This report is part of the Bertelsmann Stiftung’s Transformation Index (BTI) 2016. It covers the period from 1 February 2013 to 31 January 2015. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at [http://www.bti-project.org](http://www.bti-project.org).


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Executive Summary

The state of Pakistan is facing challenges at the hands of religious extremists, terrorists and separatists. More than 50,000 people have died in terrorist incidents since 2003. During the period under review, around 12,000 were killed in terrorist attacks. Consequently, the writ of the state has weakened. Though the military has launched operation Zarb-e-Azb in North Waziristan to eradicate terrorism, the latter has only intensified to the extent that 132 schoolchildren were mercilessly killed in December 2014 in Peshawar. In addition, 55 Shi’ites lost their lives in a sectarian suicide attack in Shikarpur, Sindh, on 30 January 2015. Though the civil government has amended the constitution to establish military courts to dispense speedy justice in terror-related cases, the Pakistani military seems to have been struggling with respect to the categorization of jihadis. As such, the “good” and “bad” Taliban syndrome persists. Moreover, the establishment of military courts has tilted the balance of power in favor of the military and weakened the judiciary by erecting a parallel criminal justice system.

In addition, political instability along with acts of terrorism have weakened the country’s economic capacity and potential, to the extent that foreign direct investment has declined considerably. Inflation remained in double digits with a slight drop to 8.7% by the end of 2014. With a poverty rate of around 60%, Pakistan’s economic problems will persist given increasing unemployment, rampant financial corruption, low revenue generation, huge external debt, the lingering energy crisis, the center-province water dispute, excessive military expenditure, ineffective policy implementation and lack of political will and credibility.

As regards the state of democracy, Pakistan was able to hold general elections in May 2013. These elections were a landmark in Pakistan’s history. For the first time, an elected government transferred power to another elected government through ballot. The 2013 elections also witnessed the highest voter turnout, which was above 60%. It is a sign of a renewed confidence among the
population in the power of ballot. The elections show political maturity, which is a positive sign for democracy in Pakistan.

Finally, the civilian government has to develop its capability to take charge of domestic and foreign policy. The military, on its part, needs to revise its traditional strategic perspective that has characterized India as a Hindu enemy. Pakistan’s success as a state and society is contingent on constitutional rule, socioeconomic egalitarianism and regional and global partnership.

History and Characteristics of Transformation

Pakistan came into existence as a consequence of the partition of British India in August 1947. Over the past 67 years, Pakistan’s politics and economy, and the state have experienced different kinds of political and socioeconomic transformation. Pakistan’s political history has been shaped by the conflict between democratic forces and the military over the nature of political system, the conflict between and among different ethnic groups over the issues of provincial autonomy, and the conflict between religious groups and the secular elite over the role of religion in state and society. In its beginning, based on the principle of parliamentary democracy, the country was constitutionally and politically led by a civilian leadership that included Mohammad Ali Jinnah and Liaquat Ali Khan. The latter served as the first prime minister of Pakistan. Both of them moved in the direction of state consolidation. However, such efforts suffered from policy contradictions since the Bengalis, who formed the majority of Pakistan’s population from 1947-1971, were discriminated against socioeconomically, electorally and culturally. Moreover, the civil bureaucracy started, in strategic interaction with the military, to rule the roost after the assassination of the prime minister in October 1951. In the context of the Cold War security alliances with the United States, Pakistan’s non-elective institutions transformed the country into a security state that viewed India as Hindu enemy. Such a strategic vision suited the military when it directly intervened in politics in October 1958.

The military regime determined the course of Pakistan’s domestic and defense policy during the 1960s. The regime pursued the liberalization of the economy in order to attract foreign capital. Such a move reversed the protectionist economic policy initiated earlier by the civil bureaucracy. As regards democratization and management of the political system, the Ayub-led military implemented a system of “basic democracies” to empower the population at the grassroots level. Since such measures focused more on form than substance, the desired objectives could not be achieved. The population, especially the Bengalis, resorted to agitational politics. They argued that the military regime produced a class of cronies through the “basic democracies” system. In addition, economic policy was exclusionary in nature. In the context of public uprising against the military rule, Ayub Khan resigned in March 1969 and handed over power to another military figure, General Yahya Khan. Although the latter held general election in 1970, Pakistan could not make the successful transition from military authoritarianism to functional democracy. Instead, owing to a divergence of interests and choices between the military and political leadership,
Pakistan state dissolved, with the eastern half emerging as an independent Bangladesh in December 1971.

After 1971, politics, economy and the state were led by civilians as the demoralized military preferred to return to their barracks. In such a changed security environment, Zulfiqar Ali Bhutto, whose People’s Party had won majority of seats in West Pakistan, attempted to transform Pakistan. For instance, under his guidance, economic nationalization was realized at the cost of private ownership. Similarly, Pakistan drafted a fresh constitution (1973), which declared Ahmadis non-Muslims. In addition, the prime minister attempted to bring the military under civilian control. This backfired following the 1977 election, when the Zia-led military declared martial law and later hanged Bhutto.

General Zia-ul-Haq pursued Islamization at the state level. Though the nationalization project was reversed, a large section of the population lived below poverty line. Although the general died in an air crash in 1988, his policies (the eighth Amendment) continued during the 1990s. It is little wonder then, that four elected governments (1988-99) were arbitrarily dismissed by presidents who had strategically allied with the military. The military under General Musharraf ruled Pakistan till 2008. However, Pakistan’s political and economic problems were only aggravated due to the short-term nature and scope of the policies. Though Pakistan tasted electoral politics in the 2008 and 2013 general elections, civil-military relations still favor the military. The recent amendments to the Army Act and the constitution have further empowered the military to establish military courts.
The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

Pakistan’s state monopoly on the use of force is contested by terrorist organizations, armed sectarian outfits, nationalist insurgents, armed drug traffickers and extortionists. Such organizations and outfits normally operate from the Federally Administered Tribal Areas (FATA), which include South and North Waziristan. However, they also have recruitment and training centers in major cities such as Lahore, Karachi, Quetta and Peshawar. The groups and organizations that challenge the writ of the state include Lashkar-e-Jhangvi (LeJ), which operates across Pakistan, and Jundallah, a Baluchistan-based organization, operating on both sides of the Pakistan-Iran border. As a result, suicide bombings and targeted killings of, for example, Shi’ia professionals, have been a common phenomenon in major cities across the country. In other words, the writ of the state is constantly challenged not only in the tribal areas but also in Pakistan proper by, for instance, Tehrik-i-Taliban Pakistan (TTP). In 2013 alone, 5,379 people, including 676 security forces personnel, lost their lives in terrorist attacks. In March 2014, the Nawaz Sharif government initiated peace talks with the Taliban but to no avail. The military then launched operation Zarb-e-Azb (June 2014) in North Waziristan against the Haqqani network. This is a positive move to counter the terrorists. Nevertheless, 5,496 people, including 132 school children, died in terror attacks in 2014. January 2015 witnessed the death of 300 people, including 55 Shi’ites, who were killed in a suicide attack on January 30.

The notion of state identity is very vague in Pakistan. The 1973 constitution declares Pakistan an Islamic republic. It states that laws should be in accordance with the shari’ah. However, the 1973 constitution as well as the judicial system rely on the Government Act of India 1935 as well as the conventions and traditions of the subcontinent. This has enabled pro-Islam political parties such as Jamaat-e-Islami to question the state’s reliance on Western model of parliamentary democracy and to legitimize their existence in an extremely polarized society. The identity discourse
has been intensified post 9/11. Pro-religion political parties and Islamist militant organizations such as Tehrik-i-Taliban Pakistan have resorted to coercive means to compel society and the state to follow Islam in letter and spirit. In addition, the nationalist forces in Baluchistan and Sindh (Jay Sindh Mahaz) have launched left-oriented political movements to ensure their cultural and political identity. Pakistan state has, ironically, invoked the religious identity of the state to counter secular ethnicities at the local and provincial level. During 2013-14, certain anti-minority sectarian organizations flourished, for instance, in parts of Baluchistan. This resulted in the indiscriminate killing of ethnic Hazara people, who are Shi’ites.

