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THE MUSHARRAF DEVELOPMENT STRATEGY: WILL IT DELIVER?

Abstract

The paper examines the major components of the development strategy pursued by the Musharraf regime since it took over in 1999 (called " The Musharraf Development Strategy"). It examines the extent to which it departs from the development strategy followed in the more recent past as well as some of the new directions taken. The paper analyses some of the "strengths" and "weaknesses" of the strategy both in terms of its own objectives as well as by measuring its performance against standard socio-economic indicators related to macro stability, inflation, poverty and employment. It identifies some of the key issues which need attention of policy makers in formulating a sustainable development strategy for Pakistan.

The turnaround in the macro fundamentals of the Pakistan economy by the Musharraf government, reflected in the restoration of the fiscal balance, external credibility and the rekindling of economic growth, has been the focus of much attention, even though more recently some of the macro variables are coming under renewed pressure. The team of economic managers that have overseen these developments have been credited with this turnaround and even though they would be reluctant to admit, an element of luck, post 9/11, certainly helped tilt the balance.

Attracting somewhat less attention, but with the potential of having even a greater impact on Pakistan's future economic development has been some important changes initiated in the country's overall development strategy. These changes are reflected in the restoration of the size of the public sector development plan, after a sharp decline in the 1990s[1] and some distinct shifts in the pattern of public expenditure. These changes must be seen together with the dominant role assigned to the private sector in this strategy as the main engine of economic development. These changes, if implemented and sustained as planned, it is being claimed have the potential of moving the economy on to a high growth trajectory and transforming its structure closer to a middle-income semi-industrialized economy over the next decade.[2]

[1] The Public Sector Development Plan (PSDP) declined from 7.5 per cent of GDP in FY 1992 to 2.5 per cent in FY 2000. Note Financial Year (FY) refers to the period July (preceding year) to end June of year shown.
[22] See Planning Commission, Vision 2030 (2006)

Improvements in the macro economy have clearly contributed to bringing about these changes in the development strategy including by creating the fiscal space to finance higher levels of public sector development expenditures. Macro stability has also restored donor confidence which together with the post 9/11 debt relief and increase in remittances has resulted in larger external resource inflows. There is, however, an importance difference. While the set of policy measures adopted for restoring the macroeconomic fundamentals followed to a significant degree the standard IMF-World Bank deflationary package, the new development strategy appears to be very much "home brewed".

What are the main elements of what future economic historians may well dub as the "Musharraf Development Strategy"[3]? Also, more importantly what are the chances of its success? Even answering the first question is not straightforward as it is not always clear cut when and to what extent one set of policy measures give way to another and even when there is a distinct change of direction to what extent is it really "new". More difficult is the answer to the second question of whether a strategy has been successful, not least, as there are many possible indicators of success. The economic impact of a strategy, especially the long gestation infrastructure projects, may be felt much later, even in many cases after the government which had started them has long gone. Also, and more importantly, though the strategy may deliver in terms of somewhat narrow economic indicators, it may still well be rejected by the people who may judge it by another set of broader socio-economic indicators, as was as seen at the end of the Ayub period in the sixties.

With these qualifications the approach taken in the paper is as follows. First we spell out what are seen to be the distinguishing features of this strategy in relation to the more immediate past. In terms of answering the question will it deliver, the approach taken is to first judge the strategy on its own terms i.e. the goals it has set for itself including identifying if are there contradictions in the achievement of these different goals. The second is to judge its performance in terms of some key indicators which are now generally accepted in judging development performance, namely, the impact economic growth has had on poverty, distribution of income

[3] It is not uncommon to call a particular strategy followed over a period of time by the name of the head of the Government eg. "Ayubian" strategy for the 1960s when President Ayub was at the helm of affairs or in the case of India the "Nehruvian" strategy after its long serving Prime Minister Jawaharlal Nehru. The period of the Musharraf regime is now coming to eight years so it does span a reasonable time frame to call this strategy after him. In his recently published autobiography (Musharraf, 2006), his views on economic policy making and development are put forward especially in Chapter 19, Kick Starting the Economy, which also identifies the four main objectives of the strategy that emerged soon after he took over, namely: (i) achieving macroeconomic stability; (ii) making structural reforms to remove microeconomic distortions; (iii) improving the quality of economic governance; and (iv) alleviating poverty. His strong inclination for the development of infrastructure especially on increasing water resources and roads and communications also emerge in the chapter.

and wealth, real wages, and generation of new job opportunities. Clearly this list is far from exhaustive and clear-cut or recent data may not be available in all cases. But it does reflect some of the key indicators by which the people of Pakistan have historically judged past governments.

