

Pakistan

Status Index (Democracy: 1.8 / Market economy: 2.7)		4.5		Management Index		4.3	
System of government	Autocracy	Population	146.3 mill.	GDP p. c. (\$, PPP)	1,890	Unemployment rate	n. a.
Voter turnout	41.8% (Parliamentary elections 2002)	HDI	0.499	UN Education Index	0.41	Gini Index	33.0 (1998-99)
Women in Parliament	20.6 %	Population growth^a	2.8 %				
Largest ethnic minority	15 %						

Data for 2001 – if not indicated otherwise. ^{a)} Annual growth between 1975 and 2001. Source: UN Human Development Report 2003.

1. Introduction

In August 1997, Pakistan celebrated the fiftieth anniversary of its independence in a mood that could almost be described as euphoric. In February of that year, Mian Nawaz Sharif had won a landslide electoral victory as chairman of the PML (Nawaz). The Karachi Stock Exchange had risen sharply in response and Pakistan's relations with India had begun to thaw. It seemed that Sharif's hope for a "better tomorrow" was in the process of being realized.

In the following months both the political and the economic situation got worse. As a reaction to Pakistan's nuclear test of 1998 strong economic sanctions were enforced that gave the country a severe blow economically and isolated it politically. The economic situation even worsened with some governmental decisions such as the confiscation of foreign currency credits in domestic banks that severely shook the confidence of economic actors. In addition to that the government enforced the domestic crisis by trying to concentrate power at the expense of competing institutions (President, Parliament, military). This provided the political ground for the military *coup d'état* of October 1999.

However, the people's rapid loss of confidence in the government and the military seizure of power in October 1999, with General Pervez Musharraf taking the lead, clearly showed that fundamentally not much had changed since independence. Pakistan's political system and politicians remained just as ineffective and corrupt in the 1990s as they had been in the 1950s and, despite all attempts to contain them, the Pakistani armed forces were still prepared to sweep away democratically elected governments claiming such steps are taken "in order to save the nation and democracy."

Hopes for an improvement of relations with India were also dashed by a series of events including the nuclear weapons tests of 1998, the Kargil affair of 1999, and the attempted attack on India's parliament by Kashmiri terrorists in December 2001. The domestic and foreign framework conditions for economic and political reform in Pakistan were and are extremely unfavorable.

Surprisingly however, the performance in office thus far of Pervez Musharraf, whose tenure effectively coincides with the reporting period, has not been that bad. He was able to avert national bankruptcy, tackle important economic reforms, and in response to U.S. pressure in the aftermath of September 11, 2001, he helped to implement a number of rather effective measures to maintain domestic order and combat Islamic extremism and terrorism.

This report on the status of Pakistan's market-economy and democratic transformation of the last five years therefore arrives at a mixed verdict. The evaluation of Pakistan's market-economy transformation is cautiously positive with respect to a number of performance criteria. However, in light of the presence of the ruling military regime and the continued decline of Pakistan's civil political institutions, the evaluation of the democratization of Pakistan in the context of the "third wave" is ultimately negative, and it is not clear whether this can be called a transformation. Specifically, the most important tasks in the sociopolitical realm remain unfulfilled, including the stabilization of democratic institutions, the preservation of domestic security, and the strengthening or maintenance of the citizens' democratic values. The country's future remains uncertain.

2. History and characteristics of transformation

It is very difficult to address a transformation toward market-based democracy in Pakistan. First, the democratization of society and the modernization of the economy have proceeded at different paces. The first phase of Pakistani democracy ended in 1958 with a military putsch that brought General Ayub Khan to power. Ayub Khan legitimated his system of "guided democracy," which was patterned after Sukarno's Indonesia, with the promise to profoundly restructure the Pakistani society by implementing economic and social reforms.

However, he failed at this task, as did the populist regime of Zulfikar Ali Bhutto in the first half of the 1970s and the Islamic regime of General Zia ul-Haq between 1977 and 1988. The democracy restored in 1988 was inwardly focused and primarily preoccupied with the breakdown of domestic order in the country, which resulted in the availability of few resources for the sustained pursuit of a strict economic policy. It was not until the military regime of General Musharraf came to power in October of 1999 that the government again concerned itself with economic policy.

