PAKISTAN

Thinking about Regime Change

The Duck Loses Its Gait

The Charter of Democracy agreed upon between Pakistan People's Party and the Nawaz Shariff-led Muslim League is a landmark document that creates the basis for a transition to durable civilian democracy. In contrast, Pervez Musharraf and his allies seem to have run out of ideas. The regime is left with just one positive achievement to speak about – strong economic performance. Paradoxically, economic management is one area that promises to undo whatever political legitimacy the regime might otherwise have acquired.

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Things are not going too well for the military-led regime of Pakistan despite its apparently absolute stranglehold over the political process, its cosy relationship with the US administration, and the much-trumpeted economic boom. The regime remains identified with the person of Pervez Musharraf who in his seventh year in power has already outlasted the longest civilian government in the country's history. For a regime conceived on the mantra of righting past wrongs, longevity brings its own problems – blaming predecessors for current problems becomes less credible all the time. If not quite lame as yet, the duck is certainly losing its confident gait.

Friends and foes alike sense impending change in 2007 when the national and provincial assemblies need to be re-elected. Not that the elections are expected to bring down the regime in the normal way of elections. The regime has an unmatched record in manipulating and rigging electoral contests – the most scandalous being the local government polls in 2005, seen by many as a dry-run for national and provincial polls. The realistic, perhaps cynical, view is that the real political bargains would have already been struck before the polls.

Elections will simply provide a mechanism for an orderly change of guard if some of the main supporters of Musharraf's regime – the Bush administration and segments within Pakistan's military establishment – are ready for change. Presumably, in a nuclear state a peacefully brokered transition would be preferable to the risk of violent termination (like Zia ul-Haq's departure in an air crash in 1988) or mass upheaval (like Ayub Khan's and Yahya's exits in 1969 and 1971, respectively).

The Charter of Democracy agreed upon between the Pakistan People's Party (PPP) and the Nawaz Shariff-led Muslim League (PML-N), on May 15 is a landmark document that creates the basis for a transition to durable civilian democracy. While both parties have been working together in the Alliance for the Restoration of Democracy (ARD), the charter marks a turning point by committing the two most popular national leaders – Benazir Bhutto and Nawaz Shariff – to a well-defined reform agenda. Other members of the ARD assented to the charter on July 2, and opposition parties outside the ARD, notably the religious alliance Muttahida Majlis-e-Amal (MMA), have signalled their support. The charter will not only enable cooperation between political parties whose past squabbles have opened the back door to military adventurers. It is also a practical, specific, and realisable plan that binds its signatories to a no-wriggle democratic trajectory.

By contrast, Musharraf and his allies appear to have run out of ideas. Their response to the charter and other political developments is to revive the spectre of "corrupt politicians" – but seven years of this merely reminds people of the regime's own sleaze. Devolution reforms, the supposedly revolutionary transformation of the colonial system of governance that warmed the hearts of international donors and local NGOs have been steadily undone by the regime itself. "Devolved" elected representatives who had been promised freedom from the shackles of the bureaucracy turned out to be either mini-warlords (as in Sindh), or found themselves under the direct control of Musharraf's provincial lackeys (as in Punjab). Then, having poured scorn over the civil administration for over five years, the regime suddenly woke up to the realisation that it would be a good idea to have some administration after all – all the talk currently is of the revival of the magistracy powers of administrative officials.

Enlightened Moderation

The other big idea of the visionary-general was "enlightened moderation" – his way of creating a balance between Islamic tradition and cosmopolitan modernity. The continuing complicity between the mullahs and the military, and the misogyny of regime leaders exposed enlightened moderation as an opportunistic hoax. Then the parliamentary opposition called the regime's bluff, by pressing for women's rights legislation. Attempts at reforming draconian adultery laws led to sharp divisions within the government, with Musharraf throwing in his lot with the conservatives.

This leaves the regime with just one positive achievement to speak about: strong economic performance. And Musharraf and his supporters never miss an opportunity of talking about the high economic growth rates achieved during the last three years. Paradoxically, economic management is one area that promises to undo whatever political legitimacy the regime might otherwise have acquired.

