in the Western sense, but rather personality-oriented and patronage-based electoral platforms. Questionable practices common to Pakistan’s elections include the buying and selling of votes, as well as party switching immediately before and after elections, although this was outlawed as long ago as 1962 and then again in 1997 in the fourteenth amendment to Pakistan’s constitution. Additionally, the supporters of important political parties, especially the extremist Islamist ones, are becoming increasingly militant. As a result, large parts of the population have become disillusioned with democracy to a degree that has reached critical proportions. This sense of disillusionment also partially explains the low voter turnout mentioned above. Clear signs of the extent to which state institutions have failed include: the civil war in Karachi begun in 1988 between the militant supporters of the MQM(A) and those of the Pakistan People’s Party (PPP); the growth of private armies belonging to large-scale landowners in
various parts of Pakistan; the re-emergent insurgency in Balochistan, triggered by serious mismanagement by the government in Islamabad; and the penetration of militant Islamic extremists into previously urbane and secular portions of Pakistani society, including the armed forces and the ISI. In addition, the various ethnic groups in Pakistan are insufficiently integrated and remain deeply divided by religious and dogmatic conflicts that cut across ethnic and sociopolitical lines. All of these conflicts are frequently acted out in armed conflict using modern small arms, which are abundantly present in the country because of the conflict in Afghanistan. The telling phrase “Kalashnikov culture” was coined to describe this situation.

In response to the shortcomings of the party system, the flourishing – and mostly secular – civil society in Pakistan’s urban areas has spawned a number interest groups, such as the Edhi Foundation, the Lawyers for Civil Rights and the Women’s Action Forum.

These groups fulfill important roles either as self-help organizations or as venues to express political protest and dissent. However, sectarian pressure groups such as the Sunni Sipah-i-Sahaba (Army of the Friends of the Prophet, SSP) or the Shi’ite Tehreek-e-Jaferia Pakistan (Movement of the Followers of Fiqah-e-Jaferia, TJP), and their militant offspring, seem to be on the rise, even though they were proscribed by President Musharraf in January 2002. Since such sectarian movements are present practically everywhere in Pakistan, and since they are able to mobilize mass protests on any issue – such as the Danish cartoons depicting the Prophet Muhammad – they are generally more powerful than their urban-based secular challengers. This polarization of opinions has resulted in frequent violent clashes, especially between followers of the various sectarian groups, which poses a grave danger to the survival of the embattled Pakistani secular political system.

II. Market Economy

6 | Level of Socioeconomic Development

During the review period, the rate of poverty further declined by nearly 5%, continuing a trend starting in 1999. The World Bank’s praise for Pakistan as one of the top-ten performers of 2006 was well-earned. Also, in 2006, Pakistan’s HDI rose to 0.539, which enabled the country to overtake Bangladesh (0.530), but it still lags behind its main South Asian competitor, India (0.0611).
comparatively low literacy rate is one of the reasons why Pakistan’s HDI still ranks second-lowest in South Asia. Despite an ambitious “National Plan of Action on Education for All (2001 – 2015),” overall literacy in Pakistan remains low at 54%. This rate can be further broken down to 66.25% for males and 41.75% for females. The NPA target for Phase I (2001/02 – 2005/06) was an overall literacy rate of 61%, consisting of a male literacy rate of 71.5% and a female rate of 50.5%. The female literacy rate, which in rural areas can be as low as 30%, is just one indicator of the blatant gender inequality in Pakistan. Apart from women, members of religious minorities such as Ahmadis, Christians, Hindus or Sikhs are partially excluded from society, for example in their access to higher education or to higher offices.

