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## Article

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*Reference:* Mamoon, Dawood (2017). Politics case study : bad news in good times of General Musharraf Presidency : economics versus politics. In: Journal of economics and political economy 4 (4), S. 376 - 381.

This Version is available at:  
<http://hdl.handle.net/11159/1736>

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Journal of  
**Economics and Political Economy**

www.kspjournals.org

Volume 4

December 2017

Issue 4

**Politics case study: Bad news in good times of General Musharraf Presidency: Economics versus politics**

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**Abstract.** General Musharraf ruled the country as a self proclaimed enlightened dictator. His politics is as repressive as has been the case of any dictatorial regime. However the paper suggests that he did make a genuine effort to uphold Pakistani economy that witnessed recessionary trends in 1990s. This paper is a critical analysis of Musharraf's politics in contrast to his economic policies.

**Keywords.** Politics, Macro economy, Institutions.


**JEL.** A13, E02.


**1. Introduction: Politics of General Musharraf**

**A**fter 2003 general elections, Pakistan had witnessed an economic comeback under the regime of President Pervez Musharraf. Though it was much early to tell whether this good economic outlook was there to stay, the over time movements in macroeconomic indicators did suggest that Pakistan was moving towards increased economic stability. However, the only contradiction in this picture was the Musharraf government itself. Though the government claimed that Pakistan is a functioning democracy, the truth was that the democratic system was a manipulated set up whereby all powers concentrated in the hands of one man. The ouster of prime minister Mir Zafarullah Khan Jamali and the election of Shaukat Aziz as the prime minister had evidently shown that Musharraf was still at the helm of affairs and he was the sole entity to decide and dictate the course of Pakistani politics.

So irrespective of the government claims, Pakistan was being ruled by a dictator. In the contemporary world dictatorship is a bad news because dictators are widely considered to be dire for institutional development. Whereas good institutions are pre-requisite for the social, political and economic development of any country (Rodrik *et al.*, 2004). Few measures of institutional quality which are directly affected under a dictatorship might be bureaucratic quality, control for corruption, risk of expropriation by the government, risk of government contract repudiation, voice and accountability, rule of law, judicial independence, civil liberties to all citizens in their daily lives and in acts of political participation, government effectiveness, regulatory quality, political stability etc (Kaufman *et al.*, 2003). On civil liberties, the regime showed little tolerance and practiced unfair discretion whereby political opponents had been either lured or forced to succumb to government pressure. The ones who had defied any pressure have faced either imprisonment or forced exile. Benazir Bhutto, Nawaz Sharif, Shehbaz Sharif, Javed Hashmi and Asif Ali Zardari were one of the prime political casualties of Musharraf's dictatorship.

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In 2004, Baluch Liberation Army had been successful in exploiting the long standing feelings of dissatisfaction and frustration among the populace of Baluchistan for the years of neglect of Baluchi interests by the center. Many a Baluchi nationalist politicians and Sardars had openly praised BLA and defended the insurgents despite the fact that BLA is not working for mere political autonomy of the province or for that matter, the Baluchi interests in Pakistan. Instead BLA does not recognize Pakistan and the main agenda of this organization is to have an independent Baluchi state.

In Pakistan the line between terrorism and political discontent was disappearing fast as the voices of dissatisfaction over 'one man rule' had been hijacked by the terrorists. Musharraf government had also created a very precarious situation for Pakistan army. Army became the only outlet for the common man who wanted to find somebody to blame for his plight. Politicians readily blamed army for all and sundry and had transferred their own failures onto the shoulders of the army. It had become evident that Musharraf cannot by himself steer the Pakistani ship out of troubled waters.

Pakistan was in desperate need of strong and experienced political leadership. By closing the doors to Benazir Bhutto and Nawaz Sharif, Musharraf had created a political vacuum which was readily exploited by the extremist elements. He should have allowed both the leaders to play their due role in strengthening the cause of democracy in Pakistan in order to bring some political stability in the country.