Development Strategy: Key Features

Let us spell out the six distinguishing features of this new development strategy which to varying but still significant degree represents a shift from the strategy followed in the recent past:

- First, while accepting the primacy of the private sector, is the re-establishment and recognition of the role of the government in significantly influencing and financing, through both internal and external funding, the countries overall development strategy. This is reflected in both the drawing up of a medium and long term development framework and an almost doubling of the annual public sector development programme (PSDP) from around Rs. 115 billion in FY 2001 to Rs. 260 billion in FY 2006[4]. As envisaged in the Medium Term Development Framework (MTDF) the size of the PSDP is to reach Rs. 605 billion in FY 2010.[5]

- Second, the launching of a number of mega infrastructure projects with a distinct thrust in the harnessing, storing and efficient delivery of much needed water resources for the agriculture sector, building needed energy sources, developing new ports (Gwadar), highways (eg. Makran coastal highway) and the development of backward regions (Baluchistan).

- Third, is a major shift towards investing public sector resources in higher education especially in sciences and engineering subjects and encouraging private sector participation in the growth of this sector.

- Fourth, is building the capacity, by developing needed human resources and supporting infrastructure, to acquire access to cutting edge new technologies especially information and communications technology and even space technology to bridge the technology-gap which had opened up between Pakistan and many of the fast growing developing economies (including India).

- Fifth, to shift and diversify the production base of the national economy towards higher value-added goods especially in the manufacturing sector.

[4] FY 2006 refers to Financial Year 2005-06.
[5] Planning Commission, MTDF 2005-10, Islamabad 2005.

- Sixth, is the decentralization and devolution of decision making and use of public sector funds increasingly to the local level.

To reiterate, the shift towards increasing the public sector development programme and accompanying changes in the allocation of these resources should not be seen to replace the predominant role assigned in this strategy to the *private sector as the main engine of economic growth and job creation in the economy*.[6] The underlying aim of building up the physical and social infrastructure, including a highly educated and skilled labour force, is to draw in private investment, both domestic and foreign, into key sectors of the economy. The dynamism so created is expected to propel the economy into a growth trajectory of over 8 per cent (as projected in the MTDF 2005-10) finally overtaking the respectable though not spectacular "Pakistani growth rate" of 6 per cent at which the economy had grown for the four decades till the 1990s.

We start by examining the macroeconomic turnaround which clearly provided a foundation on which the new development strategy could be launched.

Macro stability: Delicately Balanced?

From a situation of impeding default on foreign loans and an unsustainable fiscal and balance of payments deficit only a few years earlier, Pakistan had by FY 2005 come out of the debt trap, the balance of payments had turned surplus, and the fiscal deficit reduced to around 3 per cent of GDP from well over 5 per cent in FY 2000[7]. In addition average interest rates fell from 14.6 per cent in FY 2000 to 6.2 per cent in FY 2005. Most important of all real GDP growth accelerated to over 8 per cent in FY 2005 after falling to an all time low in FY 2001 to 1.8 per cent from around 4.2 per cent in FY1999.[8] While growth in FY 2006 had declined to nearer 6.5 per cent it was still high as compared to the 1990s.

A four-fold increase in remittances post 9/11 from around US $ 1 billion in FY 2001 to around US $ 4 billion between FY 2002 and FY 2005 and a further increase in FY 2006 to US $4.6 billion has clearly played a part in this macro turnaround.[9]

[6] Burki (Dawn, November 14, 2006), argues that this shift to assigning the predominant role to the private sector in the national economy and development strategy was initiated during the first Nawaz Sharif government in 1991 but could not be carried through as the government was dismissed well before ending its term of office. Burki does, however, state that the domineering role of the private sector in the Musharraf regime is certainly more than followed in the past and significantly more in other countries moving towards a market driven economy eg. India.