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<td><strong>Import growth</strong></td>
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<td>-2.9</td>
<td>-2.0</td>
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<td><strong>Tax Revenue</strong></td>
<td>% of GDP</td>
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<td>10.9</td>
<td>10.5</td>
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<td>% of GDP</td>
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<td>8.9</td>
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<tr>
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<td>-</td>
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<td><strong>Public expnd. on health</strong></td>
<td>% of GDP</td>
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<td><strong>R&amp;D expenditure</strong></td>
<td>% of GDP</td>
<td>0.2</td>
<td>-</td>
<td>-</td>
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<tr>
<td><strong>Military expenditure</strong></td>
<td>% of GDP</td>
<td>3.9</td>
<td>3.8</td>
<td>3.4</td>
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7 | Organization of the Market and Competition

The foundations of open market competition are largely in place in Pakistan, with unrestricted competition, equal opportunity for market participants and a government-guaranteed regulatory regime. Despite unfavorable framework conditions on both the domestic (i.e., the insurgency in Balochistan and an increase in sectarianism) and foreign policy (i.e., the global war on terror) fronts, Pakistan has continued to open its markets and privatize businesses in various sectors of its economy under the Musharraf government since 1999. While this course met with some domestic opposition among the Pakistani people, it received praise from international organizations such as the World Bank, the International Monetary Fund and the Asian Development Bank.

The period under review has seen a continued liberalization of foreign trade and the privatization of some of the remaining state enterprises, such as Habib Bank Limited, Karachi Electric Supply Company and Pakistan Telecommunication Company. The three sectors of banking, oil and gas, and telecommunications profited markedly from the sustained privatization effort.

Both conventional and Islamic bank systems are in operation. The government is formally committed to interest-free banking. Islamicization of the banking system is, however, unlikely to occur in the immediate term. Compared to the last review period (BTI 2006), when the Karachi Stock Exchange outperformed all other stock markets in Asia, market capitalization rose by 159% to $25 billion, and the privatization process was enhanced by public share offerings on the stock market, this review period hasn’t seen much further progress. The next round of privatization, which will involve, among others, government-owned banks, has yet to take place.

8 | Currency and Price Stability

In fiscal year 2005 (1 July 2004 – 30 June 2005), the five-year period of price stability came to an abrupt end. Due to increases in food prices, housing rents and, especially, oil prices, Pakistan saw its rate of inflation roughly double from 4.6% to 9.3%. This comparatively high rate of inflation survived the first half of fiscal year 2006, declining slightly to 9.1%. Again, the major factor behind this high rate was the continued steep rise of global and domestic oil prices.

The Asian Development Outlook 2006 reported that the effect of rising oil prices “virtually cancelled out” the effect of lower food prices; according to the report, inflation for fuel, lighting and transport rose above the overall inflation rate of 9.1% to 11.3% in January 2006, driven by domestic oil prices. However, a
continued decline in food prices and a stabilization of oil prices – albeit at a high level – led to a decline in inflation from 9.1% down to 8.0% in fiscal year 2006, followed by a further decline to about 7% in January 2007.

9 | Private Property

Pakistan’s economy, which is mainly based on private property anyway, has further profited from the deregulation and privatization of remaining state enterprises, such as banks, telecommunications, and oil and gas. A welcome side effect of this deregulation effort is a significantly improved quality of services offered, due to competition, which can be fierce. Legally, private property and the acquisition of property are adequately defined and protected by secular as well as Shari’ah laws. Private companies are able to act freely. They face few barriers to their development, and those that remain are in the process of being gradually dismantled by means of appropriate deregulatory measures. However, the acquisition of property, as well as the awarding of contracts, is still affected by very high levels of corruption and nepotism, which continue to plague the administration of President Musharraf.

Pakistan’s economy is primarily based on private ownership. In recent years, privatizations and deregulations have encouraged entrepreneurial activity. The next round of privatization will involve oil and gas companies, the Karachi Electricity Supply Company, government-owned banks and Pakistan Steel. Significantly, military-run businesses, which have received subsidies and preferential contracts in the past, are excluded from the divestment of inefficient state enterprises.

10 | Welfare Regime

Previous Pakistani governments have traditionally treated topics such as welfare or social security as low-priority areas. Also, Pakistani society outside the cities, marked by a rather traditional brand of Islam, is still highly segmented and characterized by semi-feudal and hierarchical stratification. These are the two main reasons why the country currently possesses only informal social safety nets based on membership in families or clans to compensate for poverty, old age, sickness and unemployment. Since 1999, President Musharraf’s government has made some rather half-hearted efforts to stem the rising tide of poverty. So far, these efforts have hardly been effective at all. As part of its anti-poverty program, the government has also sought to expand health care facilities and schools in rural areas, after inspections discovered that many clinics and schools in those areas only existed on paper. However, this would require increased expenditures in both sectors, which is not likely to happen.
Women are still under-represented in the labor market and do not have equal access to higher education or public posts. The same is true for minorities such as Ahmadis, Christians, Hindus and Sikhs.

