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## Pak-StaM Analysis

*Drivers of Stability & Instability in Pakistan*



Understanding the  
Human Side of the  
Environment

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## Introduction

Pakistan sits at the center of South Asian regional security dynamics. Each of its several international borders has been both the cause of inter-state dispute and the site of militarized conflict. There are high levels of crime, violence, and sectarian conflict, and the writ of the state is challenged in many areas of the country. Porous borders facilitate organized crime, and militant activity further challenges state control and threatens the physical security and wellbeing of the Pakistani people. Investment (both government and private) in the weakly institutionalized, corrupt, and aid-dependent formal economy is insufficient to keep up with population growth, let alone enable Pakistan to reach its Millennium Development Goals.<sup>1</sup> Finally, weak civilian governance, and a strongly politicized military blurs the lines of de jure authority.

Yet, despite these significant problems and frequent predictions of imminent failure of the Pakistani state, Pakistan persists. Struggles over division of authority between the judiciary and elected leaders have weakened but not toppled the civilian government, or triggered a military coup. While militants continue to challenge the writ of the state, they have not succeeded in fracturing Pakistan or establishing uncontested control. Discussion of the causes of Pakistan's problems, and prescriptions for their cure are plentiful; however, there is less to be found on the factors that have enabled the Pakistani state and people to survive these challenges. Addressing the question of why Pakistan has *not* failed is equally important if we are to develop a complete picture of Pakistan's current situation and future trajectory. This requires us to determine not only the factors that drive instability, but also those that buffer stability.

The following report addresses a number of key questions regarding the factors that underpin stability and instability in Pakistan. In particular:

- *Which are the factors that most significantly contribute to governing, economic, and social stability in Pakistan?*
- *Are there factors commonly associated with stability that have no effect or have divergent effects on stability in Pakistan?*
- *What are the primary effect dependencies among factors?*
- *Is the effect of specific factors likely to change with time?*

The analysis uses a conceptual model of state stability—the StaM—to systematically identify the drivers of instability as well as the areas of resilience in Pakistan. We find that while there are evident drivers of

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<sup>1</sup> The United Nations' eight Millennium Development Goals (MDGs) were adopted in 2000 by all 193 UN member states, including Pakistan. Member states have agreed that by 2015 they will eradicate extreme poverty and hunger; achieve universal primary education; promote gender equality and the empowerment of women; reduce child mortality; combat HIV/AIDS, malaria, and other diseases; and ensure environmental sustainability and develop a global partnership for development. <http://www.un.org/millenniumgoals>. The MDGs are the centerpiece of the Pakistan government's development efforts, but, as of 2012, the country was behind in progress on 20 of its 33 indicators (United Nations, 2012).

instability, there are also less immediately evident areas of resilience that buffer the stability of the state of Pakistan and its people. Moreover, the factors that appear to underpin Pakistan’s resilience to collapse are closely linked to those that may promote instability in the longer term. That is, it appears that, for Pakistan, shorter-term stabilizers can easily become destabilizers in the longer term. Conversely, there are factors that disrupt to the status quo, and can appear destabilizing, but are in fact an essential part of generating the structural changes Pakistan needs to achieve long-term stability. Accounting for both the short-term and long-term effects of various drivers of stability is essential for understanding their full implications for stability.

The remainder of this chapter provides a brief introduction to the StaM and our analysis of Pakistan. Development and analysis of the model specified to Pakistan--the Pak-StaM--illuminated several factors that appear to be pivotal to stability conditions in Pakistan. Each subsequent chapter explores the short and longer-term implications of a critical domestic factor identified as driving stability conditions in Pakistan including:

1. the grey economy;
2. formal foreign remittances ;
3. patronage;
4. weak civilian institutions;
5. education; and
6. access to information.

### **The Stability Model (StaM)**

A well-founded conceptual framework is an essential tool for any systematic analysis, especially when dealing with a concept as complex and interdependent as state stability. Whether acknowledged or not, all analyses are conducted in reference to some theory or implicit mental model. A conceptual model is simply a formal articulation of this same process. By specifying the factors that contribute to a phenomenon and the relationships between them, conceptual models help the analyst to check the logic, consistency, and comprehensiveness of the explanation and to understand not only *what* might occur but *why*, and what might be done to either encourage or impede it.<sup>2</sup>

For the purposes of the analyses described in the following chapters, the overall durability (versus fracture) of a nation-state is defined as a compound function of its political, economic, and social stability. Each of these is performance-based where the political system is able to

- maintain a degree of legitimacy, political performance, and/or the coercive power necessary to retain internal control;

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<sup>2</sup> Political scientist James Rogers’ analogy between models and maps may help explain how these abstractions are useful in understanding the social world. “If one compares a map of a city to the real topography of that city, it is certain that what is represented is a highly unrealistic portrayal of what the city really looks like. The map utterly distorts what is really there and leaves out numerous details about what a particular area looks like. But it is precisely because the map distorts reality – because it abstracts away from the host of details about what is really there – that it is a useful tool. A map that attempted to portray the full details of a particular area would be too cluttered to be useful in finding a particular location or would be too large to be conveniently stored” (Rogers, 2006, p. 88).



- sustain sufficient growth in the economic system (formal or informal) to support the minimal needs of the majority of citizens (i.e., the average growth rate in productivity exceeds the growth rate in population); and
- ensure that social cleavages do not result in violent ethnic or sectarian conflict.

The analysis of stability and instability drivers in Pakistan presented here employs the Stability Model (StaM) as an organizing framework for assessing political stability over the mid- to longer-term. According to the generic StaM,<sup>3</sup> overall state stability arises from three necessary, but not sufficient, dimensions: economic stability, social stability, and governing stability. The definitions of these dimensions and their disaggregation are based on a wide range of academic and applied research and theory (including anthropology, international relations, comparative politics, social psychology, and economics). The generic StaM is shown in **Figure i-1. Generic StaM** below.<sup>4</sup>

Before using the StaM to assess stability dynamics in a specific context, further specification and tailoring of the model to that state or region is required. To begin the search for key drivers of stability and instability in Pakistan, analysts used the generic model as a set of assertions or hypotheses about political, economic, and social dynamics to guide their search for Pakistan-specific data. In an iterative process, researchers used the model's organizing structure and the predicted relations within and across dimensions (governing, economic, and social stability) to gain insight into complex stability dynamics that characterize Pakistan. In all, over 1000 unclassified sources were used to tailor the generic StaM for Pakistan. These included: quantitative data on political processes, popular perceptions and opinion, and economic and financial flows; extensive area expert elicitation; current research on social, ethnic, economic and political and institutional cultures in Pakistan; social geography; and assessment of authority and political transitions through Pakistani history.

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<sup>3</sup> The model, originally called the "Durability Model," and its User's Guide were first developed in response to a request to the SMA team by ISAF to measure the impact of actions and policies on developing stable and durable political, economic, and social systems in Afghanistan. A more detailed discussion of the use and development of conceptual models, as well as examples of the application of the original Durability Model (State STAM) to Afghanistan, is available from the Strategic Multilayer Assessment Office, POC: Sam Rhem (samuel.d.rhem.ctr@mail.mil).

<sup>4</sup> Further explanation of the model and basic concept definitions is provided in Appendix A.

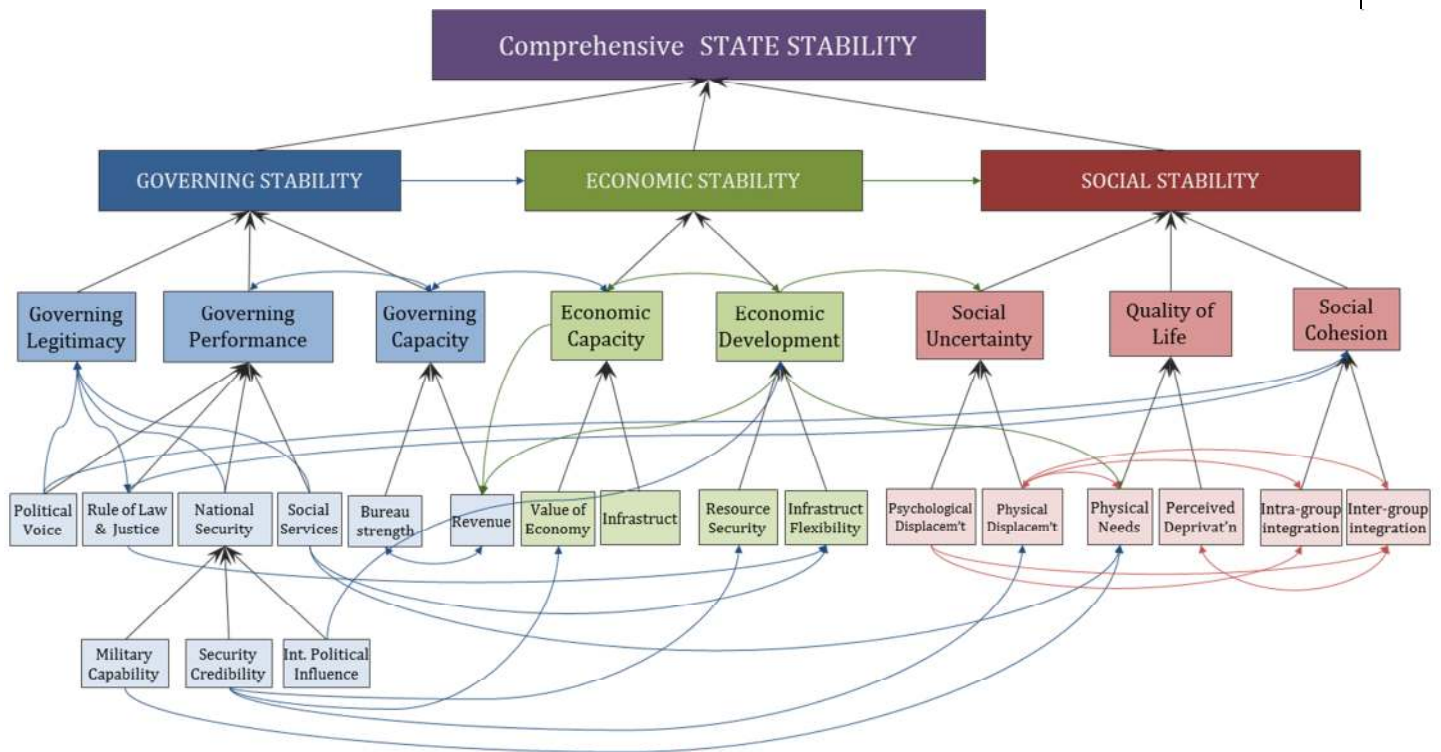


Figure i-1. Generic StaM

As information was gathered, three types of alterations were made to the generic model. This tailoring process, beginning with the generic model in Figure i-1, generated the specified Pakistan model shown in Figure i-2.<sup>5</sup> The first step involved adjusting, adding, or eliminating factors shown in the generic StaM to align with the Pakistan context. For example, to account for its strong political influence, the Pakistani military was added to the generic model as a political actor with its own source of legitimacy in competition with civilian governors and interests. In the generic model, the role and performance of the military is incorporated under rule of law and national security. It was also necessary to distinguish explicitly between internally and externally generated revenue, as Pakistan is heavily dependent on foreign aid and loans to provide public services. The second type of alteration involved further disaggregating the generic factors to capture their state-specific nature (e.g., the components that constitute *quality of life* from the perspective of Pakistani culture, rather than U.S. culture). Finally, researchers considered whether the between-factors relationships anticipated by the generic model existed in the same way, or indeed at all, in the Pakistan context and confirmed or redrew these connections accordingly.

<sup>5</sup> See Appendix B for a more detailed discussion of the specification of the model for Pakistan.

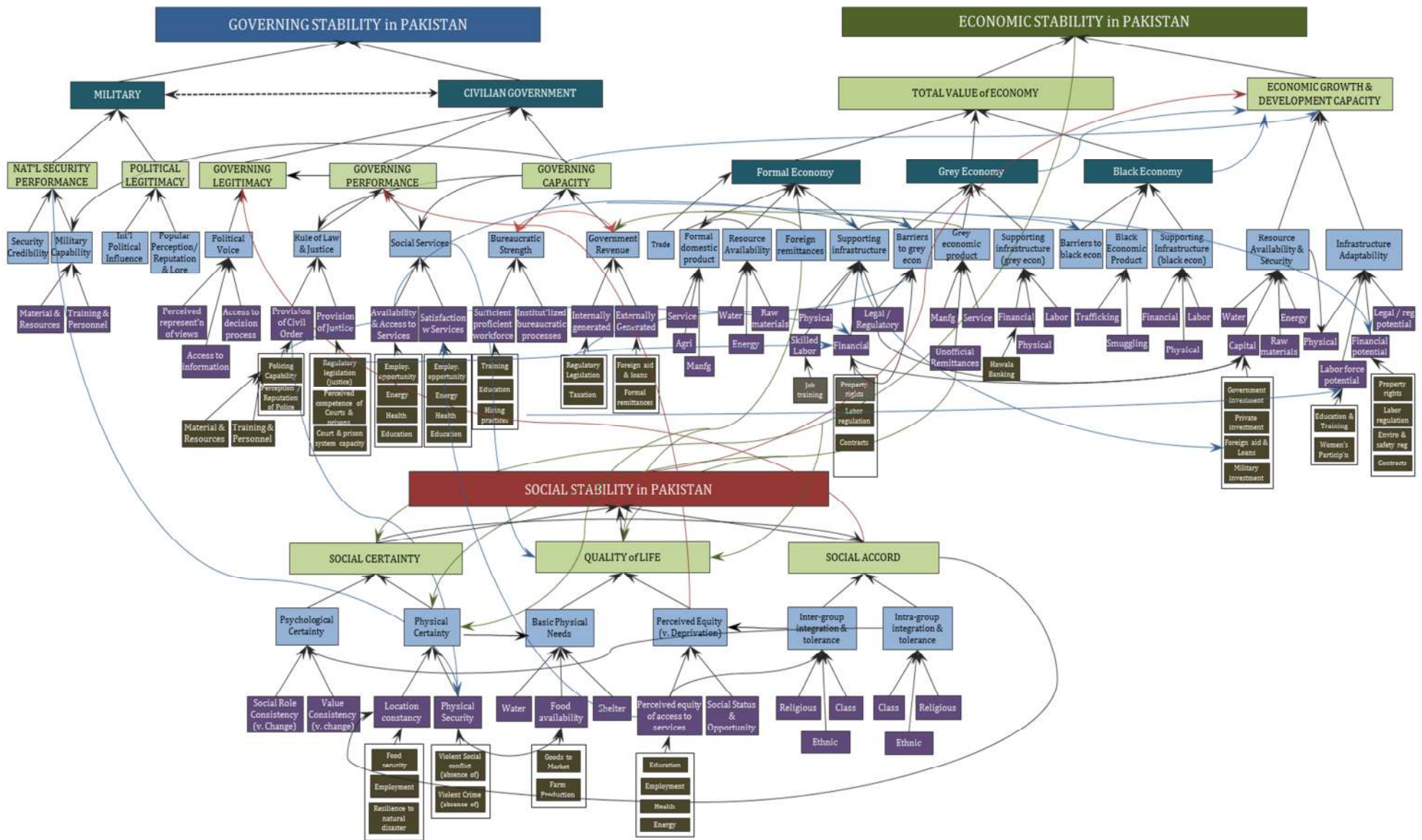


Figure i-2. StaM specified for Pakistan (Pak-StaM)

Note: many cross-dimension connections have been omitted for the sake of visual clarity.

Once the model was tailored, and concepts defined for the Pakistan context, analysts set about the more complex task of assessing the extent to which each of these drove instability or provided a buffer to stability. This process led to the identification of the six major determinants of stability that form the structure of this report: the grey economy, formal foreign remittances, patronage, weak civilian institutions, education, and access to information. “Following the thread” of each of these factors through the model allowed us to build a picture of how these dominant factors affected stability within and across dimensions and over time. Using the model to follow stability implications in this way provides a number of benefits to the analyst and planner.

1. Cross dimensional analysis accounts for the interactive complexity of state stability and provides better insight into the dynamics driving the complex macro system that is Pakistani state and society.
2. By distinguishing between short and longer-term effects, the Pak-StaM can help analysts identify situations (e.g., patronage) that may buffer stability in the short-term, but ultimately block many of the structural changes required for longer-term stability.
3. The ability to account for domestic stability effects of regional actors enables detailed mapping of the regional influences on Pakistan’s stability. Where specifically do the interests of regional actors affect stability in Pakistan? In addition, is it possible to map the effects of external actors’ interests on Pakistan’s domestic dynamics?<sup>6</sup>
4. The StaM suggests a new perspective on how we think about stability and change in countries such as Pakistan. In particular, the United States Government (USG) needs to recognize that not all short-term instability is bad. In fact, short-term *disruption* is the likely result of the very structural changes—social, political and economic—Pakistan needs *in order to achieve longer-term stability and development*.

## Caveats

The StaM is not a computational model; it presents a conceptual map intended to help trace and describe complex and multi-dimensional relationships. Even the generic StaM is highly complex and incorporates multiple theories from diverse disciplines. Although theory is sufficiently well developed and tested to create computational models of discrete sections of the StaM, compiling these into a single computational model of the entire StaM would require the imposition of a great number of assumptions regarding the relative weighting and interactions between the components. We currently lack the theoretical and empirical knowledge to model with any level of confidence. For similar reasons, there is no precisely delineated scale of time in the model.

Our “short term” and “long term” are better understood as “current” and “sometime in the future, all else being equal and given current patterns.” Neither the StaM nor the data available are sufficient to make definitive, point-predictive assessments of where things are going in Pakistan (e.g., as a time-series regression analysis on economic data or sales figures) other than to say, “if things stay the same, x is the most likely outcome” or “if y changes, z is the most likely outcome.” Nearly all of the effects in the

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<sup>6</sup> For this study, the impact of Chinese, Indian, Iranian, Afghan, and VEO interests on Pakistan’s stability were explored.

Pak-StaM are interconnected and highly conditional. To predict what might happen on the basis of what we see now would require more assumptions, including the absence of any significant changes in factors in the period under study, than it is reasonable to make.

# 1 Pakistan Stability Dynamics: The Grey Economy

The informal economy is most generally defined as the sector of a state's economy where activities take place without official recognition or record. Such activity, therefore, does not contribute toward official economic measures, such as GDP or employment rates. Because informal economic activity takes place outside the formal reach of the law, or in areas where the law is not enforced, it is neither taxed, nor subject to regulation and oversight (International Labour Office (ILO) Governing Body, 2002). The different types of activities that comprise the informal economy can be further defined according to the degree of illegality they represent. The most commonly used distinction is between the "grey" and "black" economies. The grey economy consists of activities that are, in and of themselves legal, but those participating in those activities fail to pay relevant taxes or comply with regulations. The black economy, on the other hand, encompasses exchange of goods or services that are themselves illegal.

The great proportion of informal economic activity in Pakistan (96%) is grey market activity derived mainly from non-agricultural employment typically in retail, manufacturing, transport, and construction work (Oren, 2012). In both rural and urban areas, over 70% of non-agricultural employment is in the grey economic sector (Government of Pakistan, Statistics Division, 2011). The majority of these workers is involved in the wholesale and retail trade (38.9%) and manufacturing (22.3%),<sup>7</sup> producing legal goods and services, although without conforming to legal requirements such as taxes. According to official figures men account for 91% of workers in the informal sector.<sup>8</sup> However, poverty, together with urbanization, necessitates that more women earn incomes to support their families (Budlender, 2009) and independent studies, NGO activity, and other government surveys indicate that women comprise more than 9% of the informal workforce (Hussain, 2003).<sup>9</sup> Of course, as transactions that take place within the grey economy are not "seen" by the government, they cannot generate revenue for the government in the forms of income and sales taxes or business licensing and other regulatory charges. Less revenue—especially as a ratio to population size limits the capacity of central or local governments to provide social services like policing, health, education, and employment opportunities.

Pakistan's informal economy can be seen as a parallel system to the formal economy that provides jobs and services that people might otherwise demand from the formal sector and government. Indeed, most workers enter the grey economy out of necessity, rather than choice because it offers greater job

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<sup>7</sup> The Labour Force Survey defines the provenance of employment in the informal sector as: "All household enterprises owned and operated by own-account workers, irrespective of the size of the enterprise (informal own-account enterprises) and household enterprises owned and operated by employers with less than 10 persons engaged. Excluded are all household enterprises engaged in agricultural activities or wholly engaged in non-market production" (Government of Pakistan, Statistics Division, 2011, p 3).

<sup>8</sup> Government of Pakistan, Statistics Division, 2011

<sup>9</sup> Women are underestimated for a number of reasons: much of their work is done at home as piece work; women typically do not own businesses; and women are much more likely to be reported as unpaid family workers (Mumtaz & Saleem, 2010).

opportunities and income potential particularly for less educated or skilled workers (International Labour Office (ILO) Governing Body, 2002). That is, the grey economy typically serves a population segment that might otherwise be unemployed. In this way it serves as a buffer to governing and social instability by enabling people to meet their basic needs without relying on poor or non-existent social services. This may have the added benefit of making some populations less vulnerable to recruitment by extremist groups.

## The Grey Economy in Pakistan

Large informal economies burden the state, as the cost of service delivery increases without generating resources for the government, and place more of its citizens whose daily livelihood is beyond the control or protection of the state. This has implications for stability that arise at both the state and individual level and that cut across all three dimensions of stability—economic, governing, and social. Every economy in the world has an informal component; however even estimating the size and exact nature of this aspect of economic activity is highly problematic as by definition it is hidden from regulation and oversight. Estimates of the size of Pakistan’s grey economy range anywhere from 24% of GDP to 43.9% of GDP depending on the specification of the model, definition of variables and estimation techniques used (Ahmed, 2009; International Labour Organization, 2012).

In Pakistan, the grey and black economies<sup>10</sup> – often taken together as illicit activity— in fact have significantly different effects on governing and social stability factors. Unsurprisingly, the black economy has negative short- and long-term effects on governing revenue and quality of life, resulting from the need to combat both violent and non-violent criminal behavior. The effects of the grey economy are more diverse, reflecting the more diverse nature of the grey economy and people’s interactions with it as both producers and consumers.

## Why Choose the Grey Economy?

Academic research provides empirical evidence that the size of informal economies is significantly impacted by the quality of institutions. In an empirical cross-sectional analysis of governing institutions in 100 developed, developing, and emerging markets, Singh, Jain-Chandra & Mohommad (2012) find that, improved institutional quality significantly reduces the size of the informal economy.<sup>11</sup> Conversely, the authors find that higher taxes as well as weak institutions and rule of law increase the size of a country’s informal economy: “Businesses have an incentive to go underground not to avoid high taxes but rather to reduce the burden of regulation” (Singh, Jain-Chandra, & Mohommad, 2012 p.11).

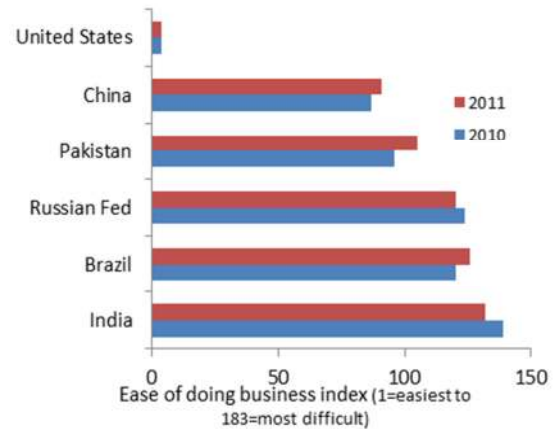
## Government and institutional inducements

The receptiveness of the formal business environment in Pakistan also has important implications for encouraging – or discouraging -- foreign investment; an important source of capital for economic growth and development. One of the common methods for assessing the relative ease of doing business in the formal economy is to look at measures that capture various aspects of the regulatory environment.

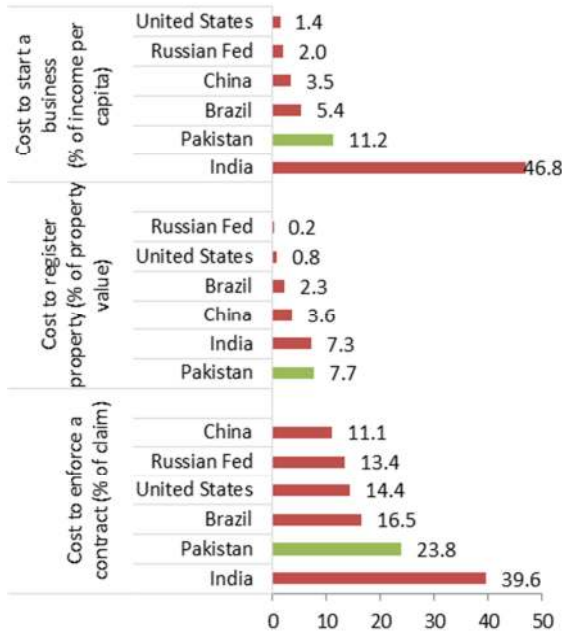
<sup>10</sup> The value of the grey and black economies in Pakistan range from 20 – 80% of current GDP (Oren, 2012).

<sup>11</sup> Institutional quality in the Singh et al. study was measured according to World Bank Governance indicators.

The World Bank *Doing Business Project* (The World Bank and the International Finance Corporation, 2012) ranks economies on ease of doing business, from 1 (easiest) to 183 (most difficult). A good (low) score means the regulatory environment is conducive to business operations. The indexed measure averages the country's percentile rankings on 10 topics, made up of a variety of indicators, giving equal weight to each. The composite figures shown in Figure 1-1 indicate that Pakistan's overall regulatory environment compares favorably to those of Brazil, Russian Federation, India, and China (commonly regarded as the world's most important developing economies). However, all of these countries have regulatory



**Figure 1-1. Ease of doing business index**  
Source: World Bank, Doing Business Project 2012



**Figure 1-2. Comparative cost of doing business in Pakistan**  
Source: World Bank, Doing Business Project 2012

environments that put them in the “difficult” range. The presence of an extensive grey economy, free from these impediments, would therefore be an appealing alternative to investors. Figure 1-2 shows some of the components of the cost of doing business in Pakistan (The World Bank and the International Finance Corporation, 2012). The costs of starting a business and enforcing contracts are higher than Pakistan than the other countries with the exception of India. It should also be noted that these figures reflect costs associated with official regulation; they do not account for hidden costs such as “facilitation fees” paid to politicians, “speed money” paid to the government departments involved in regulation and certifications, bribes to regulators and tax authorities, and payments to extortionists and criminal elements (Subohi, 2012). Given the prevalence of this type of corruption in Pakistan, it is likely that these figures are even higher.

