

POLITICAL ECONOMY OF PAKISTAN

I-Introduction

The Paper will try to outline the history of the Political and Economic development of Pakistan, the changes in its policies influenced by the governments of the time, particular effects of international trade regimes and the resultant aberrations in the structural makeup of the state and the institutionalization of military as a political and economic player in Pakistan. The paper is not exhaustive, by any means, and should be regarded as an introduction to understand Pakistan's Political Economy.

Overview of Pakistan's Development: 1947-2004

Historically, Pakistan's Political and Economic can be divided into five phases/eras depending upon the consequent socio-political changes occurring: 1947-1958(stabilization- consolidation), 1958-1971(Development), 1971-1977(Populism or Islamic socialism), and 1977-1988 (consolidation of militaristic regime) and post 1988(Structural adjustments).

While assessing any country's development, it is more important to discuss the stages of development than mere statistics. In addition, what is also important is to realize the consequences and the results of such a development. Pakistan came into being in 1947, after the partition of British India. It initially consisted of five provinces East Pakistan and West, including the provinces of Punjab, Sind, North West and Baluchistan in a federal structure. The historical development in Pakistan was disrupted by the 1971 debacle, when Pakistan was torn into two parts-East and West Pakistan. That is why the history of Pakistan's development must be seen in two parts.

In 2004, Pakistan's agriculture sector contributed around 25 percent of the GDP and the manufacturing 24 percent. The services sector has by far exceeded both the sectors and contributes about 50 percent of the total production. Hence calling Pakistan an agricultural economy now would not be the right term. In line with this trend, Pakistan's exports have risen from 11 percent from its inception to 75 percent in 2004. This trend is also indicative of the changing trends in consumption patterns of the rising urban population (estimated to be about 40 percent urban in 2004) and consolidation of the middle class. Also the myth that Pakistan is a feudal state does not prove true. Since 1960's green revolution, Pakistan's feudal tendencies have declined.

After the initial periods of stabilization, where the main concern of the state was the consolidation of the political arena rather than the economic, the era of President Ayub Khan, first martial law (1958-68), was of a phenomenal growth where the manufacturing growth rate reached up to 22 percent per

annum and the GDP also grew correspondingly. The model was based on the idea of facilitating the few rich, so that the effects of that capital growth could trickle down to the working classes-a model of controlled capitalism where the foreign exchange was state regulated. The same model ran counter to all the models advocated by the liberal school of thought at the time.

The government, after the fall of East Pakistan, had to face a number of challenges including loss of the 50% exports coming from former East Pakistan. However, despite the prevalent impression that the era was not of much economic growth, the period of 1971-77 was marked by an increase in GDP, increase in exports due to devaluation of the rupee and a reasonable growth in industrial sector despite the policies of 'nationalization'(Public sector's taking over of large industry). The era of the second martial law in Pakistan, from 1979-88, benefitted from the industrial base set up by the previous elected government which helped in increasing the GDP, more industrialization, growth of capital and the creating of the middle class as consumers. It was helped in a way by the foreign aid coming into the country as a result of the first Afghan war also (6).

The period from 1988-1997, when Pakistan was under the democratic rule, had been marked by the 'Neo-liberal' policies of the International Financial institutions, especially in the two interim setups of 1993 and 1997. The economy had major downturn in this era mainly because of the focus economic policies' focus on reduction of the fiscal deficit, to less than 4% of the GDP. This reduction in fiscal deficit happened mainly through the cut in development budget instead of increasing the revenues, the result being a low GDP and privatization causing loss of industrial production of state owned enterprises. This was brought on as part of the 'Structural Adjustment Package'. The rise in inflation and the cuts in the public expenditure also hurt the middle classes further, and reduced their purchasing power(7).

These 'Structural Adjustment Programmes' have mostly been accepted by the undemocratic governments in Pakistan's economic history. The popularly elected governments were unable to put in place an alternate economic plan, as well. Because of these programs, Pakistan has consistently been going backward on the World Bank's list of developing countries criteria (as measured by GNP per capita) since the last 20 years, compared poorly to even India and Bangladesh(8). Pakistan is therefore an 'Aid' dependent country where the economic policies of multilateral economic institutions have restructured its economy. The reliance on foreign economic policies without the domestic content has resulted in distortions in its social-political structure (9).

II-Agriculture and Land Reforms

a) Feudalism-a historical phenomenon or Capitalism's innovation?

In economic terms, feudalism in India meant the concentration of the economic and the political power in local institutions. In the pre-partition India's history, the system of landed classes began with the *zamindars* and the *mansabdars*, who were appointed by the Moghul Emperor to act on his behalf, for getting the produce of the land. It represented more of a system of government than a class system and was sustained till the time that strong central authority (the Emperor) could exercise his power (13). The system was different from the modern concept of the 'producing classes'. The advent of the British rule in India meant the introduction of the idea of private property, a matching legal system and western form of government. The institutionalized form of concentrated economic and political power was broken and the concept of separation of the 'landed' and the 'working' class was introduced. The *zamindar* now owned the land and hence had his loyalties attached with the British Empire. The act also changed the relationship patterns between the producer and the bourgeoisie class (15).

The paying of land tax monetized the economy, as the farmers were now dependent on a good price for their produce. The state divided the land either on tenancy rights or the private property of the big landlords (*jagirdars*), who were at free will to either sell the land or sublet/lease it (16). The increase in the agricultural produce and better management of land meant that it was to be regulated more by the state and hence a number of tax reforms were introduced by the British government. The focus of these reforms was not to enfranchise the peasant and the small landholder but instead to make the transfer of land more difficult for the non-agrarian caste (as determined by the British themselves). The irrigating area was increased in the part of India now called Pakistan (17).

In order to expand the state-client relationships the newly irrigated land was given to the landed peasantry before World War I, already working on these lands. This increased the landholding in Punjab province to about 42 percent of the owner-cultivated land but more so in the Sind province, where the proprietary land was not given to medium landholders. There in addition to the already big tracts of land given to local notables, having religious authority over the populace (*Mirs*), were increased. The state did not give ownership to the peasants working on it and they kept on working for these big landlords on tenancy basis. Therefore, there still existed a large number of these small land tilling classes, which were also not given ownership by the state called the '*muzareen*' or '*haris*'. Also the peasants, given tenancy and transfer rights of state land, were called '*ryotis*' (17). In order to have their land managed in a better way, the *jagirdars* and the *zamindars* parceled out the land to the *haris* or the *muzareen* in packets of 10-15 acres. The *hari* would keep back fifty percent of the produce to himself and pay the rest to the *zamindar*, along with free labor and some tithe. An intermediate level of manager called the '*Kamdar*' was introduced to manage on behalf of the *zamindar*. Hence, we had the emergence of the 'merchant' and the 'middle

man', as thought of in modern terms. The *hari* was also given a different piece of land each year, to inhibit him from claiming occupancy rights from the *zamindar* (17).