Prime minister Shaukat Aziz has been the blue-eyed boy of the military regime from the outset. Headhunted from Citibank as finance minister back in 1999, he continued in that position after the 2002 elections, and was elevated as the nominal head of government last year. Like Musharraf he was supposed to be "clean". Apart from cleanliness, his main supposed credential was that he understood Pakistan's economic problems and had a way out. In the event the economic policies followed since 1999 appeared no different from the ones signed up to by the previous "political" governments – stabilisation through fiscal prudence, debt management, privatisation and liberalisation. That, after all, was the only game in town.

The difference, of course, was that unlike previous "political" governments the military regime was able to stick to its promises (to the International Monetary Fund) of fiscal prudence. There were no messy populist pressures at the beginning. Then, as the economy stubbornly refused to respond to doctrinaire shock-therapy, and poverty and unemployment marched steadily northwards, a lifeline arrived in the unexpected shape of 9/11. All of a sudden Pakistan had much more fiscal space that it had been accustomed to for over a decade. Debts were rescheduled and multilateral banks (notably the World Bank and the Asian Development Bank) stepped in with what essentially amounted to budgetary support. Not only that, but there was a massive increase in private inflows as funds held abroad by Pakistanis (and Pakistanis abroad) started escaping the feared surveillance of "Muslim money" in former safe havens.

Growth rates doubled to an average of more than 6 per cent over the last three years, compared with just around 3 per cent in the years preceding the 9/11 attacks. There were justified allegations of creative accounting, but a more significant structural problem with the current growth experience – it would be stretching language to call it "strategy" – is its sectoral basis. Agriculture did well last year due to good water flows, and manufacturing performed well in the previous year through the utilisation of excess capacity. The primary driver and beneficiary, however, has been the financial sector.

Not only were funds arriving from abroad into private hands, but monetary and regulatory policy saw to it that the financial sector was the main channel and source of further liquidity. In fact, the absence of any positive economic policy other than stabilisation and deregulation meant that the financial sector was, by default, the main intermediary. Consumer finance is just one part of the story, and it undoubtedly created demand in a number of local industries while also ballooning the import bill. There is an unprecedented "financialisation" of the economy – all activity has become a "financial product". Economic management appears to make no meaningful distinction between speculation and investment – a private banker's paradise and a planner's nightmare.

With the state's capacity for regulation, which was already weak, further eroded, Pakistan has become a test case of free-wheeling markets responding to huge cash flows. Cash has gone almost everywhere except long-term investment, and the movement of cash creates the illusion of economic activity. Property prices have sky-rocketed with the government encouraging speculative buying in far-flung places like Gwadar – the newly developed port close to the Iranian border. There is a virtual land-grab in all directions with the military as the leading player with "Defence Societies" and other acquisitions of public land at throwaway prices.

The stock market went up tenfold in the last six years, and came crashing down several times. The most prominent instances were in March 2005 and then again in April-May 2006, when speculative bubbles burst leading to the transfer of hundreds of billions of rupees from small to big "investors". A handful of brokers were alleged to have engineered these bubbles with the connivance of key functionaries. In July 2006, the former head of the Securities and Exchange Commission of Pakistan (SECP), Tariq Hassan, admitted before a parliamentary committee that the prime minister had stopped him from investigating the March 2005 crash. So riled was Musharraf that in a television interview he accused Hassan of lying. He then went on to "defend" Shaukat Aziz against the charge of engineering and benefiting from the speculative bubble – a charge that, incidentally, had never been aired before this interview.

Even if money pouring into stocks and real estate might be called investment, what can be said about the collusive hoarding of commodities like wheat, sugar and cement? There have been price crises in these and other commodities – crises clearly triggered by the actions of collusive cartels that have financed their activities using some of the cash that has been flowing around. The price of wheat flour increased by 50 per cent over a six-month period in 2003-04, with a 10 per cent rise in just one month, December 2004. Official acknowledgement about the monetary and regulatory sources of the crisis came when the central bank issued instructions to banks to inhibit – but not stop – lending for the purposes of wheat trading. There was a similar rise in the price of sugar in 2005-06 and this time the protagonists were sugar millowners – some of them prominent ministers. The regime's National Accountability Bureau stopped its investigation into the sugar crisis at the personal intervention of Musharraf.