[7] See Kemal (2005)

[8] See Hussain (2005)

[9] See Amjad (2004) for a detailed analysis of the impact of the increase in remittances in Pakistan and other South Asian economies. Remittances have further gone up in the first six months of FY 2007 to US $ 2.6 billion as compared to US $ 2.1 billion in FY 2006 (Source: State Bank of Pakistan website).

The former State Bank Governor, Ishrat Hussain has, while acknowledging its contribution does make the valid point that "while the favourable external environment has definitely helped and reinforced the thrust of the economic policies and reforms, its impact would have been short lived and transitory in the absence of the reforms and policies and improvements in governance that have been undertaken during the last five and a half years".[10]

Creditable as this achievement may be there been some criticism of macroeconomic management post-1999 in that it accepted the far too harsh conditionalities imposed by the IMF which curtailed government expenditure when a more pressing anti-cyclical fiscal stance could have been taken (i.e. higher than agreed level of government expenditure) given that inflation was at extremely low levels.[11]

With hindsight it would appear that economic managers pressed the breaks too hard in their efforts at restoring the macro balance and then pressed the accelerator too fast to jump start economic growth. The latter is especially true post-FY 2004 when interest rates were drastically reduced and were accompanied by a large increase in the money supply than what economic conditions justified.[12] This monetary expansion together with the increase in oil prices unleashed a high rate of inflation of around 10 per cent. The State Bank has now pressed the breaks again by raising interest rates and curtailing credit and so bringing inflation rate down to nearer 6-7 per cent in the first half of FY 2007.

While the economy has been able to absorb the tragic impact of the earthquake which hit the Northern areas of Pakistan in October 2005 in terms of sustaining the growth momentum the large reconstruction effort has further fuelled domestic demand pressure.

Overall what is of growing concern is the emergence of a large trade deficit, the result of increase in oil imports and price of oil , imports of machinery and consumer durables (e.g. motor vehicles), which is putting pressure on the exchange rate. While the government remains confident that this deficit can be financed by expected larger flows of donor assistance, a substantial increase in private foreign investment, an increase in remittances, and a pick-up in exports after an unexpected dip in the first half of FY 2007, the macro fundamentals remain under pressure given the uncertainty that accompanies each of these conditions.

The New Development Strategy

(i) *A more active role of the public sector in economic development while accepting the dominance of the private sector as the main engine of economic growth*

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[10] Hussain (2005, p. 12).
[11] See ILO (2003) and Amjad (2003).
[12] This point is strongly made in Janjua (2005).

The MTDF 2005-10 spells out the nuts and bolts of the new development strategy but does not sufficiently capture or highlight the important changes in relation to the more recent past.

One such important change is a more active role of the public sector within a development planning framework in influencing the growth path of the economy though it should not as mentioned earlier deter from the predominant role the private sector is assigned in this strategy – captured in the often repeated slogan of "deregulation, liberalization and privatization".[13] Growth and confidence of the private sector has been built-up by speeding up the process of privatization especially in the banking sector, improving the regulatory framework and creating an enabling environment to encourage domestic and foreign investment, and a more liberal trade regime for imports of machinery and other inputs.

As to a more active role of the state in economic development this is now regaining ground after the "retreat" from the so called "Washington Consensus" which propagated that the role of the state should be limited to only facilitating market forces and leaving development almost solely to the private sector. The Sach's Report (2005) on *Investing in Development – A Practical Plan to Achieve the Millennium Development Goals* strongly argues for developing countries to invest in essential infrastructure development if they are to be in a position to take advantage of opportunities of trade and investment opening up in the global economy.

Table 3: MDTF 2005-10: Sectoral Breakdown
(Billion Rupees)

Sector	**(2005-10)**	**% Share**
Infrastructure Sectors	993.2	48.6
Social Sectors	681.5	33.4
Regional Development	681.5	13.2
Production Supporting Sectors	66.3	3.2
Total	2042.0*	100.0

*Includes others Rs. 30.9 million and excludes expenditures planned for Azad Kashmir, FATA and other Northern areas.

Source: MTDF (2005)

[13] Prime Minister Mr. Shaukat Aziz Khan, who still hold the portfolio of Finance usually pins the success of the Pakistan economy to these three pillars of Pakistan's growth strategy. See for example is speech to the Chinese University of Hong Kong on 12th August 2005. See http://www.cuhk.edu.hk/ipro/pressrelease/Aziz-speech.pdf.