11 | Economic Performance

Despite the financial burden of the devastating earthquake of October 2005, Pakistan’s economy continued to advance strongly, maintaining the robust growth reported in the previous country assessment (BTI 2006). In fiscal year 2004, GDP rose by an impressive 6.4%. This performance was topped in fiscal year 2005 by an even more impressive growth rate of 8.4%, which was the highest growth rate in two decades, made possible by the combination of a bumper wheat crop, an “all-time-high” cotton output, double-digit growth in the manufacturing sector, and a breathtaking expansion in the telecommunications sector. The number of mobile phone connections surged from roughly five million in 2004 to 12.5 million in 2005, to 23.1 million in January 2006, to 34.5 million in July 2006, to an estimated 45 million in January 2007. Not surprisingly, Pakistan is seen as one of the fastest growing markets for mobile phones by companies such as Motorola, Nokia and Sony Ericsson. Apart from the IT market success story, and with both wheat and cotton growth back to normal in fiscal year 2006, the economy still grew by 6.6%, resulting in an overall GDP growth of around 7% for the last four years. The forecast for fiscal year 2007, ending in June 2007, is also quite positive: overall GDP growth of 7% during the first seven months (until January 2007) seems to be sustainable.

12 | Sustainability

During the review period, Pakistan made notable progress in environmentally compatible growth. Apart from being a signatory to diverse international environmental agreements, and apart from setting up environmental tribunals, more and more of Pakistan’s cars run on a combination of lead-free petrol and compressed natural gas (CNG). However, as was pointed out in the last country report, air pollution levels in urban areas are still nearly twice the world average. Also, environmental consciousness is still restricted to the urban and more educated part of Pakistan’s population, and the rapid expansion of urban areas renders many well-intentioned initiatives meaningless. A case in point is the pollution of Pakistan’s major rivers; all of them carry high or extremely high concentrations of pollutants.

With regard to primary, secondary and tertiary education, Pakistan still grapples with a low rate of literacy, a lack of participation in rural areas and a high drop-out rate from primary schools, again mainly in rural areas. As has been pointed
out before, government efforts have been hampered by gender inequality, and
despite help from a number of NGOs, many schools (and many hospitals as well)
continue to exist on paper only. In general, the primary tool for basic education
still is the madrassa, not the secular school. Not surprisingly, the number of
madrassas has risen from about 7,000 in 2000 to roughly 11,000 in 2003 to an
estimated 14,000 in 2006. The government’s attempts to bring the madrassas
under control by streamlining their curricula and/or closing explicitly anti-secular,
pro-Taliban madrassas, have been met by serious and at times violent resistance.
Nearly 35% of all madrassas are not even registered under the government
schooling scheme, and an increasing percentage of these madrassas are promoting
Wahhabism to ensure funding from Saudi Arabian charities.
Transformation Management

I. Level of Difficulty

The period under review saw a further decline of governance in large parts of the country, especially in the areas bordering Afghanistan, including the whole of Balochistan. Within the cities, sectarianism is still on the rise, notwithstanding the government’s claims to the contrary. Further structural constraints on President Musharraf’s governmental management performance include the earthquake of October 2005 and its aftermath, and a probable outbreak of HIV/AIDS from high-risk groups to the whole population. Among the best-known structural constraints on governance is the low level of adult literacy. As described above, ambitious plans to raise the level of literacy to an overall rate of 61% could not be realized; literacy levels continue to hover around 55%. Another well-known constraint is the large-scale discrimination against both women in rural areas (covered more extensively below) and minorities such as Ahmadis, Christians, Hindus and Shi’ites. More worrisome for Pakistan’s future is the rise of sectarianism, which has led to a polarization of secular and fundamentalist forces, and the rise of insurgencies, especially in Balochistan and in the Pashtun tribal areas of the Northwest Frontier Province (NWFP).