Furthermore, on the violation of civil liberties of common Pakistanis, an ex editor of one of the main English dailies of Pakistan along with his family embraced self exile, after he had refused to follow the government line. Whereas the disappearance of a Karachi based lawyer after he questioned the eligibility of Shaukat Aziz, the so called prime minister, to run for parliament reinforced the fact that the government's respect for civil liberties were conditioned upon the subservience of the populace. For example, the swift ouster of Shehbaz Sharif, after a high court decision that no citizen of Pakistan can be barred from entering his own country, was a clear case of contempt of court. However, Musharraf and his acolytes were least bothered for making such a blatant mockery out of the courts. It became clear that the regime was only concerned with its self interest, and there should be no doubt about it as it is a universal truth that national interest of any country can never be served by undermining law and constitution of the land.

In 2005, despite international pressures, Musharraf indicated that he would not part away with his uniform as he claimed that any such step might disturb the economic and political progress of Pakistan. Well he was partly right on the economic aspect of his justification but as far as political progress was concerned, there should be no doubt about it that true democracy can never be born under the shackles of a dictatorship. If Musharraf really wanted to initiate a real political progress in the country, he should have resigned as army chief.

## 2. The good times of the regime

However, recognition of significant grey areas is as important as accepting the exigencies of a dictator. Though strange the analogy may sound there is a possibility to have a good dictator and a bad dictator. For example Taiwan, South Korea, Malaysia, and Singapore have grown at previously unheard of rates under unrestricted dictatorships, sometimes military ones. China today is prospering under the leadership of the Communist party, facing no institutional constraints. In Latin America Mexico witnessed steep development in the era of PRI dictators.

Notwithstanding the cloak of dictatorships, another striking familiarity in all these countries is that the prime agenda of their respective autocratic governments' had been to develop skilled human capital through major investments in education sector and to develop infrastructure by incurring extensive investments in the physical capital. And as the populace of these countries became more educated

with time, they took charge of their fate through increased self reliance by utilizing the available physical capital to its best. No doubt these countries owe it all to their people, who never waited for any miracles from their leaders who in most cases were no less despots than Musharraf.

Wouldn't it be fair to give the dictators of these countries the credit where it is due as they did provide a conducive environment of change and progress to its populace by investing in human and physical capital of the country? Unlike them, recent times have also witnessed such tyrants who have created nothing but mayhem in their countries for petty personal gains and subjected their populace to civil wars and famine. The president Robert Mugabe of Zimbabwe unleashed his personal militia, who used violence and murder as an electoral strategy, in Zimbabwean elections and harassed and killed his political opponents. The regime also orchestrated a slow death by starvation for millions of his opponents by refusing aid money and food to anyone suspected of supporting the MDC (Movement of Democratic Change). Similarly Sudanese government under the dictatorship of General Umar Hasan Ahmad Al-Bashir, has been responsible for the worst humanitarian crisis of recent times in the Darfur region as thousands have been killed, nearly one million people have been displaced, over 150,000 refugees have fled into neighboring Chad and entire villages have been wiped out by marauding militia groups sponsored by the government.

In short there is no dearth of bad dictators in this world. In this context, Pakistan was lucky to have a mild dictator, who at least did not put Pakistan into the course of extreme digression which we witness in some countries which are ruled by tyrants. One of the most significant positive of Musharraf era is that Pakistani economy was back on track after more than a decade of scanty performance. However, it can be debated in later sections that the robust economic performance has more to do with external factors i.e., War on terror, than to do with the policies of the government. Thus the relatively more pertinent point here would be to know how the regime is utilising this economic comeback.