Some of the greatest impediments to doing business in Pakistan for both domestic and foreign businesses are the time, cost and complexity of complying with government regulations. These costs could be a considerable impediment, particularly for small businesses that operate on small profit margins, and without much start-up capital. Pakistan's complex regulatory system that requires business owners to go through many steps to start a business, register a property, or enforce a contract, the formal economy puts up significant barriers to both entry and participation. When there are barriers and



little support for small and medium size businesses, operating in the grey economy can be the only way for these enterprises to survive. Because the government services (e.g., development loans, micro-finance, etc.) available to licit businesses in Pakistan are not significantly better than those available to grey market businesses, it is at present more economical, especially for manufacturers in the apparel and textile, shoe, and sporting goods areas, to set up unregulated groups of in-home piece workers than to run factories and pay the associated legal wages, social security expenses, and often expensive licensing fees (Najam, 2011). The relatively high cost of doing business formally in Pakistan challenges business owners to balance the costs of operating in the informal economy (i.e., limited access to public infrastructure, government aid, training, necessity to pay bribes) against the benefits (no taxes, no minimum wage or condition laws, no regulation). As long as infrastructure and government services including regulation enforcement remain weak and regulations remain complex and expensive, operating in the informal economy will appear to many to be the best option. Moreover, generally insufficient or lax policing of grey market activities means that the prospect of criminal prosecution is not necessarily a strong deterrent. On the other hand, if the government could provide both services and a regulatory environment that made entry into the formal market less costly, formal enterprises would be better able to compete effectively with those operating in the grey economy (Kazekami, 2011). Moving more businesses into the formal economy would not only facilitate growth in employment and increase value of the formal economy, if accompanied by enforcement activities, it should also increase government revenue.

### **Relationship of the Government to the Governed**

Individuals working in the informal economy have significantly lower levels of interaction with the government and are less directly affected by government policies than those who work in the formal economy. At the most basic level, we care about government policy when it has the ability to affect how we and our loved ones live our lives. Participants in the grey economy are generally less affected by government economic policy and performance. All else being equal, employing more people in the grey economy may minimize public criticism of poor government performance—a source of legitimacy loss.

When individuals work and buy within the grey economy, they do not interact with a government through their economic actions. That is, they do not contribute to government revenue through income or sales taxes, do not use government services, and are unlikely to see their daily lives as impacted by government policy and regulation. Research by Women in Informal Employment: Globalizing and Organizing (WIEGO)<sup>12</sup> found that in 2008 there was almost no budget allocation at any level of Pakistan's government that directly assisted workers in the informal economy. While this reduces the resources available to informal sector workers to access micro-financing or training, it also leaves them less dependent on what are often unreliable services (Budlender, 2009). As a result, it is unlikely that government economic policies will change their perceptions of governing performance or legitimacy unless they also affect the health of the grey economy.

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<sup>12</sup> WIEGO is a global action-research-policy network that seeks to improve the status of the working poor, especially women, in the informal economy.

In effect, work in the grey economy weakens the link between the economic health of households and the health of the formal economy, insulating households from the effects of government economic policy. It is true that a downturn in the formal economy for example, resulting from poor economic policy would likely decrease external demand for goods and services produced in the grey economy. However, the size of Pakistan's grey economy and internal independent demand generated by those working entirely within it, and thus not as affected by government policies, provides a buffer to depressed demand from those in the formal sector. Energy shortages and limited water resources have been identified as two of the most pressing short-term constraints on Pakistan's growth (IMF, 2012). They are also both problems for which service generally depends on larger and capital intensive infrastructure development that, because of the sizes of these systems, relies on centralized – government – investment and management. This could help explain why energy shortages have been one of the few economic policy issues to generate widespread public protests—they affect economic activity in the grey economy as well as the formal sector.

For both employers and workers, participating in the grey versus the formal economy can also represent a more fundamental statement about their attitudes toward government and civil society as a whole. This idea is reflected in Najem's (2011) anecdotal, yet telling observation during a focus group discussion on the informal economy in Pakistan:

*... of the many policy concerns, one viewpoint that gained enormous currency among the participants was the issue of trust deficit between the government of Pakistan and its citizens. It was argued that the blatant abuse of tax payers' money, delayed processes, imperfect competition, cumbersome corporate laws, and unequal income distribution have been instrumental in extending the size of [the] informal economy.*

Historically, politicians in Pakistan have overcome the problem of scarce resources by rewarding those who support them, rather than instituting policies that provide broad-based benefits. Working in the grey economy provides a means for people to with little political capital or influence to insulate themselves from the negatives effects of what are perceived as inequitable, or simply poor economic policies. While not ideal from the standpoint of longer term rationalization of the formal economic system in Pakistan, this practice appears to offer a buffer against grievances and activism based on dissatisfaction with government performance. On the other hand, it reinforces a, chronic system weakening cycle: Poor government services and inability or unwillingness to enforce regulations equitably encourages distrust of government competence which creates a social and economic environment accepting of operation outside the formal system. The greater the number of people who are indifferent to government policy the less likely it is that leaders will spend political capital by attempting to reform – especially if reform would lead to costs on those benefitting from the existing system. Particularly for the long-term stability and viability of democratic government, having a large section of the population effectively separate themselves from their governing and regulatory institutions creates a significant legitimacy deficit.

In short, the combination of a politically uninformed and distanced population with a political system that has traditionally relied on patronage to maintain power creates a policy environment which does

little to encourage or reward economic reform or long-term infrastructure planning and development. In the long term, this will restrict the capacity of both the grey and formal economies to grow, increasing the probability of economic instability that undermines social stability by making it harder for people to meet their basic needs or improve their quality of life. If Pakistan's past history is any guide, this will in turn undermine the legitimacy of the governing regime.

Finally, if economic considerations are not determining individuals' political preferences and choices, other basic measures of government performance will take their place. Polling data consistently shows that, after economic issues, the most salient political issues for Pakistanis are those that relate to security<sup>13</sup>. For those individuals for whom economic policy has little relevance, such as those in the grey economy, we can expect security issues to be perceived as a more salient measure of governing performance. This could lead to the perception that military rule is more advantageous and legitimate than might otherwise be the case.

### **Worker vulnerability**

Although it certainly offers a means of economic survival and even advancement for many Pakistani workers, participation in the informal economy leaves workers outside even the moderate and uneven protections of labor regulations and vulnerable to exploitation. The desire to compete with foreign goods has resulted in increased numbers of completely unregulated home-based groups of piece workers rather than factories or manufacturing sites. The informal status of these workers makes it easier for contractors to cut costs by lowering wages or simply failing to pay workers. Home-based workers save contractors the cost of providing workspace and other production inputs such as electricity and water (Mehrotra & Biggeri, 2002). A UNICEF report found that debt bondage continues to be a means by which contractors maintain control over home-based workers, where earnings are used as a form of repayment (Mehrotra & Biggeri, 2002).

### **Women**

Approximately 20% of women in the grey economy are unpaid workers in family businesses done in the home (Government of Pakistan, Statistics Division, 2011). They endure unsafe working conditions and abusive treatment by contractors;<sup>14</sup> sexual abuse by "masters" is a particular problem among domestic workers. In fact, women form the majority of grey economy workers employed in sectors with the least income, security, and status (International Labour Office (ILO) Governing Body, 2002). As the grey economy tends to provide greater opportunities for work in the home, such jobs do not immediately challenge traditional female roles as much as working outside the home can. However, there is the possibility that in a highly patriarchal society, such as Pakistan, greater family dependence on women's work, even if it is undertaken within the home, may still create social problems.

<sup>13</sup> See for example: Gallup Pakistan, 2011, *30 years of polling data on crimes, violence, terrorism and social evils 1980-2010*; International Republican Institute, 2012, *Pakistan public opinion survey index February 9 – March 3 2012*. Pew Global Attitudes Project, 2010, "Concerns about extremist threat slips in Pakistan"

<sup>14</sup> According to the Pakistan branch of the NGO Homenet, 65% of all women workers in Pakistan are home based (Homenet Pakistan, 2009).

### *Child Labor*

The informal economy is by definition without oversight or regulation and thus it provides the best environment for child labor. Rising food and fuel prices and a slowdown in the pace of economic growth has put greater economic pressure on Pakistani families, increasing the number of families forced to rely on children working to support their families. The ability for children to work can, however, be the only thing that enables families to meet their basic physical needs. Research across a range of low-income countries indicates that families with little access to credit, such as those employed in the grey economy, are more likely to send children to work when economic shocks hit (Jacoby & Skoufias, 1997). Child labor becomes, in effect, the only way of offsetting the sudden loss of income that occurs with economic shocks, particularly when the government is not able to, or does not provide, social safety net programs (Koseleci & Rosati, 2009).

Child labor has been illegal in Pakistan for nearly twenty years. Pakistan's constitution prohibits employment of children younger than fourteen dangerous work sites (e.g., factories, mines), but does not set a minimum age for work in non-hazardous jobs (US Department of State, 2012). In particular, the Employment of Children Act (1991) and The Bonded Labour Act (1992) apply to workers up to the age of eighteen and restrict the use of child labor and abolish indentured servitude and the *peshgi* system<sup>15</sup> throughout Pakistan. However, these laws were enacted without provision for implementation or enforcement. Similarly, the passage of constitutional reforms in April 2010, devolved labor regulation and policy from the federal to the provincial governments, and left provincial assemblies to raise the money to implement their new roles and responsibilities. According to a Ministry of Labour official, "We prefer to leave enforcement to the discretion of the police...They understand best the needs of their community. Law is not an absolute. We must expect a certain flexibility on the part of those who enforce it. Could this sometimes mean looking the other way? Absolutely" (Silvers, 1996, para. 19).

The Pakistani government last published figures on child labor in 1996 when it estimated that there were three million children workers in Pakistan. The Pakistan Institute of Development Economics however, maintains that three million is a gross underestimate, citing serious under-reporting due to the fact that child labor is illegal, and that working children below 10 years are not included (Kemal, 1994). A commonly cited current figure is 13 million (US Department of Labor, 2008; International Labour Organization, 2012), but again, this does not include children younger than ten. In KPK, alone the Society for the Protection for the Rights of the Child estimates that up to 1.5 million children are working, 60,000 of whom are below the age of 10 (Zia, 2012). Increasing numbers of child laborers have been largely attributed to the global economic downturn which has forced companies to cut costs by moving production into private homes making it more difficult to monitor whether child labor is being used. Speaking at a seminar on child labor, a Balochistan Labor & Manpower Department official said, "We cannot regulate factories outside Quetta due to the law and order situation. Therefore we are unable to monitor child labour in these factories" (Express Tribune, 2012). Ultimately, however, the

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<sup>15</sup> *Peshgi* (bonded money) is part of the system of forced or partly forced labor that consists of giving advances of *peshgi* to a person or, in the case of a child, a parent. In return the debtor is bound to work for the creditor/employer until the debt is paid. If the debtor becomes sick or dies, their family is responsible for the debt (United States Dept. Labor, Bureau of International Labor Affairs, 2012).

efforts of labor officials are often hampered by the politics of parceling limited resources as noted by the Director of the Human Rights Commission of Pakistan (HRCP): "This government is in continuous violation of the Convention on the Rights of the Child, and has consistently refused to enforce those very laws it enacted to protect its most vulnerable citizens. We have far more in the way of resources and legal remedies than China, India, and Indonesia, and we do far less for our young than they. The problem is lack of political will. The problem is greed" (Silvers, 1996, para. 12).

A grey economy that encourages the use of child labor reinforces existing class and ethnic cleavages by keeping children out of school and continuing the economic marginalization of poor and minority groups (UNICEF, 2011). Child laborers do not attend school and, therefore, have little chance of moving out of poverty and reliably providing for their basic physical needs as adults. The lack of education not only limits the opportunities for formal economic participation by individuals who have worked since childhood, it also leaves them unaware of their political rights and opportunities for participation. According to UNICEF (2011), child labor "...is not only a cause, but also a consequence of social inequities reinforced by discrimination. Children from indigenous groups or lower castes are more likely to drop out of school to work. Migrant children are also vulnerable to hidden and illicit labour." The prevalence of child labor is a symptom associated with persistent inequities. These inequities can become the sources of grievances that undermine social stability by increasing perceptions of relative deprivation, particularly if there is a rise in the standard of living for some groups but not others.

In sum, grey market workers by definition are isolated from government regulation and policy. They are often isolated from a community of workers, unaware of the market value of their work and have no power to negotiate the wages contractors offer or the deadlines for completion (Najam, 2011; Mehrotra & Biggeri, 2002). Even the presence of trade unions however, is no guarantee that workers will be aware of their rights or those rights protected. In one of the few in-depth case studies of the informal economy in Pakistan, Akhtar (2011) finds that of seven trade unions involved in case work in Sialkot and Faisalabad, six were run by contractors, who used the formal institution to hide exploitative employment terms (Akhtar, 2011). As long as workers remain economically and socially marginalized and isolated their abilities to provide economic security for their families will be dampened.

### **The Effect of the Grey Economy on Stability**

For most workers in the grey economy, participation in the market does not bring the changes in social norms and power relations that are commonly seen in industrializing and modernizing countries when workers are incorporated into the formal economy. Rather, traditional patterns of social interaction are maintained. How long these traditional norms will hold back demands for greater protections for workers remains to be seen. In India, workers in the grey economy have overcome cultural and logistical barriers to organization by demanding welfare benefits from the government on the basis of their rights as citizens, rather than their status as employees (Agarwala, 2008; 2006). At this point, there are almost no budget allocations in Pakistan at the federal, provincial, or local level that directly target or assist grey economy workers (Budlender, 2009).

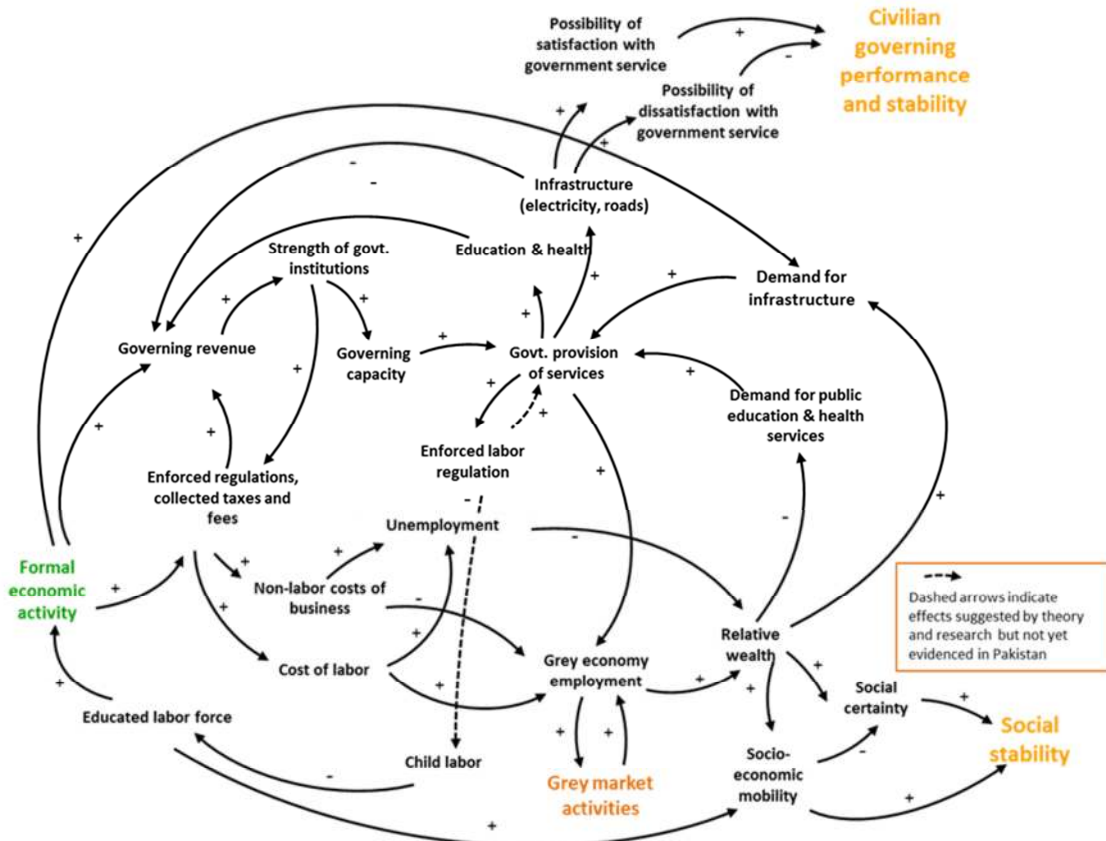


Figure 1-3. Loop diagram of major effects of grey market activity on stability

Figure 1-3 presents a summary diagram of the major stability dynamics of grey economic activity, as determined by analysis using the Pak-StaM. As discussed, the size and strength of the grey economy in Pakistan can have short-term positive and stabilizing effects on social stability and even appears to reduce demands on government-provided social services. For example, polling indicates that remitted income is most often spent on providing private education and health care (Migration Policy Institute, 2011), reducing demand for government provided services. On the other hand, as both grey and formal economic activity expand, demand for other services such as electricity (e.g., for consumer purchases, manufacturing, and other economic development) and transportation infrastructure rises. Where the government is able to provide satisfactory service it could receive a boost to popularly-perceived legitimacy. However at present, and as witnessed by public demonstrations opposing the government’s handling of electricity service, failure to provide adequate services to members of both the formal and informal economies is not only deleterious to stability, but can also reinforce a general lack of confidence in the government’s ability to adequately manage the provision of basic services.

Operating within the grey economy is attractive to business owners because it relieves them of the burden of regulation and taxation. For workers, particularly unskilled workers, entry barriers are lower. The grey economy provides significant employment, which increases social stability by increasing relative wealth and governing stability by decreasing demands for social service provision (education and health care). However, activity in the grey economy increases the cost of other services (energy,

water, etc.) and infrastructure without contributing to government revenue. Lack of revenue erodes the strength of institutions and the capacity of the government to provide services. This creates a potential vicious cycle: poor service delivery decreases satisfaction with governing performance, increasing incentives to move to the grey economy to avoid tax and regulation. Migration of more economic activity into the grey sector further decreases governing revenue and thus the ability to provide services and infrastructure falls further behind.

### **Implications for Analysts**

The Pakistan Stability Model (PAK-StaM) analysis of Pakistan's stability-instability dynamics has a number of implications for how US analysts and observers consider and anticipate stability conditions in Pakistan. These include:

- Appreciate the potency of the grey economy as a buffer to wide-spread economic, political and social instability and the importance of considering the social and microeconomic impacts of reform efforts carefully;
- Track efforts to strengthen bureaucratic institutions especially those responsible for rule of law and distribution of social services beyond passage of legislation through to implementation but anticipate the barriers established by entrenched, elite economic interests;
- Efforts to quickly eliminate or reduce the size of the grey economy could have significant negative short- to mid-term effects on quality of life in both rural and urban areas which could foster social conflict and discontent;
- The importance of monitoring and reducing child labor and increasing education as facilitators of future economic growth and development; and
- Anticipate the negative impact of attempts of reform efforts prior to significant strengthening of formal governing and economic systems.

## 2 Pakistan Stability Dynamics: Formal Foreign Remittances

Since the 1990s, remittances (money sent back to home countries by migrant workers) have risen substantially worldwide. In many developing countries, the dollar amount of remittances exceeds the dollar amount of international aid, thus becoming an important means by which resources are transferred from more developed to developing countries (Anjum, 2011; Arif, 2009). In Pakistan foreign remittances play an increasingly critical role in the economy. At present there are approximately five million Pakistanis working abroad and Pakistan ranks among the developing countries receiving the most in remitted income.<sup>16</sup> On the macro level, foreign remittances are one of the most important sources of capital for Pakistan's economic growth (Shahbaz & Aamir, 2009) and can generate much-needed government revenue. On the micro level, they can help alleviate the effects of poverty among the estimated 5% of Pakistani households that receive them<sup>17</sup> and provide the means for many families to improve housing, health care and the education of their children (Migration Policy Institute, 2008). Remittance income provides a buffer to potentially destabilizing discontent with government performance as well as income less vulnerable to the under-performance of the rest of Pakistan's economy. However, how families are choosing to spend these funds now could, in the longer-term increase social and political competition possibly leading to unrest and repression of non-elite groups, or to eventual political liberalization and reform in Pakistan.

In the following discussion and in many analyses of the topic, it is important to note that most government, NGO or other "official" figures for remittance flows report money transferred only via formal channels (e.g., bank drafts, Western Union) and subject to taxation and regulation. As a consequence they underestimate the total amount expatriates send home to Pakistan which includes money transferred via informal channels like *hawala* networks and according to some estimate more than doubles total remittances (e.g., Irfan, 2011). Unless specified, figures cited below refer to remittances via formal channels only.

### Remittance Inflow

Remittances are widely acknowledged as a potential driver of economic growth and development, with implications for the overall stability of an economy.<sup>18</sup> They can help finance new businesses, provide employment and income opportunities and in turn increase demand for goods and services. A wide body of research has found that GDP growth in Pakistan is not only positively correlated to remittances, but that foreign remittances, along with direct foreign investment and exports, are critical sources of

<sup>16</sup> India, China, Mexico and the Philippines are the only countries, with higher levels of remittances (in total dollars) than Pakistan (Mohapatra *et al*, 2011).

<sup>17</sup> 2007-08 Pakistan Household Income and Expenditure Survey (HIES).

<sup>18</sup> For example, see Afzal, 2004; Calaro, 2008; Faini, 2002; Gupta *et al.*, 2009; Hulugalle *et al.*, 2005; Sattar & Iqbal, 2005; Jongwanich, 2007; Stark & Lucas, 1988; Taylor, 1992



capital for economic growth.<sup>19</sup> Remittances have helped increase not only wholesale and retail trade in Pakistan, but have also contributed to an increase in small-scale manufacturing, construction, communication, and infrastructure development (International Organization for Migration, 2009; Khathlan, 2012; Suleri & Savage, 2006).



**Figure 2-1. Value of formal foreign remittances**

Source: State Bank of Pakistan, 2012

Remittances from Pakistanis working abroad “have more than quadrupled in the last eight years,” (Kock and Sun, 2011, p. 3). According to the State Bank of Pakistan formal remittances to Pakistan for fiscal year 2011-2012 (FY11/12)<sup>20</sup> were the highest yet recorded at US \$13.186 billion (Figure 2-1), representing 5% of Pakistan’s GDP and an increase of 17.73% over the previous year (Pakistan Observer, 2012).

In large part the rapid growth in remittances is due to expanding migration of more skilled and thus higher earning Pakistani workers, and there is no sign that the trend is changing. Table 2-1 shows the first quarter remittance figures for the largest sources of foreign remittances to Pakistan.

Although the importance of the US has dropped since 2004/05, along with Saudi Arabia and the UAE it remains one of most important sources of remitted funds despite the fact that only some 9% of expatriate Pakistani workers reside in North America (Human Development Report, 2009). Khalid Bin Shaheen, chief of the Global Home Remittance

Pakistani Workers in	FY 11/12	FY 12/13	Change
Saudi Arabia	\$854,180,000	\$961,090,000	12.5%
United Arab Emirates	\$746,620,000	\$753,080,000	0.1%
U.S.	\$627,750,000	\$623,720,000	0.0%
U.K.	\$369,360,000	\$500,150,000	35.4%
GCC Countries	\$354,610,000	\$396,140,000	11.7%
EU Countries	\$101,730,000	\$97,050,000	-4.7%
Other Countries	\$242,950,000	\$267,880,000	10.0%

**Table 2-1. Change in first quarter (Jul-Sept) remittances from major sources**

Source: State Bank of Pakistan, 2012

Management Group at the National Bank of Pakistan explains “Even though the Pakistani diaspora living in the West is more prosperous than the majority of working class doing menial jobs in Saudi Arabia, UAE and the Gulf region, the former invest more in the countries they are residing in as they acquire

<sup>19</sup> See Adams, 1989; Adams, 1998; Amjad, 1986; Amjad, 1989; Arif, 1999; Arif, 2009; Arif & Irfan, 1997; Burki, 1991; Burney, 1987; Giuliano, 2008; Sattar & Iqbal, 2005; Kozel & Alderman, 1990; Lucas & Stark, 1985; Nishat & Bilgrami, 1993; Shahbaz & Aamir, 2009; Stanwix & Connell, 1995; Walker & Brown, 1995.

<sup>20</sup> Pakistan’s fiscal year runs from July 1st to June 30th.

citizenship there whereas the latter are unable to acquire foreign citizenship and therefore, they send back more money to their relatives and families in Pakistan.”

Interestingly, during this period the greatest percentage increase came from Pakistani workers resident in the UK likely related to calls for humanitarian and reconstruction aid following the devastating 2010-11 floods. (A similar spike in remittances from the UK occurred following the 2008 earthquake; total remittances rose by 10% after the earthquake in 2005 (The Migration Observatory, 2011)). In fact, remittances also increased from the Gulf Cooperation Council countries, despite an economic downturn there in recent years. The only decline in remittances last year came from Pakistanis working in EU countries where the debt crisis and rising unemployment appear to be dampening migrant workers’ earnings (State Bank of Pakistan, 2012a). Overall growth in remittance inflow for the current fiscal year (FY12/13) continues to look strong: During just the first four months of FY12/13 overseas remittances totaled \$4.9 billion which alone translates to approximately 5% of Pakistan’s GDP and is 15% higher than remittances received during the same period in FY11/12 (Dawn, Nov 2012).

As noted, remittance income serves as a buffer to economic stability in Pakistan as it is independent of most economic conditions within Pakistan (Buch & Kuckulenz, 2004; Migration Policy Institute, 2007; PILDAT, 2008). As a revenue source, remittances have been shown to be more stable and reliable than other types of capital inflows such as foreign direct investment or development aid. For Pakistan, remittances are a significant source of foreign exchange and have been widely credited with keeping the current account deficit within manageable levels.<sup>21</sup> In fact, the significance of remittances for economic growth and stability has not been lost on Pakistani government officials who have taken steps to gain remittance transfer market share from *hawala* and other informal mechanisms. For example, in 2009 the government kicked-off the Pakistan Remittance Initiative – a joint initiative between the State Bank of Pakistan, the Ministry of Overseas Pakistanis, and the Ministry of Finance designed to reduce the time of delivery, transfer fees, and other bureaucratic complexities of remitting money through the formal banking system (International Monetary Fund, 2012; State Bank of Pakistan, 2009). Despite these changes, and perhaps even the fact that unofficial transfers are against the law in Pakistan, the benefits of these transfers will remain for the foreseeable futures, or as long as banking infrastructure (particularly in rural areas) is weak and unreliable and illegally employed migrant workers are exposed by using the formal banking system (Congressional Budget Office, 2005; Schaeffer, 2008)<sup>22</sup>.

## How Remittances Are Used

While not every Pakistani working abroad remits funds, research indicates that sending some money home is the norm (Abdih et al., 2009; Page & Plaza, 2005) and that remittances from overseas Pakistani workers also increase household wealth, particularly of non-elite groups (Ahmed, Sugiyarto, & Jha, 2010; Naseem, 2012). On average, formal remittances account for 5.3% of rural and 3.5% of urban household income in Pakistan and the mean income of remittance-receiving households is 17.3% higher than households not receiving remittances (Abdih et al., 2009; Asian Development Bank, 2012). *Where*

<sup>21</sup> See, Beine, Lodigiani, & Vermeulen, 2010; Chami, Hakura, & Montiel, 2009; Ebeke, 2010; International Organization for Migration, 2006; The World Bank, 2003.

<sup>22</sup> See also El Qorchi, Maimbo, & Wilson, 2003; Faith, 2011; The Economic Times, 2001.

*do these monies go?* On the micro-level, in addition to funding business ventures, it appears that a good portion of these funds are being used to offset the deficiencies in Pakistan’s health and public education services – both areas of government activity that are seriously under-funded<sup>23</sup> (Khan, Sajid, Gondal, & Ahmad, 2009; Black, 2003; Meyers, 1998; Suleri & Savage, 2006).