The 1973 constitution declares Pakistan an Islamic republic. It states that the laws in Pakistan should be in accordance with the shari’ah. However, the shari’ah has little influence on law making in Pakistan. Most of the laws follow the British model and the conventional practices in the subcontinent. The areas where the shari’ah has heavily influenced the judicial practices in Pakistan include blasphemy laws and the Hadood Ordinances. During the period under review, the government failed to take measures against the abuse of blasphemy laws. Persecution of Ahmadis and Christians in the name of blasphemy is continuing with increased ferocity. The most barbaric act in the name of blasphemy took place near Lahore in November 2014, when an enraged mob burnt a Christian couple in a brick kiln after accusing them of desecrating the Quran. The government’s record of protecting religious minorities and religious freedom is very poor. It has failed to reform the legal system to ward off abuses of blasphemy laws.

The District Coordination Officer (DCO) is the official head of the district government. According to Local Government Ordinance 2001, the function of the officer was to coordinate the activities of all government officials at the district level. However, the provincial governments have amended the Local Government Ordinance 2001, returning powers to the bureaucracy. The 18th constitutional amendment has retained article 140-A relating to the devolution of power to local governments and expanded it to provide that local government elections should be held by the election commission of Pakistan. However, local government elections have been delayed in three out of four provinces. The provincial governments of Punjab, Sindh and Baluchistan have used different tactics to delay local government elections. The bureaucracy heads the district government. However, its record in service delivery is very poor. About 52% of Pakistanis lack access to sanitation, while 80% lack access to safe drinking water. The village Panchayat system continues to function as a parallel justice system in some areas of South Punjab, Sindh and Baluchistan. It continues to deliver informal justice, in some cases very harshly. The government has made no effort to reform the district administration or to provide it with sufficient funds to upgrade health, education and other basic facilities.
2 | Political Participation

Elections are held every five years to choose members of federal and provincial assemblies. However, this process has been stalled by successive military dictators. They have also elected members of the local government at district, tehsil and union council levels. The 2013 elections were preceded by heightened acts of violence and attacks against workers, political leaders and election candidates. According to a report published by the Pakistan Institute of Peace Studies (PIPS), 298 people were killed and 885 were injured between January 1 2013 and May 15 2013 in 148 politically motivated terrorist incidents. The violence or threat of violence prevented the Awami National Party (ANP), and the Pakistan Peoples Party (PPP) from campaigning openly for their candidates. In addition, the media reported several incidents in the Khyber Pakhtunkhwa where women were barred from voting. Many national and international observers judged the 2013 elections to be relatively fair and free. However, Pakistan Tehreek-e-Insaf (PTI), led by Imran Khan, has time and again accused the judiciary and the Election Commission of massive rigging in 2013 elections. They have demanded a recount in four constituencies of Lahore.

While the National Assembly is the forum to discuss and legislate on different policy issues, it is also the executive arm of the state that is responsible for implementing these decisions. However, the military plays the central role in decisions regarding defense and security issues. The military, which took a back seat when the Pakistan Peoples Party was in government, is now once again active to run Pakistan’s foreign policy vis-à-vis India, Afghanistan, the United States and the war on terror. After the Peshawar incident in December 2014, in which 156 school children and employees were killed by terrorists, the military was successful in influencing the legislature to amend the constitution, allowing the establishment of military courts. In economic matters, Pakistan’s National Assembly and Senate are independent in legislating and implementing different policies. The power of the government was seriously questioned during the sit-ins conducted by Pakistan Tehrik-e-Insaf (PTI) and Pakistan Awami Tehrik (PAT). Islamabad’s police chief and two of his subordinates refused to carry out government orders to use force against the demonstrators. In addition, the government faces difficulty in policy matters vis-à-vis the tribal areas. The clergy has the power to influence government decisions in religious issues. It has been visible in recent debates on blasphemy laws and the Hadood Ordinances.

Article 17 of the 1973 Constitution of the Islamic Republic of Pakistan grants association rights to individuals, subject to the restrictions imposed by law in the interest of the integrity of the state and its territories. In most parts of Pakistan, the freedom of association and assembly is relatively upheld. Pakistan has a vibrant civil society. It has a vast array of associations and organizations representing the interests of different communities. These include trade unions, student unions, bar
associations, peasant organizations, journalist unions and charity organizations. They are free to demonstrate in front of government buildings with only occasional intervention from law enforcement agencies. However, during the PTI and PAT sit-ins in Islamabad in 2014, the government drew a line in the sand when the demonstrators tried to reach the prime minister’s house, and used force to stop their advance. Consequently, three members of PAT and one member of the PTI lost their lives and another 500 were injured.

Article 19 of the 1973 constitution grants freedom of speech and expression to every citizen of Pakistan. However, the blasphemy laws bar Ahmadis from using Islamic terminology and symbols and preaching their faith. Blasphemy laws are used as a pretext to persecute religious minorities, particularly Christians and Ahmadis. Pakistan’s record in the area of freedom of expression was mixed during 2013-14. Although Pakistan has a free press, this freedom has been restricted by the government using different tactics. The government stopped the live transmission of ARY television in 2014 for its anti-government stance and banned Mubashir Luqman from a live show. It also stopped the transmission of Geo TV in April 2014, and fined it PKR 10 million for defaming state institutions (the ISI and the army). Hamid Mir, a famous anchor of Geo TV, was also attacked. The PML-N government also stopped advertisements in anti-government newspapers and TV channels to control their recalcitrance. During 2013-14, Pakistan was the most dangerous country for journalists worldwide, with 13 journalists killed in 2013 and 14 killed in 2014. The number of these incidents has increased over the last two years, maintaining Pakistan’s place among the top of the world’s most dangerous countries. In addition, the PML-N government has also continued a ban on YouTube, originally imposed by the PPP government in September 2012.

### 3 | Rule of Law

According to the constitution, political authority is divided between the legislature, the executive and the judiciary. However, in practice, this division is not strictly upheld in Pakistan. The parliament is generally the weakest state institution.

Since 2008, the Supreme Court, headed by Chief Justice Iftikhar Muhammad Chaudhry, has become more vocal with various suo moto initiatives that have challenged the government and the armed forces. The Supreme Court has intervened time and again into matters which were the exclusive preserve of the executive, such as fixing the prices of different commodities and forcing government to appoint heads of different institutions. In 2013, under Chief Justice Iftikhar Chaudhry, Pakistan’s Supreme Court encroached upon the powers of the executive and legislative branch of the government. Nevertheless, the armed forces are still beyond the authority of the government or the parliament.
In 2013, when Iftikhar Chaudhary was Chief Justice of the Supreme Court, the country saw massive overreach by the judiciary. Several suo moto actions were taken by the Chief Justice. Corruption, delay in justice and inefficiency are the hallmarks of the judiciary in Pakistan. In his last year in office in 2013, Chief Justice Iftikhar Chaudhry took excessive suo moto actions, burdening the judiciary with excessive work and increasing its inefficiency. Incidents of corruption and nepotism are rife in the lower judiciary. In addition, the judiciary has been unable to probe into issues related to the military, such as Musharraf’s trial and missing persons.