Second, large segments of the population have experienced a dramatic loss of confidence in democracy, and the partially extremist Islamist movement is once again gaining ground. In light of these developments, it makes little sense to hope for the democratization of the state in the western sense. Considered in terms of Merkel's theory of the four levels of consolidation, Pakistan has actually failed on all four levels. It has not achieved either institutional or representative consolidation; a behavioral consolidation on the part of potential vetoing agents is no more evident than is a consolidation of civil society; political institutions and representative bodies are only weakly developed and largely unable to function; the principle of loyal opposition is virtually unknown; political disputes are settled by violent means; and civil society is deeply divided along ethnic, religious, and social lines. Pakistan has thus far been able to avoid both its breakup as a state and a national bankruptcy, but it is not very far from becoming a failed state.

3. Examination of criteria for democracy and market economy

3.1 Democracy

In terms of the transformation of its political regime, Pakistan's performance has been negative. Like his predecessors, Prime Minister Nawaz Sharif was unable to complete the term of office that he began in February 1997. In October 1999 he was forced to yield to a military putsch that brought to power General Pervez Musharraf, the commander in chief of Pakistan's armed forces. The army's renewed intervention in politics, and the relief with which it was greeted by large portions of the population are a clear sign that Pakistan has been left almost totally unaffected by the so-called "third wave" of democratization.

3.1.1 Political organization

(1) *Stateness*: In principle, the Pakistani government possesses a monopoly on the use of force throughout the country. However, in rural areas, some large-scale landowners maintain clan-based private armies, while in the larger cities, especially Karachi, militant supporters of political parties such as the MQM(A) and the Pakistan People's Party (PPP) have formed armed groups. These private militias engage in firefights with the police and the army, which result in members of both parties accusing the police of so-called "extra-judicial killings" on a massive scale. Since the establishment of the Taliban regime in Afghanistan, extremist Islamist groups have also made advances in Pakistan posing a serious challenge to the government's monopoly on the use of force.

With the collapse of the Taliban regime and the influx of "Afghanis" with combat experience, the problem of violence has become even worse because it can be assumed that this movement has already infiltrated portions of the Pakistani armed forces. However, no one seriously challenges the concept of citizenship,

which is understood as belonging to a nation, and champions of independence for Baluchistan or Sindhistan, for example, remain in the minority. Even the Islamist leadership has ceased to advocate for the concept of a unified *Dar-ul Islam* (“house of Islam”) against that of a particular nation.

However, the relationship of religion and state is problematic and has not yet been resolved. Although Pakistan is officially an “Islamic republic,” the precise definition of “Islam” and “Islamic republic” remains a matter of dispute. The unresolved relationship between religion and the state has created a hybrid system, in which secular laws and *sharia* exist side by side. It also makes for conflicts between different Islamist groups, which are often settled violently, with the Shiite minority bearing the brunt of this situation.

On the whole however, the two best-functioning institutions in Pakistan, the army and the civilian administration, have nonetheless been able to maintain law and order, with the exception of the civil war-like conditions in Karachi, which began in the mid-1980s and have earned the city the title of “the Beirut of South Asia.”

(2) *Political participation*: Despite several military putsches, general but limited free elections have been held in Pakistan since its independence. Elections are generally accepted as an orderly means for selecting those in power. Although women have the legal right to vote, in rural areas of Pakistan they are deprived of that right in practice. There are also irregularities in the area of vote counting as well as in the establishment of polling places and access to them.

However, these irregularities are not widespread enough to affect the countrywide outcome of the elections. It is nonetheless indicative of the strong position of the vetoing actors that no elected government since 1988 has succeeded in serving out the whole of its electoral term. The primary vetoing actors are the army leadership and the heterogeneous group of large-scale landowners. Despite these reservations, there is a functioning and lively civil society in Pakistan, especially in the cities. Numerous non-governmental organizations take advantage of freedom of speech and freedom of the press to engage a broad range of themes, from traditional and puritanical Islamism to the cause of peace all the way to postmodern feminism. A political party landscape, albeit a very fragmented and ephemeral one, has also begun to form in the five decades since Pakistan’s independence.