**Health**

With regard to public health, it is clear that receipt of remittances is also positively associated with the ability of families to provide for their physical needs – a key factor in social stability (Malik, 1988; Naseem, 2012; Siddiqui & Kemal, 2006). Increased income enables families to purchase more and higher quality food, which increases nutrition and health (Arif, 2009; Calaro, 2008; Jongwanich, 2007).

	Use of Health Services Before Migration		Use of Health Services After Migration	
	Private Doctor	Government Hospital	Private Doctor	Government Hospital
Urban	33.15%	40.30%	88.89%	4.83%
Rural	25.30%	46.88%	75.09%	13.00%

**Table 2-2. Effect of remittances on the use of health services**  
 Source: Arif, 2009. Based on 2009 Household Survey on Overseas Migrants and Remittances (HSOMR)

Remittances to both urban and rural areas are also used to purchase much-preferred private health services as shown in Table 2-2. Households receiving remittances report using private doctors significantly more often than they had prior to receiving remittance income (Arif, 2009; see also, Calaro, 2008; Faini, 2002; Gupta et al., 2009; Jongwanich, 2007; Stark & Lucas, 1988; Taylor, 1999). Remitted funds have also buffered families from income shocks and provide insurance for recipients in times of domestic economic downturn, natural disasters and other emergencies. Remittance-receiving households were better able to repair and rebuild their homes following the 2005 earthquake, and were able to pay for emergency health care, rather than relying on government-supplied health services or selling assets to pay for treatment as numerous Pakistanis were forced to do (de Haas, 2007; Khan et al., 2011; Suleri & Savage, 2006).

**Education**

Initial research suggests that there may be some causal relationship between remittances and school enrollment in Pakistan where enrollment is higher in households receiving remittances than among those that do not. In a study of households receiving remittances from Saudi Arabia (estimated at 31.5% of all Pakistani remittances) for example, families paying for private education increased from 15% to 48% after a family member began sending remittances.<sup>24</sup> Similarly, remittances from inside Pakistan

<sup>23</sup> On average, the Pakistani government allocates approximately two percent of GDP to health care services (WHO, 2012) and approximately five percent to education.

<sup>24</sup> The 2009 Household Survey on Overseas Migrants and Remittances (HSOMR) surveyed 548 Pakistani households with at least one male family member working in Saudi Arabia between 1994 and 2006.

help close the urban-rural education divide as many migrants from rural areas send home money that is used to help pay for private education.<sup>25</sup> Increased household income makes it possible for less-advantaged and rural students to stay in school longer, reducing drop-out rates for a population that has remained at the bottom of the education ladder (Andrabi, 2009).

While residual dissatisfaction with the public educational system may explain the impetus for increased school enrollment, remittances make it possible by providing more families with money for tuition (Arif, 2009; deHaas, 2007; Yang, 2004). The rapid increase in remittances in Pakistan also seems to be associated with growth in the establishment of private schools. Between 1999 and 2008, the number of private schools increase by over 100% from 35,889 to 75,529 (Institute of Social and Policy Sciences, 2010). An argument can be made that access to private schools, which educate approximately 29-33% of enrolled children in Pakistan (Ministry of Education, Government of Pakistan, 2009), decreases stress on a public education system that is widely seen as deficient.

Finally, research shows that Pakistani women in families receiving remittances tend to enter the labor market more often than women in families not receiving remittances (Arif, 2009; deHaas, 2007). Although these numbers are still small, they are steadily increasing. Women in remittance-receiving households also report that they are more involved in family decision-making than they were prior to receiving remittances (Arif, 2009; deHaas, 2007). These types of changes in socio-economic status and the roles of women tend to be significant drivers of societal change writ large. While upward social class movement and improved conditions for women can result in liberalization and political reform, they could also easily prompt a backlash and have detrimental effects on social stability by fueling social uncertainty and inter- and intra-group tensions.

### **The Effect of Remittances on Stability**

While the purely economic implications of remittances in Pakistan are relatively easy to grasp, how they affect Pakistani political and social stability is less straightforward. Figure 2-2 presents a summary loop diagram of the impact of foreign remittances on political and social stability factors in Pakistan. Remittances do not just affect the economic conditions of the individuals and households receiving these funds, but have macro-level effects when wealth is translated into purchases and capital flows. To the degree that these are entered into the formal economy and taxes and fees are collected, they can increase governing revenue. If these funds are funneled into social services they can help improve popular perception of government performance. More immediately, remittances clearly ease demand on government services (de Haas, 2007; Kapur & McHale, 2003; Khan et al., 2011). While there is no direct evidence that receipt of foreign remittances is directly related to perceptions of government performance, fewer people relying on those services could help improve services for those still using them. Fewer people relying on government services also potentially decreases the likelihood of civil discontent aimed at the government, for example as has been the case regarding government management of electrical power services. In short, remittances provide households with the resources to gain access to the services they need and want, despite government performance. As such,

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<sup>25</sup> See the “Education” chapter of this report for more detailed information on the stability effects of education in Pakistan.

remittances may serve as an indirect buffer to the stability of particularly civilian governments by reducing the impact of poor performance on some constituents.

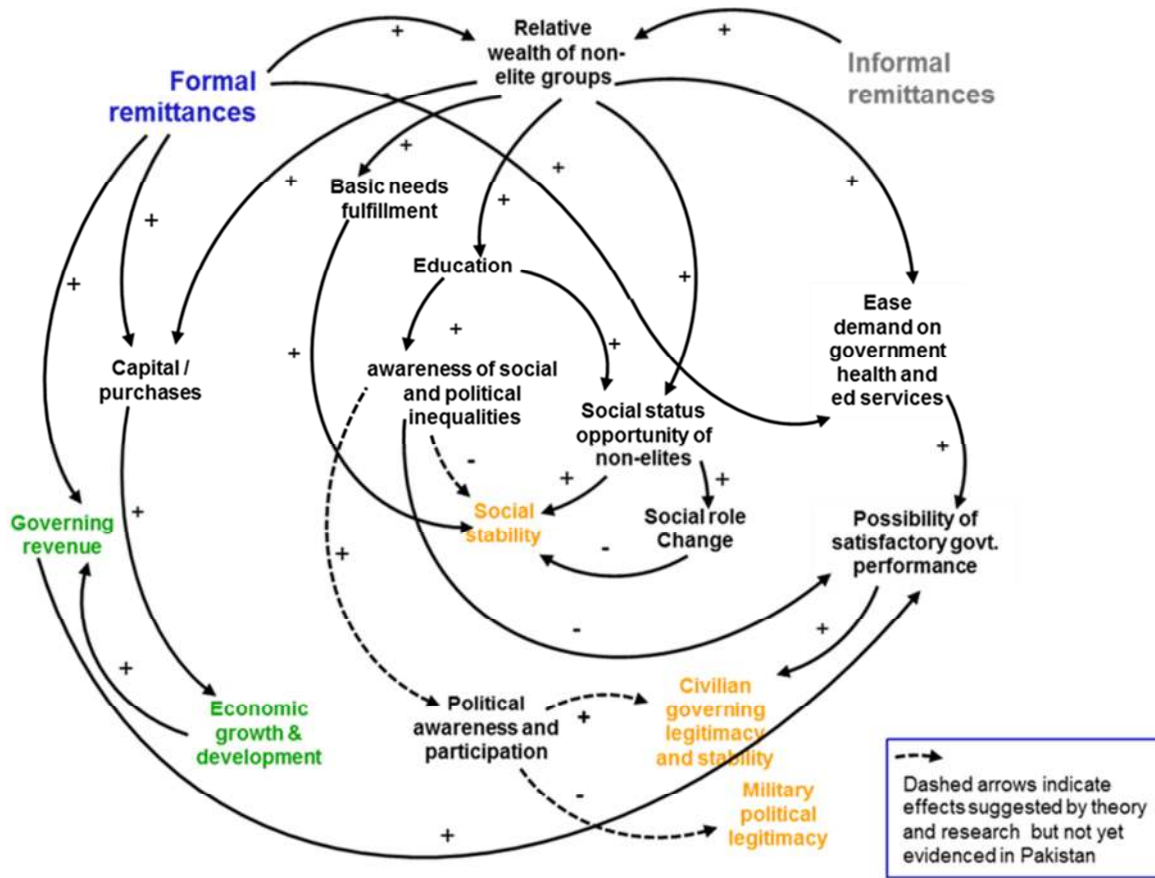


Figure 2-2. Loop diagram of major effects of formal foreign remittances on stability

However, the very reason remittances buffer short-term governing stability, i.e., by reducing reliance on and/or use of government services, could in the long-run decrease the stability of the current political system. Spending on improved education and health has been associated with longer-term and often significant political and social changes. Higher levels of education tend to correlate with greater awareness of social and political inequalities and greater political awareness and participation (de Haas, 2007; Khan, Sultana, & Siraj, 2011). Expanded political awareness has implications for both social and governing stability. The changes in social opportunity, status and individual expectations that accompany secondary education can both buoy social instability if expectations are met, or serve as an important source of discord if they are not (Kapur & McHale, 2003). Where they are not met, expanded political awareness and participation also can increase public pressure on, and scrutiny of both military regimes and civilian governments.

In Pakistan, social and political pressures could be spurred by changes in social status and life expectations among the increasing numbers of non-elites who are receiving better and more education

than had their parents. In other developing states, the emergence of a new middle-class, enabled by higher levels of education and investment has resulted in a population more interested in politics and political reform. This type of change in Pakistan could foster mid-term political unrest and instability with an eventual positive effect on democratic governance. It could also have a net negative effect on governing and social stability as a newly-educated demographic begins to challenge existing elite political control – including that of the Army -- and/or levies new demands on the government.

### **Remittance Vulnerabilities**

While Pakistan's 20-year history of exporting workers and reaping the benefits of a healthy flow of remittances has had a definite positive effect on the country's macro-economic resilience, remittances clearly cannot overcome ineffective economic practices, graft and failure to enforce commercial regulations or other significant drains on a developing economy. Considering the importance of remittance income to Pakistan's economy, as well as the buffers it seems to create to political instability, it is fair to say that a significant or precipitous disruption in the inflow of remittances could produce wide-ranging destabilizing effects (deHaas, 2007; Gammage, 2006; Taylor & Mora, 2006).

Because remitted income can be extremely vulnerable to external events beyond Pakistan's control, untempered reliance on these funds is a risky strategy. There are, at present three key sources of vulnerability to Pakistan's remittance: economic downturn in Europe, the UK, US and Gulf such that migrant workers are unable to find work or worker migration is limited; political pressures for host countries to indigenize their work forces; and regional conflict severe enough to disrupt investment, banking or employment opportunities. Money sent from migrant workers in European Union countries has in fact decreased as a result of the debt crisis and high unemployment and political pressure to curb the migrant work force. At present the major part of Pakistan's remittances are tied to oil or oil-financed construction and services in Saudi Arabia and UAE and. They are likely to remain relatively stable unless oil prices fall significantly or campaigns to indigenize the work force -- as is occurring in Saudi Arabia -- gain purchase. If this were to happen without alternative employment for migrants, it is likely that Pakistanis currently enjoying improved and privately-funded health care and education would be forced to revert to what are widely considered inadequate government-provided services. The change in conditions and now-raised expectations based on more expensive private health and education services as well as return of now unemployed workers, could result in increased frustration and anger at the government and possibly spur opposition to it.

### **Implications for Analysts**

The Pakistan Stability Model (PAK-StaM) analysis of Pakistan's stability-instability dynamics has a number of implications for how US analysts and observers consider and anticipate stability conditions in Pakistan. These include:

- The importance of monitoring formal and where possible informal remittance flows to households (i.e., non-terrorist finance) including where and how the money is spent;

- Anticipate the possibility of increased social or political tensions in Pakistan following seemingly unrelated world events like drops in Gulf oil prices, rises in nationalism and/or foreign efforts to indigenize work forces or curb migration;
- Anticipate social and economic pressures on the government in Pakistan in the event of regional hostilities;
- The importance of tracking demographic shifts (ethnicity, locale, gender) in those receiving secondary education for estimating future social and political change; and
- Consider carefully all US or foreign military, diplomatic or commercial activities that might hinder transfer of formal or informal remittances to Pakistan.

### 3 Pakistan Stability Dynamics: Patronage

*“Sensible” and “practical” Pakistanis, conversant with the prevailing administrative mores, know that one’s business with the government must be pursued on a personal level. This is the operating premise of many officials also: they will not act on a case until the concerned citizen, or someone representing him, has called. Graft is not necessarily involved. “Sifarish”<sup>26</sup> may be enough (Syed, 1971, p. 1252).*

Some say that patronage “appears to be the more persistent characteristic of the Pakistani state” (Evans, 2012, p. 214). Despite great ethnic and linguistic diversity, the overriding importance of blood ties (*qaum*) and connections (*sifarish*) is common to all major groups within Pakistan (Evans, 2010; Jaffrelot, 2004). An individual’s identity and place in Pakistani society is expressed through his *biradari* (brotherhood) network, particularly in Punjab and Kashmir (Evans, 2012, p. 5).<sup>27</sup> Social status can be measured by the size and reach of an individual’s social network: how much *sifarish* he has (Evans, 2010). Kinship ties are strongly hierarchical and asymmetric and create a cultural expectation of mutual service, or what Evans refers to as an “informal moral economy” (Lyon, 2002; Evans, 2010, p.18).

These mutual obligations and personal relationships are reflected in the ways in which political and economic activities are conducted (Syed, 1971). In a village, *biradari* connections can determine whether one gets access to a phone or to electricity, while in a city they can be the deciding factor in getting a job, a loan, or a business permit (Evans, 2010). Party politics, military rule, access to services, employment opportunities, and business deals are all influenced by overlapping networks of familial and personal connections. As one observer explained, “one owes employment to one’s relatives regardless of competence, support in feuds and conflicts, irrespective of any criteria of justice and favors if one happens to be in a position of authority” (Islam, 2004, p. 322). A former Foreign Minister summed up the effects of patronage networks in his country in this way: “For friends everything, for enemies nothing and for the rest strict application of rules.”

There are many accounts of Pakistan’s history that detail the manner in which patronage networks, particularly among the ruling and economic elite, have influenced the country’s political development (see, for example, Lieven, 2011; Cohen, 2004; Bennett Jones, 2009; Jaffrelot, 2004; Siddiqa-Agha, 2007). In most cases, as with the Pakistani and Western press, these accounts detail the corruption, mismanagement, and waste that often arise from the unrestrained influence of patronage networks. The intention of this analysis is not to summarize the particulars of this history but to examine the effects such practices have had on stability in Pakistan. What our analysis using the State Stability Model (StaM)<sup>28</sup> has shown is that patronage is a powerful short-term stabilizing force in Pakistani politics and society. It has buffered the social instability often associated with rapid urbanization and the governing

<sup>26</sup> *Sifarish* means “connections” in Urdu.

<sup>27</sup> *Biradari* is a nebulous term referring to common descent based on family, tribe, or sometimes class.

<sup>28</sup> For an overview of the StaM and its application to Pakistan, see the introductory chapter to this report.



and social instability driven by poor provision of public services. However, in the longer-term, a patronage-based society creates instability. The incentives and barriers patronage networks create have the potential to prevent the reform and change essential for long-term development and stability.

## Defining Patronage

Informal social networking is possibly one of the world's oldest and most ubiquitous methods of conducting social, political, and business transactions. Patronage is a variant of this type of networking. Patronage networks can strengthen social cohesion by developing elaborate social ties and hierarchies and can help individuals communicate with, and influence, formal institutions by providing them with a collective identity. In most cases, trust among members of a network is based on the strong ties that arise from shared kinship or tribal loyalties and the associated notions of social belonging and exclusion that are tied to such identities (Wellman & Wortley, 1989). The effects of such networks on formal economic and political institutions and practices are highly contingent on the nature of those institutions and the degree of trust and allegiance individuals feel toward those institutions. However, informal networks (e.g., the concept of an "old boys' network") remain influential and can be important mechanisms for spreading information and expediting work between diverse institutions and organizations. Identifying and tracing the influence of these patronage networks can be challenging as over time they can become embedded within existing institutions and structures. This also increases their ability to exercise influence and makes removing or reducing their influence a very complicated and potentially destabilizing matter (Lane, 2010).

## The relationship between patronage and corruption

Because they are highly dependent on cultural and social norms, both patronage and corruption can be difficult to define independent of the specific context. Most generally, corruption can be considered as the misuse of entrusted power for private benefit (Nye, 1967; UNDP 2011; World Bank, 2008a). Patronage, on the other hand, is the use of informal, unofficial networks to conduct political and economic business. In this sense, patronage networks are the cultural counterparts of a society's formal institutions. In the U.S. for example, appointing a loyal supporter to a prestigious diplomatic post would be an example of a patronage reward, whereas accepting a kickback for awarding a government contract to a less competitive bid presented by a friend or family member would be corruption. In Pakistan, patronage obligations –*sifarish* - significantly tighter and more demanding, and rules and norms based on kinship take precedence over professional codes of conduct (Islam 2004; Newberg 1995), and make the distinction between corruption and patronage harder to gauge from the outside. For example, it would be acceptable, even expected, for a politician to give a job as a schoolteacher to a woman of common kinship, and in rural areas it is taken for granted that access to sanitation, roads and other public services can be procured through *sifarish* (Islam, 2004; Gilani, 2010; The Express Tribune, 2012; Khan, 2012).

Another useful way of distinguishing between patronage and corruption is to consider the intent of each. Corruption whether petty bribery or large-scale misappropriation of funds, is characterized by intentional criminality and individual gain. Patronage involves the distribution of public goods, such as services and jobs, to benefit the patrons' networks and generate support. While patronage networks

and obligations can create opportunities for corruption, they are not always one and the same thing. One of the most prevalent forms of corruption in Pakistan is bribe taking by officials in return for services (Islam, 2004). This practice is not necessarily related to patronage networks or kinship ties; it is, however a “violation of the formal rules governing the allocation of public resources by officials in response to offers of financial gain” (Khan, 1998, p. 18) and consistent with the classic definition of corruption (Nye, 1967).

Especially for those most familiar with individual rights-based, Western systems, the distinction between patronage and corruption can be difficult to draw. However, it is a critical difference in the context of Pakistan where, when kinship obligations clash with formal rules, kinship is generally expected to take precedence (Lieven, 2008). While this may result in outcomes that are less than optimal from a policy or legal perspective, it does tend to produce outcomes that are more socially acceptable (Islam, 2004). While both corruption and patronage take from the system, unlike corruption, patronage does result in the redistribution of goods. Consequently, it can and often does have a short-term stabilizing effect, particularly when formal institutions lack independent legitimacy and capacity (Wellman & Wortley, 1989).

## Patronage in Pakistan

### Political patronage

Patronage networks function in all societies and political systems as an exchange of allegiance or political support in return for a share of public goods. In Pakistan, the impact of political patronage networks is heightened by several factors. First, scarcity of resources may make broad-based provision of public goods (e.g., social services, etc.) by the government more difficult. In Pakistan, political patronage networks are vital to an individual’s ability to extract a share of the limited goods available. Second, traditional authority structures are built around the notion of patronage, making it a well-understood principle on which to base social interactions and relationships. In the political sphere, this has hindered the development of patterns of participation consistent with democratic civil society and critical for longer-term governing legitimacy. In effect, the strength of traditional social networks has contributed to the continued weakness of the state.

Political participation in Pakistan is more likely to be organized by mobilizing patronage networks than it is by mobilizing class or economic interest groups (Lieven, 2011; Perkovich, 2011). Government organized around patronage (commonly referred to as patrimonialism, clientelism, patron-client politics, and factional politics) is characterized by the personalization of politics by leaders. Political competition and decision making is based in factional competition,<sup>29</sup> and none of the country’s major political parties practice internal democracy (Perkovich, 2011). Those who have the resources (the elites) seek political office; those who do not seek access to office holders as an indirect means of increasing their chances of obtaining valuable public resources and services as well as a sense of reflected power (Chandra, 2007).

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<sup>29</sup> For example, while Benazir Bhutto's roots were in rural Sindh, Nawaz Sharif came from a self-made industrial family. “His family bore a deep grudge against the Bhutto family because of Zulfikar’s nationalization of part of the Sharif industrial empire; this was restored to the family by Zia after Sharif’s father pledged his support” (Synnott, 2009; Bennett Jones, 2009).

In effect, access to basic public goods and services, such as policing, public works, and infrastructure development, becomes a commodity on which officials collect monetary or other forms of “rent.” Political power brokers, for example, decide which village gets a road or which firm is awarded a government contract or granted a business license.

By forming political parties and civic associations, Pakistan’s traditional elites have been able to control the state under both democratic and military rule, shaping institutions to suit their common interests (Synnott, 2009). The combination of economic power and linkages to the state have made the landed elite essential to political parties in Punjab, Sindh, and parts of Balochistan where tribal lords dominate power (Zaidi, 2006). Support of influential landowners ensures the votes of their dependents. This creates an incentive system that rewards politicians in both authoritarian and democratic regimes who champion the interests of the elites and makes attempts to directly mobilize rural voters costly (Javid, 2011).

Although an urban, middle class has developed in Pakistan, it lacks the clearly defined shared interests of the landowning class and has not developed a coherent or consistent approach to the exercise of political influence, undercutting their political power as a group (Ahmad, 1985; Percovich, 2011). In many developing countries, the rise of an urban middle class is a powerful contributor to the transition to, and consolidation of, democratic and participatory politics (Moore, 1966). However, in Pakistan, this change appears to be inhibited by the continued influence of traditional patronage networks. Particularly in rural areas, the new middle class is in many ways simply an evolution of the old elite, rather than a force for modernization (Javid, 2011). Additionally, as Pakistan’s increasingly powerful middle class has been able to establish access to the state under military rule through partnership with the bureaucracy, it has little incentive to press for greater political liberalization (Zaidi, 2006), boding ill for the longer-term stability of Pakistan’s current democratic regime.

Even under Zulfikar Ali Bhutto, who came to power by mobilizing traditionally fragmented groups (peasants, middle farmers, rural and urban middle class) and instituted land reforms designed to limit the political influence landowners, the landed elite soon regained their prominence in Pakistani politics (Zaidi, 2006; Evans, 2012). The result is a strong disincentive toward reform or the development of the strong, democratically organized political parties and institutions essential to the consolidation democratic governance. The governments of both Nawaz Sharif and Benazir Bhutto were similarly characterized by a reliance on patronage and an unwillingness to build consensus with other political forces (Synnott, 2009; Bennett Jones, 2009). This resulted in political infighting and in charges of corruption and nepotism that distracted from the task of governance (Bennett Jones, 2009; Lieven, 2011; Cohen, 2004).

### **Economic patronage**

The land tenure system in place in Punjab and Sindh at Partition in 1947 was dominated by large plantation owners (*zamindars* and *jagirdars*) and left the majority of agricultural workers without legal protection in a system where dispute resolution was heavily biased in favor of owners (Husain, 1999). This economic influence was quickly translated by landowners into political power after partition and

used to reinforce their economic advantage, for example, by securing constitutionally mandated income tax exemption for agricultural production, favorable commodity prices, subsidies, and cheap credit from public institutions at a huge cost in lost revenue to the government.

While the economic patronage power of landed elites is restricted mainly to rural areas, the model of patronage networks they embody is also present in urban areas (Khan, 1998). In Pakistan's cities, the "intermediate classes," the self-employed, traders, merchants, money lenders, and other groups with secondary and tertiary ties to the agricultural economy, "rely on personal patronage networks...to rise to dominance not only through a marriage of convenience with the State but also through the particular way power is practiced in and through the markets" (Harris-White, 2003). The hierarchical patron-client relationship typical in more traditional rural societies, but that usually weakens with urbanization (Inglehart et al., 2000), has adapted and endured in Pakistan.

As with many developing nations, there are few legal protections for workers in Pakistan: written contracts are rare and weakly enforced where they do exist and the use violence to suppress labor organization is not uncommon (Akhtar, 2011). The end of large, state-run industry and the burgeoning of small-scale, private production have further undercut labor organization and mobilization.<sup>30</sup> For the large number of workers employed in the informal economy, the potential for collective political or economic action is even lower, as isolation from government services and resources (scant though they may be) and the ever-growing pool of surplus labor makes them even more dependent on patronage as described by an interview with a construction worker (Akhtar, 2011, p. 176).

*I am just grateful that I have found some semblance of regular work. Of course he [subcontractor] is not very good to us. He withholds our payments, makes us work more than is agreed, and threatens to fire us. But I have no option but to keep quiet and accept his behavior. If I make a fuss I might lose the work. And I cannot afford that. It is so difficult to find work these days.*

### **The military and patronage**

In the years since partition, Pakistan's military has acquired considerable economic as well as military power. Beginning with its control of the defense budget, periods of military rule have seen its economic role expand to make it a key economic player (Zaidi, 2006). The Fauji Group, the commercial side of the Fauji Foundation,<sup>31</sup> has assets of \$US 1.48 billion, owns or has shares in manufacturing and electricity plants and security services, and employs (as of 2009) over four thousand ex-servicemen and almost eight thousand civilians. The Fauji Foundation and the Army Welfare Trust are two of Pakistan's largest conglomerates and their combined assets represent about 23 percent of the corporate sector (Siddiq, 2007). This economic activity enables the military to provide social services to retired and active duty personnel, as well as making it a powerful economic player.

<sup>30</sup> This change in the structure of manufacturing has been motivated in part by internationalization (Akhtar, 2011).

<sup>31</sup> The Fauji Foundation was established in 1954 as a charitable trust to provide social protection services for military personnel and dependents (Fauji Foundation, 2011).

Like many influential groups within Pakistan, the military operates as a patronage network, extracting resources from the state and distributing them to members (Ahmad, 1985; Banck, 1986; Hasan, 2010; Moore, 1966; Neale, 1969; Zaidi, 2006). The creation of an economic identity for the military, what Zaidi (2006) refers to as “Military Inc.,” further entrenches the power of the military in Pakistan and provides another avenue for leveraging support for their continued participation in politics and policymaking. Ayub Khan’s economic policy was motivated by the desire to reduce the power of the political classes, in particular the landed elites. His policy reforms therefore focused on developing Pakistan’s industrial base “resulting in the entry of a new class of entrepreneurs that included Punjabi merchants, the feudal aristocracy, retired civil servants and military officers” all beholden to the military for their economic success. The industrial licensing system was used to reward supporters and punish opponents (Cohen, 2004, p. 66).

Successive military regimes have filled civil service positions with both serving and retired military personnel. Former President Musharraf not only increased the allocation of civil service jobs to senior officers, but also expanded land grants to retired military personnel (Synnott, 2009). One of the reasons for public criticism regarding the reservation of junior civil service positions for former military may not be so much a matter of principle but of degree. As Lieven (2011) points out, the Pakistani military is a very large institution and produces a proportionally large number of officers who, upon reaching their promotion ceiling, look to move into civil service jobs, shrinking the number of these jobs left to civilian applicants.

A full discussion of the implications of the Pakistani military’s economic activities is beyond the scope and focus of this analysis. However, the most thorough assessment of the economic side of the Pakistani military is provided by Siddiqa-Agha’s (2007) in-depth case study of Pakistan’s military economy. There are several key points raised by Siddiqa-Agha that highlight the pervasiveness of its effects on Pakistan’s political and economic environment.