These serious structural constraints are alleviated to a certain extent by the existence of a flourishing civil society based in Pakistan’s cities. The level of participation of citizens in the urban areas is quite high, and criticism against the government can safely be aired through a plethora of relatively free newspapers and radio stations. Pakistan is also home to numerous NGOs, both domestic and international. More than 50 NGOs, for example, are active in dealing with HIV/AIDS alone, supporting the government’s actions with expertise and money. Again, this highlights the dichotomy of Pakistan, a country divided into modern cities and feudally structured rural areas.

A re-emerging constraint on governance is the renaissance of Baloch nationalism. The government further aggravated the situation with its ham-handed reaction to the Balochs’ demands. The Pakistani army launched a large-scale attack in December 2005, targeting (suspected) Baloch insurgent camps in the areas of Kohlu and Dera Bugti, which resulted in a marked increase of
violence. Most acts of violence are said to have been committed by the Balochistan Liberation Army (BLA), while tribesmen were responsible for the rest of the attacks. Tactics included assassinations of army officers, roadside bombings and the sabotage of pipelines leading through areas affected by the insurgency. As of now (January 2007), the conflict continues to intensify, and might get out of hand soon. The insurgency in Balochistan is aggravated by the fact that large swaths of the northern provinces, populated mostly by Pashtuns, are largely beyond government control. Border areas are strongholds of a regrouping Taliban movement, and allegedly also the hiding place of high-ranking al-Qaeda members. Since Taliban fighters move from these areas into Afghanistan to fight against Western coalitions forces (mostly U.S. and British units), this domestic conflict has an international dimension as well, leading to frictions with Afghanistan’s Karzai government and, even worse, with Washington. Another comparatively new constraint on Pakistan’s governance capacity is the HIV/AIDS pandemic. Until recently, Pakistan was classified as a low-prevalence country; in a population of about 165 million, only 75,000 people are currently living with HIV/AIDS, with a resulting prevalence rate of only 0.1%. However, official sources tend to under-report the epidemic, mainly due to the social stigma attached to the disease in a Muslim environment. Recent evidence indicates that a rapid spread of HIV/AIDS might already be underway. For example, in late 2004, a concentrated outbreak of HIV was found among injection drug users in Karachi; over 20% of those tested were HIV positive. This outbreak convinced the government that more must be done. The government has focused on reducing the exposure of high-risk groups, improving skills, building capabilities, and increasing participation from the civil sector. Although the prevalence rate is still rather low, without vigorous and sustained action, Pakistan runs the risk of experiencing the same rapid increase in HIV/AIDS among vulnerable groups as seen in India. Plans and actions are being implemented, but much remains to be done.

II. Management Performance

14 | Steering Capability

One of the (few) success stories of President Musharraf’s government is the country’s flourishing market economy. Ever since October 1999, the government has pursued a strict economic reform strategy in close coordination with the World Bank, the International Monetary Fund, and the most important of the G7
donor countries. This reform strategy has survived critical challenges, such as 9/11 and its (military and economic) aftermath, and the October 2005 earthquake and its aftermath. The most significant components of this reform strategy are privatization and tax reform. In regard to the former, the period under review has witnessed the privatization of some of the remaining state enterprises, such as Habib Bank Limited, Karachi Electric Supply Company and Pakistan Telecommunication Company. The three sectors of banking, oil and gas, and telecommunications profited markedly from the sustained privatization effort. The tax reform, however, has not yet been successful, since such a reform would require structural reforms for Pakistan as a whole, including rural areas that are currently outside of government control. Still, the government remains committed to such reforms.

Perhaps the most difficult problem facing the government’s first attempts at economic reform was the population’s lack of confidence, mirrored by a low rate of investment. The steadily rising private consumption from 2003 onwards – in 2006, private consumption rose 16.8% – indicates that this initial lack of trust has been overcome by the government’s persistence and reliability in implementing its reform policy.