The Public Sector Development Program (PSDP) according to MDTF 2005-10 is to more than double from 3.3 per cent of GDP in FY 2005 to 7 per cent in FY 2010 and the annual PSDP is to triple from around Rs. 202 billion in FY 2005 to Rs. 605 billion in FY 2010 with a total of Rs. 2,042 billion over the five year period.

Under infrastructure 15.1 per cent of the total outlay is for the development of water resources, 23.2 per cent for power and 15.6 per cent for transport and communications. Under the social sectors education and training are 5.5 per cent of the total outlay, higher education a significant 4.7 per cent, science and technology 2.9 per cent and information technology 1.2 per cent. Local/District Governments are only allocated 2.8 per cent of the total outlay under Regional Development.

It could be argued that this increase brings public sector expenditure more in line what it was in the period preceding the 1990s and therefore not much has changed.

This may be true but the fact that it has again increased to that level or higher is still important. However, the important point being captured here is somewhat different. Starting with the 1980s and for much of the 1990s there was a distinct change in the approach to development planning with public sector expenditure plans being seen more as a loose aggregation of projects rather than as part of an overall integrated development framework. This led for example in the case of the Zia regime in the 1980s to considerable neglect of much needed investment in infrastructure development and in the 1990s to investments in low return and low priority infrastructure projects such as the Rawalpindi-Lahore motorway.[14] Also earlier exercises in the form of medium-term five year plans were for all practical purpose given up and even if some plans did appear, they were not seriously pursued. One of the fall-outs of this change was that the role of the Planning Commission was almost completely marginalized.

What we now see with the MTDF is the emergence of a development framework which works out the public sector expenditure plan as part of the overall growth, development and poverty reduction strategy. The MTDF is weaker as a planning tool as compared to earlier five year plans of say the 1960s which included directions and targets for the private sector which is not done in the current MTDF. That said the MTDF 2005-10 and the accompanying Poverty Reduction Strategy Paper (PRSP1) (which has now been merged in the MTDF) is a more powerful policy planning tool to guide public sector development expenditure than medium or three year plans followed in the 1980s and 1990s. The Planning Commission which used to be headed by the President in the 1960s but was subsequently placed

[14] See Hassan (Business Recorder, 14 January 2007) on the Zia period and Burki (Dawn, 21 November 2006) on the 1990s.

under the Finance Minister is now headed by the Prime Minister in the new structure introduced in 2006.

(ii) *The mega projects for infrastructure development*[15]

As the Government itself claims "economic growth through massive infrastructure projects has been one of the pillars of the Government economic strategy".[16]

Starting in FY 2002 a number of mega infrastructure projects were started covering hydropower (Ghazi Brotha Hydropower project), dam and canals (Gomal, Mirani, rising of Mangla, Sabakzai,, Sutpara, first phase of Greater Thal and Kachhi and Rainee canals), ports (Gwader) and highways to ensure regional connectivity (Coastal Highway). Many of these projects will be completed during 2005-10.

The rational to develop the country's water resources was always very clear given the pressing needs of the agricultural economy and the sharp drop over the years in the per capita availability of water.[17] The real challenge now is to build a consensus on the much needed large water reservoirs that are so urgently needed.[18] Some funds have been earmarked in the MTDF 2005-10 to initiate work on the mega dams and necessary financing if consensus is reached on them is expected to be raised through donor funding, banking channels or government guarantees.[19]

Similarly a highway network being developed which will open up neglected and backward regions and would link up Pakistan with the Central Asian economies including through the building of the Gwader port. The extent of returns on these investments would depend to a large measure on trends in growth and stability in the region. Private foreign investment flowing into Gwader will have to compete with the other Gulf states. But the latter are now becoming more costly in terms of services they offer, somewhat similar to the transition Singapore, the model on which they are built, went through about twenty years ago. If Gwader can offer

[15] It could be argued that mega projects were also part of policies followed by earlier regimes eg. the building of the motorway by the Nawaz Sharif government. The point being made here is that the number of development projects over a certain size ("mega") being pursued by the Musharraf government as part of the overall public sector development plan is much larger. Clearly a detailed review of development projects in the last seven years would need to be taken to quantify this change but a general overview of large scale projects undertaken over the last twenty years would tend to support this view.