- The military’s combination of economic and political power, combined with economic independence from the state, gives the military greater freedom of action and removes “the power of the purse” as a strategy for civilian leaders to control their military counterparts;
- The military’s economic activity not only generates wealth, but also can be used to “buy” additional political power and influence, reinforcing other political and economic patronage networks, and magnifying their influence on stability;
- Military-run businesses have a competitive advantage over private businesses due to their access to public funds and their influence over the policymaking process. This creates distortions in the market, which can impede the growth and development of the formal economy;
- Economic activity provides another means for the military to strengthen its international profile and network. The political influence of the military, combined with its institutional credibility, make military-run companies a less-risky way of operating and investing for foreign businesses; and

- The economic activity of the military creates vested interests that are contrary to the development of democratic political norms and institutions and increase incentives for the military to seek to maintain at least indirect political control.

### The Effect of Patronage on Stability

Patronage networks are ubiquitous in the organization of political and economic activity in Pakistan. Consequently, their influence in the areas of political, economic, and social stability is considerable. Figure 3-1 presents a summary loop diagram of the major stability effects of political and economic patronage networks as determined by analysis using the Pak-StaM. In the short-term, patronage networks appear to buffer stability by providing social continuity and access to goods such as jobs that ease the economic and social dislocation often associated with the types of urban migration seen in Pakistan. However, an argument can be made that in Pakistan, as in other developing countries, entrenched political and economic patronage networks hinder economic development as well as longer-term governing stability (Khan, 2005).

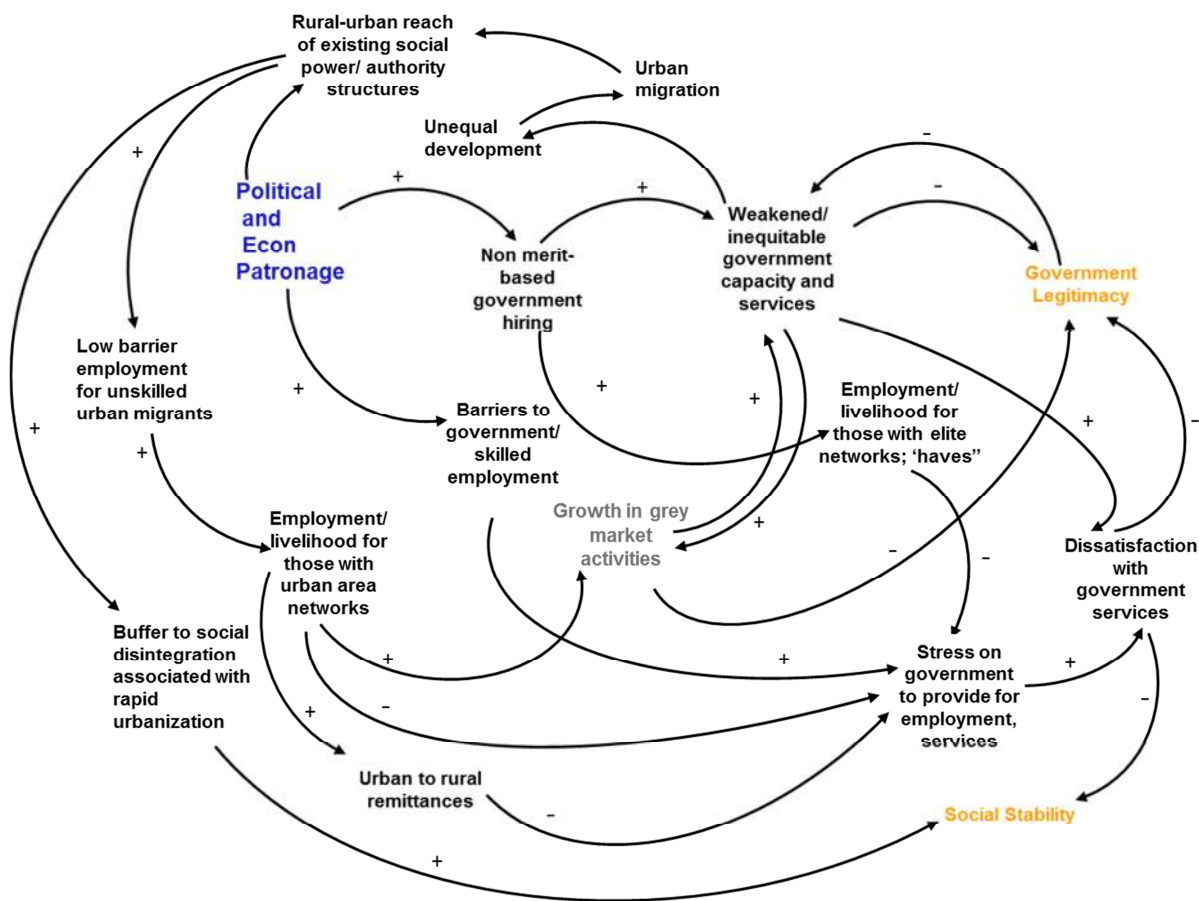


Figure 3-1: Loop diagram of major effects of patronage on stability

### **Patronage networks buffer the short-term social effects of rapid urbanization**

Economic patronage networks in Pakistan appear to have helped decrease the social and economic disruptions in the short-term that are typically associated with rapid urbanization, buffering social and governing stability. Class-based elements of Pakistan's patronage system, in particular the power of Punjab's landed elite, have persisted and transitioned to new urban and industrial settings<sup>32</sup> (Javid, 2011; Khan, 2005; Lieven, 2011). Particularly for unskilled migrant workers, the expansion of existing patronage from traditional agrarian communities into urban areas has lowered the barriers to employment. By doing so, it has increased the ability of urban migrants to meet their basic needs, buffering social stability. The use of patronage networks to find employment also reduces demand for some government services, such as job creation and placement, buffering short-term governing stability.

Internal migration has been shown to increase quality of life for both migrants and their family members who remain in rural areas (Deshingkar & Grimm, 2004). In many countries, migration is an important livelihood strategy for families and individuals, and migrant labor has been essential to the growth and development of cities in the developing world (Anh, 2003; Gazdar, 2003; Ping, 2003). In Pakistan, patronage networks are crucial facilitators of rural to urban migration. Once one member of an extended family or village establishes connections through a patronage network and finds work in an urban center, other members of the group often follow (Deshingkar & Grimm, 2004; Skeldon, 2006). These "ready-made" connections reduce the uncertainty often associated with rural-urban migration by replicating familiar social structures and buffering social stability, particularly in large cities.

In the short-term, patronage networks do appear to buffer social and governing stability. By reducing the barriers to employment, they help new urban migrants meet their basic needs. In doing so, they also reduce pressure on the government to provide employment and training services and strengthen the formal economy. These types of networks provide new urban workers with a familiar social structure, which decreases the social upheaval often associated with urbanization. At the individual level, this can reduce the stress and isolation of migration by providing social role consistency. However, at the societal level, it perpetuates the class distinctions and ethnic divisions that can drive social instability in the longer-term.

Even if urban wages are not higher, work in urban areas is often more regular than that available to landless rural workers and offers the potential for upward mobility (Deshingkar & Grimm, 2004; Deshingkar & Start, 2003). By facilitating employment for urban migrants, patronage networks increase worker's ability to remit money back to family in rural areas. Study of rural households in Pakistan's poorest districts found that households receiving remittances used that additional income both for investment and consumption (Adams, 1998). Although remittances do not appear to decrease income inequality in rural areas, they do reduce poverty (Adams, 1992; Ilahi & Jafarey, 1999). For Pakistan's

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<sup>32</sup> This political power is reinforced by traditional social authority patterns, which confer considerable prestige and loyalty on landownership (Neale, 1969). Land ownership, particularly in Punjab, is highly concentrated and the agrarian economy remains dominated by a small group. Their monopoly over employment opportunities for landless farmers grants them tremendous economic power; power which has been translated into political influence.

poorest, even a small increase in household income can have a significant effect on their ability to meet basic needs.

Approximately 8% of Pakistani households receive internal remittances, and this income does lower both the probability of being poor and the depth of poverty experienced (Mughal & Anwar, 2012).<sup>33</sup> However, internal remittances do not appear to have the same ability to create economic mobility (move a household up the income scale) as foreign remittances, as the wages internal migrants earn are not nearly as high as those of foreign workers (Adams, 1992, 1998; Mughal & Anwar, 2012). This suggests that internal remittances are likely to buffer short-term social and governing stability by increasing households' ability to meet basic needs, without the longer-term risk of social and governing instability presented by upward mobility.<sup>34</sup>

### **Patronage networks direct economic growth to the grey market<sup>35</sup>**

More than half of Pakistan's population now lives in urban areas. Much of the resulting urban growth seen in Pakistan's cities is unplanned and informal, and, in 2006, 46.6% of urban Pakistanis were living in slums (United Nations Statistics Division, 2012; Yasin, Sattar, & Faiz 2012). As with many developing nations, developers, manufacturers and small business owners in Pakistan have taken advantage of the weak regulatory capacity of the government, particularly outside municipal boundaries, to establish businesses in the grey economy (Deshingkar & Grimm, 2004; Najam, 2011; Parkinson & Tayler, 2003; Singh, Jain-Chandra, & Mohommad, 2012). Over 70% of non-agricultural workers in Pakistan are employed in the grey economy (Government of Pakistan, Statistics Division, 2011). A strong grey economy creates demand for unskilled labor that, when combined with high levels of rural poverty<sup>36</sup> and landlessness,<sup>37</sup> further drives urban migration (International Labour Office (ILO) Governing Body, 2002).

Large informal economies burden the state, as the cost of service delivery increases without generating resources for the government, and place more of its citizens' daily livelihood beyond the control or protection of the state. This has implications for stability that arise at both the state and individual level and that cut across all three dimensions of stability--economic, governing, and social. Furthermore, while workers are provided access to goods and services through patronage networks, in the longer term, by channeling many of these workers into the grey economy, they slow the development of economic and political policies that would create the conditions for sustained growth and development.

<sup>33</sup> Data from the Household Integrated Economic Survey (HIES) 2005-06 and 2007-08. This series of nationwide representative surveys is conducted by the Pakistan government as part of the Pakistan Social and Living-Standard Measurement (PSLM) survey and comprises of observations for over fifteen thousand households in each survey.

<sup>34</sup> For a comprehensive analysis of the stability implications of formal foreign remittances, see Chapter 2 of this report.

<sup>35</sup> For a comprehensive analysis of the stability implications of Pakistan's grey economy, see Chapter 1 of this report.

<sup>36</sup> In 2006, the UN estimated that 13.1% of Pakistan's urban population was below the national poverty lines, while 27% of rural Pakistani's fell below (United National Statistics Division, 2012).

<sup>37</sup> Data from the Pakistan Government's Household Integrated Economic Survey (2001-2002) estimates that 55% of Pakistan's rural population is landless, working as tenant farmers, or sharecroppers (Anwar et al., 2004).



### **Weakened government capacity and services**

Patronage networks are both a cause and consequence of weak civilian institutions and, thus, a potential driver of both short-term and longer-term governing and economic instability.<sup>38</sup> Weak civilian governing institutions enable the development and persistence of political patronage networks that allow leaders to take on the role of patron and to personalize power, flout rules, and avoid accountability. At the same time, strong political patronage networks hinder the strengthening of those same institutions, as those in a position to reform institutions are those who rely on patronage for their position. Patronage weakens both the revenue collection and bureaucratic expertise components of governing capacity, both of which are critical to effective service provision.

### ***Patronage contributes to insufficient revenue collection***

The Pakistani government's ability to provide services or institute economic reforms is restricted by its chronic lack of revenue. Political and military patronage networks exacerbate this problem by distorting the allocation of funds and blocking attempts at revenue reform in order to protect their own financial interests. Lack of revenue limits the government's ability to provide services, further reinforcing the importance of patronage connections while at the same time undermining public perceptions of governing capacity, which contributes to governing instability.

Tax exemptions and weak enforcement of tax laws are commonly attributed to Pakistan's low ratio of tax revenue to GDP, both of which are closely linked to the role of patronage networks (Asad, n.d.; Center for Peace and Development Initiatives, 2011). The IMF (2012), World Bank (2008b), and other international donors have identified debt reduction as central to macroeconomic stability and growth in Pakistan. The IMF has specified that a "substantial increase in tax revenue is a necessary condition for sustainable deficit reduction" and pressured Pakistan to impose an agricultural tax as the simplest means of increasing revenue (IMF, 2012, p. 18). The two attempts at introducing such a tax (in 1993 and 1996) were unsuccessful largely because the political power of large landowners made it impossible for the government to garner enough support to eliminate the tax exemption.<sup>39</sup> The military's extraction of state resources, both directly and indirectly, further reduces the money available to the civilian government. The military's need to protect and foster their economic interests also provides incentive to maintain control or, at the least, influence over policymaking and the distribution of state resources (Siddiq-Agha, 2007).

Renowned Pakistani economist and former finance minister, Mahbub ul-Haq, summarized the effects of political patronage on Pakistan's development in an interview with Anatol Lieven (1988, p. 212).

*Growth in Pakistan has never translated into budgetary security because of the way our political system works...agriculture in Pakistan pays no tax because the landed gentry controls politics and therefore has a grip on every government. Businessmen are given state loans and then allowed to default on them in return for favors to politicians and parties. Politicians protect corrupt officials so they can both share the proceeds.*

<sup>38</sup> For a more detailed analysis of the stability implications of institutions, see Chapter 4 of this report.

<sup>39</sup> While provincial governments in Pakistan have the authority to levy such taxes, they are even more constrained by patronage ties to the landed elites than the federal government (Khan, 1998)

*And every time a new political government comes in they have to distribute huge amounts of state money and jobs as rewards to politicians who have supported them, and short term populist measures to try to convince the people that their election promises meant something, which leaves nothing for long-term development. As far as development is concerned, our system has all the worst features of oligarchy and democracy put together.*

*That is why only technocratic, non-political governments in Pakistan have ever been able to increase revenues. But they cannot stay in power for long because they have no political support...For the same reason we have not been able to deregulate the economy as much as I wanted, despite seven years of trying, because the politicians and officials both like the system Bhutto [late Prime Minister Zulfikar Ali Bhutto] put in place. It suits them both very well, because it gave them lots of lucrative state-sponsored jobs in industry and banking to take for themselves or distribute to their relatives and supporters.*

The contention that patronage has consistently hindered the judicious use of development funds (Mughal & Anwar, 2012) is clearly illustrated in the politics of water in Pakistan. Nearly all development and investment in Pakistan's water supply has been put into the canal irrigation system of the Indus Plain, benefitting Punjab over other provinces, even Sindh, which lies downriver. The neglect of agriculture in rain-fed and non-irrigated areas has effectively excluded regions such as Balochistan and the FATA from any concerted development of alternative, dry-land methods of cultivation (Kamal, 2009). This arguably contributes to making Balochistan and the FATA the most poorly developed and food insecure regions in Pakistan (World Food Programme). It is estimated that in 2012, about 68% of households in Balochistan were food insecure, 11.5% of them food insecure with hunger and malnutrition (The Express Tribune, 2012). Inequalities and inefficiencies in the irrigation system are driven by the political influence of Punjab's large landowners.

By improving the economic fortunes of Punjabi farmers, patronage has buffered governing stability by increasing the satisfaction with government of a politically powerful group. For those who experience the negative effects of such policy, however, patronage challenges the legitimacy of civilian governments and provides fuel for those calling for greater regional autonomy. In the longer-term, and in combination, this type of distortion of the policy process, and the unequal provision of services that results, can become a powerfully destabilizing force.

### ***Patronage compromises bureaucratic expertise***

Under both authoritarian and democratic regimes, elites have used state power to directly benefit (in the form of money and influence) their factions when in power. The acceptance of patronage as a social convention in Pakistan creates a situation where many elected officials both benefit from, and are able to create, patronage networks around themselves. One result is that many elected officials have considerable discretion in the implementation of laws and the allocation of government jobs and services (Chandra, 2007; Lieven, 2011).

Political parties have used bureaucratic appointments at many levels as a vehicle for patronage, rewarding supporters with positions regardless of qualifications (Grare, 2010). Pakistan's police force is

a case in point. Political parties have placed supporters in the police as a means of dispensing patronage and used their resulting influence to repress political opponents (Abbas, 2009; Grare, 2010; International Crisis Group, 2008; Percovich, 2011; Rhode, 2002; UN Secretary-General (UNSG), 2010). When transfers and promotions for senior police officials become dependent on the political fortunes of their patrons, the effectiveness of the police force can be undermined. Not only can senior leadership change abruptly and without transition, but there is a disconnect between the senior leadership and officers belonging to the provincial police services, who seldom receive senior command positions (Abbas, 2009). The military and ISI also exert considerable influence over the police. Many high-ranking police officials are former military and maintain ties and loyalties to military interests. Such patronage obligations create competing interests for police officials. Effective rule of law and internal security requires that the police investigate and take action against violent extremist organizations (VEOs) operating within Pakistan. However, the same groups are often tolerated or even supported by the military and ISI (International Crisis Group, 2008). The autonomy and effectiveness of high ranking police officials is potentially compromised if they owe their positions to a military patronage network (Percovich, 2011).

Without effective policing, rule of law and the security of Pakistani citizens cannot be guaranteed, driving instability. In the longer-term, a capable, independent, and effective police force will remove any justification for military involvement in domestic security (Abbas, 2009; Grare, 2010). This would buffer governing stability by reducing the civilian government's dependence on the military, increasing their ability to enforce the writ of the state and bolstering legitimacy.

### *Dissatisfaction with government services*

In the short-term, patronage networks can buffer the potential destabilizing effects of inadequate service provision by the government. Weak civilian institutions, and the poor delivery of government services that result, reinforce the importance of patronage ties. When the state is not responsive, "bureaucratic, self-interested and (at times) corrupt, established relationships of social obligation" can appear more reliable than formal administrative procedures (Evans, 2012, p. 213). Without effective formal institutions, personal influence over officials through patronage networks, particularly police and courts, can be the only way for individuals to protect their interests (Lieven, 2011). Similarly, when government revenues are insufficient to provide universal services based on need, it is rational for individuals to support political leaders who demonstrate an ability to bring revenue to their supporters.

This suggests an interesting and challenging implication for the stability of democratic governance in Pakistan. Without growth and development of the formal economy, developing nations, such as Pakistan, will not be able to generate the revenue necessary to deliver public goods (such as education and infrastructure) to a broad range of social and geographic groups. However, the current patronage system creates incentives for leaders and elites to avoid reforms (including the formalization of areas of the grey economy), which would offer the potential to increase economic development and, thus, government revenue (Lieven, 2011). By slowing growth, failure to reform is likely to increase economic hardship (particularly as Pakistan's population grows), resulting in disenchantment with democracy and, as has been seen in the past, an increased possibility of political instability.

### **Patronage networks hinder allegiance to the institutions of the state, which is essential to the legitimacy of democratic governments**

Overall, as shown in Figure 3-1, patronage networks serve to maintain the status quo and are powerful agents of social stability in the short-term. However, in the longer-term, they can become a potentially destabilizing factor for civilian governance in Pakistan. Institutions and systems that benefit the majority, rather than the elites, require individuals to change their patterns of allegiance away from traditional patronage relations and toward the government. For democratic governments, lack of popular participation and reliance on alternative sources of social services undermine legitimacy and, ultimately, stability.

This is in fact one of the major hurdles that face countries experiencing both economic development and political change. For these changes to result in institutions and systems that benefit the majority, rather than the elite, individuals must be willing to change their patterns of allegiance and their relationship to government (Lall, 2012; Mitra, 2008). If they do not, and traditional patronage relations adapt and continue, workers' opportunities and motivations for participation in political life, as well as demands made on the government for policy reform and improved services, are significantly restricted. For democratic governments, lack of popular participation and alternative sources of social services undermine legitimacy and, ultimately, stability.

In political systems based on patronage, there is an expectation among the population that politicians in power will favor their own ethnic group (Chandra, 2007; Varshney, 2001). In multi-ethnic states, therefore, patronage can exacerbate social cleavages, particularly when ethnic groups are geographically separate. The relationship between Balochistan and the central government in Pakistan illustrates this well. Prominent among the grievances expressed by Baloch tribal leaders are the way in which resources are distributed among the provinces (by political influence, rather than need), the lack of investment in public services and infrastructure in the province, the exploitation of its natural resources, and the "baleful presence in the region of the Punjabi-dominated army alongside this neglect of the needs of the local population" (Synnott, 2009, p. 124).

Patronage considerations have also compromised popular perceptions of democratic government. According to public opinion research, political involvement is still regarded by many Pakistani's as "dirty" and most politicians are considered to be corrupt (Lall, 2012). The widespread belief that elections are exercises in intimidation and fraud have contributed to low participation rates, even among politically aware Pakistanis, and led many to concentrate on sub-national allegiances, rather than a sense of national identity (Lall, 2012; Weinbaum, 1996). Alienation from the state and disengagement from political participation is a driver of longer-term governing instability for Pakistan and a potential catalyst for fragmentation.

### **Implications for Analysts**

The Pakistan Stability Model (PAK-StaM) analysis of Pakistan's stability-instability dynamics has a number of implications for how US analysts and observers assess the effects of patronage networks relative to stability conditions in Pakistan. These include:

- It is not possible to understand political or economic processes in Pakistan without understanding and accounting for the role played by patronage networks. The incentives and barriers patronage networks create have the potential to prevent the reform and change essential for long-term development and stability;
- Patronage is distinct from corruption and, unlike corruption, involves the redistribution of public goods in a socially understood manner;
- Patronage is a fundamental element of social, political, and economic interactions in Pakistan. Attempts to abolish the influence of patronage networks are likely to provoke considerable opposition as well as triggering instability;
- Identifying and understanding the connections between patronage networks and formal institutions will help in predicting Pakistani responses to U.S. policy and its outcomes; and
- While patronage networks do provide a buffer to stability by inhibiting rapid social change, in the longer-term, they stymie the development of effective state institutions and provide opportunities for exploitation and corruption.

## 4 Pakistan Stability Dynamics: Civilian Institutions

At partition, conflict with India and a contested border with Afghanistan focused the attentions of the newly-independent state of Pakistan on building military capacity rather than civilian institutions and processes. By the time the first constitution was enacted almost nine years later, “a strong tradition of violation of norms of parliamentary democracy had been established” (Rizvi, 2011, p. 121). Subsequent elected civilian governments—facing leadership deficits, lack of popular support, socio-economic underdevelopment and without a method of political mobilization—were unable to assert independent authority over the military and the bureaucracy: a pattern that has continued throughout Pakistan’s history (Afzal, Farooq, Ahmad, Begum, & Auddus, 2010). Although Pakistan’s history of alternating military and civilian rule has a certain predictability and pattern, its civilian institutions remain in many cases inefficient, under resourced, subject to considerable political influence and corruption and consistently maligned in public opinion polls.<sup>40</sup>

The basic function of any government – its source of political legitimacy – is generating, dividing and distributing “goods.” The ability of a government to serve this function (e.g., providing even limited services like public safety, justice, health, education, etc.) is contingent on its capacity, which is determined in part by the strength of its institutions. Even with the best of intentions, if a government lacks resources and the bureaucratic infrastructure to implement policy, it will not be able to perform. Moreover, if a population perceives that its government has capacity that is not being directed toward performance, for example due to corruption or disinterest, satisfaction with performance is likely to be low, and perhaps bring into question the legitimacy of that government to rule. In Pakistan, this relationship between the institutional performance of the government and the perceived legitimacy of its rule is tenuous if not completely broken for many citizens.

### Governing Institutions and Stability

Governing institutions are typically understood in terms of the formal organizational units (e.g., the legislature, judiciary, and bureaucratic agencies) that structure a state’s government. However, more broadly imagined, *governing institutions* refers to regulating norms that “can guarantee order in society, protect property rights and contracts, and promote trade and cooperation” (Moe, 2005, p. 222). These “rules of the game” reduce the costs and potential hazards of collective action and help individuals achieve the gains of cooperative behavior (Shepsle, 1986; Weingast, 2002). A significant body of research demonstrates that the development of institutions independent of undue political manipulation and capable of maintaining social order through the rule of law is a key enabler of state

<sup>40</sup> For an illustrative example, see Pew Global Attitudes Project 2011 Spring Survey June 21, 2011 release pp. 53-54. The only civilian institution that currently enjoys significant public support is the judicial system. This positive public perception of the courts may be due in large part to the Supreme Court’s role in President Musharraf’s ouster, rather than direct contact with the judicial system. Although an independent judiciary is a necessary component of democratic governance, the Court’s continued activism raises concern that judicial authority is being pushed into areas that are more properly the domains of the elected legislature.

stability (Chesterman, Ignatieff, & Thakur, 2005). Scholars have uncovered a number of ways in which governing institutions affect the stability of a state<sup>41</sup>:

- Strong financial, legal, and regulatory infrastructures encourage investment, particularly from abroad, and help create the necessary conditions for economic growth and development;
- Well-established and equitable bureaucratic or institutional processes increase the capacity of governments to provide services that build human capital and increase quality of life for their citizens; and
- Well-established and equitable bureaucratic or institutional processes are less susceptible to corruption and mismanagement, increasing the ability of the government to provide services and develop and maintain infrastructure, and thus increasing legitimacy.

It is important to note that not all civilian institutions (e.g., parliament, political parties) have the same potential to influence the stability of the state, and, relatedly, not all nation-states are equally sensitive to the performance of their political institutions. As the differences between the generic StaM and the Pakistan StaM demonstrate (compare Figures i-1 and i-2 in the Introduction of this report), context affects the extent to which particular institutions actually influence stability. The remainder of this chapter will focus on the institutions within Pakistan with the greatest current or potential impact on stability conditions. These are the components of the domestic security and judicial systems that affect *provision of the rule of law*, and *regulations affecting economic activity*.

### **The Current State of Rule of Law**

Before assessing the strength of rule of law in Pakistan, it is necessary to define a set of criteria for evaluation. The World Justice Project (WJP) provides a working definition of rule of law based on four universal principles:

1. The government and its officials and agents are accountable under the law;
2. The laws are clear, publicized, stable and fair, and protect fundamental rights, including the security of persons and property;
3. The process by which the laws are enacted, administered and enforced is accessible, fair and efficient; and
4. Access to justice is provided by competent, independent and ethical adjudicators, attorneys or representatives and judicial officers who are of sufficient number, have adequate resources, and reflect the make-up of the communities they serve (Agrast, Botero, & Ponce, 2011).