At least with respect to Pakistan’s economy, President Musharraf’s government is perceived as a guarantor for stability and macroeconomic reforms, able to adapt its strategy and to learn from previous mistakes, although within certain limits. For example, the current insurgency in Balochistan is partially stoked by glaring economic inequalities. The new deep-water port of Gwadar, situated in Balochistan and built with Chinese money, is a case in point; Balochi fishermen were expelled without adequate compensation, and Baloch faced tremendous challenges in securing any of the newly created jobs there.

15 | Resource Efficiency

Musharraf’s government makes largely effective use of the available personal, financial and organizational resources, which can be seen as another factor behind the country’s economic success. Also, the government has managed to coordinate its policies effectively and coherently against the resistance of important veto actors in rural areas. The Balochi insurgency has already been mentioned in this context.

The current government has shown that it has the will to coordinate conflicting objectives of economic and development policies into coherent public policy. However, it often fails to realize this aim because of conflicting interests between various groups supporting the de facto military government (military, civilian bureaucracy, political parties, business groups). Different parts of the
The government is also making an effort to gain control of the endemic corruption that is present at virtually every administrative level. However, the strong focus of Pakistani institutions (such as the army and bureaucracy) on personalities and patronage prevents an impartial and determined implementation of measures against corruption, so that this effort largely remains a token one. Supporters of Musharraf’s government and members of the army can expect to be treated with indulgence, while political opponents cannot. The Corruption Perception Index of Transparency International illustrates the magnitude of corruption in Pakistan: in 2004, Pakistan was ranked 129th out of 145 countries; in 2005, it ranked 144th out of 158; and in 2006, it managed to rise two notches, to 142nd out of 163. In the same period, India ranked 90th (out of 145), 88th (out of 158) and 70th (out of 163). The only South Asian country with a performance worse than that of Pakistan is Bangladesh, which usually finds itself at the bottom or very near to it. It is doubtful whether Musharraf’s government will be able to combat the endemic corruption more effectively, but, currently, the odds are very much against it. Any persecution of the most corrupt power brokers, for example, would undermine the last remaining power base Musharraf still has: the army and the bureaucracy.

16 | Consensus-Building

Viewed against the background of large-scale lawlessness in the areas bordering Afghanistan, a rising insurgency in Balochistan, increasing sectarian clashes in the cities, numerous terrorist attacks against pro-government forces (such as the bombing attack on the Marriott Hotel in Islamabad on 26 January 2007), and more than a dozen assassination attempts on President Musharraf himself, consensus-building in Pakistan seems to be an increasingly hopeless task.

Even General Musharraf’s military government has not yet succeeded in excluding or at least co-opting all of the country’s veto actors. First, neither Pakistan’s army nor the bureaucracy can be seen as monolithic blocks, which means opposition from within their ranks is not uncommon, especially from the powerful secret service, ISI. For example, parts of the army, especially the lower and middle ranks hailing from the rural areas, are said to be Talibanized already, and even among ISI members, there are some who more or less openly side with radical Islamists. Second, Pakistan’s large-scale landowners are too powerful to allow the exclusion of their interests, although they are not always capable of reconciling with a modern economic strategy.
The most dangerous veto actor that is gradually gaining ground is the loose grouping of Islamic extremist movements, with their demands for the establishment of an Islamic fundamentalist state analogous to the Taliban regime. Musharraf’s government is clearly attempting to neutralize these groups with a policy of “divide and conquer,” and so far has at least managed to limit the power and influence of the most dangerous groups. However, accommodating or at least tolerating groups and movements seen as “terrorist groups” by both the United States and India comes with a high price on the government’s domestic and international credibility, and does not necessarily bring about domestic stability. The fact that radical movements are nonetheless spreading through the population in general and the army in particular again demonstrates the limits of what is possible, even for an autocratic government. Interestingly, most sectarian veto actors do not seem to have problems with Pakistan’s market economy, but rather with its democratic structure, since it is against the will of Allah, at least as they interpret this.

The Musharraf government frequently ignores civil society actors and formulates its policies autonomously from civil society (although not from other powerful and influential groups inside society).

17 | International Cooperation

Pakistan seeks to play an active role in the international arena, even if not always successfully. Although it is a founding member of the Organization of the Islamic Conference (OIC), its capacity for action is limited by comparison with that of other influential Arab states.