There are two versions describing effects of the economic progress, resulting from these agrarian reforms. By one account, the change in the quantity of produce in fact did not translate in to growth of capitalist class in the real sense. The focus on reinforcing the landed class's power through more land in fact kept the peasantry under the yolk of labor, not knowing enough to raise a voice against the unjust distribution of land. The increase in economic prosperity of the lower class also stunted their prospects for political awakening. By another account the process itself, by which the agrarian reforms were brought and the resulting changes in the growth of credit, brought in the monetization of the economy. The emergence of the wage labor and the mechanization of agriculture to increase the produce, also point towards the creation or shifting over of the pre capitalist kind of agriculture to the capitalist type (18).

Another theory states that the concept of capitalist economy, as understood presently, had not evolved by the mid- nineteenth century and therefore the relationships of the agrarian economy to capitalism could not be understood at that time. Also as the British were pursuing a policy of colonialism *per se*, the capitalism that emerged was as a consequence of that policy and it was therefore a unique way of '*capitalization*' of the economy in the sub-continent. However, the transformation from feudalism to capitalism had occurred by then (19). The present economy in Pakistan therefore cannot be called feudal anymore. Feudalism does not depend on the size of landholdings and is more of a form of patron-client relationship, for economic reasons. The scales of urban migration and the huge market surplus from agriculture (80 %) mean that Pakistani society is not feudal any more (21).

b) The Land Reforms and the 'Green' Revolutions

The agrarian and the land reforms are important in the economic development of the country as it makes for the redistribution of land to tenant classes, thus changing the ownership patterns in the society. Pakistan experienced two phases of agrarian revolution. First from 1960-65 and the second from 1966-1970. It was made possible because of the change in the agricultural techniques and the supply of mechanized farming tools. The revolution was also facilitated by the introduction of a new seed for wheat and rice, which increased the crop yields and also by the introduction of irrigation by tube wells. The areas irrigated by the tube wells increased six times between 1960-70 (29). Further, the import of tractors also increased the yield of the land. In the ten years being discussed, the import of tractors increased by 8000 percent. Mostly the tractors contributed to increase in the yield of areas over 100 acres of land. Also the resultant increase in prosperity (or increased wealth and income) was not evenly distributed, as only

those farmers benefitted from it who had the means or the capital to initially buy these implements to increase their yield (30).

There are two different views as to the effects of the agrarian revolution on the traditional rural power structure of the state. One holds out the view that the reforms helped in making a new entity of middle-class landowner, having lands in the area of 50 to 100 acres. This resulted in emergence of a new power structure where these landowners had a political say. The other view holds that the revolution only helped to reinforce the landholdings of the already large landlords and in fact did not affect others. These big landlords were able to benefit from the increase in land and in fact this further distorted the power relations in the rural areas, as they were able to buy more land from the wealth created out of the returns from the higher yields. In some cases, the tenants working for them were evicted as they had started to cultivate the land themselves. The onset of capitalist modes of agriculture was thus established (31).

The agrarian revolution brought about a great change in the political dynamics of the country as the migration of the tenant class and small landowners to the urban sector increased joblessness and increase in consumerism. The wave of revolution did not affect the two provinces of North West and Baluchistan as much it had affected the largest province of Punjab. The total cultivated land of the two provinces of Punjab and Sind accounted for almost 75 to 80 percent of the total agriculture land of Pakistan and hence the landed class of these two provinces benefitted the most from it. Also the alienation of the landless class led to political disenchantment which helped in bringing into power the new 'left to the centre' and socialist political party, 'The peoples party' in 1970. The green revolution is therefore credited as the first movement of its kind which had a major effect on the political landscape of the country, as it fermented large-scale economic disconnect between the landowning power elites and the growing mass of the middle class (32).

c) Effect of Reforms on rural/agrarian power structures

The first land reforms of 1959 were carried under a military rule/government, which came into power in 1958. As most of the members of the legislative assemblies were from the landed aristocracy, hence no reforms were carried out since independence in 1947. Because of the landlord- civil bureaucracy nexus, no effort had been made to bring the reforms. In fact, even these reforms were more ceremonial than actual. Before that, only 0.1 percent of the population owned 15% of the total land and after the redistribution of land, only that land was given back that was not cultivable. Even still, only half of the resumed land could be transferred to landless farmers and the rest was auctioned, benefitting the landlords and the landed bureaucracy. Therefore, the first land reforms were more a 'political' form than anything substantial. Though they did set up the basis for the future land reforms and also for the 'Basic

Democracies System', which was helpful in finding alternate political figures compared to the traditional politicians (34). The second land reforms in 1972, carried out by the government of the 'Pakistan people's party' were even less consequential as they benefitted lesser number of landless tenants, as compared to the 1959 reforms. Again, it was mostly the landed aristocracy that had its land distributed on paper, but not in actual. This meant that the size of the landed aristocracy's hold on the power structure did not change as much as it should have (36).

As a result of the land reforms the number of 'owner farms', as a percentage of the whole cultivated area in Pakistan, has gone up and the number of tenant farms has gone down. That means that the owners of land have preferred to cultivate their own land as compared to giving it to someone else on lease or contract basis (48). Similarly, the landholdings between for 5 acre and more have gone up in the large and agricultural provinces of Punjab and Sind. In the large landholding categories of more than 12.5 acres, the number has gone up as well after having fell down after the 1972 land reforms (49). This is happened since the landholdings were narrowed down after the land reforms of 1959 and 1972, small lands that were made available after division were taken over by the large landholders and that increased their land's size. Small landholding class rather preferred to sell of their land to the big and adjoining landholders or allowed tenants to cultivate it for them, while they moved off to the urban centers (50).

Therefore, a relationship drawn from these conclusions is that the low to middle level farm holders are either leasing out their land to the large landholders or selling it off as the cultivation of small tracts of land is not an optimum and feasible economic option, as compared to the large tracts. The data collected in this regard also supports the contention of increasing size of land corresponding with the decreasing number of landholders in the middle category (up to 12.5 acres). This would go to show the 'capitalistic' tendencies of the farming industry in Pakistan, where the big landholders are using the cheap and technically better ways of farming (suitable for large landholdings due to scale of economies) to move out the small producers from the market. This makes way for the ownership of a large number of land by a small group of people (50). Hence, an increasing trend of power concentration in landed class.

d) Agriculture: Mechanization and credit growth

The Agriculture sector was contributing more than half of the GDP in 1950. The same share has gone down by less than a quarter of the GDP in 2003. Out of the total area, 37 percent was cultivable as compared from the initial 32 percent at independence in 1947. The area on which multiple cropping is carried out in Pakistan has increased from 9 percent in 1965 to presently 29 percent. There was an increase in the agriculture production after 1965, due to the green revolution and there are two cropping cycles in Pakistan -one in winter, where wheat and sugarcane is sown, and the other in summer, where

cotton and tobacco are sown (57). There has also been a fivefold increase in the output of major crops in the last 50 years (58). However, presently the services sector accounts for more than 50 percent of the total GDP. This marks a major shift in the economy of Pakistan (56). Moreover, the ease with which the 'well off' farmers were able to procure loans from the government institutions and banks due to better credibility as compared to the small farmers, has further distorted the equation. Small farmers tend to get loans from the small and hidden informal sector, where the credit ceiling is limited and the interest payment, on the other hand, is on the higher side (65). Due to lack of access to formal sources, the loans taken up by the small landholders and the tenant farmers are mostly from these non institutional resources. Thus, Banks lending loans to the farmers cater for the big landholder's only. In total, 90 percent of the small landholders having land less than 5 acres get their loans from non institutional resources. As opposed to that 60 percent of the agricultural credit, for people having landholdings more than 50 acres came from institutional sources or from government banks (68).