(3) *Rule of law*: The separation of powers between the executive, legislative, and judicial branches of the Pakistani government is repeatedly compromised by the frequent power struggles between the president and the prime minister, most recently between President Farooq Leghari and Prime Minister Nawaz Sharif. Parliament is usually bypassed in the formulation of laws. Instead, prime ministers govern by issuing decrees and executive orders.

The government may transfer judges from the secular Supreme Court to the religious Sharia Court without their consent. However, beneath the highest levels of power, the judiciary is professionally well differentiated and relatively independent. Corrupt officeholders are usually only prosecuted by military governments, but at least they attract negative publicity in the free press. As a result, it was possible on a number of occasions to prevent the reelection of politicians who had been recognized as corrupt. As far as civil rights are concerned, one must distinguish between the cities and the countryside. In rural areas, the traditional and conservative climate deprives women and the poor of equal rights and freedom of worship, which is guaranteed by the state but can hardly be exercised if it does not correspond to local custom. Even in the cities, religious conflicts increasingly jeopardize freedom of worship for Shiites, Hindus, or Christians.

3.1.2 Political patterns of behavior and attitudes

(1) *Institutional stability*: In the five decades that have passed since it gained its independence, Pakistan has not succeeded in building a capable state, and even the process of nation building must be regarded as incomplete. Although a multi-party system is in place, the principle of “loyal opposition” that is so important to a functioning democracy, is unknown in Pakistan. Even democratically elected prime ministers generally govern by decree and executive order with disregard for the largely non-functional Parliament and frequently against the will of the current president. As demonstrated by Musharraf’s putsch against Nawaz Sharif, the 1990s did not bring about the withdrawal of the army from politics. The label “Praetorian state” is therefore not inappropriate for Pakistan.

(2) *Political and social integration*: The failure to bring about a stable, secure, and just sociopolitical order, despite promises to the contrary is certainly the most far-reaching failure of Musharraf’s government and virtually all of the regimes that came before it. The blame also lies with Pakistan’s political parties, which are not programmatic political bodies in the Western sense, but rather personality-oriented and patronage-based electoral platforms. Questionable practices common to Pakistan’s elections include the buying and selling of votes, as well as party switching immediately before and after elections, although this was outlawed as long ago as 1962 and then again in 1997 in the fourteenth amendment to Pakistan’s constitution. Additionally, the supporters of important politicians are becoming increasingly militant.

As a result, large portions of the population have become disillusioned with democracy to a degree that has reached critical proportions. Many see a direct connection between democracy and the deterioration of public order, the failure of the most important public institutions, corruption, and economic mismanagement. Clear signs of the extent to which state institutions have failed include: the civil war in Karachi begun in 1988 between the militant supporters of the MQM(A)

and those of the Pakistan People's Party (PPP); the growth of private armies belonging to large-scale landowners in various parts of Pakistan; and the penetration of militant Islamic extremists into previously urbane and secular portions of Pakistani society, including the armed forces.

In addition, the various ethnic groups in Pakistan are insufficiently integrated and there continue to be religious and dogmatic conflicts that cut across ethnic and sociopolitical lines. All of these conflicts are frequently acted out in armed conflict using the modern small weapons that are abundantly present in the country because of the conflict in Afghanistan. The telling phrase "Kalashnikov culture" was coined to describe this situation.

Voter turnout is traditionally very low. For example, in the parliamentary elections for the National Assembly, turnout was 35.8 % in 1997 and 41.8 % in 2002. While women have the legal right to vote, in practice they are deprived of that right in the traditionally conservative and Islamic parts of the country. There are also electoral irregularities, but not to a degree that influences the general outcome of the elections.

3.2 Market economy

In contrast to its poor performance in the arena of political transformation, Pakistan has made tangible progress in the transformation of its economy in the last five years, despite adverse conditions, especially in terms of the recovery of its banking sector and financial markets. The World Bank shares this opinion and describes Pakistan's economic performance: "Pakistan has turned around a deteriorating macro situation of a few years ago to a rapidly improving one."