Another serious problem for Pakistan in general and President Musharraf in particular is the fact that Pakistan is not seen as a reliable partner by the international community, especially with regard to its level of commitment to the current global war on terror. Ever since 9/11 and the onset of Operation Enduring Freedom, some discontent has been regularly aired through discreet diplomatic channels, pointing to the presence of Taliban and al-Qaeda fighters in the border areas, and even of several high-ranking al-Qaeda operatives such as Khalid Sheikh Mohammed in Pakistani cities. But in February 2007, the perceived inactivity of Pakistani armed and law enforcement forces led to a “blitz-visit” by U.S. Vice President Cheney, who delivered a rather strongly worded message. Given the domestic pressures Musharraf has to deal with, it is unlikely that Pakistan will take a much tougher stance on Taliban and al-Qaeda forces. For this reason, it is also very unlikely that the international community’s trust in the regime will improve any time soon.
Pakistan’s influence with its regional South Asian neighbors, who are organized in the South Asian Association for Regional Cooperation (SAARC), is severely limited by the unresolved conflict with India over Kashmir. Thus far, India has also used its veto to keep Pakistan from being admitted to the Indian Ocean Association for Regional Cooperation (IOR-ARC) and the ASEAN Regional Forum (ARF). This makes it clear that Pakistan will not be able to assume its role as a medium-sized power within the region until the conflict with India has ended, which is unlikely.
Strategic Outlook

Seen from a neo-realist point of view, it is difficult to recommend any domestic and external policy reforms: even if they are well-meaning and sensible, like the recommendations form the International Crisis Group, it is doubtful whether they could be implemented without toppling the current government. For too long, basically ever since Zia ul-Haq came to power, various Pakistani governments have played the Islamist card. Sectarian movements were supported and bolstered by the military, especially ISI, to keep Western-oriented secular political parties in check. Also, the training camps of various Islamist terror movements active in Kashmir were tolerated in order to enable Islamabad to lead a proxy war against India. Now, the proverbial chicken has come home to roost; radical Islamists have succeeded in infiltrating parts of the bureaucracy and parts of the military. Even the ISI could not escape this gradual radicalization. From the domestic perspective, forcing an unwilling military, or an unwilling police, to turn their arms against what they might believe to be their brothers and sisters, is a risky game for Musharraf. From an international perspective, the same argument can be made; Musharraf is already trapped between a rock and a hard place. Either the international community will continue to turn a blind eye to the inconsistencies of Musharraf’s policies in order to keep him as an ally, or will begin looking for a successor – somebody strong enough to keep the country together – for the 2007 elections right now. However, in this analyst’s opinion, there is no such person.

It can reasonably be expected that the Musharraf government will keep the state together, in the hopes that a) the economy keeps booming and b) that the situation in Afghanistan can be stabilized somehow. One should note that, considered in terms of Wolfgang Merkel’s theory of the four levels of consolidation, Pakistan has actually failed on all four levels: it has failed to achieve either institutional or representative consolidation; a behavioral consolidation on the part of potential veto actors is no more evident than is a consolidation of civil society; political institutions and representative bodies are only weakly developed and largely unable to function; the principle of loyal opposition is virtually unknown; political disputes are settled by violent means; and civil society is deeply divided along ethnic, religious and social lines. Saving Pakistan from turning into just another failed state – with all the negative consequences for India and, in regard of Pakistan’s nuclear weapons, the region as a whole – should keep Musharraf’s government busy for the near future. Some realism in the West, especially the United States, would make this job a bit easier for Musharraf. It goes without saying that transformation toward
a Western-style democracy will be on hold for a considerable time, but at the time being, there simply is no alternative to Musharraf. These are tough times for the whole of South Asia, and it seems that we have to make some tough choices as well. Musharraf could, however, address the root causes of the Baloch insurgency; as the International Crisis Group has pointed out several times, the steam could be taken out of this insurgency by implementing a fair share of revenues between Islamabad and the province of Balochistan, and by providing jobs to Balochs, especially in the new port of Gwadar.