Corruption and office abuse are common phenomena in Pakistan and they mostly go unpunished. However, there are some success stories regarding the National Accountability Bureau (NAB). Under the chairmanship of Qamar Zaman Chaudhary, the NAB was successful in retrieving PKR 4 billion from defaulters during fiscal year 2013-2014. The Bureau also authorized 767 inquiries and filed 152 references during the same period. However, not all cases involving office abuse are referred to the NAB. Most cases are referred to the anti-corruption establishment at the district and provincial levels, where favoritism and bribery reign supreme. Corruption has infested Pakistani society from top to bottom. Almost PKR 12 billion are lost on a daily basis due to corruption with no charges filed so far. Office abuse for personal benefit has become a norm in Pakistan.

Article 10-A of the 1973 Constitution of Pakistan grants every citizen the right to a fair trial and due process. However, in practice, this right has been violated for a number of reasons. In 2013, the military and police were unaccountable in cases where threats to national security were involved. The Shi’a-Sunni conflict in the country, in which both sides were involved in killing sprees against each other, continued unabated. In 2013 alone, 400 Shi’ites were killed. Forced disappearances of Baluch nationalists and alleged terrorists continued during 2013-14. During the election campaign in 2013, 150 people were killed and another 500 were injured by the Taliban. Religious minorities were persecuted by the extremists during 2013-14. During 2013 alone, a total of 5,815 cases of violence against women were reported across the country. However, this figure increased in 2014. According to a report published by the Aurat Foundation, 7,010 cases of violence against women were reported in Punjab alone. In 2014, Punjab recorded the highest number of honor killings in Pakistan. Incidents of murder and honor killing are higher in rural areas. Constitutional safeguards to protect basic human rights remain ineffective in most cases.
According to a survey conducted in August 2014 by the Pakistan Institute of Legislative Development and Transparency (PILDAT) to assess the performance of the PML-N government’s first year in office, the majority of people were dissatisfied with the workings of the various institutions in Pakistan. The obvious cause for this is the failure of the current democratic system to fulfill the pledges made during the election campaign. While the PPP government did a lot of paper work and passed resolutions in the parliament in the first three months of 2013, the PML-N government has been unable to give attention to a single private member bill tabled in the lower house. The performance of the provincial assemblies is no different. The 18th constitutional amendment was an attempt to craft a balanced federal structure in Pakistan. It gave more institutional power to the provinces. It also introduced local structures at the grassroots level. However, the provinces are still unable to shoulder the responsibilities given to them under the 18th amendment.

Despite recurrent bouts of military dictatorships in Pakistan, commitment to democratic institutions and norms remains the ideal of most people, associations, and civic organizations. Democracy holds the custodian of power accountable. However, during 2013-14, no effort was made by the representatives of the people to operationalize this concept into the politics of Pakistan. At both the federal and provincial levels, rulers personalized power and demanded an uncritical acceptance of all decisions made by them. They used the state apparatus and resources in a partisan manner without accountability. There are many reasons for the inability of democratic institutions in Pakistan to take root. Most of the political parties in Pakistan are based on personality cults safeguarding the interests of the elite. The military has a near hegemony in foreign policy decision-making vis-à-vis Afghanistan, India, and the war on terror. In addition, the PTI and PAT sit-ins in Islamabad showed little respect for democratic institutions when the former urged the “umpire” (the military) to directly intervene in the country’s politics. The Chief of Army Staff, General Raheel Sharif, has however played the role of arbiter between the government and the opposition. In addition, a lack of commitment to democratic institutions on the part of the prime minister can be seen in his absence from the National Assembly and the Senate. Ironically, however, the prime minister resorted to the parliament for political support vis-a-vis the PTI and PAT. Nevertheless, this may be regarded as an exception rather than as a norm.
5 | Political and Social Integration

Political parties and the party system in Pakistan are weak, internally undemocratic (with some exceptions, such as Jamaat-e-Islami and the PTI), and based on personality cults. The three major political parties with nationwide representation are the Pakistan Muslim League-Nawaz (PML-N), Pakistan Tehrik-e-Insaf (PTI), and the Pakistan Peoples Party (PPP). In addition, there are several regional parties based on ethnicity, such as the Awami National Party (ANP), Muttahida Qaumi Movement (MQM), and the Baluchistan Nationalist Party (BNP). The Islamic parties have followers mostly in urban areas and in the Khyber Pakhtunkhwa. The PML-N is the exclusive preserve of the Sharif family. The PPP has had a hereditary chairmanship since its inception - it is headed by the Bhutto family from Larkana. Elections are a peaceful means of regime change. However, most elections in Pakistan are manipulated in one way or another. This can be seen in political victimization, pressurizing the population, the intimidation of polling staff and the use of state assets and administration. However, electronic media, educated young voters, and a massive campaign by the PTI to highlight the issues of rigging and bad governance have brought an overall change to Pakistan’s politics.

There are many interest groups in Pakistan that work at different levels and in different capacities. However, independent, well-organized and effective associations such as the Citizen Police Liaison Committee, Lawyers for Civil Rights or the Women’s Action Forum, have arisen only in the last two decades. In addition, religious groups work to ensure that the curricula in schools include enough material on Islamic teachings. Civil society organizations are reaching both policy-making circles and poor people to transform the prevailing conditions. They are also involved in advocacy and awareness campaigns. During 2013-14, most interest groups and civil society organizations worked freely in Punjab and Sindh. However, in FATA, some parts of Baluchistan and the Khyber Pakhtunkhwa their activities were restricted with physical threats to their members. Indeed, polio workers belonging to different NGOs have been killed in the aforementioned regions. Electronic media and new means of wireless communication have made civil society organizations increasingly vocal, although formal political institutions barely take notice of their campaigns. It should also be noted that new public interest groups (for example, those involved in environmental, health or gender issues) have to compete with conservative interest groups like the clergy and the military establishment, which use new media for their own purposes. In general, interest groups address only a limited range of concerns, usually those affecting the urban population. The interests of the majority of the population are scarcely accounted for, except by clan-based political entrepreneurs or religiously motivated groupings with dubious democratic credentials.
According to a survey conducted by the Pakistan institute of Legislative Development and Transparency (PILDAT), in 2013-14, 67% of the population of Pakistan thought that democracy is the best form of government for Pakistan. However, according to the survey, 19% of people approved of military rule. 54% of people from Baluchistan and the Khyber Pakhtunkhwa believed that the democratic dispensation caters for people’s needs. However, in Sindh, people were pessimistic about democracy in Pakistan and opined that the system is not suitable under the current circumstances. However, in Punjab, a positive trend was observed where people overwhelmingly supported democratic institutions and values. The peaceful transition of government from the Pakistan Peoples Party to the PML-N was a landmark in Pakistan’s history. It provided an opportunity for the people to assess the democratic institutions and their performance in Pakistan. As the democratic system deepens, the Pakistani people are beginning to understand democratic norms and values. However, during the sit-ins, which lasted from August to December 2014, the confidence of the public in the present system started to deteriorate and they were pessimistic about the workings of the democratic system.

In Pakistan, social capital is provided by different organizations, associations, welfare foundations, family networks and caste structures (biradri). There are certain examples where social capital was readily available, such as the 2013 floods, where people rushed immediately to help flood victims. In addition, some NGOs also provide social capital and work for the collective benefit of the people. The Edhi Foundation is a case in point. However, there is still a dearth of cooperation among people on different issues.