3.2.1 Level of socioeconomic development

For all its visible progress, Pakistan still does not ensure adequate freedom of choice for all of its citizens. Instead, clearly pronounced patterns of social exclusion persist both quantitatively and qualitatively. This exclusion exists in the form of the growing number of poor in the population in general, and specifically by way of the above-mentioned discrimination against women in the traditional, Islamist parts of the country outside the cities.

While Musharraf's government is striving to combat at least the worst effects of poverty with the programs outlined in the Poverty Reduction Strategy Paper (PRSP), it will be virtually impossible to address the discrimination against women without a pervasive change in the society's values, which is not likely to occur in the foreseeable future. Another problem is the lack of money Pakistan's government allocates for education. While India and Sri Lanka have regularly spent more than 2.5 % of their GDP on education since 1997 and Bangladesh has

spent more than 2 % during that same period, Pakistan's expenditures for education have stagnated beneath 2 %, hitting 1.6 % in 2001.

3.2.2 Market structures and competition

The foundations of open market competition are largely in place in Pakistan, with unrestricted competition, equal opportunity for market participants, and a government guarantee of the regulations. Despite unfavorable framework conditions on both the domestic and the foreign policy fronts, Pakistan has continued to open its markets and privatize businesses in various sectors of its economy. While this course met with domestic opposition among the Pakistani people, it helped to restore confidence in the development potential of Pakistan's economy on the part of the World Bank, the International Monetary Fund, and the Asian Development Bank.

Pakistan was able to improve its balance of trade so significantly that it had a small surplus at the end of the reporting period. This success was fueled by falling crude oil prices and the fact that—in a pleasant surprise for Pakistan's export economy—the export of Pakistani goods to the United States was not as strongly affected by the events of September 11 as had been predicted. The government continued to restructure the banking sector, although some specialized banks continue to suffer from non-performing loans (NPL). Non-performing and defaulted loans remain a considerable problem for the economy: the former are currently valued at roughly 131 billion rupees and the latter at 168 billion. The basic capital requirement for banks was increased to one billion rupees. A number of banks have either been privatized in recent years or are about to be privatized now, namely the United Bank, the Muslim Commercial Bank (MCB), the Habib Bank Limited (HBL), and the Allied Bank of Pakistan (ABL).

The Pakistani government has invited potential buyers to submit an “expression of interest” (EoI), regarding the Bank Alfalah. The Pakistani financial sector is, on the whole, on the road to liberalization and privatization. The Supreme Court's Riba decision, however, represents a problem by stipulating that Pakistani banks must be restructured to become Islamic banks. By contrast, the Pakistani government believes that the decision in favor or against an Islamic bank should be left up to the customers. Interestingly, some foreign banks have meanwhile closed or sold their Pakistani branches. Pakistani observers, however, believe that they have done so because of changes in their own global economic strategies rather than in response to the Riba decision.

With respect to its economy as a whole, Pakistan must continue its somewhat hesitant deregulation of the market more aggressively and it must also reduce the “hassle factor,” which discourages investment, especially on the part of foreign investors.

3.2.3 Stability of currency and prices

Pakistan's central bank, the State Bank of Pakistan, pursued consistent and successful inflation and exchange rate policies during the reporting period. Although the rupee came under pressure six times after September 11, 2001, the bank was able to hold exchange rates steady. The inflation rate was less than 5 % in the 2000–2001 fiscal year and less than 4 % in fiscal year 2001–2002. Foreign currency reserves, which had dwindled almost to nothing when Pervez Musharraf came to power, have recovered, and Pakistan has succeeded in turning its trade deficit into a surplus.

3.2.4 Private property

Private property and the acquisition of property are adequately defined and protected by secular as well as *sharia* laws. Private companies are able to act freely. They face few barriers to their development, and those that remain should be dismantled by means of appropriate deregulatory measures. Pakistan has made clear progress toward the privatization of its remaining state enterprises and banks in the last three years. However, the acquisition of property as well as the awarding of contracts is affected by very high levels of corruption and nepotism, which continue to plague the administration.

