

(Unedited and unrefereed. Do not circulate or cite without  
authorisation from the author)

## **PAKISTAN: THE ONGOING CONTRADICTIONS OF DEVELOPMENT AND MILITARY RULE**

**Marika Vicziany**  
**Monash University**

### **Abstract**

This paper discusses the current situation of the Pakistan economy which appears to be doing well in terms of macro-economic indicators but has serious vulnerabilities of an economic, political and cultural nature. Since General Musharraf came to power, I have monitored the evolution of Pakistan's economic trajectory and find that my analysis has shifted from optimism to growing pessimism. Despite an impressive realignment of Pakistan with the global economy, over time the structural problems which have hindered Pakistan's evolution have not dissipated. Economic development continues to suffer from constraints imposed by regional inequalities, ethnic-religious violence, the limited growth of a new middle class and the failure to address the urgent needs of agrarian sector where poverty persists. The failures of government and the middle class, have pushed many of the country's poor to depend on charities such as Jamaat-ud-Dawa, the parent of the country's best known terrorist organization, Lashkar-e-Toiba. On top of these familiar difficulties, Pakistan has become increasingly defined by an interlocking relationship between the military and civilian sector, a relationship driven by the power ambitions of a military that has not hesitated to recruit Islamic fundamentalism whenever this was perceived to be useful.

### **About The Author**

Dr Marika Vicziany is Professor of Asian Political Economy and the Director of the Monash Asia Institute at Monash University in Melbourne, Australia. She has written/edited some 15 books and about 100 journal articles or book chapters with various international publishers. Prof Vicziany has undertaken a range of research consultancies for Australian governments, companies and universities and has spent

about six years working in South Asia during the last 33 years. Her speciality is India, Pakistan and western China where she works on poverty, minorities-religion, long term development and the interface between these and regional security. In 2007 she completed a study for Ausaid on the Religious Schools of Pakistan, Bangladesh and India. Dr Aneela Babar, the research assistant for the Pakistan component will be presenting Prof Vicziany paper's inabstentia.

## **1 Impressive Macro-Economic Growth**

Despite persistent disturbances caused by natural disasters (eg October 2005 earthquake), escalating oil prices (over US\$70 per barrel), and rising social discord, Pakistan has emerged during the last five years as one of Asia's fastest growing economies. In 2006-2007, economic growth measured 7% and per capita GDP growth 5.2% (AESS 2006-2007, Overview p. 1). During the last fiscal year, Pakistan also had the best year record in its history when measured by wheat output (23.52 million tons), foreign remittances (\$5.5 billion) and foreign investment (\$6.5 billion). Although 60% of Pakistan's growth has been in the services sector, agriculture has also been performing well and contributed 15% of total growth (AESS 2006-2007, Overview pp.1-2). In other words, the 'weak underbelly' of Pakistan's agrarian economy (Vicziany 2006) is much more resilient than previously thought and domestic and international confidence in the country has continued to grow in strength. Even the dramas of recent months in Pakistan (Lal Masjid, rising fundamentalism, and street demonstrations by lawyers) have not dented growth trends or the optimism of local and foreign firms- economists like Akbar Zaidi and the head of the Pakistan-German Business Council agree on this (Ghausi 2007). The Karachi Stock Exchange mirrors this optimism – in late August 2007 the KSE rose to an unprecedented high of 12,35.94 points (Omar 2007).

How are Pakistan's entrepreneurs faring? Government reports insist that the private sector has experienced a healthy recovery since 9/11: private sector borrowing in the three years before 2005 reached about Rs.1,100 billion which exceeded the Rs.921 billion borrowed by private groups in the 18 years before 2003 (AESS 2005-2006, Preface, p. 1). Yet a slowing down in private sector growth has been evident in 2006-2007 to 12.2%. Private sector investment is also falling (down from 37.5% in 2005-2006) and in the 2006-2007 was greatly outstripped by public sector investment (19.6% and 31.7%