Economically, Pakistan's agricultural sector has been growing through various cyclical movements. The early period, till the 1960s, did not mark any increased production. The green revolution brought in cheaper fertilizers and other agricultural implements, along with increased water supply through tube wells. Thus, better irrigation opened the way for the capitalization of the agricultural products in the period of second land reforms. However, the combination of better efficiencies in the agricultural techniques did not quite translate into better production. The last phase, where the grower had adjusted to the notion of 'allocative efficiencies', resulted in better production through efficiencies in inputs and better use of the production function (60). Similarly, the process of mechanization, started off by the green revolution, helped in bringing small technical shops and expertise to the once rural places. This helped bring in a culture of relying on training in mechanized agricultural machinery and also helping in breaking the shackles of the traditional schooling patterns for more technical education. By one estimate, mechanization helped in increasing the crop intensity by more than 150 percent in the province of Punjab. It therefore helped in bridging the gap between the rural and urban centers in terms of lack of technical expertise and proved an important process in the transformation of the societal classes (71).

The correlation between poverty and big landholdings has to do more with both the perceived and the actual well being that the small landholders and the tenants of the land attach with having more land. In some cases, having more land means an increase in the social prestige which can also translate into better socio-economic position by access to the low interest credit market and less collateral required for the getting better loans. However, in some studies large landholdings beyond a lower threshold have been associated with low productivity (77).

III-Political -Economic Developments: 1947-2004

a) Industrialization and growth of the Economy (1958-68)

Having to cope with the influx of seven million refugees coming from former India, Pakistan had a big problem in settling them. In the first ten years of independence from 1947, Pakistan had a GDP of 3 percent average only. However between 1950-60, it relied on a good foreign exchange policy and 'Import substitution policy' (ISI), as was the trend in the developing countries then. After the military takeover in 1958, the first five years were not stable economically. The concept of the five year plan was introduced as means of planning by the state economy. However, the next five years from 1965 were marked by a controlled model of economic growth reflective of a better bureaucratic control through 'authoritarianism'. For a country emerging out of the subcontinent, Pakistan was considered as a model state with growth rates of around 6-7 percent of GDP in the late sixties. In its evaluation by the World Bank, Pakistan was marked as one of the faster growing countries and as a model for state building for most of the countries emerging out of the colonial era (90).

The economy was characterized by the import of the capital producing machinery and the structure of the economy was very much state controlled. Selective preferences were placed on the import of capital goods industry through licensing and preferential tariff system. Pakistan focused on an export oriented policy and by the end of 1950s was an export surplus country. The main exports were mainly consumer goods and the industry's concentration was to make the products necessary for domestic consumption also. The high growth was partly explained by the import substitution in the 1950s but the export of consumer goods also picked up in the 1960s. The state had encouraged private capital to come into play with high profit returns and putting up industry in areas demarcated for the purpose, became an incentive. As such, Pakistan saw a rise of a new entrepreneurial class having a common outlook with bureaucrats and the military class (95).

The incentives given by the state to the industrial class resulted in huge margins for some selected groups. By one estimates, only twenty four big industrial units accounted for almost fifty percent of all the private industrial units in the country. This rise of the big industrial class had repercussions on the social cleavages and the class structure, which resulted in political unrest after the breakup of Pakistan into east and west Pakistan in 1971. Also a lopsided development pattern in the west and the East Pakistan, due to heavy industrialization by the state and the private sector in West Pakistan (almost 2/3rd by some estimates), East Pakistan had to bear the burden of the lesser agricultural production of West Pakistan. This ultimately resulted in the growing resentment in East Pakistan, due to the unfair treatment being meted out by the state on the basis of language and hence was instrumental in the breaking up

Pakistan. The decade was also marked by the net surplus transfer from the gains from the agricultural sector to the industrial sector in the shape of subsidies and an incentive promoting tariff structure. The result being that agriculture lagged far behind the industrial sector, but the same distortion was recompensed to an extent after the green revolution of the 1960s(96).

The decade from 1958 -68 was also marked by high growth rate and phenomenal increase in the large scale industrial sector where the growth hovered above ten percent (reaching up to 17 percent at one point). In the first half of the 1960s, overall investment had increased to about 18 percent of the GNP and the savings had doubled between 1949 and 1965(98). However, this growth was achieved on the basis of a controversial growth model. Critics have specially focused the concentration of economic power in few hands, stagnation in prices and a general perception of income inequality. All of this proved to be cannon fodder for the military regime of General Ayoub Khan who, at the end of the decade, had lost its legitimacy to govern (97).

In the first decade, following the inception of Pakistan, the bureaucrats played the major role in devising policies for the new state. They in fact were the political class of the new country also as the civil-political relations of the new state were not defined as yet. The new mercantile industrial class that emerged after the trade benefits reaped from the Korean war of 1950s, managed to create a nexus with this bureaucrat class. In response to the state's need for more economic growth under the changing international economic regimes, more focus was paid on the development of public sector corporations and less reliance was on the main economic area, the agriculture. The overarching economic idea of 'import substitution' was also adopted by the state in order to increase the exports that benefitted the new emerging 'industrialized' business class. The balancing role was played by the military as it provided the necessary cover to this nexus under the new martial law regime after 1958 till 1971. The increase in the economic growth took away the responsibility of any reaction from the masses, as the real power lie in the bureaucracy and the military (500).