Another key plank of the Musharraf-Aziz mode of economic management was challenged on June 23, when the supreme court annulled the $ 362 million sale of Pakistan Steel Mills to a three-party consortium. The consortium consisted of a stockbroker turned fund manager turned investment banker called Arif Habib, who has been named in SECP's investigations of stock market crashes. An important charge of the complainants – which included a worker's union – was that the buyers were interested in the Mills not for the continuing or expanding steel production but for the land that had, allegedly, been grossly undervalued.

Poverty and Protest

While scams and scandals provide ammunition to regime opponents, they also reveal fundamental problems with the Musharraf-Aziz mode of economics. In a nutshell, it is unrealistic to equate financial management with economic management in a developing country like Pakistan, where the financial sector ought to be regarded not as a driver of growth but as a junior partner and residual beneficiary. Frantic flows of cash from one sector to another, chasing one speculative target after the next, can be expected when an overdeveloped financial sector (relative to the rest of the economy) is primed with excessive liquidity. These frantic cash flows will provide the illusion of economic activity, but will not create durable employment or involve large numbers of people in the process of economic growth.

Despite internationally-applauded macroeconomic and financial indicators, Pakistan's economy has delivered neither employment growth nor poverty reduction. Official poverty numbers have become controversial due to allegations of data-fudging, and a careful reading of the data shows that the headcount ratio remains where it was in 1999. The same is true of the unemployment rate. It is, in fact, not surprising that poverty refuses to budge significantly despite four years of 6 per cent plus growth. One only has to look at the sources of growth on the one hand, and the movement in the relative prices of basic commodities (wheat flour, sugar and transport fares) on the other, to see that the working classes have little to cheer. The cash-boom economy neither requires nor encourages employment generation and in Pakistan it greatly facilitates collusive price fixing of basic commodities. The harangue from the regime that things have never been so good simply rubs salt into the wounds.

In a sense, we have been there before. Ayub Khan presided over a "decade of development" that ended with protests by the casualties of his particular growth model. Then it was the industrial working class, the poor peasantry and the marginalised regions that led the protest against a regime that was seen to have engineered economic inequality. This time there is no organised protest along socio-economic lines but then the "model" of growth also does not have a clearly identifiable socio-economic base. It is not the working classes or the poor peasants who can see exploitation at the hands of industrial capital. In fact, there is precious little industrial capital to protest against. The winners are the bankers, the speculators and the land-grabbers. The losers are diffused groups including poor consumers, victims of land-grabbing, and those left behind by the cash-boom economy.

Disparate though they might be, the losers are not exactly taking things lying down. Balochistan's alienation from the centre, and its fight, is quite largely driven by the suspicion that its lands are being grabbed by outside speculators with the help of the military. Karachi regularly sees violent protests against power failures – a clear indictment of a regime that has failed to expand electricity generation and transmission capacity in seven years while it continues to criticise the power policy of its predecessors. Last month the city centre was shut down by Pashtun slum-dwellers who fear eviction from their settlements at the hands of city authorities to make room for more "housing schemes". The urban riot that erupted in Lahore on the pretext of the Danish blasphemous cartoons, was thought to be engineered, but it did provide a chilling view of the class anger that is pent up in poor neighbourhoods across the country.

The extent to which the opposition will be able to build coalitions of losers remains to be seen. There is talk of a managed regime change that will obviate the need for protest and mobilisation. This was the intent behind an "open letter" written by some of Musharraf's friends and former accomplices urging him and the opposition parties to facilitate a peaceful transition. The opposition parties, for their part, would prefer not to have to stir up a hornet's nest. If regime change cannot be effected without popular mobilisation, the opposition will need to move beyond scams and scandals and will have to develop a viable socio-economic programme. EPW

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