respectively) (AESS 2006-2007, Overview, pp.6, 24). Lending to the private sector has also contracted from 19.9% in 2005-2006 to 12.5% in the current year (AESS 2006-2007, Overview, p. 7). Despite this, the Ministry of Finance insists that Pakistan is now embarking on its 'second generation of economic reforms' that focus largely on private sector growth in industrial enclaves or Special Economic Zones. Foreign interest in Pakistan has also continued to expand, but it has to be admitted that the chief interest has come from financial firms such as J P Morgan which has greatly expanded its operations (Business Recorder, 2007). To a considerable extent, foreign confidence in Pakistan is based on the government's ongoing commitment to the privatization of public sector assets - this is an important factor driving growth but it is not one that automatically ensures sustainable development especially not when the assets are sold to military interests (see part 3 below). A special kind of foreign interest in Pakistan is that of China which is investing in the development of SEZs (Special Economic Zones) in Lahore (Haier-Ruba) and at the port of Gwadar. However, Pakistan lacks an integrated SEZ policy and has a poor track record in developing industrial estates (CSF 2007) so it remains an open question whether Chinese involvement can make a difference. Moreover, Chinese investment normally brings its own Chinese labour and management teams so that the spin-off effects for Pakistan might be seriously constrained. Uncertainty has also been created by insurgents murdering and kidnapping Chinese staff and visitors as a way of proving to Musharraf's government that it does not have complete control over the economy.

Despite all the qualifications noted above, the Pakistani economy has been both resilient and buoyant. Yet this has not generated widespread optimism inside Pakistan for two reasons – the persistence of mass poverty and the social and economic entrenchment of the military.

## **2 Deeply Worrying Poverty Levels**

In 2006 the results of the much awaited district-level Social and Living Standards Measurement Survey (PSLM) were released, and immediately contested by key policy think tanks such as the Social Policy and Development Centre (SPDC) in Islamabad. The government claimed that the survey showed a massive decrease in poverty levels by 31% in a mere four years, a period coinciding with impressive GDP growth rates: in 2001

poverty was estimated to affect some 34.5% of the population and by 2005 it had fallen to 24%. Such a drop would be unprecedented in the history of South Asia. But the results are not being taken seriously because the government was reluctant to release the data behind the acclaimed survey. Without public scrutiny of the data the official interpretation was not believable. This not only undermined public confidence in the alleged successes of Musharraf's regime, but it further strengthened the argument that the centralization of power in Pakistan has now intruded on the state's statistical information gathering apparatus. The SPDC insisted that while some modest decrease in poverty may well have occurred, the negative factors that persist in the Pakistani economy would have prevented the achievement of the glowing results claimed by official sources (SPDC 2006). SPDC has also contested the interpretation of the results: yes, economic growth is a reality but compared with previous years the trend appears to be on the downward incline: in FY 2005-2006 growth fell from the previous year's level of 8.6% to 6.6% and even in the much praised industrial sector growth declined by 4% to 8.6%. The decline in agriculture is uncontested by both official and unofficial sources and reveals the economy's vulnerability because whether the macro-economic figures are up or down depends on the success of Pakistan's cotton crop. Cotton, however, is not edible, and so whatever the trajectory of cotton production it cannot have a direct bearing on the standard of living of the poor.

SPDC has also rejected the government's claim that the first ever quarterly survey of the labour force confirmed that poverty was declining owing to the creation of just under six million jobs. SPDC has pointed to data inconsistencies and poor data comparability with previous annual labour force surveys. One particular reason for caution is the government's claim that 80% of new jobs have been generated in the rural sector - this assertion is incompatible with the persistent problems of agriculture in Pakistan and the ailing cotton crop. SPDC insisted that the data showing growing income disparity in Pakistan is another reason why the poverty measures are unacceptable. Citing Bilquis Edhi, a leading Pakistani social worker, SPDC notes that 'Overall, Pakistan's performance in social development has been very poor. This may be attributed to two main factors: bad governance and income disparity' (Cited in SPDC 2006, Preface).