[16] See Press Release at the end of the Pakistan Development Forum (PDF) 2006 at the Economic Affairs Division website on PDF 2006.

[17] See Etienne (2005)

[18] The five major dams planned to be constructed are Akhori, Diamer-Basha, Kalabagh, Kurram Tangi and Mundi at a cost US $ 20 billion. (See presentation by Mr. Ashfaque Mahmood, Secretary Water and Power, at the PDF 2006 on the PDF 2006 website,

[19] The World Bank and the Asian Development Bank have pledged $ 6.5 billion funds for the Diamer-Bhasha Dam (See Dawn, 2 February 2007, Donors to Fund Bhasha Dam).

storage and other services at much cheaper rates then its Gulf competitors it will well justify the investment made in economic terms without deterring from its strategic significance.

The resources and projects for development of Baluchistan was long over due and should meet the long outstanding grievances of the people of the province. Passing on a share of the royalties from its natural gas resources directly to the elected local authorities for development would ensure that the people living in the area feel the benefits and also have a voice in their use. Indeed this principal should be followed in the case of any part of Pakistan from where the natural resource is being tapped for national use

(iii) *Emphasis on higher education*

There has been an unfortunate neglect of higher education throughout the last fifty years. The marked deterioration in the structure of governance and delivery of public services are a clear reflection of this neglect. As the Lakha Task Force report on Higher Education stated, "Pakistan's higher education, above 12 class, is proving unable to provide the skills necessary, in the quantities necessary, to achieve the dual objectives of nation building and global competitiveness". [20]

The increased emphasis on higher education is reflected in the increase in resources allocated to the Higher Education Commission for the development of higher education in the MTDF 2005-10. The resources earmarked are to increase from Rs. 11.7 billion in FY 2006 to Rs. 28 billion in FY 2010, amounting to Rs. 95 billion over the five year period. In addition Rs. 40 billion is expected to come from the private sector.

While the shift towards higher education was long overdue it is important that this should not be at the expense of much needed expansion and improvements in primary and secondary education. Primary education and acquisition of basic skills has still the highest returns in terms of income and productivity growth and remains the most effective means of breaking out of poverty for the very large number women and men who live below the poverty line.

It is difficult to draw any firm conclusion on this issue at least from the MTDF. But if you compare the allocation for higher education this would appear to be much higher than school education and literacy, around Rs. 99.20 billion for the former and Rs. 71.60 for the latter. It is an issue which does require careful attention.

Also at the same time there is need to take due caution in implementing the goals of the new higher education policy. The emphasis must be on ensuring quality and not

[20]See report of the Task Force in Ministry of Education (2002).

a mechanical number game of producing PhDs and other degree holders of very poor quality. Realistic targets need to be set keeping in mind the existing capacity in terms of supervising research and those who can teach at post-graduate level.

These shortcomings aside, which do need serious attention and analysis, overall this is a move in the right direction, especially the significant increase in resources towards the public sector universities and higher educational and research institutions. It is also important to ensure that this increase in resources for higher education is accompanied by adequate financial support to needy students and not used to subsidize education for those who can well afford it.

(v) *Investing in the development of new technologies: Developing a knowledge economy*

On the need to invest in the development of new technologies there is again a compelling case Pakistan, for example, missed out in the first phase of the global software boom of which India took full advantage earning as much as $ 10 billion in exports annually over the last decade. To develop a competitive ICT sector requires the supply of relevant skills, which the education system with its new emphasis on science and technology should now hopefully be able to do, together with proper pricing of ICT inputs and outputs and the development of up-to-date infrastructure for which resources are again being made available. The economy as a whole and especially manufacturing and the financial sector can benefit in terms of both efficiency and productivity from the use of ICT. Pakistan's exports from software and related services are still negligible (around US $ 700 million expected in FY 2007[21]) but a major jump over the next few years is foreseen. If this does not take place there would be need to carefully review the current strategy.