3.2.5 Welfare regime

Pakistan currently possesses only informal social safety nets based on membership in families or clans to compensate for poverty, old age, sickness, and unemployment. As mentioned above, the present government is making efforts to stem the rising tide of poverty. It remains to be seen how successful these efforts will be. As part of its anti-poverty program, the government also seeks to expand health care facilities and schools in rural areas, after inspections discovered that many clinics and schools in those areas existed only on paper. However, this would require increased expenditures in both sectors. Pakistani society outside the cities, which is marked by a rather traditional brand of Islam, is still highly segmented and characterized by semi-feudal and hierarchical stratification. Women and agricultural workers have virtually no access to higher education or public posts.

3.2.6 Strength of the economy

Pakistan's economy was beset by grave crises throughout the reporting period, most notably the events of September 11, 2001. As Pakistan lies in the crisis region, shipping companies and airlines temporarily suspended their service to Pakistan; the costs of transportation insurance and energy rose sharply; and

investor confidence in the country's internal stability fell dramatically. Nonetheless, the Pakistani economy was able to manage its "worst crisis since 1971" surprisingly well, growing at a rate of 3.6 %. It was able to do so in part because, as a frontline state in the war against terrorism, Pakistan received favorable debt repayment conditions from the World Bank, the International Monetary Fund, and the G-7 states. At the same time, many Pakistanis, especially in the United States, moved their savings back to Pakistan out of concern that their assets would be frozen in the campaign against Islamic terrorism. This sudden reflux of considerable sums of money brought about the unexpected recovery of Pakistan's foreign currency reserves.

While Pakistan was able, on the whole, to manage the crisis well, it has not yet succeeded in restoring the confidence of domestic and foreign investors in its economy. Indeed, the proportion of investments to GDP fell throughout the reporting period. Pakistani economists believe that this is due to the government's strict reforms in the financial sector, which despite the passage of countermeasures in the 2001–2002 budget, had a negative psychological effect on the economic climate.

Firms that remained undeterred closed out 2002 with profits. Banks, oil-processing industries, the auto industry, and the pharmaceutical industry were among the winners, while the agricultural sector, which had to contend with water shortages and a continuing drought, was among the losers. However, the main problems are that consumers have little savings and that poverty is on the rise in rural areas, which slows domestic consumption. This suggests that the success of Pakistan's economy after September 11 was an artificial one brought on by external events and will not last. On the whole, Pakistan has the same problem as all other developing countries: the combination of growing poverty and a growing population undermines every one of its economic achievements.

3.2.7 Sustainability

Pakistan does not yet have a social safety net for the compensation of poverty and social risks. As in many developing countries, with the exception of Islamic welfare institutions, the family, the extended family, or clan represents the only social safety net for most of the population. Equal opportunity and access to public services do not exist precisely in rural areas in Punjab, Sindh, or Baluchistan, where the practice of debt bondage partly remains. Women suffer particular discrimination in these areas in terms of their access to secondary and tertiary education, income, and public office.

The social position of women is better in the larger cities, where there are also non-governmental organizations that are fighting to improve their situation. Nevertheless, women are an exception in public office, and the fact that a woman, Benazir Bhutto, has twice led Pakistan's government does not change this reality.

Pakistan's parliament is required by law to contain a certain proportion of women, but Musharraf's government has thus far failed to satisfy that requirement. High-quality preventive health care is only available in the larger cities, while large portions of the countryside lack even rudimentary health care facilities.

Although the government has undertaken efforts to fill the gaps and take steps against the country's endemic corruption, it is still the case that many clinics and schools exist only on paper. Environmental consciousness is still non-existent in Pakistan. The rapid growth of the country's population is forcing the cities to continue expanding at the expense of the environment, and most of the rivers contain a high or even extremely high proportion of pollutants in the urban areas.

Since November 2001 the Pakistani government has been pursuing a program of poverty-reduction and growth-promotion together with the International Monetary Fund through the Poverty Reduction and Growth Facility (PRGF).