In March 2007 the World Bank released its report on agrarian poverty in Pakistan, confirming that while poverty fell during the 1980s, the 1990s saw stagnation. Poverty

levels are unquestionably much higher than official estimates have suggested - rural Pakistan houses some 35 million people living in poverty and this represents 80% of the country's poor (World Bank 2007a); by this estimate Pakistan has 44 million people living below the poverty line, or about 30% of the population. The main reason for the discrepancy between World Bank and Government of Pakistan poverty estimates is that the latter calculate the incidence of poverty using the Consumer Price Index while the World Bank utilised price data within the government's PSLM survey (World Bank 2007b, p.8 Note 10).

Rural poverty in Pakistan, as for the whole of South Asia, has persisted because of high levels of unemployment and poor wages amongst the non-farming families living in villages. This helps to explain why Pakistan can record bumper wheat crops (see part 1 above) at the same time that poverty has persisted at such a high level. Except for commercial farmers, the World Bank report paints a picture of stagnant welfare during the last decade. A major factor behind this is the highly uneven distribution of land, the main resource in any peasant economy. In Pakistan less than 40% of rural households own land and the bulk of these have less than 5 acres (World Bank 2007b, p.142). Yet land reform is not the answer as Pakistani agriculture has been quite efficient. Rather the need is to increase non-farm employment and incomes if not in the rural sector then the towns and cities to which households will need to migrate in greater numbers (World Bank 2007b, p.152). Creating the necessary jobs will require the by now familiar strategy of self-employment.

Despite official reports that repeat the mantra of 'micro-finance' access to credit in rural areas has been identified as a major restriction to job creation, with less than one fifth of current demand for credit being met (World Bank 2007b, p.152). This is another reason for concern about the declining rate of credit expansion in Pakistan as a whole (see above)- if credit growth is falling, it is likely to have a negative impact on villages before towns. Many people also lack the skills needed to manage modern credit arrangements – basic literacy is not enough to achieve this so more effort needs to be put into extended education. Secondary education is especially important: '... the presence of an additional male with a secondary education in a household increases real expenditures ... by 10.2 percent, a magnitude approximately equal to owning 5 acres of land' (World Bank 2007b, p.143). Yet the educational competence of Pakistan's youth remains

dangerously low: only 31% of males and 23% of females who should be attending secondary schools are enrolled (UNICEF 2007).

In September 2007 the World Bank released another report assessing Pakistan's poverty reduction record and published figures that were more pessimistic than those of March 2007. It suggested that 32.6% of Pakistani's lived below the poverty line, or some 50 million out of a total population of 160 million (Omar 2007). That estimate is almost nine percent higher than the official Pakistan government figure. Some of the country's poorest regions are also the least politically stable – namely North Western Frontier Provinces, Sindh and Baluchistan where economic backwardness is regarded as a direct consequence of ethnic discrimination.

### **3 Corrosive Military Power**

While the big story of the Indian economy since independence has been the rise of a diversified and influential middle class, in the case of Pakistan it has been the emergence of what Tariq Ali calls 'military keynesianism' (Ali 2007); Ayesha Jalal talks of the military complex and Ayesha Siddiqa refers to 'military inc'. As Tariq Ali notes, Musharraf came to power as a popular military leader wearing the mantle of being both clean, secular and not-Punjabi:

Unlike most of the military high command, Musharraf was not of Punjabi stock. He had no links with the traditional landed elite that has dominated the country, nor was he on the payroll of a heroin millionaire or close to some tainted industrialist. His family, educated and secular, had left Uttar Pradesh during the Partition of 1947 to find shelter in the Land of the Pure (Ali 2003).

The army continues to be Punjabi dominated, but this has not protected Punjabi civilians from the encroachments of military needs. Violent conflicts between farmers and the Pakistani army in Okara, Punjab, served to remind tenant farmers that the army was their chief competitor (Human Rights Watch, 2004). The army is Pakistan's largest landlord but unlike feudal lords it has massive coercive power which extends to the torture of children if that is what it takes to persuade their parents to sign documents transferring their land rights to the military (Human Rights, 2004, pp. 28-32).