According to the WJP 2011 Index, compared to other countries in its region and income group (“lower middle income” in World Bank categories), Pakistan performs weakly in each of these areas as “low levels of government accountability are compounded by the prevalence of corruption, a weak justice

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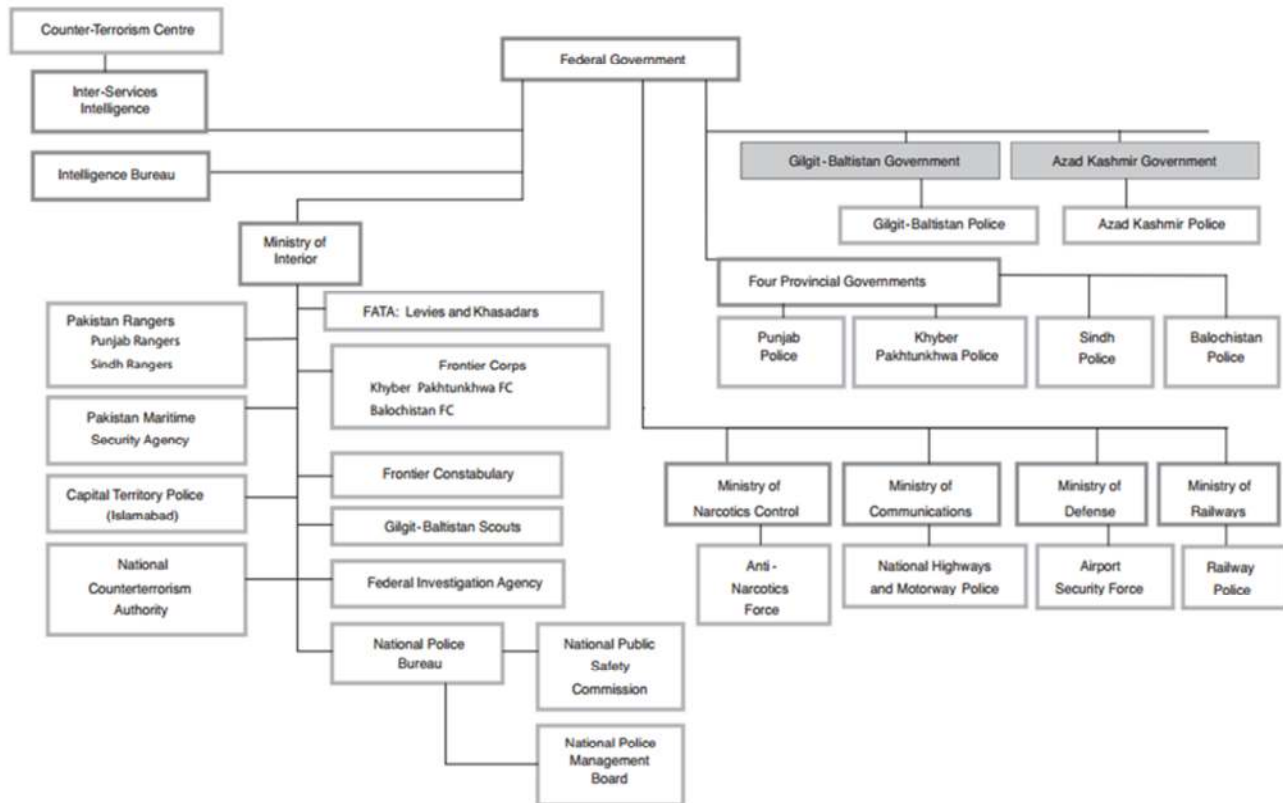
<sup>41</sup> See, for example, Esfahani & Ramirez, 2003; Gerring & Thacker, 2004; Nadvi & Robinson, 2004; Acemoglu, Johnson, & Robinson, 2005; Donnelly, 2006; Hussain & Hussain, 2006; International Monetary Fund (IMF), 2012.

system, and a poor security situation, particularly related to terrorism and crime” (Agrast, Botero, & Ponce, 2011, p. 31). By using these criteria to guide our analysis we can develop a more detailed assessment of the state of rule of law in Pakistan and how it both drives instability and buffers stability.

**Law enforcement and administration**

**Police**

In 2010, Pakistan had approximately 350,000 police officers, or one for every 485 people<sup>42</sup> -- not far from the UN-recommended police strength of one officer per 450 people. Approximately 201,000 of these are police and intelligence service officers who operate under the federal government and have cross-provincial jurisdiction (Abbas, 2011). Figure 4-1 shows the overall organizational structure of the national and regional police forces.



**Figure 4-1. Organization of police agencies in Pakistan**

Source: Abbas 2011

In Pakistan, provincial and federal governments operate separate law enforcement organizations, and federal forces are further divided into nineteen organizations under the control of four separate ministries (Abbas, 2011). These organizational units were, for the most part, inherited from the system established by the British and reflect an approach to policing based primarily on population control,

<sup>42</sup> In Lahore, (10 million inhabitants) the ratio is slightly better, one officer for every 400 residents, but it is worse in Karachi (16 million people), which has one officer per 552 residents. In rural areas, mandated police strength is even less likely to be achieved than it is in major urban areas (Petzschmann, 2010).



rather than broader enforcement of the law. With the exception of Musharraf's controversial and ultimately unsuccessful Police Reform of 2002, there has been no systemic institutional reform of police legislation since 1861 (Petzschmann, 2010). Coordination and communication of activities is rare across organizations, and variations in the structures and hierarchies of organizations further hamper collective action or effective policy implementation.

The complexity of organization and insufficient communication are not the only impediments to effective policing however. By all accounts, Pakistan's police are poorly equipped, underfunded and lack training. For example:

- Fewer than 50% of police in Punjab are equipped with weapons, and less than 3% have bulletproof vests (Abbas, 2011);
- According to Punjab's Inspector General of Police, prior to the installation of tracking devices in police vehicles, many police would make false claims about their presence on duty (Baig, 2012);
- In Islamabad, a force of 11,000 police is responsible for guarding almost 200 diplomatic buildings, and policing close to 2000 public buildings such as hospitals, markets, and schools (Siddiqa, 2009); and
- Police generally lack direct access to the national Identification database, and must pay the National Database and Registration Authority every time they seek an identification (Petzschmann, 2010, p. 7).

### **Judiciary**

Nationwide, an average civil case can take ten to twenty years to make its way through the court system (Abbas, 2011). This lapse is credited with increasing the appeal of traditional informal systems of justice based on customary law and implemented by local elders and notables (Lieven, 2011). Formal courts in Pakistan rule according to a variety of statutes, some of which have not been appreciably amended and updated since independence in 1947.<sup>43</sup> There is fundamental institutional variation in the provision of rule of law between the provinces and Pakistan's border regions. In effect, Pakistanis' basic rights and representation are conditional on where they live, and central governing authority does not extend equally across all of Pakistan. Creating a different set of rules for FATA has helped perpetuate traditional tribal structures and customary law, effectively limiting the relevance of the national judicial system in this region (Petzschmann, 2010).

### **Corruption**

One of the few areas of agreement among Pakistan scholars and commentators is the prevalence of corruption<sup>44</sup> at all levels of government. Corruption<sup>44</sup> is a materially and politically costly problem in Pakistan. In 1998, the World Bank estimated the value of corruption in Pakistan to be close to 10% of

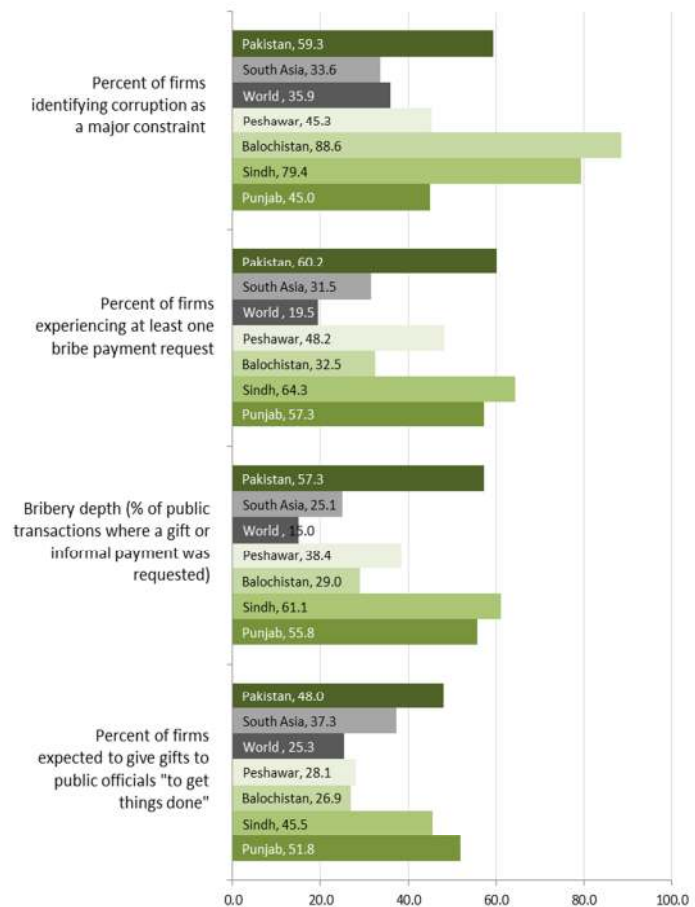
<sup>43</sup> These include the Pakistan Penal Code (PPC) of 1860, the Evidence Act of 1872 (amended and renamed Qanun-e-Shahadat in 1984), and the Criminal Procedure Code (CrPC) of 1898. Additionally, outside of the provinces, the Frontier Crimes Regulation (FCR), 1901, applies to the FATA and the Nizam-e-Adl, 2009, imposes Shari'a (Islamic law) in the PATA of KPK.

<sup>44</sup> Although precise definitions of corruption differ from country to country, corruption is most generally defined as the misuse of entrusted power for private benefit (Nye, 1967; UNDP, 2012).

GDP, or \$US 6.23 billion (Khan, Kakakhel, & Dubnick, 2004). In 2012, Transparency International Pakistan estimated losses due to corruption to be over \$US 100 billion. Lost revenue due to corruption has been estimated to be 64% of income tax, 48% of customs duties and 45% of sales taxes collected (Government of Pakistan, 2001). In the latest (2007) World Bank Enterprise Survey<sup>45</sup>, 59.3% of firms identified government corruption as a major constraint, and 11.7% identified corruption as the biggest obstacle to doing business in Pakistan; significantly above the regional average of 5.8% for South Asia. As Figure 4-2 shows, 60% of firms surveyed in Pakistan reported experiencing at least one bribe request (the average for South Asia is 31.5%), and 48% reported having to give gifts to public officials in order to “get things done.” Interestingly, there were significant provincial variations in reports of corruption. 40.7% of firms in Balochistan cited corruption as the biggest obstacle, compared to only 4.2% in Peshawar, 7.4% in Punjab and 16.6% in Sindh. The World Economic Forum's Global Competitiveness Report (2008-09) cites corruption as the second-most problematic factor for doing business in Pakistan, ranking it 109 out of 134 countries for “transparency of government policymaking.” In short, a significant body of economic study supports the contention that corruption can significantly decrease economic growth, limit the provision of public services and discourage particularly foreign investment-- each of which is associated with increased inequality and conditions that undermine economic, social and governing stability (Gray & Kaufmann, 1998). Conversely, for developing nations, empirical study indicates that decreased corruption, and improved governance and rule of law are significantly associated with higher rates of wealth and economic development (World Bank, 2007a).

**Public perceptions of corruption**

Not surprisingly, corruption is often identified in the Pakistani press as one of the most serious issues facing Pakistan. It is routine for bribes to be paid to cancel a traffic ticket, connect to electricity or phone service, access medical care, fix exam results or settle land disputes (UNDP, 2012).



**Figure 4-2. Perceptions of corruption among firms**  
 Source Data: World Bank Enterprise Survey, 2007

<sup>45</sup> This is a firm-level survey answered by business owners and top managers. Over 90% of the questions objectively ascertain characteristics of a country’s business environment. The remaining questions assess the survey respondents’ opinions on what are the obstacles to growth and performance (The World Bank, 2007b).

Public opinion data collected since the 2008 democratic transition indicates that the majority of Pakistanis consider corruption in Pakistan to be both pervasive and worsening. There is also little confidence in the government's ability to fight the problem. This may be linked to the common perception that the political system itself is corrupt: in a 2009 national Gallup Pakistan survey (Gilani Research Foundation, 2009) 82% of respondents thought corruption had a moderate (26%) or high (56%) impact on the political system, while 62% believed bribery would increase in the coming year. According to Transparency International's 2011 report on perceptions of corruption in South Asia more respondents in Pakistan believed the level of corruption had increased (72.3%) than in any other country (Hardoon & Heinrich, 2011). Of all countries, Pakistan had the lowest number of respondents (10%) who believed the government could be effective in fighting corruption. On the other hand, Pakistan has the highest percentage (94%) of respondents who believed that ordinary people can fight corruption. Of those who had come in contact with bureaucrats or the police in the previous year, 50% and 36% respectively reported paying a bribe. The most common reason for paying a bribe was "to speed things up," suggesting that bribes may be, to some extent, optional. That is, they were paid to increase the customer's convenience rather than as a prerequisite for service, or at the demand of the bureaucrat.

There is considerable survey and anecdotal evidence that most instances of petty corruption in Pakistan are seen as inevitable and, for the most part, as socially acceptable (Gilani Research Foundation, 2009; Transparency International, 2011; UNDP, 2012). Petty corruption is commonly attributed to need and opportunity. Lack of accountability, lack of merit-based raises and low salaries for public officials are the three most common reasons for petty corruption according to Pakistanis (Transparency International, 2010). The combination of social sanctions<sup>46</sup> and pervasiveness means that most Pakistanis participate in corrupt exchanges in one role or the other (Gilani Research Foundation, 2009; Transparency International, 2011; UNDP, 2012). This highlights the complex and conditional nature of the concept of corruption; what in one country may be a clear instance of illegal behavior may in another represent an accepted means of improving service. Regardless of whether such payments are perceived by the public as corruption, they distort the relationship between citizens and the state. The ability to use bribes to avoid or speed up regulations effectively creates one set of rules for the poor and another for those who can afford to pay to avoid delays and regulations. While this is arguably the case in all societies, it is particularly blatant in Pakistan and there is some evidence that tolerance of such practices is waning (Asian News International, 2011).

### *A murky definition*

Although Pakistan has a myriad of corruption laws at both the national and provincial levels there is not a common definition of what is or is not corruption. The closest may be a 2008 Supreme Court interpretation that arose from a National Accountability Bureau (NAB) investigation of public sector corruption. It identified corruption as "...an act which is done with intent to give some advantage inconsistent with law and wrongful or unlawful use of official position to procure some benefit or personal gain" (Taj, 2012). Distinct from "normal" bribes serious corruption then involves the use of

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<sup>46</sup> For a more detailed discussion of the social place of corruption, and the line between corruption and patronage see the chapter on patronage networks.

political and social influence to divert large sums of money from development projects, government procurement (particularly defense), and bank loan write-offs (Chene, 2008). However, because the definition of what constitutes less than large-scale corruption is surrounded by a wide grey area or acceptable gain, achieving effective institutional reform has proven extremely difficult. This is despite the fact that even low-level corrupt practices in governing institutions reinforce a cycle that keeps Pakistan's civilian institutions weak and more susceptible to corruption, compromising governing performance and legitimacy and in turn further weakening institutions.

### **Protection of fundamental rights in Pakistan**

Effective provision of the rule of law protects the rights of all citizens. At present law enforcement institutions do not appear to provide effective physical security for all. The lack of physical security of course, is a strong driver of social instability as it significantly diminishes quality of life. Survey data from 2005 and 2009 (Gallup & Gilani, 2009) indicates that Pakistanis' feelings of insecurity rose significantly in four areas during that period: their personal lives, families, employment opportunities and the safety of their property. Moreover, by 2009, 80% of those surveyed indicated that security concerns had caused them to alter daily activities such as going to the market or eating out, and 53% indicated that they felt the law and order situation had deteriorated.<sup>47</sup> In fact, over the past decade the percentage of Pakistanis responding that crime is a "very big problem" in Pakistan has remained above 80% -- ranging from 84% in summer 2002 to a high of 92% in April 2011 (Pew, 2011).

In addition to rising concerns over physical security among the general population, religious and ethnic minorities and women are facing increased insecurity and persecution. Attacks by Islamic militant groups against prominent politicians, activists and military personnel have contributed to "a climate of fear and widespread self-censorship on sensitive issues such as blasphemy" (Freedom House, 2012). Members of religious minorities face both official and unofficial political, social, and economic discrimination. The shooting by Taliban gunmen of fourteen-year-old activist Malala Yousufzai highlights the precarious nature of women's rights in Pakistan as well as the effect of the government's apparent tolerance of the rise of fundamentalist influence throughout Pakistan. In Balochistan, separatist and Balochi independence groups have faced increased repression in recent years. In April 2009 the President of the Baloch National Movement was found dead with two other nationalist leaders after having been detained by Pakistani security forces (Synnott, 2009). Security forces are also suspected to be involved in the murder of opposition leaders and activists (Freedom House, 2012; Human Rights Watch, 2011, Freedom House, 2012). The civilian government has been either unwilling or unable to curb the actions of the military and ISI in the province (Amnesty International, 2011; Hasan, 2012; Khan, 2012). For a democratic government, legitimacy is derived in large part from protection of civil and political rights for all groups; failure to extend these rights can be a driver of governing instability.

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<sup>47</sup> Gallup and Gilani national survey 2009. Question wording: "Recently, due to rising threats to security how much have your daily activities e.g., going to market or eating out etc. decreased." Response: 36% decreased a lot; 44% somewhat decreased; 19% not decreased; 1% no response (Gilani Research Foundation, 2009).

## The Effect of Weak Rule of Law on Stability

### Inadequate police capability reduces support for civilian government

As described above, inadequate policing capacity in Pakistan directly impacts the physical security of the population and undermines popular perceptions of governing performance as well as quality of life. Lack of training as well as bureaucratic and political obstacles hinder the ability of provincial police forces to effectively enforce the law and protect citizens. For example, although Islamabad's police force is comprised of more than 90% of its sanctioned strength to protect the city's 1.4 million residents, almost half (more than 4000 officers) are permanently assigned to guard the residences, offices and movement of the capital's VIPs (Azeem, 2012). This is in addition to the presence of national forces from the capital police, Frontier Constabulary and Rangers, who are primarily responsible for guarding sensitive locations (Azeem, 2012). This example of the focus on protection of the few reinforces public perceptions that "policemen are seen by the public not as friends but as sharks and oppressors."<sup>48</sup> The use of torture to elicit confessions (Abbas, 2011; Lievan, 2011), further undermines popular trust in the police. To the extent that Pakistani perceptions of governing legitimacy are linked to the government's ability to protect its citizens, inadequacy of civilian security institutions has the potential to decrease support for civilian rule. The idea that a significant segment of the Pakistani population considers the military to be a legitimate alternate provider of internal law and order is reflected in an October 2011 national poll. When asked, "How can the government stop bloodshed in Karachi?" (an open-ended question), 61% of respondents chose a "military operation," and 73% stated they would support the army conducting an operation in Karachi to maintain peace and security.<sup>49</sup>

### Political influence undermines police and public security

In Pakistan, fair and efficient rule of law is compromised by the politicization of the police force. While this may buffer social stability in the short-term, in the longer-term it is a potential source of both social and governing instability. The organization of Pakistan's police forces is complex, and jurisdiction and control is shared by national and provincial governments,<sup>50</sup> creating competing lines of control, as well as significant potential for manipulation by powerful groups and individuals. The British colonial legacy of using police forces as a means of controlling and repressing a population continues to shape the relationship between police and society in Pakistan today. Encroachments by both the military and local politicians have contributed to the weakening of the police (Cohen, 2004). According to a senior Punjabi police officer, around half of the 648 chiefs of local police stations are "chosen by local politicians through influence on the Punjabi government, to serve their local interests" (Lievian, 2011, p. 104). Provincial police reportedly are frequently used for "the 'management' of local politics, of elections, the harassment of civil society activists, journalists, and politicians who have fallen out of favor..." (Petzschmann, 2010, p. 12; see also Cohen, 2004).

<sup>48</sup> Retired police officer Abdul Razzak Arain in a letter to Dawn in January 2011 (Azeem, 2012).

<sup>49</sup> IRI 2012 Pakistan Public Opinion Survey Index February 9 – March 3, 2012. Total respondents 5, 985; response rate 84%; margin of error + 1.27 overall.

<sup>50</sup> See Abbas, 2011 for a detailed discussion of the organization of police forces across Pakistan.

In rural areas, local police officials can influence the outcome of elections by either allowing or preventing election rigging (Abbas, 2011). Police also help business owners intimidate workers who complain about poor working conditions or pay, and it is not unusual for feudal landowners in remote areas to use the police to “teach a lesson” to any of their laborers who cause trouble (Abbas, 2011). The use of police for private security and guard duties, which diverts manpower, is widespread. For example, the cost of VIP protection consumes an average of 30% of total police budgets and can be as high as 50% in urban areas (Abbas, 2011; Petzschmann, 2010).

Political and partisan influence over the police compromises their ability to enforce the law fairly by creating competing incentives. The political obligations police incur require them to use (or not use) their official powers to benefit the interests of a particular group, which is incompatible with the impartial and fair application of rule of law. This partiality may buffer social stability in the short-term, by helping traditional elites retain power and suppress grass-roots activism; however, to the extent that it compromises effective policing and decreases security, it is also a driver of social, governing and economic instability. In the longer-term, suppression of popular pressure for social and political change could be a driver of social and governing instability.

### **Lack of security stymies economic growth and stability**

Overall, the lack of effective policing in Pakistan’s cities contributes to an environment of insecurity that deters economic investment and as a result weakens the country’s economic stability. Moreover, when weak law enforcement allows high levels of violence and criminal activity, the stability effects are not restricted to the economic and social realms. An environment in which law enforcement is weak is an attractive location for criminal and extremist organizations. In areas where there is widespread organized crime effective governance is difficult to achieve (Collier, 2003). This is especially the case when state capacity is already low as it is in Pakistan. Particularly in large urban areas, violence and lack of effective policing can also have significant economic repercussions. In Pakistan, frequent incidents of violence, either criminal or political, in public places such as markets discourages people from engaging in non-essential economic activities and in extreme cases results in markets and shops closing (Dawn, 2012 March 19; Dawn, 2012 August 15). When the violence that depresses economic activity is the result of the activities of criminal organizations, the economic impact on businesses is further magnified as it discourages both foreign and domestic investment and trade.

### **Politicized violence**

Political violence and terrorism are commonly cited by foreign governments and international organizations as among the most significant risk factors for investment in Pakistan (British Chamber of Commerce, 2012; IMF, 2012; Overseas Investors Chamber of Commerce & Industry, 2012; US Dept. Commerce, 2011; World Bank, 2012). The politicization of violence undermines the ability of police to combat organized crime and violence. In Karachi the Chamber of Commerce has established “Special Cells” in various police and ministry offices to deal with complaints of *bhatta* (extortion), targeted killings, and other crimes (Saadat, 2011). The effectiveness of these measures, however, has been limited; extortion of local traders and businesses has continued and violence levels increase. The belief that ruling political parties are involved in organized crime appears to be commonly held belief among

both political activists and the general public (The Daily Times, 2012; Esser, 2004; Koelbl, 2010). It is lent credence by the history of direct conflict between the MQM and the government of Benazir Bhutto in the 1990s (Lievan, 2011). The increasingly blurred distinction between politically-motivated and/or extremist groups and purely criminal organizations compounds the problem. Because, extortion, kidnapping, and robbery are an important sources of funding for operations and extremist training camps in the tribal areas (Koelbl, 2010), the lack of effective rule of law in Karachi and other urban areas is directly linked to security and stability conditions in other areas of Pakistan and the region.

### **Competition between the Supreme Court and civilian government could weaken both**

In the past five years the Supreme Court has become an increasingly active and powerful political actor in Pakistan. Changes in the relationship between the judiciary and the executive became apparent in 2007 with a Supreme Court ruling that reinstated independent-thinking Supreme Court Chief Justice Iftikhar Muhammad Chaudhry who had been forcibly suspended by President Musharraf on charges of misconduct (Bennett Jones, 2009). In response to the suspension, Pakistan's lawyers had organized the non-violent Lawyer's Movement, which generated widespread support among a population already uncomfortable with Musharraf's rule (Zaidi, 2008). The movement, which contributed to Musharraf's resignation by critically undermining his authority was "without question one of the broadest-based and longest-sustained in Pakistan's history...it has been heralded as civil society's long awaited coming-of-age" (Zaidi, 2008, p. 40). This view is supported by the circumstances surrounding Chaudhry's reinstatement, which took place only after Army chief General Kayani intervened, telling the new president Asif Zardari that "in the interests of national stability the chief justice had to be given his job back," giving Pakistan its first genuinely independent Chief Justice with the popular support to challenge its leaders (Bennett Jones, 2009, p. 241).

Pakistan's current Supreme Court has demonstrated continued judicial activism especially in legal battles with the civilian government. Judges frequently comment critically on the performance of the government and, although the Constitution grants immunity from criminal prosecution to sitting presidents, used the threat of corruption charges against President Zardari as a means of pressuring the government (Rizvi, 2011; Lieven, 2012). On the other hand, it has also been reported that the Supreme Court has asked the police in Punjab to bring charges against activists who participated in a protest in Lahore that involved "sloganeering against the chief justice and the judgment of the Supreme Court" (Rizvi, 2011). In addition, the court has involved itself in activities that are more commonly the province of elected officials, including fixing commodity prices and determining transportation fares in Punjab, which some have attributed to both judges' perception of the role of the judiciary as well as their own personal benefit (Rizvi, 2011).

The short-term result of this very public conflict has been to hinder the ability of the civilian government to fully establish its credentials and add to the complexity of the struggle for political power and authority in Pakistan. In the longer-term the current situation may represent a positive step toward judicial independence, which can be an important condition for the stability of democratic regimes. However, at present the strongly critical, if not antagonistic approach the Court has taken in asserting its independence could "be interpreted as an attempt by another non-elected state institution to restrict

the role of the elected legislature and executive” (Rizvi, 2011). It remains to be seen whether such a strategy could undermine the perceived legitimacy of the current civilian-run regime and weaken governing stability.

## **Regulation of Economic Activity**

The formal institutions and norms surrounding financial and economic regulation are a second area where weaknesses profoundly impact political, economic and social stability in Pakistan. An effective financial and economic regulatory system that systemizes and protects economic activity reduces the risk to investors and creates an environment conducive to economic growth and development. The ability of a government to generate revenue, for example through taxation, enables it to invest in infrastructure development and service provision necessary for continued growth. In November 2011, Pakistan’s Ministry of Finance and the International Monetary Fund (IMF) co-hosted a seminar on the revival of economic growth in Pakistan. The participants identified weak institutions as one of the most pressing medium-term constraints on Pakistan’s growth (IMF, 2012) and the Pakistan Government Planning Commission has acknowledged that inadequate market development and regulation together with inefficient public sector management are the greatest structural impediments to economic growth in Pakistan.<sup>51</sup>

### **The current state of regulation affecting economic activity**

A detailed assessment of Pakistan’s financial and regulatory infrastructure is beyond the scope and intent of this report. Rather, we have focused on two areas – regulations of business activity and regulation affecting taxation - that most broadly and systematically affect stability. For Pakistan, with its young and growing population, economic growth will be essential if the younger generation is to find jobs and meet even their basic physical needs.

### ***Business regulation***

It is generally recognized that in order for an economy to develop and grow its financial and regulatory institutions must establish an attractive and secure environment for investment. Most generally, this involves formal protection of property rights as well as guarantees of contract enforcement and means of redress. However, a balance must be struck so that businesses are not overburdened with costly and complex regulations.