II. Economic Transformation

Pakistan has important strategic endowments and potential for economic development. It has large and diverse resources, a young population, and untapped potential for trade. However, it faces significant economic, security and governance challenges in realizing socioeconomic development. The ongoing war on terror in North Waziristan and security issues throughout the country are a reality that impedes Pakistan’s socioeconomic development. The net enrollment rates in education are the lowest in South Asia. Gender disparities persist in the economic, health, and education sectors. The 2013 floods washed away standing crops on millions of acres and destroyed infrastructure.
According to the UN Human Development Index 2013, Pakistan is placed at 146th out of 187 countries, the same ranking it was given in the previous year. The floods in 2013 and the internal displacement of a large number of people from North Waziristan as result of the war on terror handicapped the government. In 2014, the number of IDPs from North Waziristan reached 800,000. Almost 60% of people (estimated 102 million) in Pakistan live on less than $2 per day. According to a report published by Pakistan’s Bureau of Statistics in 2013, the literacy rate in Pakistan increased by 2%; from 55% in 2012 to 57% in 2013. Punjab has the highest adult literacy rate of 59%, while Baluchistan has the lowest literacy rate of 39%. Inter-provincial disparities exist in Pakistan; Punjab is the most developed region in the country and Baluchistan and FATA the least developed. These disparities have given rise to fissiparous tendencies in Baluchistan. Security problems still prevent the government from taking any development initiatives in FATA and Baluchistan. Work on Gwadar Port has been stopped by the Baluch nationalists. Karachi is the hub of Pakistan’s trade, but it is has problems with law and order.

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Sources (as of October 2015): The World Bank, World Development Indicators 2015 | International Monetary Fund (IMF), World Economic Outlook, October 2015 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2015.

7 | Organization of the Market and Competition

Competition laws date back to the 1970s, when Pakistan promulgated the Monopolies and Restrictive Trade Practices (Control and Prevention) Ordinance.

In 2007, the government of Pakistan introduced new legislation, the Competition Ordinance 2007, to overhaul its competition regime. It was enacted in 2010. The Global Competitiveness Report 2014-15 ranks Pakistan 129th out of the 144 countries on the index. It was ranked 118th out of 142 in 2011-12, 124th out of 144 in 2012-13, and 133rd out of 148 in 2013-14. Competition is also distorted because of corruption and the special role of the military, which is the largest entrepreneur in many fields. Because of this special status, the military is, for instance, allowed to take land for reasons of national security.

Corruption has shaken the confidence of investors to do business in the country. Powerful businessmen and companies flout competition laws in Pakistan for their personal benefit. Weak institutional systems and lack of transparency support special interest groups at the expense of small and medium-sized enterprises. According to the report, Pakistan is ranked 3rd among the most dangerous countries for doing business, following Yemen and Libya. However, on a positive note, the GCI ranked Pakistan 72nd in the financial development pillar. It was ranked 81st on the business sophistication pillar. The 2014-15 report stipulated some problematic areas that are discouraging businessmen. These include corruption, inflation, an inefficient bureaucracy, crime and theft, government instability, lack of infrastructure, lack of an educated workforce and capacity to innovate.
The Competition Act, 2010 gives the Competition Commission of Pakistan legal and investigative powers and instruments to foster competition in all spheres of economic and commercial activity. It enhances economic efficiency and protects consumers from the monopolistic behavior of different firms. However, according to a report of the Competition Commission of Pakistan, major sectors of the economy are monopolized, which is a deterrent to healthy business competition. It also affects the interests of consumers. Sugar and cement manufacturers, banks, and fertilizer companies work in collusion to maximize profits. The monopolistic companies manipulate the prices of their products by controlling supply. The sugar and cement industries in Pakistan are earning abnormal profits. During 2013-14, the incumbent PMNL-N government failed to break up these monopolies, oligopolies, cartels, and rent-seeking activities. Such a step is essential for establishing a level playing field for businessmen. In 2014, Pakistan’s finance minister, Ishaq Dar, helped the sugar industry create a monopoly when he allowed it to sell sugar at PKR 54/kg for domestic consumers and at PKR 34/kg for international buyers. At the same time, he helped the industry to continue with the stipulated prices by imposing 25% duty on all sugar imports.

Pakistan’s trade liberalization policies are welcomed by the international business community and global financial institutions. Pakistan’s trade regime is more open than other countries in South Asia. Pakistan’s average tariff rates are the lowest in South Asia and stand at 25%. However in December 2014, the government approved a subsidy of PKR 10/kg on sugar exports. The Economic Coordination Committee of the Cabinet also approved 25% regulatory duty on sugar imports to discourage imports of sugar, as prices in international market are lower. In 2013, the EU also granted Pakistan the GSP+ status, which will increase Pakistani exports to the EU countries. Trade between India and Pakistan is highly restricted and the incumbent regime made no efforts to liberalize it during 2013-14. Pakistan has yet to grant the Most Favored Nation (MFN) status to India. Textile exports to the EU, which were expected to rise by 25% in 2014, inched up by only 4% from July to December 2014. However, Pakistan’s overall exports declined by 4% from July to December 2014. The volume of imports increased to $20.37 billion during the same period in 2014 compared with $18.11 billion during the same period in 2013. In 2013-14, Pakistan’s share of total global exports stood at 0.13%, while its share of imports was 0.24%. Trade barriers in Pakistan include institutional factors, market structure, government regulatory policies and non-transparent administrative procedures. In addition, a number of tariff and non-tariff barriers to trading exist between India and Pakistan, and between Pakistan and China, which hamper the free flow of goods and services.
The banking sector in Pakistan plays an important role in revenue generation. However, according to the Moody’s Investors Service report published in January 2015, the outlook for the banking system in Pakistan is not positive. The two issues being faced by the banks are the challenging conditions in which the banks have to operate and their greater exposure to Pakistani government securities. Owing to the sluggish growth of Pakistan’s economy in 2013-14, credit growth remained at 3%-5% in 2014. Banks in Pakistan are forced to finance the government’s fiscal deficits with their balance sheets. In 2013-14, the government’s fiscal deficit stood at 5.5% of GDP. The main source of credit risk is exposure to government securities, which links banks’ credit profiles to the credit risk of the sovereign. This will rise further. In September 2013, nonperforming loans stood at 14.3%. By the end of 2014, the nonperforming loans of banks increased to 16%. However, according to State Bank of Pakistan, Pakistani banks recorded impressive performance from July to September 2014. Their profits rose to PKR 176 billion. The return on assets jumped up to 1.4%, and return on equity rose to 15.9%. During the same period in 2013, these figures stood at 1.1% and 12.3% respectively.

In addition, the State Bank has also made some efforts towards an Islamic banking system. These efforts were started in 1977 under Zia-ul-Haq’s Islamization process. Numerous efforts were made in this regard during the 1990s but failed due the absence of a shari’ah compliance mechanism. In 2001, the Islamic banking system was re-launched. At present, there are some full-fledged Islamic banks working in Pakistan. These include Meezan Bank and Dubai Islamic Bank Pakistan Limited.

8 | Currency and Price Stability

During 2013-14, inflation increased sharply owing to a global downturn and the floods that hit Pakistan in 2013. In October 2013, the inflation rate rose to 9.08% from 7.39% in September 2013. As a result, prices also rose on monthly basis by 1.97%. From January to September 2014, the inflation rate remained, on average, at 8.07%. However, in the final quarter of 2014, it started decreasing. In the last three months of 2014, it decreased to 5.82%, 3.96%, and 4.3% respectively. In 2014, the Consumer Price Index decreased to 196.79 index points from 198.79 index points a month earlier. In 2014, the decrease in oil prices brought the inflation rate in Pakistan to an all-time low of 3.96% in November. Low demand and adequate supply have kept the prices of food items in check.