However, the industrialization in Pakistan in the 1960s decade could not have happened, had it not been for the agricultural revolution which created the newly semi urbanized middle classes that acted as the 'consumers' of this new revolution. The Agricultural reforms also helped the creation of this newly emerging class. In order to accommodate the political claims of these newly emerging industrialized and landowning political elite, the state acceded by introducing the 'Basic Democracy scheme; In this way, the military government was able to absorb the political associations' demands for more democracy to simmer down for the moment, having been helped by the rising prosperity. This also had the effect of institutionalizing the role of the bureaucracy, as being able to get hold of the development agenda of the

state, instead of just being 'civil servants'. The decade also introduced the newly class of small scale manufacturers and the newly emerging middle class. This class, however, did not become political. The political power lie with the industrialists and the 'capitalized agriculturists'. However, the skewed development patterns of the state were largely responsible for the emergence of the left leaning urban classes, which started instigating for the change of the regime in the late 60s and the debacle of the separation of east from West Pakistan, proved to be the last coffin in the nail of the military rule (501).

b) 'Nationalization' / Era of 'State Owned Enterprises':1971-77

The 1971-77 era was marked by the rising inflation and slowdown in the agricultural and the industrial sector, there being political reasons for that. Pakistan had lost its eastern part in 1971 after a war with India and also had to face the prospect of rising internal strife by opposition for the first democratically elected government in the history of Pakistan. The economy was marked by rising inflation and a stable GDP, spurred more by the services sector rather than the manufacturing. The GDP remained around 10 percent in most of these years. The socialist program of the 'Pakistan's peoples party' (PPP) government was less attractive to the entrenched landed aristocracy and the industrial power elite class, developed by the Ayoub era of industrial development (104). The era of the first democratic government in Pakistan under Prime Minister Zulfikar Bhutto was, therefore, a turbulent one. He embarked on a plan to 'nationalize' some of the big industrial units as per his socialist agenda. This move was resisted by the different power blocs consisting of the nexus between the new capitalist class and the bureaucratized elite of the country. The plans had the support of the lesser endowed labor classes, which in fact scared the industrialist in not putting up new units. This was also affected by the international recession and a downturn in exports due to the oil crisis of 1970s (108).

The marginalized urban middle classes, the labor groups and the small farmers found the expression for their political wishes in the form of Zulfikar Bhutto's Pakistan' Peoples Party(PPP) , which emerged as the main 'left' leaning party in face of the military-industrial 'right' leaning bloc, duly supported by the bureaucracy in 1971. The new government went against the interest of the 'landed' power elite , when it introduced the land reforms of the 1972. However, the emergence of the newly middle class emerging from the small and medium manufacturing sector was helped by the 'socialism' inclined agenda of the party. The new government also took into fold the previously disenchanted 'landed' political elite and the bureaucracy after it introduced the 'nationalization' program, by which large scale industry was to be taken into the public sector's hold. The only group that did not join the government was the large industrialists, who had benefitted from the Ayoub military government. It was believed that the economy of the country was driven by big 22 industrial groups before 1972. The political power was ultimately

lying with the military bureaucracy , who had made substantial inroads into the political structure of the state and were able to control the power relationships with the other actors of the polity(502).

c) 'Militarized' Economy: 1977-1988

The era of the second military government after the ouster of the first democratically elected government, which in fact had given the first constitution to Pakistan in 1973, was a total shift in the political outlook of the state and in its internal political structure. From a being a tolerant and predominantly pluralistic society, the eleven years of the rule of general Zia ul Haq were marred by the rise of militant Islamic organization inside Pakistan. Economically the era was relatively stable, like the first military rule of Ayoub Khan, with the return of the private sector investment and high growth rates. However, by now the class differentiation were pronounced in the society, after the turbulent period of political and civil unrest in the preceding 5 years (111).

The GDP rate hovered around 6-7 percent and the growth of real wages also increased to almost the fastest in the world, around 6 percent. In addition, manufacturing part of GDP increased at a rate of around 10 percent between 1976-86.Total investments in the industrial growth also crossed double digits. The growth in industry also corresponded with employment growth and a general perception of economic well being in the masses. With control over labor unions and student protests, life seemed to be returning back to normal for the Pakistanis who had been used to the much more placid times, politically and economically, of the first military decade(115).The increase in the GDP was also helped by an increase in savings (which peaked to almost 20 percent of the GDP), due to the raise in foreign remittances and foreign aid coming into Pakistan as a result of the Afghan war of 1979-88.However, the era did not mark a difference in the industrial policy in a substantial way. The exports of value added goods increase and due to a stable monetary policy, there was a confidence among the investors (119).

After the martial law of 1977, when the democratic government was wrapped up by the army, the role of the army was ingrained into the civil structure of the state. The bureaucrats, who had been happy because of the newly acquired economic status of managing public corporations after 'nationalization', also became a key partner of the military establishment in this new era. Also the big industrialists, in collusion with military officers working in the government, were to get favorable deals in return for a sizeable economic advantage to these military officers. Thus, as compared to the previous military rule, this rule was marked by the institutionalization of the economic interests of the military in the state. The martial law marked the complete subjugation of the state apparatus to the demands of the military establishment, which resulted in massive violations of the human rights situation in the country, insertion

of 'Sharia' laws in the democratic constitution of 1973 and the capital punishment awarded to the first ever politically elected leader of the country, Zulfikar Bhutto in 1979(502).

The military's fortunes were also helped by the soviet invasion of Afghanistan in 1979, when huge grants and sizeable amounts of aid were doled out to Pakistan to work as a proxy for the western interests. This resulted in huge loopholes in the government financial and administrative machinery, making way for corruption to be instituted as a permanent phenomenon of the Pakistan's economy. Bureaucracy and the military emerged as the new 'economic' stalwarts and the military was recognized as a 'collective economic institution' after big corporations and manufacturing industries were set up by it, to cater for the retired and serving officer class. The military encouraged the 'Islamist-Jihadist' nexus to develop as it kept the domestic political opposition to its minimum (502).

Added to it was the emergence of the newly capitalized class as a consequence of the huge influx of remittance to the state by the working class, mostly from the Middle East. To some estimate, the money sent between 1977 and 1987 was around \$20 billion. The dispersion of this money to mostly upper part of the Punjab province and the North West province proliferated the 'political' awakening among these emerging middle classes and the military government resorted to 'municipal elections' to cater for that. It helped these middle classes in establishing themselves in the political arena as well. This in a way also helped the black economy to develop, as back door channels were used to send the money (502).

Municipal elections to the local authorities were conducted in 1979, 1983 and 1987. Only those candidates were allowed to contest who did not have party affiliations. The large industrialists did not have much hold as compared to the Ayoub era but a new class of industrialized elite was emerging along with the local councilors and local representatives, under the tutelage of the military establishment (especially after the 1985 party less national elections). The civilian government instituted, was at first working at the back and call of the military, later became forceful and was disposed of by the military in 1988. This era also established the middle class as a permanent factor in the political development of Pakistan. However, the most abysmal aspect of this regime was the promotion and the institutionalization of 'jihadist' right wing organizations of the religious parties, in order to conduct a state sponsored 'jihad' against the soviets in Afghanistan and the Indians in Kashmir. This era can therefore be called as the birth nursery for all the rightist militant wings, including the 'Taliban', who were later to turn up their arms against the state which had instituted them in the first place(503).

d) The era of Civil-Military showdowns: 1988-2004

After the arrival of the new PPP government in 1988, the democratic forces had to give into a number of assurances to the military about its 'faithfulness' and also to agree to the 'structural adjustment programmes' agreed to by the interim coalition government. The period between 1988-99 saw four elections being conducted and the alternate governments of the two major parties, the 'left of the centre' PPP and the 'right to the center' Pakistan Muslim League (PML). The latter party was propped up by the military, to counter the rising popularity of the former party's leader Benazir Bhutto, daughter of Zulfikar Bhutto. This period also saw the involvement of the military in the political arena of the state by making of proxy political actors through its intelligence agencies. The political parties were playing a facade of democracy, whereas the actual shots were being called by the military in the background (504). The leader of the Islamist and right leaning party (PML), was Nawaz Sharif who himself was an industrial turned politician propped up by the previous military government. There were in total eleven governments in this period, including the intervening periods between the elections where mostly the technocrats selected by the international monetary institutions played their part. Again the middle class, although now conscious of their political claims, were never accommodated in the bigger picture as the political scene was already taken over by the military bureaucratic nexus working in cahoots with the large landowners and the industrialists, also working as legislators in the parliament (504).

