

BTI 2010 | Pakistan Country Report

Status Index	1-10	3.97	# 106 of 128	
Democracy	1-10	3.65	# 105 of 128	➔
Market Economy	1-10	4.29	# 98 of 128	⬇
Management Index	1-10	3.18	# 112 of 128	

scale: 1 (lowest) to 10 (highest) score rank trend

This report is part of the Transformation Index (BTI) 2010. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 128 transformation and developing countries are evaluated.

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Key Indicators

Population	mn.	162.5	HDI	0.57	GDP p.c.	\$	2496
Pop. growth	% p.a.	2.2	HDI rank of 182	141	Gini Index		31.2
Life expectancy	years	65	UN Education Index	0.49	Poverty ²	%	60.3
Urban population	%	35.7	Gender equality ¹	0.39	Aid per capita	\$	13.6

Sources: UNDP, Human Development Report 2009 | The World Bank, World Development Indicators 2009.

Footnotes: (1) Gender Empowerment Measure (GEM). (2) Percentage of population living on less than \$2 a day.

Executive Summary

The period under review saw Pakistan plunge deeper into crisis, even though recent political changes give reason for optimism. In two turbulent years, four developments stand out: a transition to democratically elected government, escalation of terrorist attacks, another decline in the quality of governance and the spillover effects of the global financial crisis.

Political transition got under way with parliamentary elections in February 2008, which brought the oppositional Pakistan People's Party (PPP) and Pakistan Muslim League-N (PML-N) to power. The grand coalition broke up six months later, when General Pervez Musharraf resigned as president and Asif Ali Zardari (PPP) was elected as the new head of state. Although Zardari has so far retained the extensive constitutional powers of his predecessor, the change in government basically means a transition to democratic rule. It was brought about by massive domestic and international pressure, and by miscalculations on the part of the old regime. The suspension of popular Chief Justice Iftikhar Muhammad Chaudhry in April 2007 provoked massive protests by lawyers, journalists, NGOs and opposition parties, and Musharraf had to settle for a "deal" brokered by friendly governments: In return for his retention of his post as president, he had to allow former prime ministers Benazir Bhutto (PPP) and Nawaz Sharif (PML-N) to return from exile, which ultimately changed the power balance in Pakistan. Musharraf's ill-advised and short-lived state of emergency in November 2007 could not stop the course of events, and within weeks he stepped down as army chief, paving the way for free and fair elections.

In a parallel development, terrorist violence has increased dramatically in Pakistan, in particular after the army stormed the Red Mosque, a hub of Islamic extremists, in June 2007. Military, police, politicians and international hotels have repeatedly become terrorist targets. On 27 December 2007, opposition leader Benazir Bhutto was killed in such an attack. Meanwhile, the insurgency in Balochistan province continued, and the rebellion by "Pakistani Taliban" in the

Afghanistan-Pakistan border region spread further. The overall decline in governance quality manifested itself in the form of an unprecedented energy crisis and a virtual decision-making standstill during the six months of transition. At the end of the review period, Pakistan fell victim to the global financial and economic crisis, and a \$7.6 billion bailout package was concluded with the International Monetary Fund in November 2008. President Zardari will need all domestic and international support available to steer Pakistan through this crisis.

History and Characteristics of Transformation

Democratization of state and society on the one hand and liberalization and modernization of the economy on the other have proceeded at different paces in Pakistan. Modest attempts to establish democracy ended in 1958 with a military coup that brought General Ayub Khan to power. Although successful at the start from a macroeconomic perspective, Ayub's "guided democracy" essentially failed to reform Pakistani society. Democratization had a fresh start in 1973, when Zulfikar Ali Bhutto (PPP) became the country's first elected prime minister. His populist regime for the first time gave a voice to the poor, and had a deep impact on state-society relations. However, the nationalization of banks and key industries set Pakistan back economically. The military dictatorship of General Zia ul-Haq (1977 – 1988) again suppressed democratic and civil institutions, promoted Islamic extremism and militarized state and society. Economic policies were essentially liberal, leading to more economic growth and to the formation of a new class of entrepreneurs. One of the beneficiaries of Zia's regime, Nawaz Sharif, became prime minister twice in the 1990s, when democracy had a second comeback. Nonetheless, Sharif suffered the same fate as his rival Benazir Bhutto, daughter of Zulfikar Ali Bhutto (whom Zia ul-Haq had executed). Sharif's government had to work under the tutelage of the army and the intelligence agencies. Continuous power struggles between the elected governments on the one hand and the presidents and army chiefs on the other, as well as spillover effects of the civil war in neighboring Afghanistan, made these governments inwardly focused and preoccupied with problems of law and order.