The Exchange Policy Department of the State Bank of Pakistan is responsible for stability of the foreign exchange market. It is also involved in policy formulation and its implementation. The independence of the central bank is a prerequisite for an effective monetary policy. The State Bank of Pakistan enjoys considerable independence.
The 2013 fiscal year ended with some positive trajectories for Pakistan’s economy. During first quarter of 2014 fiscal year, GDP grew by 5.0%. In the same period in 2013, it stood at 2.9%. Pakistan’s economy revived during the third quarter of the 2014 fiscal year. Some important breakthroughs that helped revive business confidence include; a friendly grant of $1.5 billion from Saudi Arabia, mobilization of $2 billion through Eurobond issues, the auction of 3G/4G licenses for $1.1 billion, and receiving $725 million from February to May 2014 from the Coalition Support Fund (CSF). Pakistan’s foreign exchange reserves improved from $8,521.4 million in December 2013 to $13,922.4 million in December 2014. In December 2014, foreign direct investment in Pakistan was estimated at $24.33 billion compared with $22.73 billion in December 2012. Pakistan received remittances totaling $7.79 billion in the first half (July-December) of the 2014 fiscal year, an increase of 9.6% from the previous year, where it received $13.9 billion. However, the tax-to-GDP ratio has declined further, despite an increase in tax rates. It has remained at less than 11%, which is the lowest in the world. Pakistan has to increase the tax-to-GDP ratio in order to achieve its growth target. Pakistan’s debt-to-GDP ratio has increased in the 2014/15 fiscal year. It is projected to rise to 65.9% by the end of the 2014 fiscal year, up from 63.1% of GDP in the 2013 fiscal year.

9 | Private Property

The constitution of Pakistan protects property rights. Article 24 of the 1973 constitution states that “No person shall be compulsorily deprived of his property save in accordance with law.” The Islamic law also protects property rights. However, land distribution in Pakistan is highly skewed and 64% of land is owned by 5% of landlords. 15% of land is owned by 65% of small landholders. Corruption is rife in the lower courts and the district administration, where property cases linger on for years. The military occupies valuable properties in prime locations in different cities. Foreigners, particularly from the Middle East, own large swaths of land in South Punjab and Baluchistan. In 2014, Pakistan ranked 86th out of 97 countries in the International Property Rights Index.

The role of private enterprise is not fully realized in Pakistan’s economy. During the first quarter of 2013, the incumbent Pakistan Peoples Party government did not try to privatize the state-led enterprises. However, the PML-N led government has vowed to privatize many public sector entities. The government views private enterprises as engines of growth that can play a significant role in the economic development of Pakistan. In October 2013, the government decided to privatize 31 state entities and offer shares to private businessmen. The decision was taken by the cabinet committee on privatization. The companies include Oil and Gas Development Company Limited, PIA, Pakistan Steel Mills, Islamabad Electric Supply Company, the National Bank of Pakistan and State Life Insurance Company. These enterprises have become
a burden on the state because of the mismanagement and corruption of government officials. In 2014, the government also allocated PKR 1 billion to implement the initiatives suggested by the Small and Medium Enterprises Development Authority (SMEDA). The prime minister’s “Youth Business Loan” is another initiative to support young entrepreneurs. In 2014, the Securities and Exchange Commission of Pakistan approved regulations for the Islamabad Chambers of Commerce and Industry to enlist SMEs. It is a positive move as it enables the SMEs to raise money from the capital market to fulfill financial requirements related to supporting ongoing projects and establishing new business.

10 | Welfare Regime

A number of social safety programs exist in Pakistan but the majority of the population is at risk of poverty. Social safety programs include the Benazir Income Support Program (BISP), Bait-ul Mal, and the Pakistan Poverty Alleviation Fund (PPAF). During 2013-14, the government gave priority to 17 pro-poor sectors in the Poverty Reduction Strategy Paper (PRSP). From July 2013 to December 2014, the government allocated PKR 588.105 billion to these sectors. The BISP provides PKR 1200/month to eligible families. The government allocated PKR 75 billion to the BISP in 2013-14. In 2014-15, the allocation to the National Income Support Program (NISP), which includes the BISP and prime minister’s 8 schemes, increased to PKR 118 billion. Monthly grants to women also increased by 25% in 2014. A number of programs were launched in 2013-14 under the BISP, including Waseela-e-Rozgar (vocational and technical training), Waseela-e-Haq (microfinance), Waseela-e-Sehat (life and health insurance), and Waseela-e-Taleem. The Pakistan Poverty Alleviation Fund (PPAF) is also active in providing microcredit to the needy. It also participates in education, health, and drought mitigation activities. From July 2013 to December 2014, it disbursed PKR 8.42 billion through its different projects. However, in the 2014-15 budget, the government reduced funding to PPAF to PKR 7.6 billion, down from the PKR 14.5 billion provided in 2013-14. In addition, the government made no allocations to a number of schemes that were funded in the 2013-14 budget. These schemes include crop insurance, the Small and Medium-sized Enterprise (SME) business support fund, and the Citizen Damage Compensation Program. Pakistan Bait-ul Mal has very limited funds to help orphans and widows. Foreign donors such as the World Bank, the ADB, the DFID and individual countries donate large sums of money to social safety nets in Pakistan.
Articles 27 and 34 of the 1973 Constitution of Pakistan stipulate equal opportunity of employment to everyone and bar discrimination on the basis of gender, ethnicity or religion. In addition, the ILO instrument, to which Pakistan is a signatory, also prohibits discrimination with respect to employment opportunities. However, these edicts are not observed in Pakistan. Pakistan is a patriarchal society and, by all accounts, is one of the least upwardly mobile countries, given its high growth rates in the past. Lack of mobility applies to class, caste, religion, and of course gender. As can be gauged from anthropological studies, the military is one of the few institutions/organizations in the country where promotion on merit is practiced. Discrimination against women starts at their birth and continues till death. They are subjected to all sorts of exploitation. The Islamic law of inheritance, which gives property rights to women, is not fully observed. In most parts of the country, women are deprived of education and job opportunities. Minorities in Pakistan live with a siege mentality. Their rights are not respected by the majority and the state has failed to protect their rights. In addition, the economic conditions of Christians and Hindus are below the national average. Vertical mobility in Pakistan is highly restricted due to class, caste, religion and gender. Lack of economic opportunities is a structural constraint to upward social mobility in society. Article 20 of the 1973 Constitution of Pakistan stated that “every citizen shall have the right to profess, practice and propagate his religion.” However, in actual practice, Christians, Hindus and Ahmadis cannot profess and propagate their religion. The education system in Pakistan is an obstacle to realizing the objective of equal opportunity in job sectors as it is imparts education in either the English or Urdu medium. The Urdu medium graduates find it difficult to compete with the English medium graduates in almost all walks of life. The present government has made no effort to establish a uniform medium of instruction or curricula in educational institutions.