In Pakistan, multiple sources of regulatory inefficiencies and inadequacies create barriers for business. Regulatory risk, lack of transparency in public-sector decision making, and intellectual property piracy are commonly cited among the most significant risk factors for foreign investment in Pakistan (British Chamber of Commerce, 2012; IMF, 2012; Overseas Investors Chamber of Commerce & Industry, 2012; US Dept. of Commerce, 2011). The World Bank indicators (World Bank, 2012) are common measures for

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<sup>51</sup> In May 2011, the Government of Pakistan Planning Commission (2011, p. 11) published a report outlining its New Growth Strategy (NGS). It stated that: “Growth diagnostics point to two important constraints to economic growth: Inadequate market development (lack of competition, tax, tariff and policy distortions, entry barriers, government involvement, poor regulation, etc.); and Lack of efficient public sector management to (a) provide core governance goods such as security of life, property, transaction and contract, (b) facilitate markets and investment with informed policy and competent regulation, and (c) promote deepening of physical, human and social infrastructure.”



assessing the impediments to doing business within a particular country.<sup>52</sup> Overall the greatest impediments to businesses in Pakistan appear to be the time and material resources necessary to navigate often exceedingly complex government regulation. For smaller businesses which tend to operate on narrower profit margins and often with little capital, bureaucratic red tape creates significant barriers to both entry and participation in the formal economy, enhancing the attractiveness of operating in the grey economy (Singh, Jain-Chandra, & Mohommad, 2012). For example, it is more economical for many businesses to set up unregulated in-home piece workers than to run factories and pay the associated legal wages, social security expenses, and often expensive licensing fees (Najam, 2011). This is especially the case for manufacturers in the apparel and textile, shoe, and sporting goods areas.

In addition to these “official” costs of doing business in Pakistan, institutional corruption - such as the payment of bribes to officials – places an additional burden on investors. The hidden costs of doing business in Pakistan are many, including “facilitation fees” paid to politicians, “speed money” paid to the government departments involved in regulation and certifications, bribes to regulators and tax authorities, and payments to extortionists and criminal elements (Subohi, 2012). Added to the “formal” costs, these common costs of doing business in Pakistan pose an additional impediment to profitable operation. As Figure 4-2 above shows, this practice is ubiquitous, with 60% of firms surveyed in Pakistan reporting having experienced at least one bribe request, and 48% reporting the expectation of giving gifts to public officials “to get things done” (World Bank, 2007b). Businesses operating in the grey economy also face costs, in their case to avoid regulation and taxes. Small business owners pay bribes to the police to allow them to run unregistered shops, and to utility company workers to enable them to tap into the electricity supply (Mangi, 2012).

### *Infrastructure*

The cost of doing business in Pakistan is also directly and significantly increased by the failure of the government to regulate and maintain infrastructure essential to economic activity, in particular energy and water. In recent years, Pakistan has experienced severe electricity shortages that have motivated power riots in cities across the country. The government is chronically short of money and finds it increasingly difficult to pay electricity providers, resulting in electricity shortages that leave those not able to afford expensive diesel generators without a source of electric power.<sup>53</sup> Poor management and

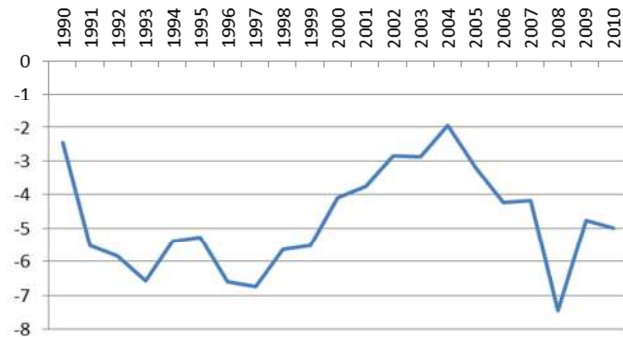
<sup>52</sup> The World Bank (2011) ranks economies according to their ease of doing business, from 1 (easiest) to 183 (most difficult), and in 2011 ranked Pakistan 83rd out of 183 countries. A good (low) score on the ease of doing business index means the regulatory environment is conducive to the operation of business. This index averages the country's percentile rankings on 10 topics, made up of a variety of indicators, giving equal weight to each topic. This initial analysis shows that Pakistan's overall regulatory environment compares favorably to the BRIC countries. However, all of these countries have regulatory environments that put them in the “difficult” range. The BRIC countries (Brazil, Russian Federation, India, China), are commonly regarded as the most important developing economies in the world.

<sup>53</sup> Pakistan's serious financial situation leaves the government with very little opportunity to improve the energy crisis. The government owes electricity providers an estimated \$US 4.2 billion, and interest charges and continued spending, combined with lack of public funds, make repayment unlikely. The government's bleak financial situation is compounded by its inability or unwillingness to collect outstanding bills from large-scale electricity consumers. The army, military estates, and various defense affiliated government departments are reported to be among those “influential defaulters” who, according to an official at Pakistan's ministry of water and power, owe power providers more than \$US 1.02 billion (Boone, 2012). In April

lack of investment in Pakistan’s vital irrigation system<sup>54</sup> are placing limits on agricultural production and currently only 45% of cultivable land is under cultivation at any time (Jaffrelot, 2004; Kamal, 2009). Corruption and mismanagement by irrigation authorities have hindered the implementation of measures to improve the system and largely explain why Pakistan has one of the lowest crop productivity per unit of water rates in the world (Jaffrelot, 2004; Kamal, 2009). Provision of safe drinking water is another infrastructure-driven problem in Pakistan, with the majority of Pakistanis identifying access to clean drinking water as a “very big problem.” (Pew Research Center, 2011).<sup>55</sup> These two issues also interact, as irrigation and drinking water systems commonly rely on electric pumps.

**Taxation**

Total FY2012-13 budgeted expenditures for Pakistan’s federal government are estimated at \$US 33.935 billion. Of this, 21% is devoted to military spending and another 44% will be used for debt repayment. Only 9% of the current budget is devoted to running the civilian government. As Figure 4-3 shows, since 1990, the Pakistan federal government has run at a deficit of between 1.9% GDP (2004) and 7.4% GDP (2008)<sup>56</sup>.



**Figure 4-3. Federal government deficit as % of GDP**  
Source Data: World Bank Development Indicators

Effective tax collection is essential to a government’s ability to generate internal revenue which in turn facilitates the government’s capacity to provide services like infrastructure development and maintenance that are essential to economic growth. Lenders, such as the IMF, are increasingly weighing a country’s ability to repay debt as a precondition for loans and have begun to make loans conditional on tax reform and other policy changes (Yukhananov, 2012).

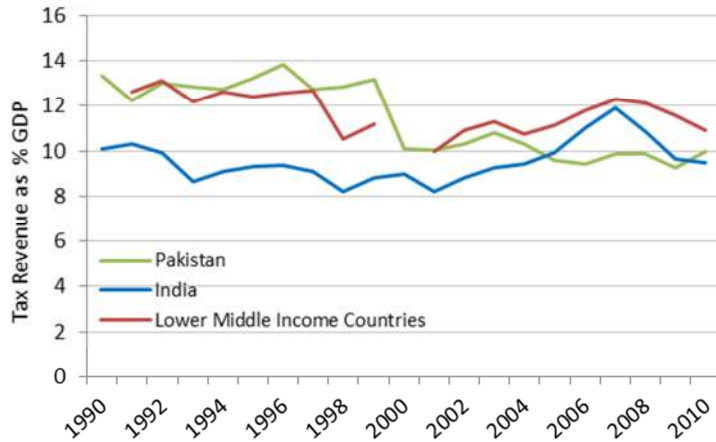
2012, the government organized a National Energy Conference, bringing together technocrats and stakeholders from all provinces, to find sustainable remedies to the energy crisis. The government announced a number of energy saving measures to limit its use of energy, including directing government offices to work five days a week, and replacing all bulbs in government buildings with energy saving bulbs (The Express Tribune, 2012 April 8). Overall, there seems to be little confidence among Pakistanis that the conference will result in any significant improvements in energy policy or planning. Furthermore, any savings that might emerge from power conservation would be overcome by demand, which is growing in line with the population and increasing urbanization. The Karachi Chamber of Commerce and Industry (KKCI) criticized the political nature of the conference agenda and planning process, warning of politicization of decision-making regarding the distribution of electricity and gas. (The Express Tribune, 2012 April 8).

<sup>54</sup> Agriculture accounts for 25% of Pakistan’s GDP, 80% of the country’s exports, about 66% of employment, and 90% of in-country food requirements. For centuries, irrigation has been crucial to agriculture in Pakistan, which has the largest irrigation system in the world.

<sup>55</sup> Pakistan’s total water demand by 2025 is projected to increase to approximately 338 billion cubic meters (bcm), but water availability is projected to barely change from the current 236 bcm (Siddiqi & Tahir-Kheli, p. 79). However, if Pakistan were able to repair and maintain the current irrigation system, there would be significant additional water resources available (Kamal, 2009; World Wide Fund for Nature-Pakistan, 2007). This suggests that if government capacity were increased, the potential economic impact of water shortages could be alleviated.

<sup>56</sup> World Bank indicators

Pakistan's revenue as a percent of GDP is among the lowest levels in the world, just 10% in 2010, and below the average for other countries at a similar level of development (see Figure 4-4). According to the FY2012-13 federal budget, internally-generated revenue accounts for 85.77% of Pakistan's total



**Figure 4-4. Comparative tax revenue levels**

Source: World Bank Development Indicators

federal operating budget. The primary sources of which are sales and income taxes which account for 33.3% and 28.3% of total internal revenue respectively (Government of Pakistan, 2012). Approximately 94% of internal revenue is generated at the federal level; provincial governments rely on the federal government to meet their budget needs. During FY2011-12, the provinces' share of government revenue was 57.5% of total tax revenue.

This low ratio of tax revenue to GDP is commonly attributed to a combination of a narrow tax base, a large number of tax exemptions and notoriously weak enforcement of tax laws (Asad, 2012; Cheema, 2011).<sup>57</sup> For example, the absence of an agricultural income tax – an exemption from taxes that benefits Pakistan's powerful rural elite -- significantly limits the proportion of the formal economy inside the tax net. Agriculture accounts for approximately 20% of Pakistan's GDP but yields less than 1% of total revenue (Government of Pakistan, 2012). A recent report published by the Center for Peace and Development Initiatives (Cheema, 2011) highlighted the lack of enforcement and arbitrariness of the application of tax laws (Asad, 2012) as well as the social acceptability of tax evasion (Siddiqui, 2012) by reporting that only 126 of Pakistan's 446 members of the National Assembly had filed 2011 income tax returns. The study also noted that, "the perception prevails that the powerful do not pay taxes, while the burden is unfairly shifted to the low-income groups who have little voice in the decision making process" (Cheema, 2011, p. 13).

## The Effect of Poor Regulation of Economic Activity on Stability

### Stunted economic growth means few jobs and infrastructure for a growing population

Pakistan's growth over the past five years has averaged 3% -- well below the 7% estimated as necessary to absorb new entrants into the labor market (Asian Development Bank, 2012). Currently, 68% of Pakistan's population is under 30 years of age (UNDP, 2012), and the labor force is expanding at 3% annually; 32% of these new workers have no education or vocational skills (UNDP, 2012). Sufficient growth in Pakistan's economy is unlikely without significant levels of foreign investment. However, to attract investment Pakistan must compete with regional economies such as Bangladesh and India. The regulatory issues cited above, combined with generally poor security and law enforcement, particularly

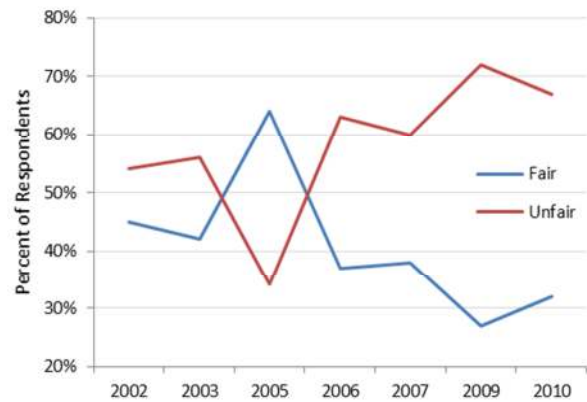
<sup>57</sup> It is a commonly cited figure that only 1-2% of Pakistanis actually pay income tax (Hourelid, 2012; Mahmood, 2012; Siddiqui, 2012; Tavernise, 2010; Temple-Raston, 2012; Yukhananov, 2012).

in the financial capital Karachi, put Pakistan at a competitive disadvantage. Failure to achieve growth will leave Pakistan’s formal economy unable to provide sufficient jobs for young Pakistanis creating increasing potential for disillusion with, and opposition to, the government possibly resulting in the types of social disruptions seen in other parts of South Asia (U.S. Institute of Peace, 2012).

Pakistan’s economic growth has also been restricted by the failure of the government to provide adequate, reliable infrastructure to support economic activity. In 2012, it is estimated that load shedding (rotating daily blackouts) resulted in losses of between 2% and 10% of GDP which equals the losses attributed to the Islamist insurgency (IMF, 2012; Asian Development Bank, 2012; Leiby, 2012; Economist, 2011). According to the president of the Punjab Forum, thousands of industrial units have been closed in Pakistan and 500 textile units have shifted to Bangladesh as a direct result of insufficient and intermittent power supply (Rana, 2011). Failure to develop Pakistan’s electrical capacity has also forced companies to pay high fuel costs and purchase generators for power, both expenses that divert money from growth (Shaffer, 2005). This is particularly the case for small businesses for which rising electricity rates and the need to supplement power supplies with generators or natural gas drain both productivity and profits (Jillani, 2011). For larger businesses the disruptions to production and uncertainties they create for example, for filling orders on time, has prompted some owners to move their factories to neighboring Bangladesh (Reuters, 2011). The uncertainty created by unreliable and costly basic services undermines economic stability by reducing the efficiency of current economic activity and creating an unfavorable environment for future investment.

**Insufficient internal revenue generation limits governing stability**

Pakistan’s ability to generate government revenue from the formal economy is limited by the large number of tax exemptions, notoriously weak enforcement of tax laws and public attitudes toward taxation. Polling data for the past decade (Figure 4-5) indicates that a broadening majority of Pakistanis consider the taxes the government collects to be unfair (Gallup Pakistan, 2011).<sup>58</sup> This perceived inequity of the tax system, combined with a generally held view that tax revenue is unlikely to translate into better services (Gallup Pakistan, 2011)<sup>59</sup>, makes the task of enforcing compliance with existing tax laws doubly challenging. It may also broaden the divide between the wealthy who



**Figure 4-5. Public perception of fairness of taxation system**

Source data: Gallup & Gilani / National Surveys, 2002, 2003, 2005, 2006, 2007, 2009, and 2010

<sup>58</sup> Despite the lack of tax on income from agriculture, in 2010 there was minimal difference in perceptions of fairness between rural (35%) and urban (27%) respondents. However, there are greater differences in perceptions across provinces. Fewer respondents in Punjab (33%), Sindh (30%), and NWFP (31%) considered tax collection unfair than did those in Balochistan (49%).

<sup>59</sup> When asked whether they thought an increase in revenue would result in improved government performance and administration, only 16% of Pakistanis surveyed responded “yes” (Gallup Pakistan, 2011).

can avoid taxation and the poor who pay the price of indirect taxes levied to fill the void. It clearly drives dissatisfaction with the national government in Balochistan, where the issue of taxation is linked to grievances regarding the exploitation of the provinces resources. Although Balochistan's energy and mineral resources generate revenue that flows to the national government level, there has been little investment in publically-provided services in the province (Synnott, 2009). The perception that the province's resources are being "stolen" by the national government and foreign interests provides fuel for Balochi nationalist and separatist groups (Lieven, 2011; Synnott, 2009).

Lack of revenue reduces governing capacity to provide services, which can be a driver of governing instability. Lower overall revenue also magnifies the effect of losses due to corruption and mismanagement and further reduces the capacity of government institutions to operate and provide services effectively. As inefficiencies and disparities in the system become more apparent, public acceptance of tax laws and voluntary compliance with them decrease. Over time, poor tax collection rates create a vicious cycle. Low government revenue reduces the capacity of the government to strengthen weak institutions and improve performance and service provision. Poor service provision makes citizens unwilling to pay taxes, further lowering revenue and governing capacity.

#### **Increased incentives to operate in the grey economy undermine government services**

The relatively high cost of doing business formally in Pakistan challenges business owners to balance the costs of operating in the informal economy (i.e., limited access to public infrastructure, government aid, training, necessity to pay bribes) against the benefits (no taxes, no minimum wage or condition laws, no regulation). As long as infrastructure and government services, including law enforcement, remain weak and regulations remain complex and expensive, operating in the informal economy likely will appear to many to be the best or only feasible option. Moreover, generally lax policing of grey market activities means that the prospect of criminal prosecution is not necessarily a strong deterrent. Activity in the grey economy is essentially a doubled driver of governing instability: it both robs the government of tax revenue and places demands on infrastructure without contributing revenue for their upkeep.<sup>60</sup> Moving more businesses into the formal economy would not only facilitate growth in employment and increase the stability of the formal economy, if accompanied by enforcement activities it should also increase government revenue. Increased government revenue creates the opportunity for the improvements to infrastructure and service provision necessary for economic growth and stability.

#### **Difficulty in procuring international assistance limits capacity and performance**

The Pakistan government's inability to generate sufficient revenue for its operation leaves it dependent on foreign assistance. That assistance, however, is increasingly linked to assessments of Pakistan's ability to effectively collect revenue internally. In 2010, the International Monetary Fund (IMF) announced suspension of its program with Pakistan. One of the reasons were the IMF's doubts regarding the Pakistan government's stated intention to implement a Value-Added Tax (VAT) by way of

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<sup>60</sup> For a more detailed discussion of the stability implications of Pakistan's grey economy see the grey economy chapter in this report.

the reformed general sales tax (RGST) (Subohi, 2011).<sup>61</sup> (By May 2011, the Pakistani government had managed to convince the IMF to drop the politically unpopular proposal, substituting it with the withdrawal of exemptions to the existing general sales tax (GST)). Concerns over institutional weakness are increasingly limiting Pakistan's ability to supplement insufficient internal revenue through international assistance. In this way, weaknesses in the existing tax laws, financial institutions and collection mechanisms are becoming greater drivers of governing and economic instability. In short, failure to improve internal revenue generation threatens the government's ability to access international loans, placing it in an even more precarious financial position.

In addition, concerns over corruption and mismanagement, especially in a period of global economic downturn, are making national governments and international organizations skeptical about giving aid money to Pakistan, particularly through official government channels. For example, the Enhanced Partnership with Pakistan Act<sup>62</sup> passed by the US Congress in 2009, promised \$7.5 billion in aid to Pakistan over five years, almost half of this was slated for economic development. The intention was that half the total would be channeled through the Pakistani government. However, as of October 2010 only \$1.5 billion had been disbursed. A recent report by the US Government Accountability Office (GAO, 2011) finds that limited institutional capacity and corruption have been primary obstacles to effective program implementation. Many of the projects undertaken in the first two years of the program were plagued by allegations of corruption, including bribery, kickbacks and collusion on bidding. Concerns among US officials over corruption and mismanagement have slowed the pace of projects and their benefit to the country (Perlez, 2011).<sup>63</sup> The US is not the only country concerned with aid provided to Pakistan. After the 2010 floods the European Union choose to distribute aid through Western and Pakistani non-governmental agencies. The failure of the Pakistani government to establish a transparent process for receiving and spending aid money raised significant concerns that reconstruction efforts by the government would be compromised by patronage considerations and corruption (Rashid, 2010).

Pakistan's dependence on international assistance has also created a debt burden that further limits the government's capacity and performance by consuming a large proportion of the federal budget (estimated 44% in FY2012-13) for debt servicing. In the short-term this has also meant less money to provide services that could improve the quality of life for Pakistani citizens. In the longer term, lack of revenue restricts economic growth and development as the government is not able to invest in the infrastructure and human development policies that create an environment conducive to investment and growth. Water infrastructure provides a telling example: Insufficient investment in Pakistan's water supply drives social instability by decreasing quality of life for millions of Pakistanis. The Pakistan Council for Research in Water Resources (PCRWR) estimates that 250,000 children die each year from water-borne diseases, and places the health costs associated with such illnesses at Rs. 114 billion, or

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<sup>61</sup> The IMF has long pressured Pakistan to adopt a value-added tax (VAT); however, this has met with opposition from merchants and it is estimated that only 160,000 of the millions of shops in Pakistan are registered for a general sales tax (Tavernise, 2010).

<sup>62</sup> Pub. L. No. 111-73, 123 Stat. 2060 (Oct. 15, 2009).

<sup>63</sup> It should be noted that US concerns over accountability reportedly have offended Pakistani officials who feel it is indicative of a lack of trust, and a desire for greater US control over Pakistan's government (The Wall Street Journal, 2011).

approximately 1.8% of GDP (PCRWR, 2012). The prevalence of such diseases can have a significant impact on insufficient public health resources. A UNICEF study estimates between 20-40% of Pakistan's hospital beds are holding patients with water-borne disease and estimates that 33% of all deaths in the country are caused by water-borne disease (cited in The International News, 2012). Total health costs related to water-borne diseases are estimated at 1.81% of GDP. The immediate negative effect on quality of life is compounded by the diversion of already insufficient health care spending to preventable diseases, and the economic costs of disease. In this instance, the failure to provide adequate infrastructure is a driver of short-term social instability which has longer-term social implications that limit economic growth, driving economic instability and thus potentially governing instability.

The energy supply problems experienced by Pakistan are also largely the product of long-term neglect and mismanagement (IMF, 2012). Criticism of the government's handling of the energy crisis has reinforced popular perception of the ineffectualness of the government (The Economist, 2011). Frustration with the lack of resolution sparked public protest and riots across Pakistan in June-July 2012, reportedly spurred by cuts of power during the height of summer (Boone, 2012). Perhaps more worrying for long-term economic growth is discontent over the government's handling of the crisis. Its inability to provide adequate services gives further justification to business owners to avoid taxes and regulations. Tax avoidance is facilitated by the increasing move to small, fragmented manufacturing units and further undermines the government's ability to generate revenue (Najam, 2011).

### **The Effect of Weak Civilian Institutions on Stability**

Within Pakistan the institutions with the most profound direct or indirect impact on stability are the components of the domestic security and judicial systems that affect provision of the rule of law and financial and economic regulation. In both the short and longer-term, inadequate policing capacity directly compromises the physical security of the population. This can undermine popular perceptions of governing performance as well as potential gains in the quality of life for many Pakistanis. Fair and efficient rule of law is compromised by the politicization of the police force. Police are frequently used to influence local elections through vote rigging and intimidation, and the politicization of violence in large cities undermines the ability of police to combat organized crime and violence. The impartiality of policing is further compromised by corruption, with business owners and landowners using the police to intimidate workers who complain about poor conditions and wages or cause trouble. This complex of conditions appears to be a major source of continued public distrust in Pakistan's civilian leadership.

The capacity of governing institutions in Pakistan to deal with these problems is severely limited by its chronic revenue shortage, created in part by a tax collection system that is inefficient and perceived by most Pakistanis as unfair. Regulation of economic activity is a second area where weakness has a critical and multifaceted effect on political, economic and social instability in Pakistan. Complex government regulation increases the cost and time it takes to do business in Pakistan's formal economy. Poor management and development of essential infrastructure, such as energy, diminish the potential for economic productivity and increase costs, making Pakistan less attractive to business owners and foreign investors. Failure to achieve growth will leave the formal economy unable to provide sufficient jobs for young Pakistanis, creating greater incentive for growth in the grey and black market economies

and potentially political disruption as well. One buffer short-term buffer to the collapse of Pakistan's formal economic institutions may be the, as yet, unknown capacity of the grey economy to absorb the growing and increasingly urban work-force. However, the ability of the grey economy to function and grow is still partly dependent on the government's ability to provide services, such as electricity and water.

### **Implications for Analysts**

The Pakistan Stability Model (PAK-StaM) analysis of Pakistan's stability-instability dynamics has a number of implications for how US analysts and observers assess the effects of weaknesses in institutions surrounding rule of law and financial regulation, and how they consider stability conditions in Pakistan. These include:

- Barriers established by entrenched interests such as patronage networks and negative popular perceptions of the police should be anticipated when tracking efforts to reform and strengthen policing and the justice system;
- Be aware that judicial independence, although a hallmark of democracy, has the potential to undermine the short-term and perhaps longer-term stability of Pakistan's civilian government by creating a three-way struggle for power and popular legitimacy between the judiciary, government and military;
- Recognize that effective but not burdensome rule of law and economic regulation underpins all aspects of stability – political, economic and social;
- Barring significant improvements in financial and regulatory institutions, the size of the grey economy is unlikely to shrink relative to that of the formal economy. However its capacity for accommodating Pakistan's growing population is unknown; and
- Improved financial regulation and taxation is a necessary precondition of future economic growth and development.



## 5 Pakistan Stability Dynamics: Education

For some time the educational system in Pakistan has been inadequate to serve the educational needs of the country<sup>64</sup>. While many families have turned to private education to offset the limited availability and poor quality of government-run schools, 20 million children -- a third of who are of primary school age -- remain out of school (Daily Times, 2012; Dawn, 2012). These deficiencies in educational opportunity can have significant short and longer-term effects on stability. The Pakistani government acknowledges that the education system needs improvement, and that expanded educational opportunities would spur greater demand for employment opportunities (Government of Pakistan, 2012). While a better educated labor force can have a positive effect on economic development, where there is chronic unemployment and underemployment a large, young, uneducated, labor force can serve as a source of social, political and economic disruption and potentially instability. Education is indelibly linked to an economy's capacity to grow and evolve from a commodity to a manufacture and service-based system. It is also quite clearly linked to social division – both as cause and effect, and to the demands citizens tend to make on the political system and provision of government services – including those related to public education.

Nonetheless, popular grievance concerning the poorly-regarded public education system in Pakistan has not generated significant outcry. Explanations for this include the idea that popular discontent is brewing but has not yet boiled over; people have given up on a corrupt and mismanaged system; and Pakistanis' exceptional abilities to adapt to conditions and find "work-arounds" especially to failures of governance. Perhaps signaling the latter, the recent explosion in the numbers of both non-profit and for-profit private schools suggest that parents are interested in education, and that there are forces driving toward both broader education (education which reaches more school-age children) and higher levels of education (e.g., more students completing secondary education) in Pakistan.

Today the conditions in Pakistan are these: the country's population is expanding at a staggering 34.2% growth rate<sup>65</sup> rapidly increasing the size of the school-age population and ultimately the prospective work force; the economy remains stagnant and employment opportunities in the formal economy are waning; and there appears to be a trend emerging that ultimately could both broaden and raise the level of education in the general population. Before considering the stability implications of this combination of factors, we turn to a brief review of the complex state of education and education reform in Pakistan.

### The State of Education in Pakistan

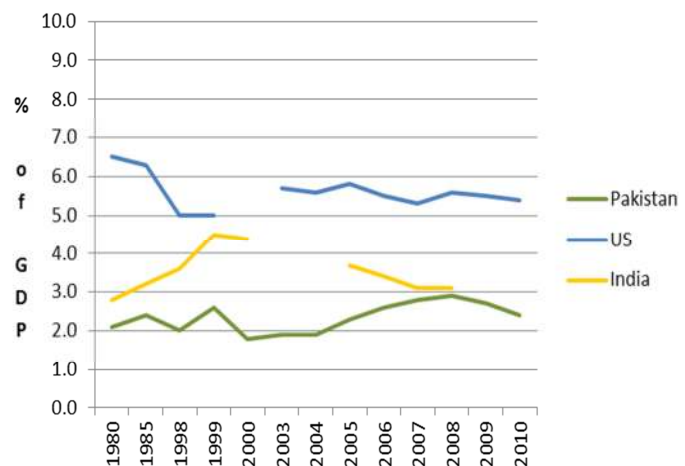
Policy-wise, there has been no shortage of attention to education and education improvement in Pakistan. In 1947, the "father of Pakistan" Muhammad Ali Jinnah, cautioned citizens of the new state

<sup>64</sup> (Acer Pakistan, 2013; Andrabi, Das, & Shwaja, 2003; Dean, 2005; Government of Pakistan, 2009; Nayyar & Salim, 2003).