It was not until General Musharraf's military regime took power in 1999 that a government under a unified command again focused on economic policy. Like previous military dictators, Musharraf was at the same time chief of the army staff (COAS) and head of state or government. This concentration of power proved to be a blessing for economic reforms, at least in the short term: Further liberalization of trade and key industries, an inflow of foreign investment after 11 September 2001 and long-needed investment in infrastructure allowed for a remarkable macroeconomic performance. Liberal and western in his personal outlook, General Musharraf promoted modern living and the fine arts, allowed private electronic media to thrive, and paid more respect to the freedom of the press than had any of his civilian predecessors. Yet Musharraf did not liberalize Pakistan politically. Not only did he rig the 2002 presidential referendum and

parliamentary elections; to uphold his autocratic powers he relied primarily on the most conservative factions of Pakistani society: army generals, the PML-Q (a breakaway faction of the PML-N) and even the Islamic parties. Although Musharraf had named militant Islamic extremism as the principal threat to Pakistan as early as 2002, he avoided taking action against a new rise in sectarianism and the “Talibanization” of the Federally Administered Tribal Areas (FATA) at the Afghanistan-Pakistan border. Moreover, Musharraf failed when it came to law and order. Although Pakistan has never been a stranger to political violence, the rise in suicide terrorism, the number of assassination attempts against top politicians, the insurgency in Balochistan province and the “Talibanization” in FATA and the Northwest Frontier Province (NWFP) during his tenure indicate an unprecedented erosion of the state’s power. In light of these developments, expectations for democratization in general and the new democratic government in particular have to be weighed against the need to stabilize state institutions and to provide public services, particularly basic physical and economic security.

Transformation Status

I. Democracy

1 | Stateness

Although it still holds the monopoly on the use of force in most parts of the country, the state's writ has weakened substantially during the last two years. In some Federally Administered Tribal Areas (FATA) agencies and in a few districts of the Northwest Frontier Province (NWFP; particularly Swat and Buner), Islamic extremists have established what amounts to a parallel state. In a separate development, the government has been fighting an insurgency in Balochistan province for four years, with mixed results: Although Baloch Nationalists have not established territorial control, "disappearances" and extra-judicial killings have generated a sense of alienation. In rural areas as yet unaffected by armed conflict, large-scale landowners maintain clan-based private armies, while in larger cities, especially Karachi, organized crime groups and militant supporters of political parties such as Altaf Hussain's Muttahida Quami Movement (MQM-A) and the Awami National Party (ANP) operate armed groups. Terrorist attacks like the ones against former Prime Minister Benazir Bhutto in December 2007 or on the Marriott Hotel in September 2008 underline the weakening of state authority.

Monopoly on the use of force

In principle, the concepts of citizenship and nationhood are not seriously challenged. Ethno-linguistic or clan-based identities and "Pakistaniat" (Pakistani identity) are by no means mutually exclusive. Although the centralist and inefficient policies of dictatorships and civilian governments alike have taken a toll on the patriotism of many Pakistanis, even most separatists in rural Balochistan and in urban Sindh would still settle for autonomy and a fair sharing of revenues. However, the killing of well-known Baloch leader Nawab Akbar Bugti in August 2007 has aggravated the situation in Pakistan's southwestern province. The release of some political prisoners by the new government would be useful in starting a dialogue. The government could follow up by implementing recommendations for more provincial autonomy, originally formulated by a parliamentary commission during President Musharraf's rule.

State identity

The relationship between religion and state remains problematic. Although Pakistan is officially an Islamic republic, the balance between secular and religious principles is a matter of dispute. Today Pakistan is governed by a hybrid system, in which secular laws and Shari'ah uneasily coexist. As a rule, secular principles override religious laws when at variance. However, competing Islamic groups feel emboldened by this ambiguity and settle their conflicts at times by violent means, with Shi'i and Ahmadi minorities usually on the receiving end. Sunni extremist groups use their political clout to influence public opinion, or even to impose their world views by force. In the case of the Red Mosque in Islamabad, vigilante activities by Sunni extremists provoked a military operation that ended with the storming of the mosque and the death of the group's leader on 10 July 2007.

No interference of religious dogmas

The two best-functioning institutions in Pakistan, the army and the civilian administration, have been able to maintain law and order and a basic administrative structure, despite civil war-like conditions in Karachi (in particular during the 1980s and 1990s), an ongoing insurgency in Balochistan (further accelerated by the killing of Bugti in 2006), and the endemic problem with stateness in the (tribal) Pashtun areas along the border with Afghanistan. Since 2008, some "settled" areas of the Northwest Frontier Province (Swat district) have become affected by an Islamist insurgency and the corresponding erosion of the state's writ.