4. Trend

(1) *Democracy*: The framework conditions for the successful transformation of the Pakistani state into a democracy have become significantly worse in recent years. The democratization of the country, which began in 1988, was halted by the military putsch of October 1999, and it remains to be seen if and when the Pakistani army will leave the political stage. It would be a mistake to interpret the parliamentary elections of October 2002 as a sign that it is doing so, since power remains in the hands of General Musharraf, where it will continue to rest for the foreseeable future.

It is equally unlikely that the increasing erosion of the state's monopoly on the use of force will halt in the near future. That monopoly has only been partially realized since Pakistan was founded in 1947, with private armies in the hands of large-scale landowners and some of the larger political parties, especially the MQM and PPP. Now, however, the state's control is being even further eroded by the "Talibanization" and radicalization of an ever-increasing number of Pakistanis, especially the young, in the wake of the rise and fall of the Taliban regime in neighboring Afghanistan. Thus Pakistanis increasingly resort to armed contact to settle political and political-religious disputes. The Pakistani version of the democratic culture of debate is therefore often called "Kalashnikov culture." The phrase is only a slight exaggeration. Next to this, the fact that there continue to be electoral irregularities is hardly worth mentioning, especially because such irregularities tend to be isolated phenomena that do not affect the outcome of elections.

(2) *Market economy*: The fundamental developmental indicators improved slightly during the reporting period, but Pakistan's level of development continues

to be poor. Thus, Pakistan ranks 138 out of 173 countries on the Human Development Index and 120 of 146 on the Gender Development Index.

The institutional framework conditions of free-market activity have visibly improved under the government of General Musharraf since October 1999, and the economy has gained momentum since the previous government under Prime Minister Nawaz Sharif. This improvement is partly the result of the concerted policy of economic modernization pursued by the Pakistani government, which managed the crisis after September 11, 2001 well, but it is also the result of strong pressure from the World Bank, the International Monetary Fund, and donor countries. On the whole the Pakistani economy grew at a rate of 2.5 % in fiscal year 2000–2001 and, despite the economic slump after the events of September 11 and a continuing drought, it grew 3.6 % in fiscal year 2001–2002.

Table: Development of socioeconomic indicators of modernization

	HDI	GDI	GDP Index	UN Education Index	Political representation of women	GDP p.c. (\$, PPP)
1998	0,522	0,489	0,47	0,66	3,0 %	1.715
2001	0,499	0,469	0,49	0,41	20,6 %	1.890

Sources: UNDP, Human Development Report, 2002, ADB, Asian Development Outlook 1998; ESCAP, Economic and Social Survey of Asia and the Pacific 2002, UNDP, Human Development Report, 2000, <http://hrd.undp.org/reports/global/2000/ADB>, Key Indicators of Developing Asian and Pacific Countries 2002, http://www.adb.org/Documents/Books/Key_Indicators/2002/PAK.pdf.

Table: Development of macroeconomic fundamentals (1998-2002)

	1998	1999	2000	2001 (est.)	2002 (est.)
GDP growth in %	2,0	4,2	3,9	2,6	4,0
Export growth in %	3,5	-9,7	9,9	7,6	n.a
Import growth in %	-15,3	-7,8	10,8	4,1	n.a..
Inflation in %	7,8	5,7	3,6	4,7	5,0
Unemployment in %	5,9	5,9	5,9	7,8	n.a.
Budget deficit, in % of GDP	-7,7	-6,1	-6,5	-5,3	n.a
Account balance in billions of US\$	-2,9	-3,9	-1,7	1,6	n.a.

Sources: see above.

5. Transformation management

5.1 Level of difficulty

From the beginning of the reporting period until today the Pakistani government has been confronted with extraordinary problems both at home and in foreign policy, which made determined transformation management very difficult. In foreign policy, it has confronted enormous pressure from the United States since September 11, 2001, and relations between Pakistan and India have entered a new “deep freeze,” especially in the wake of the Kargil affair. In domestic politics, the influx of Islamic extremists, which has increased since the collapse of the Taliban regime in Afghanistan, has polarized large portions of the population.