After Pakistan conducted its first nuclear test in 1998, there was an alarming flight of foreign capital as the international community sanctioned Pakistan and the liquid foreign exchange reserves declined to a mere \$423 million. In addition, a freeze was announced on the foreign currency accounts in Pakistan to help stop the flight of the foreign capital, which had in fact made the confidence of the investors go down (361). Due to following of the IMF programs and the successive failure of the political governments to bring the balance of payments up to a satisfactory standard, It is seen that by 1998-99, Pakistan's external debt had become more than the half the size of the GDP (Total of internal and external debt was greater than the GDP). Pakistan was paying back almost third of its export earnings in the form of debt servicing (365).

The institution of the third military government in 1999 formalized the role of the military, when numerous laws were inserted in the constitution. The takeover by General Musharraf was also reminiscent of the coups in the past. The allegations were the same-inefficiency and corruption of the civilian governments and the 'perceived' threat that they had become to the 'national security' of Pakistan. Also as was the case with previous military government, this regime was also supported by the US as a 'frontline' state because of the role it was playing in the ongoing 'war on terror'. The role of the military in the

political structure of the state was also formalized through the institution of the 'National Security Council'. The flood of foreign remittances, as the economy stabilized after the influx of foreign aid to Pakistan, meant that the economic indicators improved. However, as seen before, the state relied more on the remittances and the expansion of communications revolution instead of any meaningful development oriented strategy or any substantial industrialization. As a metaphor for the role that it had played, some have even termed the form of military involvement in Pakistan as being 'Praetorian democracy'(505).

After the promise by Pakistan to help US in providing bases for the US military, Pakistan's huge debt was either written off or rescheduled under easy conditions, putting it out of the foreign exchange squeeze (364).Pakistan was allowed to reschedule \$12.5 Billion of its foreign debt on very favorable terms by the consortium countries constituting the 'the Paris club', as result of favorable political standing with the US after 9/11. Consequently, the induction of foreign remittances peaked at its highest level due to the growing confidence in Pakistan economy, which helped improve the macroeconomic picture (368). However, the improvement in Pakistan's economic fortunes was not due to the effort of any politically inclined initiative backed by the democratic power of the electorate. In fact like in the past, Pakistan's economic fortunes tended to improve in times of military rule. The fortuitous turn of events for Pakistan in terms of economic conditions was linked to its continued acceptance of US demands .While the state was receding on its sovereign authority to make decisions about its security and national importance, it was the ruling elite in the form of military and the selected politicians who benefitted.

IV- Socio-Economic Issues

a) External Trade and Structure of Internal Economy

Pakistan's informal or small sector has been contributing consistently to the national growth. The growth of large scale industry is documented whereas the small scale does not get documented as much. However, from 1969 to 1990, the unemployment rate in the industry went up by less than half although Pakistan population doubled. This shows that the informal sector had been absorbing a large population of the country, yet not documented (130).Pakistan's small and informal sector has been a driving force behind its exports. It is estimated that almost 25 percent of Pakistan's exports are being done through this sector. Also, in spite of the normal perception, the public sector industry had also been doing well and in fact was making profits. Much of the concept about the privatization of the public industries relates to the idea that public industry was not profitable, which is not a correct picture of the situation (154). Monetarily, Pakistan maintained a fixed-peg regime for its exchange rate, for the first thirty five years which made the exports overpriced and uncompetitive. The Pakistan rupee was devalued according to its value with dollar at 11 rupees to one dollar by the Bhutto government in early 1970s (177).

Initially, Pakistan exports in the first decade consisted of mainly raw agricultural products. However, the economy changed after the first decade and an emphasis was placed on import of consumer products from mainly the western countries including UK, USA, Germany, Belgium, Italy and Japan (159). However, after the partition of Unified Pakistan into Pakistan and Bangladesh, the export earnings earned through mainly the jute export from previous East Pakistan fell dramatically. Pakistan had got most of its foreign earnings from the remittances sent by the Pakistanis, working mostly in the Middle East. Except for the period between 1951 to 1972, Pakistan's balance of trade has been negative, meaning thereby that it imports more than exports. Also the increase in Pakistan's trade in the period from 1951 to 2001 was nominal if adjusted for inflation (161). Exports and Imports now amounted to 35 percent of the total GDP in 2003. Pakistan's earlier regime of tariff structures helped to increase the exports of the country and was a productive one. It promoted industrialization in Pakistan in the early years. Presently, Pakistan's trade pattern and trade policy has been moving more towards fewer controls and lower tariffs as prescribed by the 'structural adjustment programs' of IMF since the late 1980s. Since then a 'liberal' import policy has been pursued including lower tariff slabs and 'readjustment' of the Pakistan rupee (187).

Again the imbalance in the exports of the Pakistan is reflected by the nature of the manufactured goods exported. In 2002-3, although 75 percent of the exports included manufactured items but out of them nearly 70 percent were related to the goods manufactured from its main crop cotton, like yarn and garments (162). In a developing country like Pakistan, it can be seen that the protective regime of tariff structure meant to help the export industry to grow and for the installing of industry that would help that growth, helped Pakistan in getting a positive balance of trade in the first twenty five years of its existence. However, despite the success of the import substitution regime, IMF and the World Bank were not in favor of these methods as according to them it led to distortion in the 'allocative efficiencies' and hence tended to have an anti export bias. The two institutions were particularly against the non tariff barriers (175).

b) Social Sector

Pakistan's social sector has not been a remarkable one. However, the anomaly is that with the low social sector background and poor human capital, Pakistan has been able to perform satisfactorily for most part of its development history (382). It is remarkable that from being a country having a GNP per capita income of \$ 285 as compared to China's \$206 in 1982, presently Pakistan is faring far worse than the most of the South East Asian and African countries that were far below that level 30 years ago (383).