Well to this effect the most significant achievements of Musharraf government had been on higher education front. In September 2002, a Higher Education Commission (HEC) was established. The Commission has launched a research grant programme under which research grants worth millions of rupees for R&D will be awarded to researchers working in various fields of Science and Technology. Furthermore, foreign Ph.D scholarship programmes have been developed to enhance the research base in key social and economic areas in Pakistan. For example under 'Overseas Scholarship Scheme for PhD in Selected Fields' the HEC is planning to send nearly 400 professionals to the leading universities of the world by 2008 to pursue for their doctorate. The process has already begun whereby nearly 100 highly competitive professionals from various disciplines have been selected to study in Germany, France, and Austria. Similarly there are other schemes which specifically target the various key natural science disciplines i.e., Space Sciences, Biotechnology, Renewable Energy, Robotics and Mechatronics, Cyber Sciences, Environmental Sciences, and Laser & Fibre Optics etc. The HEC had also initiated five year 'Indigenous Ph.D Fellowship Program' whereby 5000 scholarships have been announced for domestic PhD students. 1000 scholarships have already been announced for this year. In order to provide an incentive of quality research in our universities, which is currently absent in this country, HEC has also announced 'Best University/Degree Awarding Institutions Teachers Award' whereby the outstanding faculty members are given \$ 2000 for their teaching or research endeavours. Clearly such measures by HEC are unprecedented in the history of this country. The higher education budget has been increased to Rs 5 billion from a meager amount of Rs 800 million five years ago, an increase of nearly 400 percent. Well, Musharraf had rightly recognised the importance of higher education and its returns in terms of skilled human capital. It can be safely suggested that the government policy apropos higher education will go a long way in transforming Pakistan into a progressive society. However,

according to a recent ADB report, within the education sector in FY 2003, expenditure on primary education increased only by 4.1percent whereas the expenditure on general college, and university education increased by 51.2percent and that on professional education 15.4percent. Notwithstanding the immense importance of higher education in economic development and growth, the apparent negligence of primary education has serious implications for the poor as they are the ones who benefit the most from primary and secondary education provided by the public sector.

Another important step of Musharraf regime was the foundation of NCHD (National Commission on Human Development) in June 2002, to promote development in the fields of health, education and microfinance. The initiative mobilized \$ 5.5 million from private donors and \$ 34 million from government resources. In education NCHD aims to help the government achieve its EFA (education for all) objective of 86% literacy by 2015.

On the macroeconomic front, the direct contribution of the government towards improved economic activity had been through public investments which are averaged at an impressive rate of 4.5 percent. Also retaining adequate foreign reserves enabled Pakistan to enter into a stable exchange rate regime on sustainable basis. This significantly strengthened Pakistan's fiscal position amid substantial decreases in foreign debt. Pakistan became a relatively more economical sovereign state since the government has announced that it came out of IMF program in 2006 after the completion of IMF's PRGF program. All in all, the Musharraf government had initiated such policies which provided Pakistan with much needed human and physical capital – the prerequisites to follow the examples of China and East Asian economies.

### **3. Bad news in good economics of General Musharraf**

During Musharraf regime, Pakistan was no doubt the fastest growing economy of the South Asian region, accelerating at 8.4 percent in real GDP terms. The only country in the region, which came close to Pakistan in its growth performance, was India growing at a rate of 7.3 percent. In larger Asia, Pakistan stood with the likes of Singapore, Honk Kong and China which are the contemporary economic giants and had followed a growth pattern much similar to that of Pakistan.

However the growth figure of 8.4 percent did not mean much in itself. It is important to know the actual economic story behind this figure. Whether this growth was endogenous or exogenous to the economy, or whether the benefits of growth were distributed fairly among different strata of the society are key questions to be answered in order to know how real this economic achievement was?