Basic administration

2 | Political Participation

Despite several military putsches, elections are an established political practice in Pakistan. Even if their fairness has often been disputed, they are generally accepted as an orderly means for selecting those in power. The 2008 elections were assessed as exceptionally free and fair by all national and international observers. Women and religious minorities have the legal right to vote, but their representatives are elected with separate constituencies, giving them less political influence.

Free and fair elections

The governments under President Musharraf were the first to complete their full term in office since the 1970s. Like their predecessors, the Musharraf administration had only limited autonomy vis-à-vis the (uniformed) president, the army and the powerful intelligence services. Domestic and international security policies still belong to the military's sphere of influence.

Effective power to govern

Numerous non-governmental organizations take advantage of the freedoms of speech and of the press to engage in a broad range of topics, including human rights, HIV/AIDS awareness and environmental concerns. Pakistan's political party landscape is comprehensive, and includes Islamist and ethnic as well as mainstream

Association / assembly rights

conservative and secular parties. Intelligence agencies and other authorities monitor these groups. The level of actual interference with party activities depends on the political expediencies of the time.

The freedoms of opinion and of the press have enabled a vibrant public debate. A pluralistic private print and electronic media ensures that manipulation is becoming more and more difficult for the government. Outright prohibitions have been an exception at all times, with President Musharraf's latest attempt to impose censorship during the 2007 "emergency" showing only limited effects. However, investigative reporting, in particular on security issues, is still being monitored by intelligence agencies and puts reporters at high risk.

Freedom of expression

3 | Rule of Law

The separation of powers between the executive, legislative and judicial branches is compromised by executive interference with the latter two. Parliament is usually bypassed in the formulation of laws, and the higher courts are frequently coaxed to pass politically motivated judgments. On the other hand, the legal fraternity has begun to resist encroachments by the executive, with support from the mass media. A case in point is the removal of Chief Justice Iftikhar Muhammad Chaudhry from office, at the behest of President Musharraf, in 2007. The chief justice had earned a reputation for being politically neutral and independent-minded. His removal sparked massive protests by lawyers and members of the opposition parties, and was ultimately critical to Musharraf's downfall.

Separation of powers

Below the highest level, the judiciary is professionally differentiated and relatively independent. However, ordinary citizens have by and large lost trust in the legal system because of its inefficiency, the massive backlog of cases, and corruption of judges. Populist calls for "speedy justice" have recently been taken up by Islamist extremists to legitimize a system of physical punishment, although this typically meets with resentment by the general public.

Independent judiciary

Corruption charges are used by governments and the intelligence agencies to intimidate, blackmail or eliminate political opponents. However, awareness of the value of holding politicians accountable is strong, and corrupt officeholders have received negative publicity. As a result, it has been possible to prevent the reelection of some politicians recognized to be corrupt.

Prosecution of office abuse

Civil rights are protected very differently in urban and rural areas. In rural areas, traditional customs and conservative backlashes against modernization deprive women and the poor of equal rights and basic freedoms. In some areas, landowners and tribal leaders operate private militias and prisons. Even in the cities, religious conflicts jeopardize the freedom of worship for Shi'ites, Hindus and Christians. The

Civil rights

Ahmadis, having been declared non-Muslims by various Pakistani courts, are sometimes targeted with charges of blasphemy. Poor neighborhoods are subjects to various infringements of rights by land mafias, religious extremists, political and ethnic entrepreneurs, and the police.

4 | Stability of Democratic Institutions

With a political system officially grounded in the 1973 constitution, Pakistan ostensibly follows a Westminster-style parliamentary system, with a powerful prime minister and a ceremonial president. Such a system is still preferred by the majority of Pakistanis. However, Pakistan is in reality ruled by the military and bureaucratic elite, at the expense of democratic institutions. It is an open question whether this will change following the February 2008 parliamentary elections which, in contrast to most previous polls, were seen as entirely free and fair. As per constitutional amendments enacted under Musharraf, President Zardari still holds considerable power. The relationship between him and Prime Minister Yousaf Raza Gilani is ill-defined, and the parliament remains largely ignored.

Performance of democratic institutions

Judged by their actions, the military and the bureaucratic elites have never accepted the principle of democratic governance in Pakistan. Over the last 60 years, the president – who is elected indirectly by an electoral college – and the army chief have emerged as the two main power centers. Democratically elected governments have had to work under their tutelage. Prime ministers, in turn, have mostly governed by executive order, largely disregarding parliament. At the same time, the principle of loyal opposition was largely ignored. Although the present chief of army staff (COAS) seems to be committed to civilian rule, immature and inexperienced political leadership has already started to revive authoritarian traditions, giving the bureaucratic elite, and even more particularly the COAS, substantial influence.