Coupled with Pakistan's poor record on the social sector is the problem of gender inequality in all areas of productive employment and education. This also leads to a skewed development pattern as the

womenfolk, who are still predominantly concentrated in the rural areas, are not employed mostly in the commercial or the industrial a sector but only in the agricultural one (414). In addition the infrastructure network in terms of electricity consumption, communications and road network is also not a good indicator of the levels of development in the country. However, increasing focus has been paid to the privatization of these vital public sector enterprises .Especially in the areas of communication and cellular technology, Pakistan has been at the forefront of the privatization campaign as seen from the perspective of developing economies (415).

Poverty has different measures of calculation but the one that is considered as the most used, is the concept of 'consumption poverty'. It means the 'minimum daily recommended calorie allowance' and the percentage falling below that is considered as the 'poverty line'. By the surveys carried out in 2003-04, almost 50 million people or 7.5 million households fell below that poverty line (435). Another factor to be taken into account while evaluating the period post 1988 is the effect of the structural adjustment programs and the effect that they had on the scale of the poverty. Poverty has increased to previously unimagined levels in Pakistan due to the cut in development expenditure, privatization of the public sector industry a, liberalization of the trade and the economy. The phenomenon of poverty will normally be taken as a constant feature of the Pakistan economy for the foreseeable future, as well (450).

c) Distribution of Resources

The perceived inequality in the distribution of resources from the center to the five provinces of Pakistan, thought to be more in favor of the largest province Punjab, has meant that disenchantment has been growing in other provinces. It has also translated into demands of lessening the powers of the center in the federal structure(418). Since the division of the former Pakistan into East and West Pakistan, growing voices have been raised by the nationalist forces against the perceived 'injustice' being carried out by the predominantly 'Punjabi' elite in the bureaucracy and the military(419). Consistently, the people living in the other four provinces representing the predominant four national groups making Pakistan have voiced their reservations in terms of unfair distribution of resources. The main national-linguistic groups are the Sindhi, Baluch, the Pashtun and the seraikis in the province of Punjab itself (420).

Quantitative surveys carried out in the various 110 districts of the country, falling in the four provinces, show that the districts who had small scale industrialization in Punjab (mostly in the north and the north west of the province), mostly got a large number of influx from the rural-urban divide. Similarly, Punjab's share of the increase in population, as compared to the total population, is also more (almost 60 percent). Further the trend towards better development in Punjab is highlighted by the difference in the literacy rates and other social indicators in the Punjab as compared to other provinces.

Punjab's literacy rate is three times that of the largest province land wise, Baluchistan. Even amongst the same province, the difference in the literacy rates is quite lopsided as is the case of the south of Punjab, having a literacy rate far lower than the upper or north Punjab (422).

In order to understand the continuing rise of inequalities between different regions, the rise is accentuated by later rural-urban influx, with the concomitant rise of regional inequalities through concentration of commerce and industry in areas of more 'urbanization'. The same lopsided development pattern may have been facilitated historically by the British colonial policy, so as to suit their political concerns of concentrating power in more politically 'compliant' areas (425). Even after independence, the flow of the private capital was facilitated by the state to the same areas, by providing incentives and specialized subsidies. However, these spatial imbalances and regional differences can be rectified by more public investment in more affected areas, as indicated by poor social indicators. As the pattern of industrialization and the incentives for the agricultural sector were skewed in favor of areas preferred by the elites, hence this weakness of the state has not been successful in diminishing the forward-backward linkages in the various societal classes (427).

On the other hand some have proposed that this unequal distribution of capitalist development in certain preferred regions and the ensuing consciousness in the newly capitalized and disenfranchised classes had in fact reinforced the demand for more equal distribution of resources. These thinkers therefore see capitalism as being a way of creating more 'social consciousness' in the classes (427). The economic destiny of the various areas and regions in Pakistan have therefore been shaped more from fortuitous circumstances than any real planned long term activity by the state. Karachi, the largest industrial city became so because it was the largest seaport. The North West province got most of its development from the influx of foreign remittances from the gulf countries and Punjab's development was facilitated by the overgenerous tax rebates and planned activity by the state, in terms of agriculture and small scale industry (428).

V-Structural Issues

a) Taxation and Fiscal Policy

The control of the power elites in the shape of large landholders and businessman/bureaucrats nexus becomes visible if seen from the fact that there is no direct taxation on the income of agricultural produce in the state. There have been a number of commissions and reports on this aspect but their proposals have not been implemented due to the powerful lobbies working against it, in the legislative assemblies. However, debate goes on about the benefits and the disadvantages of applying the direct tax

on agriculture. The non taxing of income on agricultural production makes it profitable for the large landholders to convert this income into sources of capital formation, in terms of putting up industry or buying real estate, whereas the state does not get anything in terms of public income (72).

Whatever indirect taxes are levied on the farmers, falls on the coffers of the small landholders as they are the most susceptible ones to fall into the tax net easily. By some estimates, by not being categorized as direct tax industry, agricultural sector gets away by not paying as much as one third of the present domestic tax collections(73).It can, therefore, be seen that the issue of poor land reforms and non payment of taxes by the large landholders is not only limited to the economic side only. These imbalances in the latent power relationships, between the large landholder and the small ones or the tenants, lead to the monopolization of the government services by the former in the shape of subsidies on agricultural machinery and irrigation (76).

In Pakistan, the revenue is collected at three levels-federal, province and the district level. Yet the major share is collected by the Federal government. Only one percent of Pakistan population pays any income tax and only three quarters pay any kind of indirect taxes. The domestic debt constituted 48 percent of the GDP in 2004.Tax collection is reflective of the weak writ of the state structure on the civil society. Also the focus before has been on more rigid tax collection regimes and not much on decentralization and loosening the hold of the federal over the provincial and the local governments (232).

The experiment of reducing the fiscal space for the state by decreasing public spending or increasing fiscal surplus in Pakistan has not been a success story. In case of Pakistan instead of more focus being paid on the 'productive' utilization of the public budget , skewed allocation of resources to the defence sector, high interest payment and focusing on unproductive sectors at the expense of more development oriented ones has led to serious structural issues. The 'Structural adjustments programs' were partly responsible for the state having to pay high interests on the loans taken. Pakistan had an aggravated problem for paying for an accumulated debt in the 1990s, including both the external and the internal. At one stage in late 1990s, debt servicing had been almost equal to the total revenue generation as per the GDP. The reforms carried out in the economy for adjustment programs aggravated this situation (251).

In Pakistan, industrialization and economic development are closely linked with the growth and sustenance of the banking sector. By 2004, nationalized commercial banks' portfolio accounted to six percent of the GDP, which affected their performance. In the same way, stock markets have not been developed to raise capital and consist of only a handful of companies(275) .Until recent history, the monetary policy was controlled by the government .The auction of the treasury bills normally influences the interest rates. The money market is still not that developed. Money supply is still not considered to be

the main determinant of the interest rate, which is in fact affected by other structural reasons and by administration of prices by the government. Pakistan's saving rate of around 14 percent is also considered to be a key determinant for low investment in the country (297).