11 | Economic Performance

In the 2013-14 fiscal year, Pakistan’s economy was back on track, having had great success since 2008-09. According to the Economic Survey of Pakistan 2013-14, GDP grew at 4.14%. In 2012-13, growth was recorded at 3.70%. Growth in the manufacturing sector was recorded at 5.55%, compared with 4.53% during the same period in 2012-13. Electricity generation recorded growth of 3.72%, compared with -16.33% in the 2012-13 fiscal year. Per capita income also increased and recorded growth of 3.5% in 2013-14, compared with 1.44% in 2012-13. In dollar terms, per capita income reached $1,386. Investment recorded growth of 8.5% in the 2013-14 fiscal year, compared with 8.4% in the same period of the 2012-13 fiscal year. Public investment recorded growth of 17.12%, compared with -0.35% in the previous year. Total investment reached PKR 3,554 billion in the 2013-14 fiscal year, compared with PKR 3,276 billion in the 2012-13 fiscal year. Total foreign investment also increased, reaching $2,979 million from July 2013 to April 2014 as compared to
$1,277 million during the same period in 2012-13. Remittances also increased to $1,289.46 million in the 2013-14 fiscal year compared with $1,156.98 million in the same period during the previous year. However, agriculture growth declined to 2.1% in the 2013-14 fiscal year compared with 2.9% in the 2012-13 fiscal year. GDP increased to 4.2% during 2014, up from 3.6% in 2013. In 2014, inflation stood at 8.7%, up from 7.7% in 2013, but decreased from its level of 9.7% in 2012. In 2014, GDP increased to 4.2% from 3.6% in 2013.

According to the Economic Survey of Pakistan 2013-14, Pakistan’s economic performance is improving qualitatively and quantitatively. The growth is broad based, touching all sectors of the economy.

12 | Sustainability

Pakistan faces major environmental challenges, including climate change, pollution, depletion of water resources, waterlogging, salinity, disposal of waste management, and biodiversity. Pakistan is highly vulnerable to climate change impacts, as demonstrated by the recent floods. Global warming is causing glaciers to melt, which may cause floods in the near future and drought in the long run. The 18th constitutional amendment devolved the environmental ministry to the provinces. However, due to a shortage of funds, the ministries at the provincial level are unable to make any dent in the environmental policy at the practical level. In the Public Sector Development Program 2013-14, the government allocated the meager sum of PKR 58.8 million ($0.58 million) to combat environment-related issues. In 2012-13, the funds allocated to this program were PKR 168.1 million ($1.68 million). The reduction in funds severely restricted Pakistan’s representation in international forums. However, in the 2014-15 budget, the government increased environmental funding to PKR 190 million ($1.9 million). Different projects started by the Ministry of Climate Change include the Clean Development Mechanism (CDM), and the Pakistan Wetlands Program. Pakistan is too financially disadvantaged to deal with environmental issues by itself. The government should revive its policy on climate to receive funds from international donors.

Pakistan’s education system is highly fragmented. It is divided into English and Urdu mediums. There is also a flourishing of Madrasa education system. Most children from the middle and lower-middle class opt for Urdu medium schools, which are run by the government. The elite send their children to English medium schools, which are costly and out of reach for the majority of the population. In 2014, Pakistan’s literacy rate was 55%, with a literacy rate of 68% for men and 40% for women. In the 2014-15 budget, the government claimed that it had increased the education budget. However, in real terms, it decreased by 11% once the 8.7% inflation rate is taken into consideration. The promise to allocate 4% of GDP to education will remain a distant dream due to ineffective government policies. In the 2013-14 fiscal year, the
federal government allocated PKR 68 billion to education. However, 73% of the total budget went to the Higher Education Commission (HEC). In addition, Pakistan spends a meager sum on research and development in the education sector; the lowest amount in South Asia. According to a UNESCO report published in February 2014, Pakistan has 5.5 million children that are out of schools; the second highest number in the world only after Nigeria. Moreover, according to the latest study conducted by Alif Ailaan, an advocacy organization, 25 million children of school age are out of school in the entire country. Inter-provincial disparities in education exist in Pakistan and are exacerbated by poverty and gender. In its report, UNESCO declared Pakistan the only non-African country on the list with a shortage of teachers.
Transformation Management

I. Level of Difficulty

A number of socioeconomic constraints impede Pakistan’s political and economic development and transformation. These include economic, social, cultural, political and administrative obstacles. Economic obstacles include foreign debt, fiscal deficit, the persistent deficit in the balance of payments, scarcity of foreign exchange reserves, the rapidly growing population, and low level of technology. The sociocultural obstacles that hinder transformation include illiteracy, conservatism and the caste system. People spend too much on marriages, deaths, litigations, etc. Women are not allowed to work freely. Weak political administrative institutions hamper economic development and transformation. Political stability results in economic transformation. However, as a result of the PAT and PTI sit-ins in 2014, all economic and political activities stopped across the country and the government focused only on this issue. Other issues adding to political instability in Pakistan and hindering economic progress include the war on terror, the Baluchistan issue, targeted killings in Karachi and sectarianism. The floods in 2013 played havoc with the economy at a time when it was still coping with the effects of 2010 floods. Corruption and a low tax base hinder economic progress and institutional development. Civil society organizations and NGOs are, however, active in all parts of the country, generating public debate on all major issues being faced by the country. They are supported by an active and vigilant media.

Pakistan is home to a vast array of national and international NGOs that play their part in education, health care, policy advocacy and other sectors. The fortunes of these organizations are dependent on the political condition of the country. These organizations influence pro-poor policies and affect social change. Civil society organizations in Pakistan are active in culture and recreation, education and research, health, social services, environment, housing and civil rights advocacy. Many charity and philanthropic organizations also exist in Pakistan. They run schools and hospitals, thus filling the vacuum created by the state because of its limited capacity. However, NGOs have faced new constraints following the Osama bin Laden episode in which Save the Children was allegedly implicated for spying. In the last quarter of 2013, the PML-N government drafted a bill to regulate the funds of national and international NGOs. Civil Society activists have reservations about the motives
behind this regulation as it will hamper their activities. The history of the PML-N government indicates that, whenever it comes to power, it tries to control the activities of NGOs by adopting coercive measures.

Pakistan faces multiple conflicts, including sectarian warfare, ethnic issues, the war on terror, and inter-provincial disharmony. Sectarian warfare has claimed the lives of thousands of people in Pakistan and its intensity has increased in recent years. Most of the victims include religious minorities such as Shi’ites, Christians and Ahmadis. In 2013, a total of 658 people were killed and 1,195 injured in sectarian violence. In 2014, 210 people were killed and 312 injured in sectarian incidents. In Baluchistan, the nationalists are struggling for independence and are up in arms against the federal government. They have attacked gas pipelines, railway tracks, and power transmission lines. The government has deployed the army and Frontier Constabulary (FC) to control separatist elements. However, according to reports by Amnesty international and some other human rights-based organizations, the aforesaid forces are involved in a “kill and dump” policy. In addition, the Baluch nationalists target Punjabis, who are forced to leave the province. In 2013-14, Tehrik-e-Taliban Pakistan (TTP) continued its war on the Pakistani state. Many people across Pakistan have been killed in suicide attacks carried out by the TTP. In 2014, the military launched operation Zarb-e-Azb against the TTP in North Waziristan. In December 2014, the TTP carried out the barbaric act of attacking an army-run school in Peshawar and killing more than 150 students and employees. Targeted killing in Karachi continued with greater intensity during 2013-14, with 5,909 people killed in this period.

II. Management Performance

14 | Steering Capability

When Nawaz Sharif assumed power in May 2013, he chalked out three priority areas of his government; the economy, domestic order, and foreign relations. However, after one-and-a-half years in office, his government has failed to deliver on any of them. The economy shows no signs of revival, domestic law and order is in shambles, and relations with neighboring states, particularly India, have derailed. The government has allocated meager funds to education and health care schemes. The government’s inefficiency was evident in the 2014 floods. It failed to secure funds from international donors and multilateral agencies for the rehabilitation of flood victims. The government has failed to expand the tax base and bring more people into the tax net. However, compared with the PPP government, which completed its
term in March 2013, the PML-N government’s performance is better on many development indicators, such as inflation, unemployment, and GDP growth.