Commitment to democratic institutions

5 | Political and Social Integration

Pakistan's political party tradition goes back to colonial times, but post-colonial bureaucratic and military elites have never allowed parties to take control. As a result, parties are not programmatic political bodies that compete to aggregate interests, but are rather personality-centered and patronage-based platforms. As in many developing countries, the buying and selling of votes are common, and members of parliament often switch parties before and after elections. Additionally, a subset of party activists has become militant, as demonstrated in Karachi where supporters of the MQM clash with those of the PPP and the ANP (although the three parties are coalition partners at the national level).

Party system

There is no shortage of interest groups in Pakistan. However, independent, well-organized and effective associations such as the Citizen Police Liaison Committee, Lawyers for Civil Rights or the Women's Action Forum are rare. Most address only a small range of concerns, usually those affecting mainly the urban population. The interests of the majority population are not accounted for, except by clan-based political entrepreneurs or religiously motivated groupings with dubious democratic credentials.

Interest groups

There is no reliable survey data on democratic values that covers urban and rural areas of Pakistan. Given the volatile security situation at the time, the voter turnout of 44.5% in 2008's parliamentary elections indicates at least a moderate consent to democratic norms. In the same way, the scale of political protest against Musharraf points to growing approval of democratic values.

Consent to democratic norms

Self-help organizations like the Edhi Foundation have been mushrooming in Pakistan's urban areas since the 1990s. They respond to the state's failure to provide basic services to the citizens. However, they are still too sparse and too unevenly distributed for a fast-growing population, and many of them lack reliable funding.

Associational activities

II. Market Economy

6 | Level of Socioeconomic Development

Though the poverty rate has come down to 32.6%, and despite an average Gini coefficient of 31.1, inequality remains a massive socioeconomic barrier in Pakistan. This can be seen from the United Nations' 2007/2008 Human Development Report, in which Pakistan's HDI was put at 0.551 (rank 136), which was only a little higher than Bangladesh (at 0.547), and much lower than India (at 0.619). Even compared to other developing countries, the overall literacy rate of 49.9% is relatively low. The female literacy rate is even lower at 34.4 %, offering one indicator of gender inequality. Along with women, members of religious minorities such as Ahmadis, Christians, Hindus and Sikhs are partially excluded from society, for example in access to higher education or higher offices.

Socioeconomic barriers

Economic indicators		2004	2005	2006	2007
GDP	\$ mn.	97994.8	109502.1	127325.7	142893.4
Growth of GDP	%	7.4	7.7	6.2	6.0
Inflation (CPI)	%	7.4	9.1	7.9	7.6
Unemployment	%	7.7	7.7	6.2	5.3
Foreign direct investment	% of GDP	1.1	2.0	3.4	3.7
Export growth	%	-1.5	9.6	9.9	2.3
Import growth	%	-8.6	40.5	18.7	-2.8
Current account balance	\$ mn.	-817.0	-3606.2	-6749.9	-8295.0
Public debt	\$ mn.	30878.1	29472.4	32277.9	35917.2
External debt	\$ mn.	35536.1	33158.1	35877.2	40679.8
Total debt service	% of GNI	4.3	2.2	1.8	1.8
Cash surplus or deficit	% of GDP	-2.0	-3.2	-4.2	-4.1
Tax Revenue	% of GDP	10.3	9.6	9.4	9.8
Government consumption	% of GDP	8.2	7.8	10.8	9.1
Public expnd. on edu.	% of GDP	1.9	2.3	2.6	2.9
Public expnd. on health	% of GDP	0.4	0.4	0.3	-
R&D expenditure	% of GDP	-	0.4	-	0.7
Military expenditure	% of GDP	4.1	4.0	3.8	3.5

Sources: The World Bank, World Development Indicators 2009 | UNESCO Institute for Statistics | International Labour Organization, Key Indicators of the Labour Market Database | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security.

7 | Organization of the Market and Competition

The foundations of market competition are largely in place in Pakistan, with almost unrestricted competition, near-equal opportunity for market participants and a government-guaranteed regulatory regime. However, since it is estimated that about two-thirds of non-agricultural employment remains in the non-regulated informal sector, the institutional framework cannot be called entirely appropriate.

Market-based
competition

Despite unfavorable conditions on both the domestic (insurgencies, sectarianism) and foreign policy (global war on terror) fronts, Pakistan has opened up markets and privatized businesses in various sectors of the economy since 1999. However, military-related foundations still dominate many profitable sectors in both industry and services. These businesses are de facto exempt from the legal framework designed to prevent the development of economic monopolies and business cartels.

Anti-monopoly
policy

Under the Musharraf regime, Pakistan continuously liberalized foreign trade and privatized some remaining state companies, including Karachi Electric Supply and Pakistan Telecommunications. Some instances triggered substantial public scrutiny, and the privatization of Pakistani Steel Mills was stopped by the Supreme Court. It remains to be seen whether liberal policies will continue under the new democratic regime, and under the watchful eye of the judiciary.