In the early economic history of Pakistan, the subsidy structure was more biased towards the industrials sector; hence the agricultural sector did not grow as much as it should have even after the green revolution and the land reforms. However, the same was realized by the government and a system of buying agricultural produce was introduced by the government, where a minimum price was placed on the agricultural commodities, therefore giving the farmers a competitive edge in the industrial market(62). This system of minimum price assurance for the farmers has been discontinued, under the World Bank's 'Structural adjustment programmes', since 1988 and the subsidies given as a support for basic food commodities have been progressively eliminated(63). This shows as to how the international policies have tended to decrease the social support of poor people, in developing countries like Pakistan.

b) Structural Adjustment Programmes

Following the transition from a civilian rule, an Extended Fund Facility (EFF) worth SDR 1.27 billion was signed by the military government of Pakistan in 1980. It was three times the amount of funding that Pakistan had previously availed from IMF. The same program was also ratified by the new incoming democratic government in 1988. In addition, the 'Enhanced Structural Adjustment Program' (ESAF) worth SDR 1 Billion was signed between Pakistan and the IMF in 1993, when Pakistan was under a coalition government working as a transitional one. The government was headed by a retired World Bank official, working as the Prime Minister. The later incoming government had to rubber stamp the agreement(337). Later on, the various governments kept on signing such agreements with IMF (two ESAFs, and two EFFs), either under democratic or military rule. Later the military government of General Musharraf was able to get the US \$1.3 Billion 'Poverty Reduction and Growth Fund' in 2001. This came right after Pakistan had acceded to US demands for providing military bases to the US forces in Pakistan, for flying US planes out for bombardment over Afghanistan. Again, the previous original agreements (ESAF and EFF) were signed between the unelected governments of Pakistan and IMF (338).

The initial growth increase in GDP and export growth, following the structural reforms proposed by the Washington consensus, was later characterized by non achievement of sustained reduction in fiscal deficit and improved external sector balances. In addition budget deficits as a percentage of the GDP and the inflation, also did not see any improvement (343). In terms of liberalization of economy and opening it up to external competition through reduced tariff preferences and diversifying exports, the structural adjustments were an improvement on previous policies. Although, the same could also have been

substantiated by the foreign remittances, made available through the Pakistani workers working abroad in the mid 1980s, which has in fact increased the standard of living of these families (344).

In addition, successively Gross domestic investment as a percentage of the GDP did not have high figures. However, Gross domestic and national savings have shown an increasing trend. Current account deficits have also not been stabilized. All in all, in terms of the major indicators, the structural adjustments have not been a success story in the context of Pakistan's development (344). In addition, due to the withdrawal of subsidies on essential food items, the program has directly hit the poor class. The imposition of general sales tax and subsequent inflation also hurt the buying capacity of the unprivileged classes. It has also led to an increase in unemployment and a rise in income inequality (345). Retrospectively; it would also seem that by all macroeconomic indicators in 1988, Pakistan did not need to go to the IMF. It was basically an arrangement between the interests of the Pakistani political and bureaucratic elite, who preferred to acquire the loans instead of carrying out far reaching political and land reforms, a cut in defence expenditure and the elimination of consumption patterns (348).

V-Political-Economy

a) Effects of 'Neo-Liberalism'

Pakistan's experiment with the neo-liberal regime of economic planning and the resultant dichotomies created in the state structure should be viewed in the perspective of the changes occurring in the world economy itself. After the fall of the Soviet Union, 'neoliberalism' has been the mantra employed by the emerging economies around the world. The focus has been on more devolution of financial and development planning from the central/federal government down to the local and the grass root level. Pakistan has carried out the reforms on the economic front but the question rises-has it been able to carry out the 'decentralization' politically, required for these programs to take root permanently? (457).

Increasingly, as we have seen in the past as well, the state of Pakistan has been relying on the same 'delivery' mechanisms for the new economic agendas being proposed worldwide. The organizational structure of the state relies heavily on the institution of the post-colonial bureaucracy and the result has been an 'over institutionalization' of these regimes at the cost of more independence at the local level(460). In order to address those issues, a number of programs were adopted by the Government of Pakistan to improve the governance in terms of focus on the indicators in the basic sectors (such as health and education) and the community participation in order to bring a culture of 'decentralization'

.However, lack of ownership by the ruling class and their high cost for the government, meant that they could not carry on for much longer(461).

Of the different definitions of governance in the contemporary regimes, much focus is paid on the building up of more institutions concerned with public policy formulation and implementation. The basic societal dispensing institutions including better law enforcement apparatus and the delivery of basic services to the citizens are also important. We see that Pakistan has been lacking in all these aspects as there was no consistency in its development agenda (463). Thus, the lack of 'participatory and democratic governance' has been a bane for Pakistan's development throughout its history. However, the lack of transparency in government schemes and policies can also be rectified by the model of participation of the non-state actors such as NGOs and private endowment institutions, in helping the state sector (464).

Also, in recent studies, much focus has been paid to bring about better 'institutional reforms', through changes in the basic structure of the state by including the civil society's inputs. Also better service delivery of the government utilities and basic services is being advocated to be more 'decentralized', as well. In the same vein, the role of the central government is proposed to be weakened in order to increase the role of the lower tiers of the government and the actors in the social sector matrix (465). The concentration of development strategies based on top down approach has not fared well in the context of the highly politicized priorities of the state. As we have seen that throughout its history, Pakistan's skewed development pattern has been exacerbated by short political contingencies. The same can also be said of the misplaced priorities in the social sector, as well. However, these 'alternative paradigms' have to take into account the peculiar social factors in Pakistan including class, gender and the power arrangements between them(469).

b) Comparative Analysis: Trade vs. Defence

A comparison of Pakistan's economy with India, shows that in the decade between 1990-2000, India's per capita income in terms of 'Purchasing Power Parity' had increased to almost double that of Pakistan(481). In the 1990s, Pakistan's growth rate was the lowest among the seven countries constituting the 'South Asian Association of Regional Association Cooperation' (SAARC). India's exports have doubled and quadrupled in terms of new investment criteria (Gross Capital Formation). In terms of poverty, India's had decreased from 45 percent of the population in 1983 to 26 percent in 2004, whereas Pakistan's has increased from 17 percent in 1987 to 33 percent in 2004(482).

Despite a 'South Asian Free Trade Agreement' (SAFTA) between the SAARC countries, Pakistan had been reluctant to conduct trade with India, despite the prospects of favorable terms of trade.

The issue has to be viewed in terms of the dicey relationship that Pakistan has had with India. With three wars and a number of confrontations between the two nuclear 'powers', having better relations with India has been viewed with suspicion by the predominant military establishment. On the other hand, security concerns of the state have meant that the military has been allowed to increase its budget without any check by the various civilian institutions. However, in the recent changes to the economy, military has loosened its concern about the non interference in the defence expenditure, to some extent (490).