The thrust in ICT development must be seen as part of a concerted effort to convert Pakistan into a knowledge economy which would increases its capacity to compete in the global economy by raising the knowledge content and competitiveness of its agriculture, manufacturing and services sector. There is a significant overall increase in resources allocated in the MTDF 2005-10 for science and technology development, technical and vocational education and for investment in research and development.

(vi) *Devolution*

On devolution the changes that have been introduced in the structure of local government are indeed far reaching with much greater powers being given to

[21] Information collected by the author from the Ministry of Information Technology, Islamabad. These figures are much higher than shown in export earnings in the balance of payment data but apparently are based on the same methodology as used by India in calculating its ICT related exports.

elected local leaders that were earlier exercised by the civil bureaucracy. The expressed aim of the Government is to increase citizen participation in local decision-making, strengthen accountability and thereby improving service delivery. These changes it is hoped would accelerate efforts at poverty reduction.

It is still too early to judge the effectiveness of this change and whether it has led to improvements in the delivery of basic services at the local level. A feeling often expressed, but not backed with any real analysis, is that this new system has not yet taken any firm roots and that the on-going "pangs of change" is adversely affecting local governance and creating hardship for ordinary people. Yet, there is much to commend in the devolution plan including the voice it gives to women and other marginalized groups in local decision making. But it will take time to take root and here the key would be to be realistic rather than dogmatic, learning from what works and what does not, while not loosing sight of the overall objective which is to ensure a radical power shift towards local self government.

Will it Deliver?

On its own terms the success of the development strategy to a large measure will depend on its effective implementation especially putting in place the large infrastructure projects and then completing them in time and in a cost effective manner. That said what are the areas of weaknesses which may threaten its sustainability and derail it?

Let us first turn to what appear to be some of the inherent contradictions in the goals of the strategy.

The first contradiction which strikes one is the emphasis in the strategy of investing in mega infrastructure long gestation projects to be implemented mainly by the central government and of the on-going attempts to shift power and resource use to the local level. In the MTDF 2005-10 this dichotomy emerges clearly when one sees the very low levels of development expenditure, less than three per cent of the total, being allocated to local governments.[22]

There would also appear to be contradiction, at least in the short and even medium term, in allocating a large bulk of the resources to large long gestation infrastructure projects which in most cases tend to be capital-intensive and the more immediate aim of generating employment and reducing poverty. Again this issue needs more careful analysis but it is one which needs to be addressed especially by examining the flexibility in the MTDF to be able to divert resources to more employment-intensive projects if poverty trends and labour market pressures so dictate.

[22] According to Kardar (2006) the total expenditure of local governments as a proportion of the combined expenditure of the Federal, Provincial and Local governments is less than 1per cent compared with 4 per cent in India and 20 to 35 per cent in advanced countries.

There is also the question of the absorptive capacity of the economy to undertake, over broadly the same time span, a very large number of mega infrastructure projects both in terms of existing availability of skills and management capacity. Again this would need careful analysis but some of the project launched such as the linking of Gwadar through a highway network is already falling far behind. Also as mentioned earlier the success of Gwadar would depend on its capacity to be able to be competitive in terms of terminal and other services offered and the early signs are that this could be a formidable task.[23]

While not necessarily a contradiction in its present form, if the emphasis on higher education takes away resources from primary and technical education, then the strategy would open itself to serious questioning not only in terms of economic efficiency but also in terms of its impact on poverty eradication. Also the expected returns to the large increases in expenditure on higher education would require a number of conditions to be met including the quality of the graduates it produces and the employment opportunities for them that will be created.[24]

Measuring Success against some Key Performance Indicators

Let us start with the macro management of the economy as it has had a critical impact on poverty, job generation and availability of services especially for the poor.

It is now accepted that the earlier squeeze on the economy during 1999 to around 2003 led to an increase in poverty levels and a rise in unemployment. The paper has taken the position that more prudent macroeconomic management and asking for more leeway from the IMF could have resulted in less hardship during this period. If there was a possibility of getting better terms from the IMF[25] and moving out of the IMF programme earlier than was done, as some have argued, then this would erode some of the shine from the achievement of the country's financial managers credited with the macro turnaround of the economy.

[23] That the Government is conscious of this can be gauged from the recently announced very generous tax and other incentives to companies that will operate the Gwader Port (40 year tax relief) and those who will invest in it (20 years exemption from income tax) to make it an almost "tax free port". (See Dawn, 40 Year Tax Relief for Gwadar Port Operators, 2 February 2007).