Liberalization of
foreign trade

Although the government is formally committed to interest-free banking, an outright Islamization of the banking system is unlikely. Conventional and Islamic banks today coexist. After years of outstanding performance, the Karachi Stock Exchange's main 100-share index plunged from more than 15,600 to 10,000 in three months, inciting violent protests by small investors and a temporary closure in July 2008. Although stocks gained temporarily after Musharraf's resignation, domestic and international investor confidence remains low, exposing Pakistan's dependence on outside factors. Arguably, the stock market crisis reflected growing concerns about future macroeconomic stability under the new government.

Banking system

8 | Currency and Price Stability

After a five-year period of price stability, with inflation rates ranging from 3.1% to 4.5%, 2005 marked the beginning of volatile inflation, with rates rising to 9.2%, falling to 7.7%, and jumping again to an average rate of 11.9% in 2008, with an annualized rate of 21.1% reached by the end of that year. Major factors behind this development have included food and oil prices increases, aggravated by the decline of the Pakistani rupee, which fell by nearly 14% against the U.S. dollar in 2008. Reflecting fear of political instability as well as economic uncertainty in times of global financial crisis, international currency reserves fell sharply from \$15.6 billion to \$8.9 billion.

Anti-inflation /
forex policy

Pakistan's fiscal deficit has risen to 6.8%, and the country's 2008 trade imbalance stood at \$15 billion. To avoid bankruptcy, Pakistan's government agreed to a \$7.6 billion bailout package from the International Monetary Fund in November. There are some indications that the rise in commodity prices is slowing, and that the rupee is stabilizing. After years of solid economic growth, stagnation or worse is predicted for 2009.

Macrostability

9 | Private Property

Pakistan's economy has always been based mainly on private property. In recent years, deregulation and the privatization of remaining state enterprises (banks, telecommunications, oil and gas) have contributed to economic growth. Private property is protected by law, and private companies are able to act freely. However, the acquisition of private property, as well as the awarding of contracts, is still affected by very high levels of corruption and nepotism. Initial reports indicate that this is likely to worsen further under the new government.

Property rights

Privatization and deregulation under President Musharraf have encouraged entrepreneurial activity in recent years. However, military-run businesses are excluded from the drive to disinvest in inefficient state enterprises, and real estate property is subject to speculative price hikes and non-transparent sales practices. Notably, the new Zardari administration has led parts of the private sector to worry increasingly about declining political stability, worsening economic prospects and informal governmental interference. Declining expectations regarding the capability of the government to prevent a further erosion of governance and stability will certainly have a negative effect on investment and the private business sector in general, although it is yet too early to assess the concrete impact.

Private enterprise

10 | Welfare Regime

Outside the cities, Pakistani society is still characterized by semi-feudal stratification. Mainstream political parties have shown no interest in challenging these conditions. As a result, governments have treated welfare and social security as low-priority areas. Official welfare regimes cover only public service employees, in particular in the armed services. Pakistan's main social safety nets are still informal, based on membership in families or clans. These can compensate for poverty, old age, sickness and unemployment to only an increasingly limited extent. To gather public support, the new government has launched a "Benazir Income Support Program" of 34 billion rupees, which entitles the poorest families to a monthly payment of 1,000 rupees. Although this legislation may ease the lot of some poor families, it does not go far enough in dealing with the deficits of Pakistan's welfare regime.

Social safety nets

With some notable exceptions such as the army and other corporate employers, formal and informal economic opportunities, as well as opportunities in society at large, are associated with social background rather than merit. Women and religious minorities suffer most from unequal access to education, jobs, and public offices.

Equal opportunity

11 | Economic Performance

During the last five years, Pakistan's economy has advanced strongly, with growth rates ranging from 4.8% to 7.7% per annum. Growth has been driven by expansion of the telecommunications sector and a construction boom. Agriculture is still vulnerable to drought and flooding, and the industrial base remains largely dependent on textiles, a sector in which Pakistan's producers face tough global competition. In the past five years, employment figures rose from 39.9 million to 45.5 million individuals, but Pakistan's economy still fundamentally depends on informal labor. Economic expansion has been toned down to some extent by fluctuating inflation rates of between 2.9% and 9.1% and population growth rates of 2.1% to 2.4%. Foreign direct investment increased to 3.4% of GDP in 2006, with the current account deficit reaching 5.7% of GDP in 2007. Pakistan's external debt stood at \$38 billion in 2007, or one-quarter of GDP. With the new IMF loans, this figure increased to \$50.1 billion by March 2009.