Parallel to the growing power of the Pakistan military at the local level has been its increasing national control thanks to the centralization of power that began when

Musharraf passed the National Security Bill in April 2004. This made Musharraf into the Chief of the Army Staff, the President of Pakistan, and Chairman of the newly formed National Security Council). In order to consolidate this power Musharraf loyalists have been promoted to military and civilian leadership positions, military expenditure has increased (15% per annum in 2005-2006), and many more military personnel have been given civilian posts. Strong macro-economic growth has, therefore, sat along side what Ayesha Jalal described as a military economy that lacked the dynamism to replicate India's middle class revolution (Jalal 1995).

The growing presence of military men in Pakistani industry is weakening the country's chances of such a revolution. In India, retired military personnel often invested their pensions in rural and urban enterprises thereby fuelling the economic takeoff that began with the green revolution. But investment of pension funds in the case of retired military personnel is a totally different scenario from the interlocking interests between the military hierarchy and business in Pakistan. In the case of Pakistan, military control of business as small as bakeries are used to create pension funds (BBC News 2005). The intersection between military and business interest depends critically on the political power of Pakistani military; the Indian military, by contrast, remains strongly under the thumb of civilian ministries. Tariq Ali and Ayesha Jalal have long recorded the expanding power of military trusts such as the Fauji Foundation, Army Welfare Trust, Shaheen Foundation and the Bahria Foundation. All have emerged into the 21st century as conglomerates involved in rural and urban industries and services including travel agencies. Ayesha Siddiqa estimates that the total value of the four foundations is about \$2 billion, not including the value of any companies they own (Siddiqa 2007). The most worrying thing about the growing economic power of these military trusts, is that they distort the privatization record of the Pakistan government – estimates of the extent of privatization and the growth of the private sector include the production of these military conglomerates. Far from helping the development process, this type of privatization has hindered it by accelerating the entrenchment of military interests. For example, in 2004 Hussain predicted that the Fauji Foundation could become the country's richest company if it acquired shares in Pakistan State Oil and Ufone (Hussain 2004). Ayesha Siddiqa-Agha adds a further worrying detail to this scenario – businesses run by military trusts have easy access to banking credit, defence contracts and the sizeable largesse of the

defence budget which at 7% of GDP outstrips more than two times total budgetary allocations to health and education. Military power of this order, can only serve to undermine the long term economic and social stability of Pakistan.

Pakistan's military expenditures are a luxury, considering the negative impact of rural poverty which is not absent from any province. The assumed privileges of the Punjabi's have not allowed them to escape mass poverty either (at least 32% of farmers are poor and 26.5% of town residents), although NWFP has the highest poverty (45% in rural areas and 31.2% in urban areas). Southern Punjab is especially poor and very backward and the scene of much sectarian violence, driven in part by the lack of economic opportunities and socio-economic diversification (Saleem Ali, 2006). Both Baluchistan and Sindh are also afflicted despite the lower population densities (Baluchistan's rural poor represent 24.6% and urban poor 28.4% of the population; in Sindh the figures are 29.2% in villages and 19% in towns). Official estimates may look less desperate for Sindh but this means nothing to Sindhi nationalists as the dispute about the development of the Kalabagh dam shows. Sindh has accused Punjab of water grabbing, something they say the British never did. This conflict, like all the others, also reflects on Musharraf's military regime. Sindhis, especially the radical MQM movement, say that this neo-imperialism is only possible because Punjab controls the military. The only way to overcome such conclusions would be to have a more transparent process of consultation between central and regional governments, but that is something that military regimes are not inclined to do. In the meantime, Musharraf insulted all Sindhis by saying that the dam will prevent water being wasted by flowing into the sea – a perspective that suggests that Sindhis are poor farmers and waste resources (Altaf Hussain 2001). The power of the military is now impressive: it employs over half a million men and defence expenditure (excluding pensions) is the second largest national cost after interest payments on debt. The words of one journalist remain as relevant today as five years ago: Pakistan knows how to build nuclear weapons and missiles but has no idea how to control measles (Easterly 2002).