<sup>65</sup> Figures reported by New Geography, <http://www.newgeography.com/content/002940-pakistan-where-population-bomb-exploding-as-projected-from-the-2011-census>.

that “...the importance of education cannot be over-emphasized...there is no doubt that the future of our State will and must greatly depend upon the type of education we give to our children...”<sup>66</sup> Pakistan’s 1973 Constitution requires the state to provide free and compulsory primary and secondary education to all citizens. Institutionally, development of education policy and a national curriculum are controlled by the Ministry of Education. In 2009, Pakistan’s Ministry of Education resolved to establish common educational standards, provide educational opportunities to citizens in areas that have previously been excluded from educational participation, provide opportunities for poorer children to learn English, and increase the national literacy rate to 86%. Since that time, the government has acknowledged that its plan to achieve universal primary education<sup>67</sup> by 2015<sup>68</sup> is not achievable. Along with other steps to increase local autonomy, the 18<sup>th</sup> Amendment passed in 2010 devolved responsibility for curriculum and syllabus development as well as education standards to the provinces. After passage however, critics including the Ministry of Education have charged that the provinces lack the capacity and finances to shoulder the major task of providing education as stipulated in the amendment. There is also the question of standards and quality assurance which may not be completely unfounded. For example, while Punjab and Khyber-Pakhtunkhwa are updating textbooks, the Sindh and Balochistan Textbook Boards have not done so (Rumi, 2011), resulting, as one critic points out, in a situation in which “a student, who studies the ninth grade Pakistan Studies book of the Sindh Textbook Board for a year, will end up learning three things; a non-Muslim cannot be a Pakistani, Hindus are not to be trusted and the Fall of Dhaka was an international conspiracy” Roghay (2012, para. 1). Those in favor of devolution to the provinces counter that the federal bureaucracy’s discomfort stems from a general lack of trust in the provinces and unwillingness to cede the power that the control of education implies. The fear is that if education is a provincial matter, locally powerful groups could gain significant popular influence and over time possibly deepen Pakistan’s ethnic divisions.<sup>69</sup>

Most countries consider provision or regulation of education to be a state responsibility and Pakistan -- where education is a constitutional guarantee -- is



**Figure 5-1. Percentage of GDP spent on education**

Source: <http://data.worldbank.org/indicator/>

<sup>66</sup> Campaign for Quality Education, 2007, p. 6.

<sup>67</sup> Universal primary education refers to the education of all children (male and female) ages 5-9.

<sup>68</sup> This is the date set by the United National Millennium Development Goals.

<sup>69</sup> Article in the Dawn newspaper, 11 October 2010, by Dr Shahid Siddiqui, professor and director of the Centre for Humanities and Social Sciences at the Lahore School of Economics, and author of Rethinking Education in Pakistan; retrieved 2/27/2013.

no exception.<sup>70</sup> Anecdotal and polling data indicate Pakistanis value education and appreciate the role education plays in securing a better life (British Council, 2009). While the government officially acknowledges the importance of education and how it can promote state legitimacy, increase economic development, and assist in social stability (Government of Pakistan, 2009), implementation of access and/or quality improvements generally have not taken hold. For example, the government repeatedly vows to increase education spending, yet the percentage of GDP (1980-2010) spent on education remains low -- never rising above 2.9% (Figure 5-1).<sup>71</sup> Even more than total spending however, the difference between official pronouncements and implementation of improvements appears to lie in the corruption and bureaucratic red-tape that reportedly plague the Department of Education (The Express Tribune, 2012). Oddly, even the Ministry of Education has acknowledged that, “political influence and favoritism are believed to interfere in the allocation of resources to the Districts and schools, in recruitment, training and posting of teachers and school administrators that are not based on merit, in awarding of textbook contracts, and in the conduct of examinations and assessments” (NEP, Ministry of Education, 2009, p. 15). The example of Pakistan’s “ghost schools” illustrates the problem.

Ghost schools are schools which have either never existed, or if they had existed at one time, continue to receive government funding even though they no longer function. In many cases schools can be identified by the buildings that once housed them but have deteriorated to the point where they have



**Abandoned classroom in Mirza Adam Khan Government School in Karachi.**

Image credit: Alex Stonehill/Global Post; Retrieved from <http://www.globalpost.com/dispatch/pakistan/090602/the-ghost-schools-pakistan>

been taken over by drug lords and gangsters or are being used as cattle pens. There are also ghost schools which meet only sporadically. Children arrive and wait to see whether government-appointed teachers will show up which, often times they do not although they continue to collect paychecks for full-time work. Explanations for the existence of ghost schools range from institutional weakness and insufficient capacity in many areas to oversee schooling to blatant fraud and corruption. In 2012 an International News editorial observed that “if Pakistan had as many schools in reality as it does on paper there would be no crisis in the education sector, and we might be able to

fulfill our constitutional commitment to free education for all” (The International News, 2012).

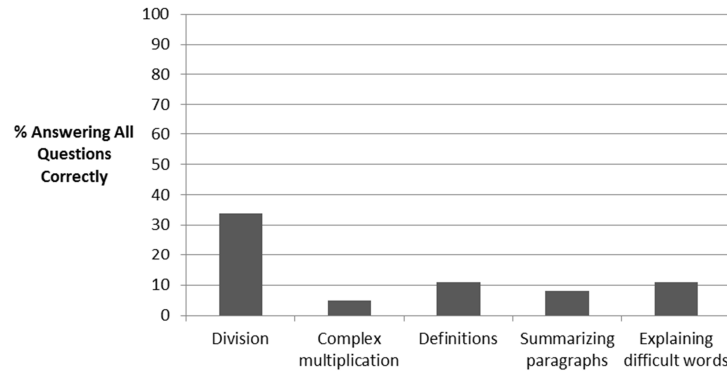
<sup>70</sup> Article 25-A of the Constitution of Islamic Republic of Pakistan 1973 states that “The State shall provide free and compulsory education to all children of the age of five to sixteen years in such manner as may be determined by law.” In addition, Article 37(b) states that “The State shall remove illiteracy and provide free and compulsory secondary education” and Article 37-C states that “The State shall make technical and professional education generally available and higher education equally accessible to all on the basis of merit.”

<sup>71</sup> This roughly mirrors Pakistan’s real GDP growth.

Despite multiple policy iterations and planning commission strategies over the years, the prospect for real education improvement in Pakistan – quality, conditions and access -- remains bleak (Ali, 2006; also, Campaign for Quality Education, 2007; Chaudhary, Iqbal, & Gillani, 2009; Nordic Recognition Information Centres, 2006).

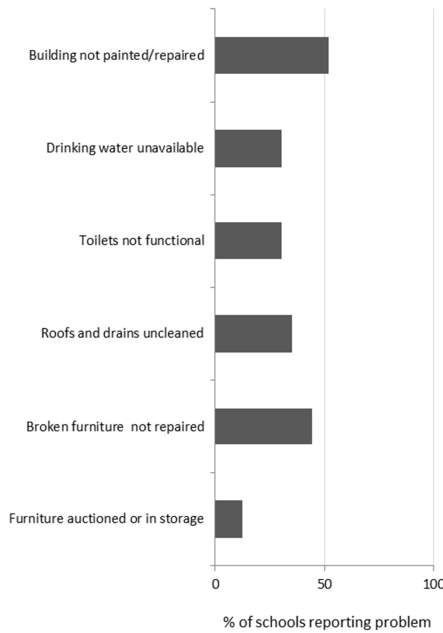
**Quality**

Probably the most important indicator of the quality of an education system is the quality of its teachers. In Pakistan critics charge that one of the primary impediments to improving educational attainment is the minimal qualifications necessary to work as a teacher. According to a 2011 report, of the 645,571 primary, middle and high school teachers in Pakistan, only 18% (118,778) have earned a Bachelor’s



**Figure 5-2. Student competencies in government-run schools in rural Punjab**

Source: Aslam, Jamil & Rawal (2011)



**Figure 5-3. Condition of government-run schools in Punjab**

Source: Saeed & Wain (2011)

degree or higher (Academy of Educational Planning and Management, 2011). Moreover, because teacher certification programs typically do not emphasize student teaching, new teachers often arrive in the classroom with little to no practical experience (Memon, 2007). Although the national literacy rate for the population over 10 years of age has risen from 59% (male) and 31% (female) in 1998-99, to 69% (male) and 46% (females) in 2010-11, it remains well below the 85% target by 2015 set by the 2009 National Education Policy.<sup>72</sup> It should be noted that literacy can be a relative term: Researchers found that Pakistani children in the third grade could barely read or write and did not have the skills to complete basic math problems (Das, Privanka, & Zajon, 2006). A 2011 study of fifth grade students in government-run schools in rural Punjab where literacy is higher than all provinces except Sindh, found similarly low levels of competency in basic math and reading skills as shown in Figure 5-2 (Aslam, Jamil, & Rawal, 2011).

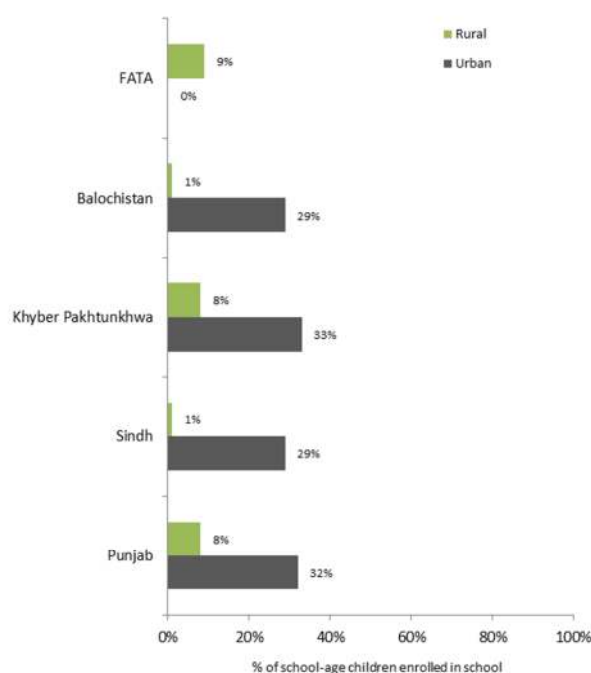
<sup>72</sup> Economic Survey of Pakistan, 2011-12, Chapter 10: Education; Ministry of Finance, Government of Pakistan; [http://www.finance.gov.pk/survey\\_1112.html](http://www.finance.gov.pk/survey_1112.html); Figures from the Pakistan Social and Living Standards Measurement (PSLM), 2010-11.

## Conditions

Teachers in public schools are generally paid more than those in private schools<sup>73</sup>, yet reportedly are absent from the classroom one-fifth of the time (Irin News, 2012). In addition to unreliable or absent instructors, the well-documented physical deficiencies of Pakistani public schools can also impair education. Well-maintained and safe schools are generally thought necessary for achieving higher education outcomes. Inadequate drinking water, electricity, furniture, and toilets significantly impact on student performance (Shami & Hussain, 2005). A lack of furniture, blackboards, desks and chairs is not uncommon (PBS, 2010). As of 2009, 30,000 school buildings were so neglected that they were considered dangerous, 21,000 schools had no buildings at all, and only 65% of all public schools had drinking water or latrines (Government of Pakistan, 2012). According to the 2011 Annual Status of Education Report (ASER) survey, the situation does not appear to have improved significantly: of the government-run primary schools surveyed, 55.4% had useable water and 43% had a functional toilet – down in both categories from the previous year.<sup>74</sup> This is not a problem isolated to poor, rural areas. In 2010 the Daily Times reported that many government-run schools in the city of Lahore had no roofs and no water tanks or, had water tanks infested with insects (Haider, 2010).

## Access

Pakistanis have a choice of three types of primary and secondary educational institutions: public schools, private schools and madrassas. However, widespread access to education -- typically measured by enrollment rates in a population -- is a serious problem. Although total student enrollment in primary, middle and high school increased 55% from 1999 to 2008, the percentage of children enrolled in school remains extremely low at around 30% in urban areas and around 10% in rural areas (see Figure 5-4). The reasons for this are varied and include rapid population growth adding stress to an already weak and insufficient public school system, and disincentives like distance students must travel to school, schools that are unsafe or in poor condition, and absent teachers.

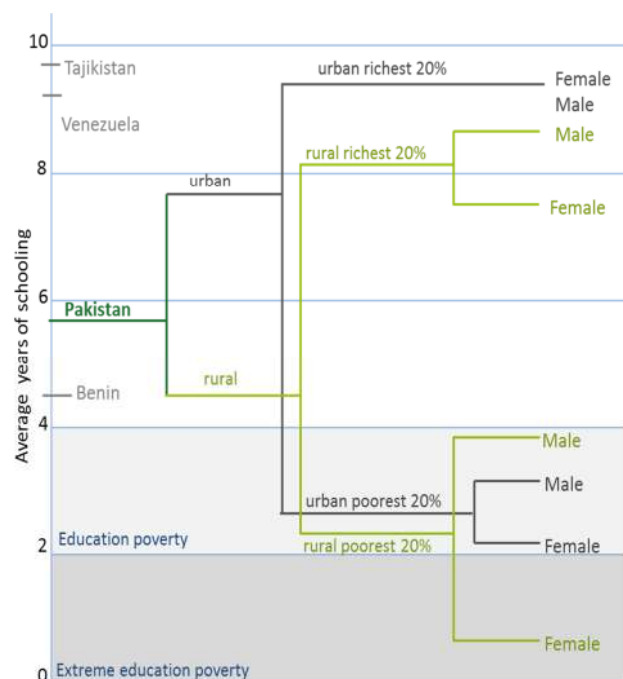


**Figure 5-4. Percentage of school-age children enrolled in school**

Source: Institute of Social and Policy Sciences, 2010

<sup>73</sup> For example, primary school teachers in government-run schools in rural Punjab earn Rs. 17,000 per month compared to private school teachers in rural Punjab who earn approximately Rs. 3,800 per month (Aslam, Jamil, & Rawal, 2011).

<sup>74</sup> ASER is a nation-wide volunteer-run survey of the status of education service for students aged 5-16. It is conducted in rural and select urban areas; ASER 2012, <http://www.aserpakistan.org./index.php>.



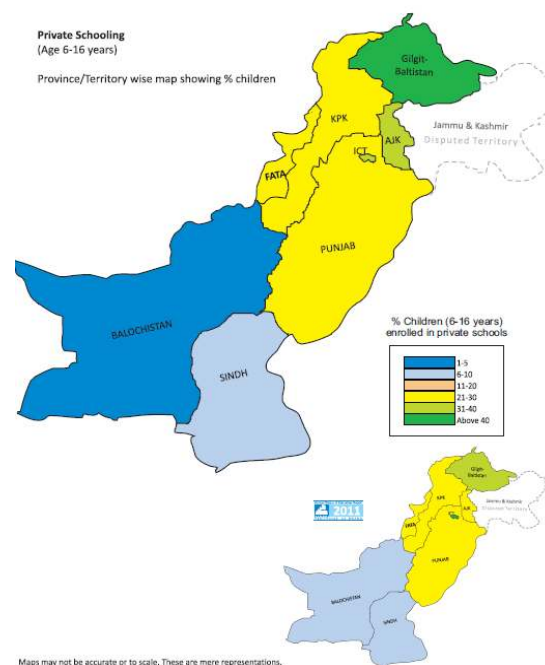
**Figure 5-5. Average years of schooling in Pakistan among population aged 17-22 by location, wealth and gender**

Source: UNICEF analysis based on UNESCO Deprivation and Marginalization in Education database (2009) using household survey data

### Backlash?: The growth in private schools

Public schools continue to educate nearly 70% of school age children regardless of a widely-held belief that the quality of public schools has declined.<sup>75</sup> This may be changing however. The perceived failure of public education has coincided with a rapid increase in the number of students enrolled in private education. During the ten years from 1999 to 2008 when enrollment grew by 38%<sup>76</sup> the number of public schools increased by only 10%, however the number of private schools increased by 105%<sup>77</sup> and private school enrollment by 104%. By 2008 some 12.1 million children in Pakistan were enrolled in private schools.<sup>78</sup> (See Remittances chapter of this report for further discussion of how private schools have benefited from remittances).

There is some encouraging news. Among those in school the numbers of students completing primary school has risen slightly from 61% of total enrollment in 2005 to 67% in 2010; suggesting that some of the disincentives to keeping children in school have begun to weaken. Still, while the gap between male and female completion rates has diminished over time as Figure 5-5 shows, the gender gap in educational attainment persists for all demographic groups except for the wealthiest urban citizens (Andrabi, 2003; The World Bank, 2012).



**Figure 5-6. % Children attending private school by Province 2012, 2011**  
Source: 2012 ASER Survey

<sup>75</sup> Winthrop & Graff, 2010; Gallup & Gilani, 2010. Also Institute of Social and Policy Sciences, 2010.

<sup>76</sup> The number of public schools grew from 153,062 in 1999 to 168,659 in 2008; Enrollment increased from 16.9 million in 1999 to 20.8 million in 2008 (Institute of Social and Policy Sciences, 2010).

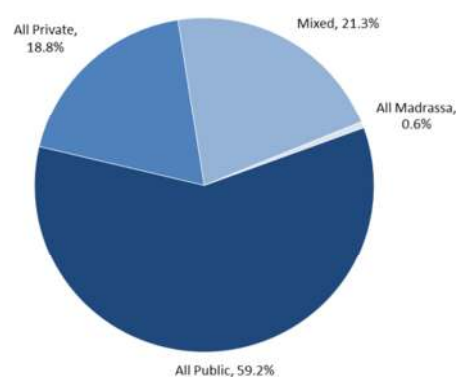
<sup>77</sup> There were 35,889 private schools in 1999 and 75,529 in 2008 (Institute of Social and Policy Sciences, 2010).

<sup>78</sup> Institute of Social and Policy Sciences, 2010.

Critics of the largely unregulated growth of both non-profit and for-profit private education fear that, as the Ministry of Education has argued, “a small but important component of the private [education] sector caters to the elite and offers high quality that only the rich can afford [and that] its long-term socio-economic impact is divisive for the society” (Government of Pakistan, 2009). Research indicates that this is changing as growing numbers of significantly less-expensive private schools are opening in villages and other rural locations as well as urban areas (Alderman, Orazem, & Paterno, 2001; Andrabi et al., 2008; Qureshi, 2008; Andrabi, Das, & Khwaja, 2002; Muzaffar, 2012). In one example, research conducted in Balochistan found that more than half of the children in families that earned less than \$1 a day attend private school (Alderman, Kim, & Orazem, 2003).

### The question of madrassas

The number of students educated in madrassas in Pakistan has been the subject of some dispute. According to a World Bank report (Andrabi, Das, & Khwaja, 2003) and the Government of Pakistan (2009), only between 1% and 7% of all enrolled students are educated in these religious settings.<sup>79</sup> Even in the Pashto-speaking region bordering Afghanistan – the area with the highest proportion of madrassa enrollment, only 2% of enrolled students attend madrassas (Andrabi, Das, & Khwaja, 2003; Andrabi, Das, Khwaja, & Zojonc, 2006; Andrabi, Das, Fair, & Khwaja, 2009; Husain, 2005; Winthrop & Graff, 2010).



**Figure 5-7. Household school choice in Punjab**  
Source: 2003 LEAPS Population Census

A primary Western concern with these schools has been the fear that madrassas might serve as breeding grounds for extremist or violent, radical Islamic beliefs. Of course not all madrassas in Pakistan are alike; they range from the minority of full-time centers that disregard basic academic subjects and preach violence, to schools akin to parochial schools in the US, that add religious instruction to an academic curriculum (Sajjad, 2009). Still other madrassas are attended part-time for the purpose of supplementing public or private school education with religious instruction (Fair, 2012). Especially prior to the growth in other types of affordable private school, madrassas were, and still are often the only options for students without access to public or private schools (Andrabi, Das, & Khwaja, 2002; Bano, 2007; Bukhari & Rahman, 2006; Hetland, 2010). This is not to say that no madrassas teach radical and violent strains of Islamist thought, simply that not all schools labeled “madrassa” are likely to be doing so. In fact, a more insidious concern regarding madrassa education may be that students educated in full-time madrassas with primarily religious

<sup>79</sup> The International Crisis Group (2002), on the other hand, estimates that the numbers are significantly higher, citing Pakistan’s Federal Religious Affairs Minister Ejazul Haq’s claim that 1,000,000 students – still fewer than 20% -- are educated at madrassas. Most other sources side with the World Bank figures. For example see Andrabi, Das, & Khwaja (2003); Andrabi, Das, Khwaja, & Zojonc (2006); Andrabi, Das, Fair, & Khwaja, 2009; Borchgrevink, 2011; Smith, 2010; Winthrop & Graff, 2010.

curriculums lack basic skills such as math and reading and can be relatively less prepared to participate in a developing economy (Irin News, 2012).<sup>80</sup>

### Signs of change?

While it is true that the private sector is playing an important and growing role, the enormity of the school-age population in Pakistan makes it unlikely that the educational needs of the population -- particularly in more remote rural areas -- can be met without government participation and funding (Abbasi, 2012; Malik, Chaudhry, & Hanif, 2012; Pirzado, 2006). According to a 2012 survey of over 80,000 Pakistani households, 23% of rural and 7% of urban children aged 6-16 are not enrolled in school (Aser, 2013). Achievement of universal primary education by 2015 (a UN Millennium Development Goal) would require that school enrollments had doubled in the last 5 years translating to an additional 60,000 primary schools. In short, while the private sector has provided a buffer of sorts for the lack of adequate government-run education, it cannot meet the educational needs of the entire population (Campaign for Quality Education, 2007).

Finally, it should be noted that the news on education in Pakistan is not all bad. While access, quality and popular satisfaction with government-run education in Pakistan certainly remain weak, there are signs pointing to moderate improvement. The appearance of more dependable and less expensive private schools in both urban and rural areas represents yet another example of the population seeking “work-arounds” for inadequate government services. They may also portend an important shift in the educated demographic in coming years. This effect is further reinforced by studies that suggest some causal relationship between school enrollment and family receipt of foreign remittances. For example, in a study of households receiving remittances from Saudi Arabia (estimated at 31.5% of all Pakistani remittances) the percentage of families spending on private education increased from 15% to 48% after a family member began sending remittances.<sup>81</sup> Similarly, remittances from inside Pakistan help close the urban-rural education divide as many migrants from rural areas send home money that is used to help pay for private education. Increased household income makes it possible for less-advantaged and rural students to stay in school longer, reducing drop-out rates for a population that has remained at the bottom of the education ladder (Andrabi, 2009). While residual dissatisfaction with the public educational system may explain the impetus for increased private school enrollment, remittances make it possible by providing more families with money for tuition (Arif, 2009; deHaas, 2007; Yang, 2004).<sup>82</sup>

On the government side, as recently as November 2012 the value of education was reinforced with passage of the Right to Free and Compulsory Education Bill which specifically requires the government to provide free education for all children ages 5-16 years old (Dawn, 2012). The Pakistani government and Supreme Court appear to be taking steps to address the ghost school problem. Following significant

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<sup>80</sup> While, there is very sparse research that tracks the employment histories of public, private and madrassa students, one study by Ahmad (2010) suggests that while madrassa graduates are unlikely to be unemployed, they may be employed in low-paying jobs.

<sup>81</sup> The 2009 Household Survey on Overseas Migrants and Remittances (HSOMR) surveyed 548 Pakistani households with at least one male family member working in Saudi Arabia between 1994 and 2006.

<sup>82</sup> See Chapter 3 of this report for further discussion of the stability effects of foreign remittances.



press coverage of the ghost school issue in the summer of 2012, funds for 8,000 of the approximately 13,000 to 25,000 ghost schools were cut (Abbasi, 2012) and numerous National Education Foundation (NEF) officials came under fire for corruption (Manzoor, 2012). In February 2013, in what was the latest battle between the government and Supreme Court over corruption allegations, Chief Justice Iftikhar Muhammad Chaudhry ordered district judges to investigate the ghost schools in their districts and report back to the court by March 18, 2013. Chaudhry noted that while it “is not the court’s job to micro manage things...we have to enforce fundamental rights enshrined in the constitution.” He justified the court’s investigation by stating that “the government has failed to provide any answer or details about the state of ghost and non-functional schools, while apparently funds and salaries were being disbursed...” (Dawn, 2013). Finally, public-private cooperation via an educational voucher system is currently being tested in Pakistan as a means of increasing access to education.<sup>83</sup>

### **The Effect of Expanded Education on Stability**

Education can have multiple short and long-term effects on political, economic and social stability. Popular perception that the government is competent in fulfilling its purpose is a key element of governing stability. Higher levels of education in a population are associated with broader and more frequent participation in the political system. Greater literacy and the educational attainment of the labor forces can improve the functioning of the bureaucracy in turn improving its ability to provide government services (e.g., policing, infrastructure, justice, health, and education services). The overall education level of the labor force also is associated with the capacity of the economy to grow and develop, and is positively linked to poverty reduction. Finally, education can serve as both a buffer and a stressor on social stability. On the individual and family level, it can enhance the ability to attain or provide physical security (food, health care, etc.) -- a central feature of social stability. However, if the expectations of a larger educated segment of the population go unmet, broadened education can produce socially and politically destabilizing effects. Although there is a lag between changes in primary school enrollment and the types of social and political changes that could attend a changed educated demographic in Pakistan, it is instructive to consider the coming stability-related effects of what now may be the beginnings of such a demographic shift. Figure 6-8 presents a loop diagram of the major effects of education as suggested by the Pakistan Stability Model (Pak-StaM) analysis.<sup>84</sup> The remainder of this chapter considers the key implications for stability conditions in Pakistan of broader access to greater quality education. That is, what political, economic and social stability-related effects should be expected as the demographic of the secondary and tertiary educated population shifts from primarily urban elites?

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<sup>83</sup> An Education Voucher Scheme (EVS) was established in 2006 by the Punjab Education Foundation (PEF) to provide government assisted private school funding for low-income students residing in *katchi abadis* (slums) in northern Lahore. By 2009 the voucher system was being used by 15,000 students in 69 private schools (Ansari, 2012).

<sup>84</sup> See the Introduction to this report for a description of the Stability Model and how it was applied to Pakistan.