Policy implementation in Pakistan faces obstacles due to unclear or ambitious policy goals, a lack of political commitment, bureaucratic hurdles and the governance structure. The proper implementation of any policy requires financial, technical and human resources. Administrative inefficiency is also responsible for the government’s failure to implement its policies. According to a report published by the Policy Research Institute of Market Economy in January 2015, the present government has shown a lackluster attitude in implementing its economic agenda. According to the report, the government was slow in implementing its energy security policy and economic reforms. However, in some areas, such as Pakistan Railways and policies regarding privatization, the government has shown its strength in implementing policies. In the energy sector, the government has failed to fulfill its promise of permanently eliminating circular debt. In its election manifesto, the PML-N had promised to bring the informal economy into the tax net. However, it has failed to implement its policy in this regard. The government has also failed to implement its stipulated SME policy. In its election manifesto, the government had promised to promote SME institutions but the program was shelved when the PML-N assumed power in June 2013.

The culture of corruption, nepotism and cronyism is rife in Pakistan and the PML-N government has been unable to take any action against it since assuming office. The only policy which it has learned is the survival of the regime. Against the militants, the same old policy is carried out with a demarcation between “good” and “bad” Taliban. No action has been taken against the Quetta Shura. In addition, Lashkar-e-Taiba (LeT) and Lashkar-e-Jhangvi (LeJ) have the active support of the government. The federal government has also used the same old tactics in Baluchistan. It still uses force to tame the nationalist movement in Baluchistan, despite it being clear that this policy has not paid dividends in the past and is destined to fail again. However, with respect to Afghanistan, the military has changed its traditional policy of strategic depth to some extent. It is trying to reduce the trust deficit with the Afghan leadership. In the economic sphere, the government is doing a lot of paper work, but nothing concrete seems to be on the table. Governments in Punjab, Sindh and the Khyber Pakhtunkhwa have failed to conduct local government elections.
15 | Resource Efficiency

A high level of corruption and mismanagement is a clear indication that resources are being wasted in Pakistan. Inefficient use of resources has been a perennial problem in the history of Pakistan. Incumbent governments are always reluctant to continue a policy started by their predecessors. There are many examples where the construction of hospitals, bridges and schools has been stopped by the present PML-N government. Instead of working with the previous institutions, the government tries to create new institutions to get credit for them. One example is the establishment of the Research and Reference Cell in the Press Information Department by the previous PPP government. It was closed by the PML-N government in 2014. However, its employees went to the Islamabad High Court and obtained a stay order against the government decision. The government is unable to use human resources in public administration properly. Political power and relations in higher bureaucracy play an important part in transfers and postings. At the federal level, the civil services exam is conducted annually and is highly competitive. However, there are several departments at the federal and provincial level where recruitment is based on the preferences of the government in power. In the energy sector, the government constructed the Nandi Power plant, which, despite costing billions of rupees, did not work properly.

A lack of policy coordination among different interest groups is a hallmark of Pakistani politics and a major cause of policy failure. Lack of coordination is visible in almost all spheres, be they economic, politics or foreign relations. The Ministry of Inter-Provincial Coordination (IPC) and the Council of Common Interests (CCI) are the major coordinating bodies between the center and the provinces. Efforts in Pakistan to fight the insurgents who pose a challenge to the very fabric of state and society are always undermined by lack of coordination and consensus between political leadership and the military. A recent example is the passage of the 21st amendment in the Constitution of Pakistan to establish military courts to try terrorists, which was opposed by the religious parties. In addition, the civil-military disconnect always hinders a well-coordinated policy against the terrorists. Coalition politics is also responsible for the lack of a coordinated approach towards different issues. In addition, Sindh and the Khyber Pakhtunkhwa are represented by the Pakistan Peoples Party and Pakistan Tehrik-e-Insaf (PTI) respectively. The PTI government in the Khyber Pakhtunkhwa is at odds with the PML-N-led central government.
Ahead of general elections in 2013, all major political parties considered corruption a menace in their manifestoes and vowed to eradicate it if voted to power through effective legislation and independent accountability mechanisms. Almost two years after the elections, there has been no visible change in this respect. The federal and provincial governments have somehow ignored the issue, probably because of the more urgent problem of terrorism. However, there have been some developments with regards to legislation against corruption. All four provinces, in line with the devolution of subjects to provinces under the 18th Amendment of the constitution, have enacted laws on the right to information. The effective use of the law to expose and curb malpractice in the public sector is yet to be ascertained. In spite of the passage of the Right to Information Act, ordinary citizens and media personnel have no access to information on government spending, public procurement and party finances. The Khyber Pakhtunkhwa government has taken the lead over other provincial governments by enacting more than one law on this issue, including the KP Ehtesab Commission Act, 2013 and the Right to Public Service Act, 2014. Moreover, a bill on conflict of interests in public offices is also sitting in the KP Assembly waiting to be passed. However, such legislation seems to have little impact on improving the situation on the ground.

16 | Consensus-Building

Most political parties in Pakistan have a consensus on the merits of democracy in Pakistan. It was exemplified in August 2014 during the PTI and PAT street protests against the Nawaz Sharif government. All the parties in the National Assembly united behind the government and resisted the demands of the protesters, who demanded the resignation of the prime minister. However, this consensus is still fragile, as most parties aim to pursue their personal interests by aligning themselves with the government. However, one positive aspect is that, throughout the PTI and PAT sit-ins, the military reiterated time and again that they would not to intervene in politics overtly. During these sit-ins, there were widespread debates in political circles that the army wanted to control the government. During 2013-14, the military and the civilian government did not chart out a coordinated policy with respect to the Taliban, India and Afghanistan. The government lacks consensus on the banning of the activities of Lashkar-e-Jhangvi (LeT) and Jamat-ud-Dawa (JuD).

The government is unable to develop consensus on the structural reforms that are necessary to uplift the economy. In addition, political parties are unable to coordinate on widening the tax net to generate more revenue. In addition, though there is a general consensus in Pakistan that corruption and mismanagement are the major reasons for the economic malaise in Pakistan, the previous and the present governments have failed to build consensus with respect to developing legislation on such issues.
Anti-democratic forces in Pakistan have been active since the birth of the country and have succeeded many times in derailing the democratic system. These forces include the civil-military oligarchy, intelligence agencies and the landed elite. During the 1990s, the ISI and other hierarchical and non-democratic institutions and organizations colluded and influenced Pakistan’s democratic transition. Political actors, democratic processes, and election results were manipulated by these agencies and institutions. The so-called democratic decade of the 1990s was not a reflection of the will of the people. Space for new groups and institutions in the democratic arena is not readily available and depends on the will of the more powerful institutions in the country. The economically well-off depend on the military for political power. The power to decide the fate of government offices throughout the 1990s rested with institutions, organizations and groups who had no interest in democracy. The political system was derailed by General Musharraf on October 12, 1999. The same groups were once again active and played an important part in anti-government protests during 2014, where the government was on the verge of collapse. Most political parties are hereditary and it is very difficult for them to resist such moves by anti-democratic forces. Instead, they have always relied on their goodwill. In addition, the TTP has always challenged the writ of the government. When the PTI and PAT protesters demanded the resignation of the prime minister, most political parties resisted their demand and stood with the PML-N government to strengthen the democratic system. The military has traditionally acted as a veto power and remains such in certain policy areas as at the end of the review period.