Output strength

12 | Sustainability

Pakistan has made some progress in environmentally sustainable growth. The country's modernized automobiles increasingly run on a combination of lead-free petrol and compressed natural gas, with the notable exception of trucks and overland buses. Still, air pollution levels in urban areas are still nearly twice the world average, and all major rivers suffer from heavy pollution. Sewage systems that are inadequate or altogether missing, as well as an environmental consciousness that is in its infancy, impose additional curbs on environmental sustainability.

Environmental policy

The shortsightedness of Pakistan's economic policy becomes evident when examining education. Traditionally, educational institutions have an elitist bias, favoring secondary and tertiary education in the English language. Private English-language schools have mushroomed during the last decade, with some good-quality education in urban areas. With regard to primary education, Pakistan still grapples with a low rate of literacy, a lack of participation in rural areas and high dropout rates. With education spending at just 2.6% of GDP, this state of affairs is likely to persist. As a result of the state's retreat from education investments, madrasas have been on the rise since the 1980s, with the number of religious schools exceeding 20,000 and the exact number of students served unknown. Even more alarming is the fact that about 20 million Pakistani children above the age of 10 reportedly are going without any education at all.

Education policy / R&D

Transformation Management

I. Level of Difficulty

The period under review saw a peaceful transition between a military-led and a democratically elected government, but also an escalation of violent conflicts and an incipient economic crisis. The cumulative effect of these developments essentially amplified preexisting structural constraints on governance, such as a difficult neighborhood (conflict in Afghanistan, tensions with India), widespread poverty and lack of efficient state institutions in some (tribal) rural areas, demographic imbalance resulting from decades of massive population growth, a low level of adult literacy, large-scale discrimination against women in rural areas, and the spread of sectarian violence in the cities. The transition period, which began with free and fair elections in February 2008, unfolded over six months until the final outcome with Asif Ali Zardari as president became clear. During this period of “grand coalition,” a lack of clear leadership further reduced governmental capacity, and an unabated series of suicide attacks against police and military forces in cities including Islamabad, Rawalpindi, Lahore, Peshawar and Karachi led to a deterioration of public morale. To make things worse, an energy shortage forced the government to implement load shedding, or rolling blackouts, in all urban areas, lasting up to 12 hours a day and affecting private households as well as businesses and industries.

Structural
constraints

Pakistan’s high level of constraints is to some extent alleviated by a flourishing civil society in all major cities. The country is home to numerous NGOs, both domestic and international. The level of participation in public debate is fairly high in urban areas, and extends to all age groups. Aided by a vibrant and untamed private electronic media, people of all classes and educational backgrounds can take the opportunity to familiarize themselves with all kinds of criticism of the government and authorities, including the armed forces. In rural areas, the situation is different. Here, lack of education, the limited reach of the mass media and social constraints restrain the expansion of the public sphere.

Civil society
traditions

Pakistani politics have always been somewhat confrontational. An initial cleavage divided the independence movement’s middle class elites from local political forces that had no particular interest in nation building or social development. Recurring

Conflict intensity

interference by bureaucratic and military elites in the political process drew a new dividing line between pro-establishment and anti-establishment forces. This deep-rooted ideological pattern came into play during the last several months of the Musharraf era: After the dismissal (and temporary reinstatement) of Chief Justice Muhammad Ifthikar Chaudhry, virtually all political and societal forces that were not part of the then-current regime were easily mobilized, forcing Musharraf into a “deal” allowing the return of former prime ministers Benazir Bhutto and Nawaz Sharif from exile (autumn 2007), which finally led to Musharraf’s resignation as president (August 2008). Surprisingly, his successor Asif Ali Zardari, although democratically elected, faces a similar confrontational atmosphere. Pakistan’s political climate remains contaminated by a culture of distrust, fostered by repeated coup d’états and an escalation of terrorist violence that has spilled over from Afghanistan. Although sectarian violence has affected Pakistan for two decades now, the surge of terrorist violence and suicide attacks unleashed by the storming of the Red Mosque in Islamabad in July 2007 has no precedent. A culture of fear has taken root, reducing governmental capacity. Additionally, bonds of solidarity between the Pashtun tribes on either side of the Pakistan-Afghanistan border limit the effectiveness of military operations and border control in that area. The escalation of conflict in Balochistan province and the local population’s deep distrust of mainstream Pakistani society further aggravate the conflict scenario. Restoring order in conflict zones and strengthening public confidence is the principal task of the new government.

II. Management Performance

14 | Steering Capability

Generally speaking, Pakistani governments have shown little political leadership, particularly with respect to political and economic reforms. This can be explained at least to some extent by governments’ lack of autonomy vis-à-vis the president, the bureaucracy, and the military. In addition, the mainstream political parties’ leadership has been committed to preserving the status quo. Against that backdrop, the policies of privatization and deregulation pursued by the governments under President Musharraf earned domestic as well as international praise. They were well coordinated with the World Bank, the International Monetary Fund and donor countries, and the government has persisted in these goals during times of crisis.