Pakistan's economy has been managed by the intrusion of the successive military governments after the military interventions of the 1958, 1977 and 1999. The political actors were maneuvered according to their political agenda and also a focus was paid on the decentralization of local administrative units in the state. Military has therefore been the one institution in the state that has been able to change the social and the economic forces working to formulate policies and for the shifting paradigms in governance through the ages (499).

The interests of the military in the economy of the state can be seen from three perspectives-from the individual level, as an institution and also as per its institutional interests in the macro economy. Pakistan's military expenditure is around 5 percent of the GDP and is the second largest component after the interest payment. Pakistan's military budget is also the 15th largest in the world and eighth largest in terms of percentage of central government expenditure. Almost twice as much is spent on Defence expenditure as the both the sectors of education and health combined together. Also, its defence expenditure in terms of GNP is the highest in South Asia. The military budget was curtailed in the democratic government of the 1990s, however it jumped back to more than 10 percent after the military takeover of 1999. In addition, military has ventured into the private sector as well. The foundations working for the welfare of the different arms of the military-army, navy and air force-are a major conglomerate in the country. It has also ventured in the buying and development of real estate as well. The serving and retired military officials also hold important positions in the public sector (491).

Hence, the parallel structure of the defence political economy and the praetorian nature of the state are major stumbling blocks in the expansion of trade with India and other neighbor countries. Regional integration of markets may generate economies of scale and competitive gains and may also increase the flow of Foreign Direct Investment(FDI). It would in fact be more important in terms of opening avenues of increasing cooperation and the 'softening' of the standoff between the two countries. It would also help in lessening the militarization of the economy (496).

c) Trends in Political Economy

Another factor that has appeared as a permanent feature of the state, is the legitimization of the religious parties in the electoral process. Increasingly, the parties have been playing a large part in streamlining the political demands of the right wing religious clergy in collusion with their militant organizations. After 2001, The regime's initial inclinations towards a more liberal and moderate version of governance were not borne out by its policies and the support that it had got initially from the middle class and liberal part of the society, soon evaporated. By disallowing certain key political personalities to run for elections in 2002, the military propped up the religious parties as its allies which has translated into the disenfranchisement of the moderate electorate, having right of the centre tendencies. This kind of voter has thus tended to veer off from the main political arena in pursuit of a more militant expression, in the form of violent protestations or a general weariness from the whole process resulting in not voting for any party (505).

The emergence of the middle class has been a game changing phenomenon in Pakistan. Although, no permanent characterization can be attached to it as being either liberal (in terms of being upwardly mobile after getting some economic incentives and being a consumer class in the early 2000s) or conservative (in terms of being influenced by the socio-cultural factors in tending towards Islamist tendencies). In certain areas, it may be united in terms of common economic goals and yet be divided on questions of more religious tolerance in social values. The emergence of this middle class has been 'path dependent' with its peculiar mix of rationalistic behaviors in terms of economic gains and yet being impervious to the nature of politics being conducted. However, some studies have revealed their behaviors to be highly rationalistic in choosing the political path suitable to their social and economic gains (506).

The military's economic interests are well entrenched in the state's structure. After having been in power for almost half of the country's life, it has been able to create self sustaining business institutions which are the two biggest conglomerates in the country. Further, in the military governments, it has been able to appropriate the share of the civilian sector into its budget without any accountability. Military's budget is not made public and the related institutions' expenditure is normally not discussed in the parliament, as well. Since it has become a major player in the economic sector as well, therefore it gets to lose its control if more democratization occurs in the country (507).

In effect, military has been able to keep its hold by involvement in the politics through its propped up parties or by creating crises for the democratically elected governments, if they do not heed their agenda. Also it has always been a favorite choice of the military to appoint international civil

servants or technocrats in the interim government, to have their agenda implemented. It has also been able to rely on a number of politicians and bureaucracy, who do the bidding on their behalf, while they keep the reins of the power in their own hands. It has also made some thinkers to reflect that in Pakistan, the military only lets the civilian setups to work as and when it is required by the contingencies of the time for them to make this compromise (508).

The discordant values instituted in the state and its economic structure has even compelled some thinkers to say that the state has itself become involved in rent seeking and a partner in corruption, as it forms its own forms of classes to suit its skewed interests. Also, in terms of its constitutional makeup, some term the Pakistani republic as being more 'Muslim' than 'Islamic'. The religion plays an important part in the social and cultural undertakings of the citizens, yet the major Islamist movements and parties have never had major influence on the voter's inclinations. More than the populace, Islamist parties have been a favorite of the military, which has handpicked its leaders a number of times to become a counterforce against the left leaning parties and politicians. In contrast to contrary assumptions most citizens are liberal in line with the western concept. However, these fault lines have started widening as a result of the people's reaction due to shortage of economic opportunities and their alienation from the political arena, which normally leads to the hardening of religious beliefs (509).

It would also seem that after the green revolution of the 1960s and the creation of the middle category industrialists, the middle class enmeshed itself into the state' structure by exercising their political preferences in the 1980s. The correlation of industrial-military complex in the 1980s also stabilized the political conditions (512). Also in order to better manage the political climate of the state and to decentralize its democratic forces into peripheral areas, the focus on local and municipal elections at the expense of national elections, has in fact tended to 'localize' the outlook of the polity. This has also created the basis of central political tendencies being dispersed into local factions. This has thwarted the creation of Political parties, focusing on national issues that could create consensus in long term agendas. This has also translated into a weak political orientation of the middle class as compared to the case in the other developing countries, where rise to the middle class status normally translates into more political activism. In Pakistan, the middle classes see their political destiny as more or less a settled affair between the political elite and the military establishment and hence they do not participate as actively in the political scenario. The latent political power lying with these newly emerging, working and middle classes may take political clout away from the small number of power wielders, in the shape of large landowners and the industrialists, through their sheer numbers only (514).

VI-Conclusion

The Paper tries to clear a number of myths about the nature of Political Economy of Pakistan including

- 1-Pakistan's economy is not particularly agricultural but 'capitalist agricultural';
- 2-Nature of growth being inequitable, was a consequence of the capitalist economic policy followed in the 1960s by the Ayoub khan military government;
- 3-Pakistan's Economy did not fare as badly in the 1970s as thought to be;
- 4-The largest problem for Pakistan is the debt burden and fiscal deficit, if evaluated in the macroeconomic terms;
- 5-Pakistan's Economy was performing rather well before adopting the 'structural adjustment reforms' in the mid 1980s;
- 6-In addition, we have also seen that the Political Economy and development of Pakistan cannot be seen in isolation from the defence and military spending and its effects on the structure of micro and macroeconomic issues.
- 7-The economic issues cannot themselves be divorced from the larger political issues.

All in all, the paper does not present a very prospective outlook for Pakistan's growth. It should also be mentioned , as a last word, that the economic situation has deteriorated considerably since 2004.