The other side of this relationship is that as the Pakistan military has crowded out opportunities for a civilian private sector of the Indian kind, the small middle class is happy to go along with this as long as they get access to the goods that they demand. Masood, speaking of the post-coup situation in 1977 has written:

I ate Fauji's cornflakes for breakfast, briefly went to an army-run secondary school, watched TV shows sponsored by the air-force, and would chat to army engineers as they rebuilt the road outside my grandparents' house. Since then, there has been a further expansion in military involvement in the economy. At the same time, an expanding urban middle class values the services that military-run companies provide, and has the money to pay for them (Masood 2007).

That same middle class also complains about massive levels of endemic corruption fed by, amongst other things, the lack of transparency. Less than ten percent of 100 military companies are listed on the Karachi Stock Exchange (Masood citing Siddiqua 2007), which means that they are not open to scrutiny by anyone – not even parliament, given the constraints on its functions and self-censorship observed by compliant politicians keen to secure promotions.

The economic clout of Pakistan's army has made it especially impervious to negotiating with ethnic insurgents even if their ruthlessness threatens to worsen the country's energy crisis. Its mishandling of the situation in Baluchistan provides a good example of this unbridled arrogance that has caught up even sophisticated and well educated leaders such as Nawab Akbar Bugti who was eventually shot while many other Baluchi militants have been bombed from the air, despite airforce denials of this (Ahmad Rashid cited in Ayesha Khan, 2006). Pakistan is an energy deficit country and the Sui gas fields in Baluchistan provide the country with about 20% of its gas needs, especially to households. Baluchi militants, seeing themselves as increasingly marginalized, have attacked these fields, railways and other infrastructure as a way of making themselves heard.

#### **4 The Military-Religious Relationship**

How successive military and civilian governments in Pakistan have manipulated Islam to not only enhance their own electoral popularity but also as a mechanism for national building is well known (Haqqani 2005, chapter 1). What is perhaps less well understood is how poverty and neglect have strengthened the hand of Islamic fundamentalist associations and political parties, compelling governments to then reign in Islamic forces that appear to be spinning out of their control. The October 2005 earthquake provided a good example of the dynamics between military and religious authority: the Pakistani

state and international agencies were slow to respond to the crisis, in contrast to local organizations such as the Jamaat-ud-Dawa which is also the umbrella body for Laskar-e-Toiba, a banned terrorist organization. As one of the largest charitable organizations in Pakistan, Jamaat-ud-Dawa had ready access to a range of professionals needed to respond to the crisis – doctors, nurses, medical supplies, jeeps etc (Vicziány and Babar 2007). They also responded to the destruction of infrastructure by quickly setting up new schools, appointing their own teachers and introducing their fundamentalist curricula. The success of this charity also measures the extent to which government and civil society have failed to mount an adequate response – and the failure of the latter, namely civil society, is causally related to the way in which the military has privileged itself over all other social organs. Paradoxically, the result is that while the middle class may be willing to purchase the goods and services of military companies they are equally disturbed by the growing lawlessness of society and the lack of transparency and certainly. In our recent report to Ausaid, we noted that an Islamic cultural revolution is sweeping through Pakistan and compelling middle class parents (even those of secular persuasion) to send their children to madrassahs. One, widely reported reason for this has been the desire by parents to give their children a moral and ethical education at a time of rising social anxiety (Vicziány and Babar 2007). That anxiety reflects the lack of strong civil institutions.

## **Bibliography**

- AESS (2006-2007) Annual Economic and Social Survey of Pakistan, Government of Pakistan, Ministry of Finance, 8 June 2007.
- AESS (2005-2006) Annual Economic and Social Survey of Pakistan, Government of Pakistan, Ministry of Finance, 4 June 2006, 1.
- Ali, Saleem (2005) *Islamic Education and Conflict- Understanding the Madrassahs of Pakistan*, MS of August 2005.
- Ali, Tariq (2003) “The colour Khaki” *New Left Review*, 39, May.
- BBC News (2005) *Pakistan’s military runs 55 firms*, 27 April, [http://news.bbc.co.uk/2/hi/south\\_asia/4491541.stm](http://news.bbc.co.uk/2/hi/south_asia/4491541.stm)