Prioritization

Important reforms such as the devolution of power and tax reform met with mixed results, largely due to implementation failures. While the former is seen by many as a political tactic aimed at sidelining political parties, the latter has not been backed up by efforts to reshape the bureaucracy. Given the magnitude of the political and economic crisis facing Pakistan, the new government will have less autonomy vis-à-vis international institutions and the donor community. At the same time, parliamentary pressure to improve the population's living conditions is likely to increase, further limiting the government's autonomy.

Implementation

President Musharraf's governments showed leadership, but only limited will to learn from past mistakes. A case in point was the Gwadar deep sea port on the Baluchistan coast: Built with Chinese money, Gwadar was rightly singled out as an entry point offering development of the province and integration with Pakistan's political economy. However, the tools and strategies aimed at winning over the Balochis were top-down in design and military in implementation, as the three new cantonments in the province demonstrate. Local and provincial levels of government were completely sidelined, and Gwadar has now become a rallying point for resistance against the government.

Policy learning

15 | Resource Efficiency

Musharraf's governments made partly effective use of the available personal, financial and organizational resources. Reform policies in general and their implementation in particular tended to marginalize existing institutions and to create new ones, which operated under different regimes with regard to payment, recruitment and organizational procedures (e. g., the National Data Registration Authority). Thus, inefficient sectors of the bureaucracy and planning were sidelined, rather than reformed. As the transition period of 2008 has demonstrated, the practices of politically motivated appointments and of overcentralization have not been discontinued.

Efficient use of assets

Despite the will to do better, Musharraf's regime, like previous governments, failed to establish coherent coordination mechanisms among the various parts of government (between the federal and provincial levels, ministries and specialized bureaus, or the civil and military leadership). With the partial exception of the new local governments for major cities like Karachi, the creation of specialized bodies and the devolution of power have made the institutional structure even more complex. To demonstrate the size of the problem: At the top level of government, at the time of this writing, it was still to be determined whether the president or the prime minister should be the center of decision-making. Last but not least, Security intelligence agencies are still capable of running their own policies, free of government control.

Policy coordination

Corruption is present at virtually every administrative level in Pakistan. The policies of anti-corruption bodies have been biased against politicians in general and the opposition in particular. Political personalities and their patronage networks have been targeted, whereas state institutions such as the judiciary, the bureaucracy and the military have by and large been exempt from prosecution. Notably, nepotism in the private sector is scarcely covered even in the media. As long as businesses and politics run according to informal rules at best, it is rather unlikely that mainstream political parties will become more active. Given its record in recent times, there is a slight chance that an activist Supreme Court under the leadership of Chief Justice Chaudhry will proceed more courageously against corruption.

Anti-corruption
policy

16 | Consensus-Building

Among mainstream political parties, the business elite, the bureaucracy and the military, the politics of market reform are accepted in principle, although sharp differences remain with regard to the extent to which deregulation should include the nation's strategic assets or affect specific sectors of the economy. Democratization, in contrast, meets with opposition from the military, the bureaucracy, and even parts of the business elite, whereas all political parties, including the Islamist ones, are in principle committed to this goal. Militant Islamists have a completely different agenda, but their support in society and their influence on policymakers is marginal.

Consensus on goals

Although President Musharraf was forced to step down by a large pro-democracy coalition, and his successor as army chief has committed himself to civilian rule, veto players such as the military and bureaucratic elite, major landowners, tribal leaders and some members of the business class still have the power to stop the reform process, if they join forces. Fiercely anti-democratic actors such as the Pakistani Taliban or sectarian groups hold some influence at the lower levels of state institutions, but cannot shape policies. The main opponents of democratization can be found among Pakistan's elite. To co-opt or even isolate these forces, Pakistan needs continuous civilian rule and strong leadership.

Anti-democratic
veto actors

As his downfall in 2007 – 2008 testifies, President Musharraf's main failure lay in the inability to build institutions that could bridge political, ideological, religious and interest-based cleavages. Although he was officially committed to bring "real democracy" to Pakistan, his rule saw the victimization of political opponents, the sidelining of existing institutions, and the rigging of a referendum and the 2002 elections. These factors prevented the construction of consensus on power-sharing mechanisms manifested across time (elections) and space (federalism). As a result, confrontation rather than compromise remains the order of the day in Pakistani politics. Given his previous record, it is not certain whether President Zardari will act differently. His attempt to sideline opposition leader Nawaz Sharif has set a bad

Cleavage /
conflict
management

example. Until political parties agree on the most basic rules of the game, “conflict management” will de facto remain the privilege of the army leadership.