[24] That sufficient number of jobs may not be available for graduates the Government has recently introduced a scheme to place graduates with a Masters degree with at least two years at institutions approved by the Higher Education Commission (HEC) as interns in the public and semi-autonomous bodies with a monthly stipend for 12 months of Rs. 10,000. This scheme also raises important equity issues. (See Dawn, 3 February 2007, Internship programme approved.)

[25] Given Pakistan's strategic importance post 9/11 it could be argued that Pakistan's bargaining position with the IMF was considerably strengthened.

The other shortcoming in macroeconomic management which could have a far reaching socio-political impact, was that in jump starting the economy through an expansionary monetary policy, the economic and financial managers went far beyond what prudent economic policies would have dictated and this resulted in double digit inflation. This inflation, which has hit hard both low and middle income families has generated a lot of resentment and which has clearly dampened enthusiasm for some of the real economic achievements of the regime amongst the large bulk of the population.

The next important question which has generated a lot of controversy is the impact of economic growth on poverty levels during this period. According to the official figures there has been a decline from 34.5 per cent in FY 2001 to 23.9 per cent in FY 2005.[26] The World Bank has supported the claim of a decline although using different price deflators they suggest that the decline is around 5 percentage points i.e. to 29.2 per cent in FY 2005.[27] It has also been said that in viewing this decline it should be kept in mind that FY 2001 was a drought year and FY 2005 the country had a bumper harvest.[28]

Given an average economic growth of around 7 per cent in the last four years and a decline in the unemployment rate from a peak of 8.3 per cent in FY 2001 to around 6.3 per cent in FY 2005 it would suggest that poverty levels could have fallen.[29] While one would need to await more recent estimates on poverty to cover the last two years, an important question is not that they have slightly fallen, but more surprisingly why they have not fallen by a much larger amount. If lack of economic growth had increased poverty levels in the 1990s and early years post-2000, then the revival and spurt of economic growth in the last four years should have had a much greater impact on reducing poverty. This is because a large number of the poor are just below the poverty line ("transitory" poor) and a small increase in their income would push these above the poverty line.[30] High growth should not only have pushed these people but also those somewhat below the poverty line.

While again one must await more recent data, the fact that poverty levels have not fallen more significantly and picked-up the "non-transitory" poor leads one to believe that there appears to be an important disconnect between the governments

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[26] See Ministry of Finance, Pakistan Economic Survey 2005-06.

[27] See World Bank, Summary of key findings and recommendation, http:siteresources.worldbank.org

[28] See Hassan (2006) and John Wall (World Bank Pakistan Country Director), (July, 2006).

[29] While the rate of job creation has gone up in recent years Sehr Amjad (2006) has argued that most of this increase has been in self-employed female workers (unpaid family helpers) in the agriculture sector and this may not have led to very productive or remunerative jobs.

[30] Burki (Dawn, December 12, 2006) also raises the same issue.

overall growth strategy, where it has been quite successful in terms of high growth rates achieved (although per capita income have not doubled in the last seven years as is being claimed)[31] and its poverty reduction strategy. This disconnect has led some to argue that the poverty reduction strategy has been based on the old and discredited "trickle-down" of the gains of economic growth and that as in the past this has not worked.

An important reason has, as mentioned earlier, been high levels of inflation. Its impact can be seen by the somewhat limited evidence on real wages which suggests little change for skilled and semi-skilled workers and even a decline for rural landless labour (Ghayur, 2006), even though money wages have significantly increased and skill shortages have increased money wages for particular skills.

The other reason for the lack of impact of growth on poverty appears to be that the growth process has been mainly driven by a "consumption-led boom"[32] which has mainly benefited the middle-and high income groups who have reaped most of the gains of growth including through access to cheaper credit facilities with the expansion of consumer credit facilities and leasing arrangements. Also as compared to the earlier period of the 1980s when remittances mainly flowed to low-income households in this case it has benefited mostly middle- and higher income households with investment directed in property and the stock market. The impact of remittances on poverty has therefore been very marginal.