First let us look at the sectoral contributions to the GDP growth in year 2005 where 1.74, 4.65 and 4.16 percent growth had come from Agriculture, Manufacturing and Services sectors respectively as oppose to 2003 sectoral contributions of 0.53, 5.05 and 3.16 percent from the same sectors. The above figures show that Pakistan exceeded its growth target of 6.6% mainly because agriculture sector witnessed a significant recovery as it grew by 7.5 percent. This was good news for 68 percent of Pakistan's population who live in rural areas and who are directly or indirectly dependent on agriculture for their livelihoods. Though the government had promised to increase agricultural productivity in order to raise farmers' incomes, the recovery in agriculture owed it to good monsoons after several years and there was no evidence that agriculture productivity had improved. In other words the contribution of agriculture sector in growth had been exogenous to government policies

The other sector which enabled Pakistan to exceed its growth target was high performing services sector in the country. However if we look into the services sector, we come to know that the major contribution came from finance and insurance sector which grew by 21.8 % this fiscal year as oppose to 4.5% in 2003-04 and -3.2% in 2002-03. Though a growing financial sector does indicate that



Pakistan was witnessing significant financial development which was definitely good for growth, one has to also consider the movements in general price level, some monetary aggregates and interest rates to know whether financial development was real and the subsequent growth had been good for the common man.

The most commonly used measure of financial development is a ratio of some broad measure of money stock, usually M2, to the level of nominal income. This indicator basically measures the degree of monetisation in the economy, whereas monetisation captures the real size of financial sector of a growing economy in which money provides valuable payment and saving services. Well in Pakistan, M2/GDP had shown some improvement as the ratio picks up from 42.2 in 2003-04 to 42.9 in 2005-2004. It was expected that interest rates and general price levels in Pakistan would rise as a consequence of global economic comeback and rise in international prices. As per expectation and despite government claims to curb price hike, Pakistan witnessed steep inflationary trends. As far as interest rates were concerned, the lending rate has been on a constant rise as compared to the deposit rate which was relatively stagnant. The interest rate spread between lending rate and deposit rate had picked up since July 2004 when it was only 3.44, and had been raised to 5.14 by March 2005. This was not so good news for the common man in Pakistan especially when one looks at the food inflation which had climbed to 12.8 percent in 2005 from only 6 percent and 2.9 percent in 2003-04 and 2002-03 respectively. The sluggish performance of deposit rates amid steep rise in CPI meant that consumer savings were being eroded. The major brunt had again been born by small deposit holders who comprise mainly of senior citizens or lower and middle income groups. Taking into account inflation rates, it seemed Pakistani economy was entrapped in a financial bubble and excess money was circulating in the hands of the few urban elite. This had artificially boosted the overall demand in the economy enabling the country to follow a higher than expected growth pattern. In short 8.4 percent growth couldn't tell much about the plight of the common man in Pakistan.

However the Musharraf government had been very high on rhetoric vis-à-vis poverty alleviation and its commitment towards development goals. The Governor Sate Bank of Pakistan, Ishrat Hussain claimed that Pakistan would transform the macroeconomic stability into a viable development strategy. The 2004-05 fiscal budget allocations undermined government commitment towards poverty alleviation and social sector development. Here the irony was that IMF and World Bank urged the government to increase the budget deficit in order to allocate adequate funds to the development sector as higher budget deficit is not a bad thing in itself. The government refused to entertain IMF and World Bank's advice as it appeared that officials at finance ministry were fixated with the era of Structural Adjustment Plans of 1990s.

The obsession with growth had also resulted in an education policy which sets out to favour the rich as more and more resources had been allocated to higher education because it was considered to be closely linked with growth than primary education. In 2005, higher education budget had been increased to Rs 5 billion from a meagre amount of Rs 800 million five years ago, an increase of nearly 400 percent. In comparison to Rs 9 billion allocated to Higher Education Commission (HEC), the government allocated Rs 3 billion only to Ministry of Education. Since higher education is mainly availed by the affluent segments of the society, more funds to higher education meant that government was providing indirect subsidy to the rich and excluding the poor because they are largely uneducated. Further more, higher education is an urbanised phenomenon in Pakistan. As a consequence, the skewed education policy was further elevating the disparities between the rural and urban which was in a direct contradiction to the success of PRSPs in Pakistan.

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