At the beginning of his rule, Musharraf did consult civil society in general and NGOs in particular, and even invited some of their leaders into his cabinet. However, on gaining support from Western countries in the aftermath of 11 September 2001, he sidelined them as completely as his predecessors had, although he remained popular with the educated elite. The new government under Zardari has a much broader base in society, but it is unlikely that a power-hungry PPP-led government will embrace NGOs. Until parliament plays a bigger role, private electronic media as well as international donors are the best pathways through which civil society can influence policy-making.

Civil society participation

Despite its successes in economic transformation, the Musharraf regime is now widely seen as another dark chapter in Pakistan’s history that either demands justice or deserves a reconciliation process. By entering into a grand coalition with Nawaz Sharif, Asif Ali Zardari initially acknowledged the need for reconciliation, but as the breakup of the short-lived alliance demonstrates, he has thus far failed to deliver. However, since he has a mandate lasting for five years, there is still plenty of time. In the eyes of the Pakistani public, the most important benchmark would be a return to the 1973 constitution, which essentially means reducing the power of the president.

Reconciliation

17 | International Cooperation

The Musharraf regime worked closely with international institutions and donors, and made fairly effective use of international aid for its economic reform agenda. In contrast, it had no workable plan to bring about “true democracy,” as it had promised. Devolution of power never won the acceptance of political parties, and the 2002 elections were not at all free and fair. Given his broad domestic and international support base, Zardari is in a much better position to deliver on both fronts. To establish a long-lasting and strategic international partnership, his government initiated the “Friends of a Democratic Pakistan” group in September 2008. This forum consists of 24 members, including the United States, the United Arab Emirates, China, the United Nations and the European Union. To coordinate the group, most members have subsequently appointed special advisors on Pakistan.

Effective use of support

One reason behind the formation of the “Friends of a Democratic Pakistan” group is the low level of trust Pakistan enjoys within the international community. Although Pakistan is the largest contributor to U.N. missions, its political commitment to long-term strategies has always been shaky, with the notable exception of Musharraf’s economic reform policies.

Credibility

Pakistan is a member of several regional blocs, including the South Asian Association for Regional Cooperation and the Economic Cooperation Organization, and it enjoys observer status in the Shanghai Cooperation Organization. However, cooperation is held back by tense relations with its direct neighbors India and Afghanistan, and by a general disposition towards bilateralism, as can be seen by its cooperation with countries like China, Saudi Arabia and the United States.

Regional
cooperation

Strategic Outlook

A review of Pakistan-specific literature would show that the country has at all times been labeled as a failing state, or at least as a state in crisis. While this has often been an exaggeration, it has now come true. The loss of the state's writ in FATA and parts of NWFP demands urgent action, including the use of military force. Being a military dictator, former President Musharraf has never been in a position to send in the army with support of the general public. By contrast, President Zardari could do exactly that, as long as his international support is maintained. The international community should not judge Zardari by his past vices, but by his current commitment to restore law and order. However, it should avoid pressuring the government in public to take action, because this would make Zardari appear to be what Musharraf seemed to many Pakistanis: a pawn of the western powers. Pakistan desperately needs a consensus on the fight against Islamic extremism.

Since Pakistan is governed today by a broad coalition that includes regional parties such as the ANP and the MQM, the balance of powers between the federal and the provincial levels is an issue that should be addressed. Healing the wounds of the Baloch insurgency will not be possible without constitutional amendments. The opposition has demanded a return to the 1973 constitution, which essentially means curtailing the powers of the president. Under the given circumstances this is unlikely to happen. The same goes for serious cuts in the military and intelligence agencies' powers. Although Pakistan has experienced a formal transition to civilian rule, it is impossible to deprive these actors of their privileges in times of armed conflict. An improvement of the regional security scenario and repeated exercises in peaceful transition from one government to another represent preconditions for true civilian rule.

Instead of pinning too much hope on real democracy, the international community should make the deliverance of public goods such as energy and education a prime subject in its partnership with Pakistan. Public morale is low in Pakistan, mainly because the government does not deliver. Pakistan needs investment in the energy sector as well as better oversight and funding for its public and private secular schools. However, it will be unrealistic to expect the quality of governance to rise very much. Democratic governments in Pakistan have always been corrupt and relatively unaccountable. However, this time there is a fair chance that NGOs, the mass media and possibly an activist Supreme Court will provide a check on the worst excesses. It is worthwhile to offer private support to these institutions.

In the long run, Pakistan cannot survive without regional integration. To change the mindset of the elites and let them seize opportunities at hand, the international community should endorse regional cooperation, such as the Iran-Pakistan-India pipeline, because positive experiences are the only thing that may change the distrust towards neighbors that is prevalent in Pakistan today.