Musharraf’s government has been placed in the difficult position of having to take up the struggle against Islam, as demanded by the United States, in order to continue to receive financial assistance from the World Bank and International Monetary Fund, while at the same time averting open civil war between Islamist groups and secular forces. Under these circumstances, it must be considered a very impressive achievement that Musharraf’s government not only managed to avoid national bankruptcy, but also actually achieved economic growth of 3.6 % in the 2001–2002 fiscal year. The fact that the World Bank has upgraded Pakistan’s credit rating may be viewed as a tangible measure of its success.

5.2 Reliable pursuit of goals

Since October 1999, Musharraf’s government has pursued a strict economic reform strategy, in close coordination with the World Bank, the International Monetary Fund, and the most important of the G-7 donor countries. The most significant components of its strategy are privatization and tax reform, which has not yet been successful. The government is not always able to cushion the costs of its program of economic modernization despite taking countermeasures to do so. This is most notable in the agricultural sector, where despite its importance to Pakistan, the government has had to contend with the effects of continuing droughts.

Perhaps the most difficult problem confronting Musharraf’s government is the lack of confidence within the population that the course of reform would continue under a post-Musharraf democratic government or in the absence of pressure from the World Bank and the International Monetary Fund. A change of course is not wholly out of the question in either of these situations. An economic indicator of this skepticism is the low rate of investment, which did not rebound even after the end of the crisis brought on by the events of September 11.

5.3 Effective use of resources

Musharraf's government makes largely effective use of the available personal, financial, and organizational resources. It is making a special effort to gain control of the endemic corruption that is present at virtually every administrative level. However, the strong focus of Pakistani institutions on personalities and patronage often prevents an impartial and determined implementation of the catalogue of measures against corruption. Thus, supporters of Musharraf's government and members of the army can expect to be treated indulgently, while political opponents cannot. According to the Corruption Perception Index of Transparency International, corruption diminished between the 1998–1999 and 2000–2001 fiscal years and then returned to its original high level of 1997–1998 in fiscal year 2001–2002.

The government also makes use of available cultural resources, including Pakistani society's high capacity for social self-organization. However, the recourse to cultural, mostly Islamic, traditions does not have an exclusively positive effect on the evolution of a modern market economy, as shown by the Supreme Court's decision that Pakistan's banks must be converted into Islamic banks that observe the prohibition of interest.

5.4 Governance capability

Musharraf's government has shown that it is in a position to initiate and stick by its chosen reforms even against political resistance from the ranks of important vetoing actors, such as large-scale landowners. However, the government has realized limits to what is possible. For example, tax reform has almost completely run aground in rural areas making it clear that, even once the government has managed to initiate reforms against the opposition of vetoing actors, it does not always possess the necessary authority to implement them everywhere. In view of the tenuous state of the country's domestic stability, it is unlikely that the central government's authority will increase, and therefore its scope of action will not become broader in the foreseeable future.

For Pakistani democracy on the other hand, Musharraf's government represented a large step backwards. In October 1999, the military made it clear that it still regards itself as the decisive political actor in the country and is ready to intervene when things go awry within civilian governments. Despite the "third wave of democratization," Pakistan can still be described as a Praetorian state. The attempt at democratic transformation may thus be regarded as having failed for the foreseeable future.

5.5 Consensus-building

Even General Musharraf's military government has not yet succeeded in excluding or at least co-opting all of the vetoing actors. In the first place, Pakistan's army is not a monolithic block and opposition from within its own ranks is not uncommon, especially from the powerful secret service, ISI. In the second place, Pakistan's large-scale landowners are too powerful to have their interests excluded, although they are not always possible to reconcile within a modern economic strategy.

However, the most dangerous vetoing actor that is gradually gaining ground is Islamic extremist movement, with its demand for the establishment of an Islamic fundamentalist state analogous to the Taliban regime. The army is clearly attempting to neutralize these groups with a policy of "divide and conquer." The fact that they are nonetheless spreading through the population in general and the army in particular again demonstrates the limits of what is possible.