Pakistan lacks an effective mechanism to cope with a plethora of intra-state conflicts and rivalries. The Ministry of Inter-Provincial Coordination and the Council of Common Interests are the institutions at the federal level that try to resolve issues between the center and provinces. The issues of water distribution among the provinces, Kalabagh Dam and the distribution of financial assets between the center and the provinces need to be resolved. However, the government has failed to develop a consensus on these issues. So far, the judiciary has failed to play a meaningful role in the resolution of these disputes. The Council of Common Interests met four times during 2013-14. The central government’s relations with the Baluchistan government over the control of natural resources are not harmonious. Baluch nationalists have accused the federal government of exploiting the people of the province by awarding the Reko Diq mining rights to the Chinese government. From the total proceeds generated by the mine, 50% will go the Chinese government, 48% to the central government and the remaining 2% will go the government of Baluchistan. The federal government has so far failed to develop consensus on Reko Diq. The government has also failed to convince the people of Baluchistan with respect to Gwadar. In addition, in 2013-14, the government failed to convince different terrorist outfits to lay down their arms and come into the mainstream. The protests of 2014 amply describe government failure to solve political issues amicably. The PTI demanded a recount in four constituencies. The stubbornness of the PML-N...
government in refusing to accept the PTI’s demand or to provide an alternative solution resulted in these protests.

Civil society has historically played an important role in bringing public issues to fore, especially with respect to fundamental rights and gender equality. Civil society lobbying succeeded in pushing through landmark legislation on women’s empowerment during the term of 13th National Assembly. Although challenges remain, civil society has gained strength over past few years. The issues taken up by CSOs have often made headlines in the mass media and sometimes prompt reactions by government functionaries. The public flogging of a woman in Swat and many honor killing cases represent a few notable cases in this regard. Still, owing to the poor state of law and order in the country, the threats to CSOs have also grown with their strength. Activists have been assaulted and even killed, including dozens of polio workers in many parts of the country with war-ridden tribal areas. The Khyber Pakhtunkhwa is becoming most dangerous zone for CSOs. Several foreign aid workers have had to flee the country after intimidation by militants. The state apparatus has also been accused of harassing civil society activists; in most instances security forces were accused of threatening their critics. There are structural constraints in the system that bar government officials from consulting civil society members or organizations on important policy matters.

A policy of reconciliation does not seem to exist in Pakistan. Such a policy is necessary with respect to ethnic and religious minorities, so they can be brought back into the mainstream. However, the political parties have failed to devise such a mechanism. Different political parties have always cooperated when there is a threat to their interests, reconciling their efforts to maximize benefits. However, on matters of national importance, a reconciliatory approach barely exists. The present government’s nineteen months in office have provided little evidence of a policy of reconciliation towards other political parties or institutions of the state. The Supreme Court of Pakistan, with the active support of the PML-N, started victimizing former president Pervez Musharraf after coming to power. The PML-N government has failed to reconcile the Baluch nationalists and bring them back into the mainstream.

17 | International Cooperation

Pakistan is dependent on international community for financial support. Every year, it receives major sums of money from donors such as the IMF, the World Bank, the European Union, the United States, Saudi Arabia and other countries. Pakistan has proved to be a graveyard for foreign aid due to a lack of physical infrastructure, technological backwardness, and lack of political commitment. Pakistan has received millions of dollars to upgrade its education and health sectors, but the government has been unable to design the basic structure of the education and health systems. Foreign donors always attach some conditions to aid flow. In Pakistan’s case, these
include structural reforms, decentralization, opening up markets and widening the tax net. However, Pakistan has failed to initiate these reforms over the last two years. An unstable macroeconomic environment and institutional decline have contributed to a less than optimal use of foreign aid and support. As a result, the huge inflow of foreign funds and support has failed to make any difference to the lives of ordinary Pakistanis. Widespread corruption among government officials leaves little incentive for the government to properly allocate aid resources in the country.

Pakistan has contributed to United Nations’ peacekeeping missions across the world and has earned some credibility. However, on issues relating to the war on terror, a certain degree of mistrust still exists between Pakistan and the international community. The international community has accused Pakistan of providing safe havens to al-Qaeda and the Taliban. Osama bin Laden even hid in Pakistan, and, according to some analysts, did it in connivance with Pakistan’s intelligence agencies. Since 9/11, many al-Qaeda leaders have been caught in Pakistan’s cities and tribal belt. Pakistan has not taken any action against the Quetta Shura. It has supported the Haqqani network and Lashkar-e-Taiba, which is believed to be responsible for the Mumbai attacks, has not been brought to book by Pakistan state. However, the recent rapprochement between Pakistan and Afghanistan and operation Zarb-e-Azb are welcome moves. Pakistan has earned some credibility in the eyes of the international community.

Pakistan shares a long border with India on its eastern side. Both the countries are members of South Asian Association for Regional Cooperation (SAARC). However, the hostility between the two countries has rendered SAARC meaningless and presents a stumbling block in regional cooperation. During the 18th SAARC summit in Kathmandu, Pakistan’s prime minister stressed the need to transform SAARC into an effective organization. Pakistan is also a member of the Economic Cooperation Organization (ECO). The organization has all the preconditions for regional cooperation leading to regional integration. Pakistan also received observer status in the Shanghai Cooperation Organization (SCO). In addition, Pakistan has stressed the need to link Central Asia with South Asia through rail and road networks. These will enhance trade links between South and Central Asia and have the potential to promote regional cooperation. Nevertheless, the aforementioned is contingent on Pakistan’s internal situation.
Strategic Outlook

In view of the sociopolitical development and economic indicators during 2013-14, the future outlook for Pakistan gives little reason for optimism. Economic indicators are not satisfactory. The security situation worsened during the review period. Structural reforms are long overdue in the education, health and energy sectors. However, none of these seem to be a priority of the incumbent government, as has been made crystal clear from its record during its nineteen months in office. As the state of security has worsened, foreign direct investment has declined in Pakistan. The government has taken additional loans from the IMF and the World Bank, meaning that a major portion of the annual budget will be spent on debt servicing.

In addition, the country has grown increasingly radicalized. Sectarian issues continue to rise and minorities live in constant stress and fear. Promises made under the 18th Amendment seem unlikely to materialize in the foreseeable future as the provincial governments have, so far, proved unable to shoulder responsibilities. As a result, the government has made moves towards centralization. Despite promises to the IMF, the World Bank, and other donor agencies, the tax base has not widened.

A lack of will power on the part of the ruling elite to initiate structural reforms is the major obstacle to driving Pakistan towards effective political and socioeconomic transformation. The ruling elite are not committed to widening the tax net because it will immediately affect their fortunes. The powerful elite use political offices to protect and enhance their personal and family wealth. They have defied foreign pressure to initiate reforms on one pretext or the other, taking advantage of a world immersed in fighting the war on terror in which Pakistan is a front-line state.

During the review period, the energy crisis worsened in Pakistan and load shedding has become a norm. This has adverse effects on industries and agriculture. The 2013 floods washed away standing crops on millions of acres, which may result in food shortages. Inter-provincial disharmony continues to sow the seeds of distrust among the federating units. The Baluch nationalists have continued their struggle against the federal government for more autonomy and/or outright independence. The government has been unable to resolve this issue. However, there have been some positive developments, including the fight against militancy. The military has launched operation Zarb-e-Azb against the TTP and al-Qaeda networks in North Waziristan. However, long-term security depends on the military’s strategic policy, which has been historically pro-jihadi and anti-India.

Despite these discouraging developments, there were some noteworthy positives during the review period. The May 2013 elections were a landmark, transferring power from one civilian government to another. Pakistan’s relations with neighboring Afghanistan have improved to some extent. In addition, Gwadar Port, if completed, will provide a link to China. The port will have positive impacts for the economy of Baluchistan in particular and for Pakistan in general. In addition, Pakistan can also tap its human resources by providing skilled labor to Middle Eastern countries and the West.