- Business Recorder (2007) Official text of *Economic Survey 2006-07: overview of the economy*  
<http://www.brecorder.com/index.php?id=575691&currPageNo=1&query=&search=&term=&supDate, 9 June 2007>
- Business Recorder (2006) *Economic growth rate on upward trajectory*, 19 July 2006,  
<http://www.brecorder.com>
- CSF (Competitiveness Support Fund) (2007) *Special Economic Zone Benchmarking and Policy Action Plans*, Islamabad, 31 May.
- Easterly, William (2002) "Clueless in Pakistan" *The Boston Globe*, 2 December,  
<http://www.theglobalist.com>
- Ghausi, Sabihuddin (2007) "Economic trends amidst political uncertainty" *Dawn: Economic and Business Review*, 3-9 September, p78.
- Haqqani, Husain (2005) *Pakistan: Between Mosque and Military*, Washington DC: Carnegie Endowment for International Peace.
- Human Rights Watch (2004) *Soiled Hands: The Pakistan Army's Repression of the Punjab Farmer's Movement*, July 16, 10, C.
- Hussain, Alataf (2001) *Sindh deprived of its water for opposing Kalabagh Dam*, London, 15 April, <http://www.mqm.org/English-News/Apr-2001/news010415.htm>
- Hussain, Zahid (2004) "A Military State" *Newsline*, October,  
<http://www.newsline.com.pk/NewsOct2004/cover1oct2004.htm>
- Jalal, Ayesha (1995) *Democracy and Authoritarianism in South Asia: A Comparative and Historical Perspective (Contemporary South Asia)*, Cambridge: Cambridge University Press.
- Khan, Ayesha (2006) *Pakistan: Simmering Baluchi Insurgency Complicates Regional Relations*, 20 April, RadioFreeEurope/RadioLiberty,  
<http://www.rferl.org/featuresarticle/2006/04/ad5feac7-983f-4df4-9e8a-3b366f8f9566.html>
- Masood, Ehsan (2007) "Pakistan: the army as the state" *Open Democracy*, 12 April,  
[http://www.opendemocracy.net/globalization-india\\_pakistan/pakistan\\_military\\_4519.jsp](http://www.opendemocracy.net/globalization-india_pakistan/pakistan_military_4519.jsp)

- Omar, Kaleem (2007) "Economic distributive justice is the key to creating a more egalitarian Pakistan" *The News International: Business & Finance Review*, 3 September.
- Siddiqa, Ayesha (2007a) "Pakistan's permanent crisis" *Open Democracy*, 16 May, [http://www.opendemocracy.net/conflict-india\\_pakistan/pakistan\\_crisis\\_4622.jsp](http://www.opendemocracy.net/conflict-india_pakistan/pakistan_crisis_4622.jsp)
- Siddiqa, Ayesah (2007b) *Military Inc.: Inside Pakistan's Military Economy*, London: Pluto Press.
- SPDC (2006) *Social Development of Pakistan: Annual Review 2005-2006- Trade Liberalisation, Growth and Poverty*, Karachi
- UNICEF (2007) *Pakistan- Statistics-Education (2000-2005)*, [http://www.unicef.org/infobycountry/pakistan\\_pakistan\\_statistics.html](http://www.unicef.org/infobycountry/pakistan_pakistan_statistics.html)
- Vicziány, Marika (2006) "Pakistan Economy" *South Asia 200*, London: Europa Yearbook Publishers, pp.423-436.
- Vicziány, Marika and Babar, Aneela (2007) *A Report on Madrassahs in Pakistan: a review of the literature and The Madrassahs of Pakistan: report from the field*, Ausaid, MSS, March.
- World Bank (2007a) *World Bank Urges Pakistan to Increase Participation of Poor People to Reduce Rural Poverty*, 23 April, Islamabad, <http://www.worldbank.org.pk/WBSITE/EXTERNAL/COUNTRIES/SOUTHASIAEXT/PAKISTANEXTN/0,,contentMDK:21309633~pagePK:1497618~piPK:217854~theSitePK:293052,00.html>
- World Bank (2007b) *Pakistan: Promoting Rural Growth and Poverty Reduction*, World Bank Report No. 39303-PK, Washington, 30 March.