Recent data for income inequality trends is not available. The government now publishes estimates of consumption inequality which are generally lower than inequality based on income as variations in consumption are less and is based on a subset of food. These estimates show an increase (as measured by the gini coefficient) from 0.275 in FY 2001 to 0.298 in FY 2005 with the increase being more in rural than in urban areas, although it should be pointed out that these estimates are not strictly comparable as they are from different sources. What they suggest is that income distribution has further worsened over this period, also

[31] Given the average per capita growth in the last seven years of around 3 per cent, per capita income could not have doubled. The claimed doubling is the result of a periodic adjustment in the national income account estimates and methodology which shows in US $ terms a doubling of per capita income from around US $ 430 to US $ 820, but the two estimates are not comparable. See interesting debate on this issue between Sartaj Aziz (2006), a former Finance Minister and Ashfaque H. Khan (2006), Chief Economic Advisor, Ministry of Finance, Government of Pakistan.

[32] According to ABN-AMRO (2005) consumption levels increased by 50 per cent in nominal terms between
FY 2003 and FY 2005 – one of the biggest surges in private spending in the country's history. This may partly be the result of increase remittances.

adding credence to the argument that the gains of economic growth have accrued more to the middle and high income groups.[33]

Concern is also being expressed, although this is not backed with hard evidence, that there is emerging concentration of economic power and monopoly profits are being reaped in certain sectors (cement, sugar, automobiles) of the economy through possible collusion between the major producers. The State Bank needs to carefully monitor that where large industrial houses control directly both banks and industrial interests this linkage is not being misused in terms of use of finances from their own banks and for keeping out potential users of these funds. The Monopoly Control Authority (now renamed the Competition Development Authority) also needs to play a more active role in ensuring against and penalizing price collusion as seems to have been in evidence recently in price increases of cement and sugar.

Conclusions

The people of Pakistan must be the ultimate judge of whether the Musharraf development strategy has delivered or not and they will have a chance this election year, 2007, to give their verdict. This paper has analyzed the main element of this strategy and tried to identify its strength, contradictions and weaknesses. On the positives, to use an often repeated term these days in the economic debate, the revival of economic growth, growing confidence of the private sector in attracting larger amounts of both domestic and foreign investment and the development of a more strategic and effective policy framework to guide public sector investment programme, clearly stand out. Economic growth has also arrested the increasing trend in unemployment with unemployment falling but has not yet translated itself into increase in real wages for most workers or improved conditions of work.

On the negatives has been the high rate of inflation badly hurting lower and lower-middle income groups. Though not a clear cut negative but bordering on it has been the lack of impact, at least on the evidence so far, of economic growth on significantly reducing poverty. Again, not a clear cut negative, but an area of concern is that economic growth has been mainly consumption-led benefiting mainly the middle- and upper income groups and the distribution of income has marginally worsened. The consumption led nature of the boom has also raised questions on its sustainability. Again there is concern, although no hard studies are available, of concentration in the ownership of economic assets and collusion and other restrictive practices leading to shortages and resulting high prices of selected goods where production is concentrated including cement and sugar.

[33] See Pakistan Economic Survey 2005-06, page 58. Burki appears to confuse consumption inequality with income inequality in his analysis of these trends (see Dawn, Tuesday December 05, 2006)

On the basis of this balance sheet some of the critical policy issues that emerge are: First, how macroeconomic management can ensure a healthy balance between sustaining the growth momentum, on the one hand, and inflationary pressures on the other. Second, how to achieve the right balance between long gestation "mega" infrastructure projects and more labour-intensive short- to medium term development projects in the overall public sector development programme. (The old "big-push" vs "balanced" growth debate.) Third, to strengthen the regulatory framework which discourages concentration in the ownership of assets and use of monopoly powers to manipulate prices. Fourth, how to ensure that economic growth emanates and favourably impacts on sectors where the poor are concentrated, namely agriculture and the informal economy. Fifth, in order to make devolution effective to increase resource availability for provision of services at the local level. Sixth, how to ensure high rates of return on investments in higher education while fully protecting resources for primary education and skills development. And finally to build up an efficient yet at the same time equitable labour market which protects real wages and provides improved conditions of work, including fundamental rights at work.

These represent some of the important challenges which this or the next government would need to grapple.

The views expressed in this article are author's own and in no way reflect those of the organization in which he works.

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