5.6 International cooperation

The Pakistani government effectively had no choice after 1988, when it barely avoided national bankruptcy, to engage in international cooperation. It had to collaborate closely with the World Bank, the International Monetary Fund, and the G-7 if it wished to receive further financial assistance. Musharraf's government proved to be a reliable partner, as shown by the fact that the World Bank upgraded its credit rating.

Pakistan is seeking to play an active role in the international arena, even if not always successfully. Although it is a founding member of the Organization of the Islamic Conference (OIC), its capacity for action is limited by comparison with that of the influential Arab states. Pakistan's influence with its regional South Asian neighbors, who are organized in the South Asian Association for Regional Cooperation (SAARC), is severely limited by the unresolved conflict with India over Kashmir.

Thus far, India has also used its veto to keep Pakistan from being admitted to the Indian Ocean Association for Regional Cooperation (IOR-ARC) and the ASEAN Regional Forum (ARF). This makes it clear that Pakistan will not be able to assume its role as a medium-sized power within the region until the conflict with India has ended, which is unlikely.

6. Overall evaluation

This report comes to the following conclusions concerning the baseline conditions, current status, and evolution of Pakistan's political and economic transformation and the political management achievement of the actors involved:

(1) *Baseline conditions:* The baseline conditions of transformation must, on the whole, be regarded as negative and even as very negative in the arena of political transformation.

(2) *Current status and evolution:* In the five decades that have passed since it gained its independence, Pakistan has not succeeded in building a capable state and the process of nation building must be regarded as incomplete. Although a multi-party system is in place, the principle of "loyal opposition" that is so important to a functioning democracy, is unknown in Pakistan. It is not uncommon for politicians to change parties immediately before and after elections. Even democratically elected prime ministers generally govern by decree and executive order with disregard for the largely non-functional parliament and frequently against the will of the current president. As demonstrated by Musharraf's putsch against Nawaz Sharif, the 1990s did not bring about the withdrawal of the army from politics. The label "Praetorian state" is therefore not inappropriate for Pakistan.

Pakistan's democratic transformation suffered a palpable setback with the seizure of power by the military in October 1999. At the same time, the electoral success of Islamist parties indicates that democratization in Pakistan cannot be spoken of in the western sense. The lively civil society that exists at least in the cities is under threat from Islamic forces as well as from the violent inclinations of younger Pakistanis, appropriately known as the "Kalashnikov culture."

With regard to economic transformation did General Musharraf's government succeed to slow down the rather rapid economic downturn and to stabilize the macroeconomic indicators. The management of the transformation process at least in the economic sphere can be considered relatively successful.

(3) *Management:* With regard to political management, positive measures such as fighting terrorist-islamistic groups, stabilizing the state monopoly on the use of force and initiating tiny reform steps (communal and national elections, reform of the administration) cannot hide the fact that the ruling elite has no intention whatsoever to turn power into the hands of democratically elected civil elites in the near future.

7. Outlook

Pakistan's future development raises a number of questions, especially where its political system is concerned. Despite many experiments with authoritarianism, guided and liberal democracy, and various constitutions and institutions, the democratic deficit that has existed since the nation was founded still remains. Pakistan's political system continues to be open to descriptions like semi-feudal, personality-driven, and "Kalashnikov culture." In the future, support for democracy in Pakistan will be directly dependent on the improvement of macroeconomic indicators.

Against a backdrop of growing poverty, continuing economic mismanagement, and the failure of democratic institutions, the majority of Pakistanis demand a government that makes economic stability its priority. Whether that government happens to be democratic, Islamist, or military and autocratic no longer makes a big difference to a growing majority of Pakistan's people. It can thus be concluded that Pakistan's market transformation will continue for the foreseeable future, since it is independent of the three forms of government listed above and assuming a prosperous market economy is also possible under an Islamic regime. However, it is becoming increasingly unlikely that Pakistan will evolve into a Western-style democracy.

Such a transformation is dependent not only on economic success as its *sine qua non*, but also on the implementation of genuine domestic political reforms that enhance the population's opportunities to participate, restore domestic order, and ensure the rule of law. The implementation of such reforms, however, will continue to fail because Pakistan's elite would jeopardize its power by implementing them.