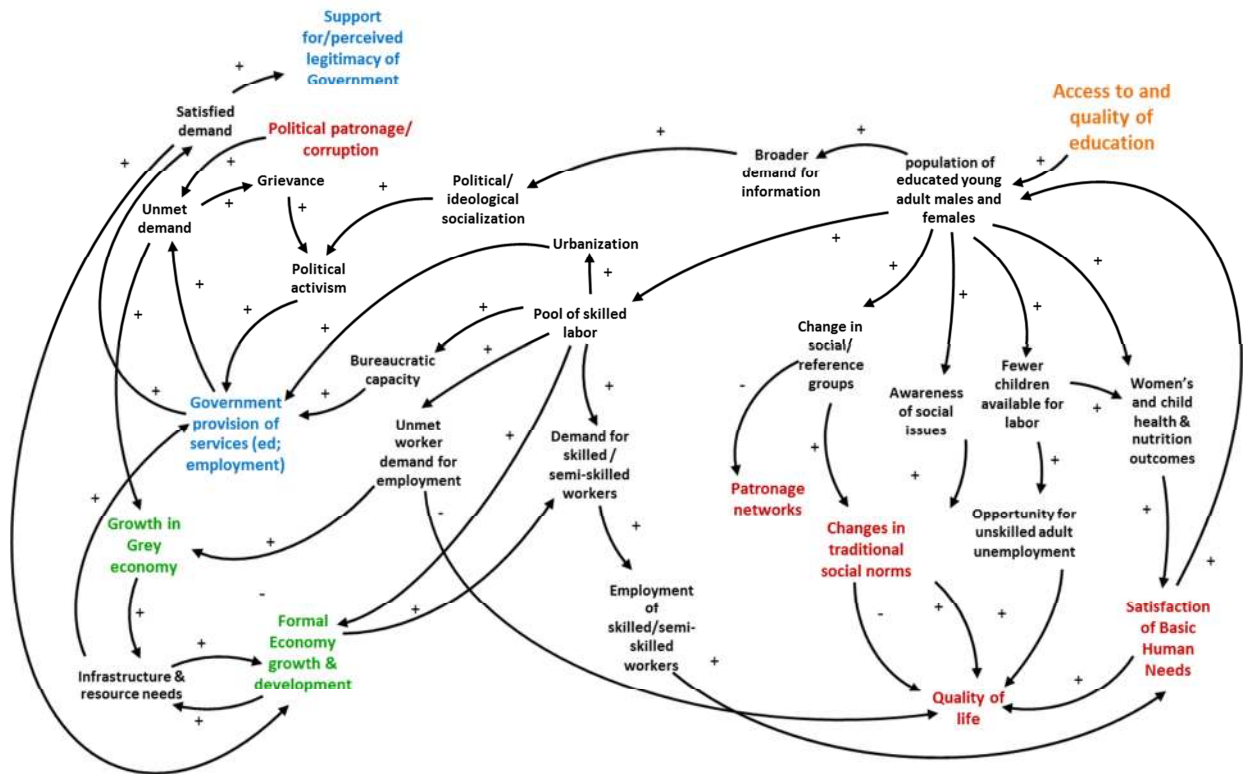


Figure 5-8. Loop diagram of major effects of expanded education on stability

### Political/ideological socialization

The first set of implications of both an expanded and demographically different population of educated Pakistanis has to do with how people view their political environment and their place relative to it. Education is an important means of political and ideological socialization and school is a venue commonly used to instill cultural myths and identities. The experience of group education can help develop a group’s shared beliefs and assumptions about how the political system should work and how constituents should interact with and be served by that system.

To date, attempts to use education as a means of national political socialization have encountered opposition in Pakistan particularly from religious parties in the government assembly (Alam, 2010).

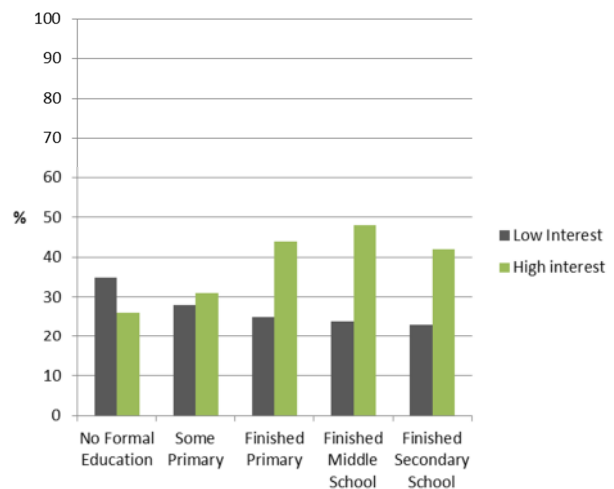
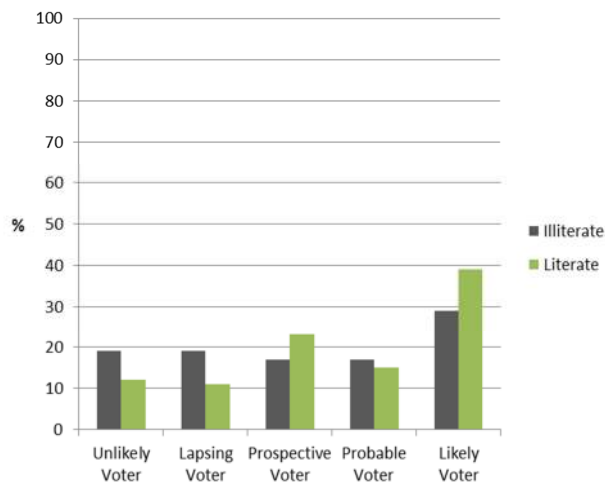


Figure 5-9. Percentage interested in politics  
Source: Asia Foundation (2008)

More critically, observers argue, efforts to use public education to reinforce a Pakistani national identity have been largely ineffective because there is weak social consensus about what that identity entails. Sectarian disputes that have raged since the founding of the state regarding the role of Islam in Pakistan and the identity of the Pakistani state itself are as yet unresolved. As a consequence, a potent source of political socialization and social and political consensus remains largely untapped (Kahn, 1997; McMahon, 2004).

Moreover, cross-national research confirms that educational attainment – particularly secondary and tertiary schooling -- is positively associated with ideological awareness, political participation and



**Figure 5-10. Percentage of likely voters by literacy**

Source: Asia Foundation (2008)

political activism (Dee, 2003; Galston, 2001; Nie, Junn, & Stehlik-Barry, 1996; Nie & Hillygus, 2001; Popkin & Dimock, 1999; Wolfinger & Rosenstone, 1980). There is evidence that this is the case in Pakistan as well. Pakistanis with more years of education indicate greater political interest than citizens with fewer years. The results are similar when expected political participation is broken down by literacy (Figures 5-9 and 5-10.) A greater number of literate Pakistanis reported an intention to vote in the 2008 election while illiterate citizens made up the balance of those unlikely to vote. Increased education allows people to access information and become more informed and aware of governing performance. Without basic

understanding of political institutions and processes citizens are less astute to the implications of political events and public policies. Thus, increasingly vocal disapproval of governing performance should not be an unexpected result of programs that succeed in extending educational opportunities to less-educated demographics and that keep children in school past primary grades.

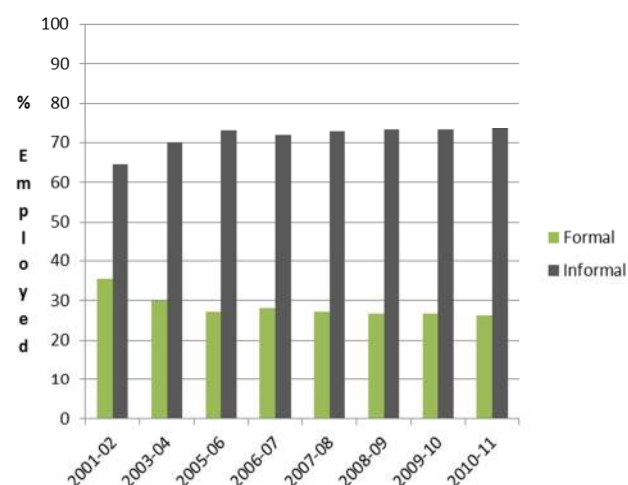
Governing legitimacy is dependent on a widely held belief among citizens that the government deserves the support and loyalty of the population—in other words, that the government is perceived as serving the collective good in a relatively equitable manner. A newly-educated demographic frustrated by an elite-led system that allows corruption and does not provide public goods equitably is the perfect incubator for anti-establishment political opposition – Islamist or otherwise – and pressure for change. Thus, while a non-elite educated citizenry is essential for durable implementation of the types of institutional reforms that will make social and governing structures more representative, responsive and stable in the longer-term, a more politically active population could also engender short- or mid-term disruptions as this new cohort clashes with traditional political authority and patronage networks. If the government continues to fail to address the grievances of a more educated population some level of disruptive backlash or instability should be expected.

## The labor force

Although Pakistan is a human resource rich country, its workforce has been characterized “as having low skills and poorly prepared to compete in today’s globalized world” (Kazmi, 2007, p. 105). Compounding the issue, trends in urbanization together with technological innovation is reducing demand for unskilled and even semi-skilled labor in Pakistan.

As in other areas of the world, more education means more employment opportunities for Pakistanis in the formal economy. A 2008-2009 study of 15-64 year olds in the labor force reported that workers with an intermediate level education had approximately 32.3% more employment opportunities than those with primary education (Faridi, Malik, & Ahmad, 2010). This increases to 44.4% more employment opportunities for high school graduates and 71% for college graduates (Faridi, Malik, & Ahmad, 2010).<sup>85</sup> Similarly, earnings also increase with years of education – even at what Westerners might consider the lower ends. On average, individuals completing middle school earn 27% more than those with no formal education, each year of technical training increases earnings by 2.5%, and students completing masters or professional degrees earn five times as much as those completing middle school (Nasir & Nazli, 2001).

The value of education for promoting economic growth and stability is widely accepted both on the macro and micro levels. Increased employment opportunities and higher salaries provide greater economic security and increase individuals’ ability to meet their basic physical needs. That is, providing quality education for a population can be the engine of a virtuous cycle of economic growth and improved quality of life if the educated are employed and people are better able to provide for themselves and their families.<sup>86</sup> A study of literacy and poverty in Pakistan from 1973 to 2007 for example, suggests that this may be applicable in the Pakistani context as well: Pakistanis with more years of education experience significantly lower levels of poverty than those with lower levels of education (Aziz et al., 2008). A further study found that the more years of education for females is significantly associated with better nutrition and health for their children, which in turn improves the overall quality of life of the family (Rose & Greeley, 2006).



**Figure 5-11. Employment in the formal and informal sectors**

Source: <http://www.pbs.gov.pk/content/labour-force-survey-2010-11>

<sup>85</sup> Not surprisingly, Faridi, Malik, & Ahmad (2010) also found significant differences for men and women. Men with five years of education were more likely to be employed in the formal economy than men with less than five years of education. The economic return for each year of school ranges between 7% and 11% men. While educated women are also more likely to be employed in the formal economy, women must achieve 10 years of education before they are more likely to be employed in the formal economy than women with less than 10 years of education. However, women earn more than men do for each year of education they complete—between 13% and 18%.

<sup>86</sup> Afzal et al., 2010; Kakar, Khilji, & Khan, 2011; Khan, 2010; Smith & Vaux, 2003; Chaudhary, Iqbal, & Gillani, 2009.

On the other hand, the fact that the percentage of workers employed in the formal economy in Pakistan has fallen since 2001 at the same time that both the population and estimated total employed has grown suggests two education-related imbalances between the labor force and employment opportunities in Pakistan that could explain growth in the grey and black markets (Husain, 2005; Khattak & Khan, 2012). First, where there are more workers than unskilled job opportunities in the formal economy, individuals with the least education generally have the lowest capacity for securing alternative employment and turn to the informal economy where unskilled (and unregulated) labor is more readily absorbed for example as home-based piece workers (for further discussion see Chapter 3 on the longer-term stability implications of the Grey Economy). Second, skilled workers unable to find employment in the formal economy increasingly could find themselves forced to work in the informal sector as well.

Given population growth and the decrease in unskilled labor, failure to make significant improvements in both quality and access to education is likely to impede Pakistan's ability to build a nationally diversified work force with the skills necessary to compete and grow regionally, and in a global environment. On the other hand, broad-based improvements in education could have a significant impact on the numbers of semi-skilled and skilled workers and help create a more productive workforce in Pakistan – a factor studies suggest is critical for stabilizing economic development and diversification beyond the economy's current reliance on textiles and agriculture (Bills & Klenow, 2000; Hanushek & Kimko, 2000; Lucas, 1988; Gylfason & Zoega, 2003; Khan, 2005; Khattak & Khan, 2012). Education reform clearly is a long-term program. Changing social mores, and family economics to the point that they allow children, especially girls, to stay in school longer could require significant family incentives to make up for potential lost earnings. The children in households living in poverty are part of the financial plan for the family's existence and many families would find survival even more difficult with a loss of child earnings (Chaudhry, Malik, Hassan, & Faridi, 2010). As noted previously, there are signs that this may be changing in Pakistan both with the rapid increase in foreign remittances that many families put toward education as well as the advent of affordable private schools.

Finally, it should be noted that the development of a more educated workforce can also work to enhance both the performance and popular perceptions of the government. The institutions that provide the public services discussed in this and other chapters of this report work most effectively when built and staffed by individuals with the education and training necessary to implement policies enacted by government (Romer, 1993; Solow, 1957). In this way, development of a more qualified work force can enhance the ability of the government to implement policy in an efficient manner. It also provides a tool for institutional change as the education of citizens who will shape institutions in the future is a necessity if the bureaucracy is to keep pace with the requirements of an evolving society (Memon, 2007; Smith & Vaux, 2003; Smith, 2010).

### **Challenge to traditional norms**

A final key implication of broadened access to education in Pakistan involves social change that could result in significant social or intergenerational disruption for a period of time. Pakistan's 2009 National Education Policy acknowledges that the most important social objective served by education is achieving greater social mobility, an effect that at present is lacking (Government of Pakistan, 2009). In addition

to producing politically aware citizens with greater efficacy and understanding of the importance of participation in a democratic society, expanding secondary and tertiary education in a previously less-educated population can alter the social reference groups against which young people compare themselves.<sup>87</sup> Among other effects, changes in reference group (e.g., from an uneducated, traditional village community, to the world of educated workers) can spur both social and intergenerational conflict as children develop attitudes more reflective of a new group than of their parents or families. This effect is in many ways the same as cases of social uncertainty and frustration experienced as the children of immigrants from less to more-developed states (e.g., Pakistani students in the UK) search for new identity groups (Park & Myers, 2010). A growing body of research links experience of this type of social and identity uncertainty with vulnerability to extremist ideas, and in fact young people have been the targets of extremist recruitment (Hogg, 2005; Hogg & Blaylock, 2012; Adelman & Chapman, 2012). Here again, the ultimate effect will be determined by how changing expectations are met, for example, whether the groups that have newly completed secondary education fail to achieve the social and economic mobility that they expect to accompany higher levels of education.

### **Cross-dimension stability effects**

Increasing the availability, quality and access to education, particularly beyond primary school has positive implications for governing, economic and social stability. An educated population has greater capacity to independently assess governing performance. In the longer term it is expected that expanding higher education could generate public pressure for better government performance and the institutional reform necessary to achieve it. The ultimate effect on stability however, is contingent on how grievances are addressed: pushing back or otherwise failing to meet grievances of a now more politically aware population is likely to foster disruptions or further antagonism especially to civilian authorities perceived responsible for the deficit. On the other hand, a government seen to be meeting performance expectations could gain in stability-enhancing governing credibility and legitimacy. Enhanced education would also produce a larger semi-skilled and skilled workforce in Pakistan – a necessity for economic development and diversification. However, here again, whether the outcome is stabilizing or destabilizing depends on how well changing expectations regarding employment and resultant socio-economic mobility are met. Fortunately, there is a lag in provision of education and the employment and other demands that must be met to avoid simply developing a more politically aware but frustrated population segment. This lag time leaves a window of opportunity for the government in Pakistan as well as NGOs and aid funders to implement necessary reforms and investment strategies needed to create jobs for a greater percentage of semi-skilled and skilled students than the economy has had to absorb in the past. In short, the results of broadened educational opportunity over the coming years could produce two effects in Pakistan. On the one hand, it could help spur instances of social and political disruption followed by eventual stabilization and positive economic growth if increased demand for jobs and improved government performance are met. If these are not met however, educating more Pakistanis and for longer could result in a population disappointed by poor

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<sup>87</sup> There is a rich and varied literature that employs the concept of “reference groups” as a group – actual or perceptual – from which a person derives segments of his or her identity as well as understanding of social norms. See Hall, Varca, & Fisher (1986) for a review of the application of reference group theory to formation and change of political attitudes.

government performance, frustrated by class and other social divisions and potentially significant growth in the already immense and ultimately destabilizing informal economy.

### **Implications for Analysts**

The Pakistan Stability Model (PAK-StaM) analysis suggests a number of implications for how US analysts and observers consider the potential stability-instability effects of Pakistani, NGO and US aid efforts to broaden education in Pakistan. These include:

- The importance of monitoring school enrollment, including enrollment in private schools and *madrassas*;
- The importance of monitoring changing education demographics (socio-economic class of the family, gender) and in the case of increasing educational attainment, plans for creating additional jobs to accommodate the new educated population;
- Anticipate the possibility of increased social disruption and expansion of the grey and black economies in the event of a lack of economic opportunities for newly educated citizens;
- Anticipate the possibility of political disruptions and perhaps tensions as the population of those with secondary and tertiary education increases; and
- The importance of tracking enrollment rates and levels of grievance, frustration and social uncertainty particularly among children who are the first in their families to receive secondary (middle and high school) and tertiary (college) education. They are a prime target for extremist recruitment.

## 6 Pakistan Stability Dynamics: Access to Information

Liberalization of Pakistan’s media market in the last decade has expanded the types and sources of information available to Pakistanis in nearly all areas of the country. At the same time, advances in information and communication technology (ICT), have expanded coverage and decreased the cost of accessing information – barring significant efforts by the government to repress them, both trends that are likely to continue. Nevertheless, considerable barriers to information access do remain. Weak journalistic standards as well as the activities of the government, military, and reactionary groups continue to make political reporting and commentary in Pakistan a difficult and dangerous undertaking, limiting the comprehensiveness and quality of information in the public sphere. In addition, access to the widest range of communication technologies and information sources favor wealthier, more educated and urban Pakistanis, while Pakistanis in remote, rural, and low-income areas rely on state-run, international, religious and militant-run radio stations for information.

Access to media and rapid communications technology information is one of those factors playing an increasingly important role in political and social change in Asia and other areas of the globe. The Pakistani government’s effort to prevent coordination of protests by jamming cell phone service during the emergency following the October 2007 election<sup>88</sup> certainly demonstrates its awareness of the potential of this form of information exchange (Yusuf, 2011). That said, new media technologies are emerging in Pakistan as in the rest of the world at a steady pace – and becoming less expensive in the process. Moreover, as has been the case in other developing states, they have the potential to generate unrest and facilitate attacks on political, economic and social systems even where states seek to control them. On the other hand, access to political information is critical for a well-functioning participatory state. At present, the impact that increased but uneven access to information will have on social, political and economic stability in Pakistan are difficult to pin down. Nevertheless, the issue and the range of possible effects that should be anticipated, deserve careful consideration

Missing from the following discussion is a comprehensive review of the wealth of theory and academic research that demonstrates the critical role information plays in conditioning political and social environments. However, two major findings from this literature are important to consider in the Pakistani context. The first is that individuals and groups unaware of laws, rights and process cannot and do not participate fully in the political system, and as a result can easily become antagonistic to, isolated from, or marginalized within a state. As people become more informed and aware of social, economic, and political conditions in their country and abroad, they are better able to judge their own circumstances relative to others. Awareness of political and social inequalities can be a powerful catalyst for opinion change and social action. The second relates to the powerful relationship between public

<sup>88</sup> After controversy following the October presidential election, President Musharraf declared a state of emergency on November 3, 2007 and suspended the constitution. It was lifted on December 15 after Musharraf was sworn in for his second term (Bennett Jones, 2009). The Pakistani government also had Google remove YouTube videos satirizing the Pakistani Army and senior politicians, and YouTube was inaccessible in Pakistan for six days in April 2010 due to concerns about the “Everyone Draw Mohammed Day” competition organized by a Facebook user. (Open Net, 2011).



welfare (e.g., health and development) and access to information. Clearly, any information that improves the capacity of individuals and groups to meet their needs and improve their quality of life in both material and psychological terms can have substantial long-term effects on the social as well as the political and economic stability of the country.

### Access to Information in Pakistan

Increased access to information for Pakistanis has been facilitated by two developments. First, beginning in 2002, then-President Pervez Musharraf opened television broadcasting to the private sector. The advent of private cable and satellite television channels and radio stations essentially ended the government and military monopoly on news reporting, and brought non-state voices to television for the first time (Sethi, 2012; Murthy, 2010). By 2010, 85 private satellite television licenses had been issued by the Pakistan Electronic Media Regulatory Authority (PEMRA), and more than 100 cable channels were available (PEMRA, 2010). Although the number of Pakistanis with access to the broader range of programming and information sources has grown from 0.18 million in 2003 to 4.2 million in 2010, this still represents a small segment of the population (PEMRA, 2010).

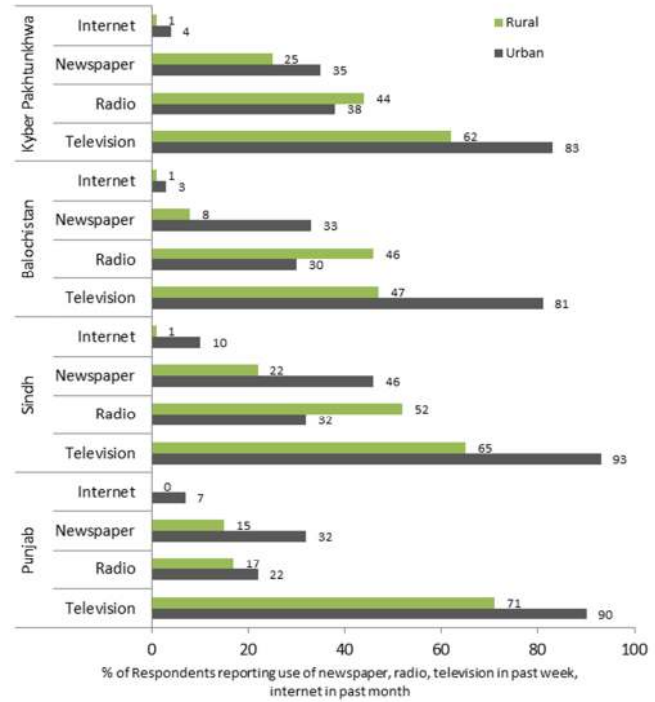
	Education				Income		
	Illiterate	Grade 1-9	Secondary	Post-secondary	Low	Middle	High
Television	59%	81%	88%	94%	61%	75%	87%
Cable or satellite dish	20%	39%	53%	69%	22%	37%	52%
Radio	29%	34%	41%	49%	29%	34%	43%
Mobile phone	49%	73%	87%	91%	50%	71%	82%
Landline telephone	3%	7%	15%	39%	1%	6%	20%
PC / Laptop	1%	5%	17%	43%	2%	7%	20%

**Table 6-1. Household media access by income and education (percentage reporting access to each ICT)**

Source: BBC 2008 national survey (n=1172), cited in Murthy (2010)

The second development is the ever-growing sophistication and affordability of information platforms. By 2009, there were approximately 20 million Internet users in Pakistan, most of whom access the Internet at work, in Internet cafes, or, if students, at university. By 2011, there were more than 100 million mobile phone subscribers (Freedom House, 2011). Pakistan also has one of the world's fastest growing populations of Facebook and Twitter users. Still, cost as well as coverage and infrastructure limitations mean that access to these media remains heavily skewed to more affluent, urban Pakistanis.

Table 6-1 shows<sup>89</sup> a positive relationship between both years of education and income (themselves positively correlated) and the media and communication technology Pakistanis tend to use. Not surprisingly, access to all forms of media is greatest for higher education and income groups. This increase is most evident in reported use of computers and landline phones. Survey results also indicate that access varies between rural and urban Pakistanis and across provinces (Figure 6-1). Although television is the information source most commonly used in all provinces, the percentages are considerably higher among urban dwellers and in Punjab. Sindh residents have higher rates of Internet usage, although these levels are very low across the country, with fewer than 1% of rural Pakistanis and 6% of urban Pakistanis reporting Internet access. Use of newspapers is also higher for urban than for rural Pakistanis regardless of province. The results are generally reversed when it comes to radio use: in all provinces except Punjab radio use is more common in rural than in urban areas. There is evidence that technological advances have begun to erode some of the demographic variations in access to information. Approximately 65% of Pakistanis now have mobile phones and lower cost and widening coverage areas are making phones more available in rural areas (Zaidi, 2012).



**Figure 6-1. Media use by location**  
 Source: BBC 2008 national survey (n=1172), Cited in Murthy 2010

Despite these developments, for Pakistanis living in rural, impoverished, or remote areas, private television remains out of reach; most rely on state-run Pakistan TV for their televised news.<sup>90</sup> Radio, is less expensive and more widely available (Pakistan Ministry of Information Technology, 2007). Over 100 private FM radio stations have been licensed since 2002. However, many of these stations serve affluent and urban areas, and the government continues to prohibit them from broadcasting their own news. Rural and less affluent Pakistanis are thus restricted to state-run Radio Pakistan, international broadcasters such as the BBC World Service and Voice of America (VoA), or illegal stations often run by militant groups (Murthy, 2010).<sup>91</sup> Pakistan’s high illiteracy rate at least at present also limits the potential audience for many newer technologies that involve text-based communication (emphasizing once again the centrality of the issue of education in Pakistan.)

<sup>89</sup> BBC Pakistan survey of urban and rural adults (15+), n = 4020 conducted in Balochistan, Khyber Pakhtunkhwa, Punjab, and Sindh. For further information regarding sampling and survey methodology, see (AudienceScapes, 2010).

<sup>90</sup> Pakistan TV is the only terrestrial channel, and cable and satellite coverage does not extend into many remote areas, including most of FATA.

<sup>91</sup> BBC 2008 National Survey, cited in Murthy (2010).

Similarly, gender inhibits the ability of many women to access information. Particularly in rural areas, women frequently require permission from male relatives to own devices such as mobile phones, and radios making them less likely to access information via digital means (Siegmann, 2009).

In sum, location, education, income and gender create significant variation in the type and diversity of news sources available to Pakistanis. This type of can significantly affect their images of the social and political environments, as well as their expectations about present conditions and the future. This type of divergence in worldviews is often at the source of conflict among social and ethnic groups and could solidify into a destabilizing point of social cleavage.

### **The Effect of What is Heard, Seen and Read**

The media environment in Pakistan today offers more sources of information across a wider variety of platforms than ever before. Blogs, Facebook, YouTube and Twitter are being used by politicians to reach young voters, the largest portion of the Pakistani population (Sarwar, 2012; Shah, 2012). Broader access to information for example, enables groups to become more aware of leadership activities and conditions in other parts of their country. When this information brings to light inequalities of opportunity or outcome between groups, the sense of deprivation among those who perceive themselves as less advantaged can become heightened. It can also expose those grievances to others.

Two types of information can have particularly critical effects on the conditions of a population. The first is political information and news about the activities of the government vis a vis the governed that can either reinforce or offer the stimulus to oppose the legitimacy and stability of the state. Second, particularly in developing states, social welfare information, for example on educational and job opportunities, health and nutrition, can have dramatic effects on quality of life. On the other hand, this information could help trigger the social role and value change (e.g., between generations) that can undermine traditional authority and patronage relations resulting in political and/or social instability in the mid- to longer-term. However, variety alone does not guarantee that the media will contribute positively to the stability and inclusiveness of governance in Pakistan. Ultimately, its influence will be determined by two factors: the information provided, and the institutional environment in which the media operates.

### **Quality & Type of Information**

Liberalization of the media in Pakistan appears to have created a somewhat free-for-all type space where private media organizations compete for subscriptions and advertising dollars. Political and social news is no exception to this.

#### ***Political Reporting***

Pakistan's 26 news channels are in constant competition for viewers. Critics charge that there is little effort to clarify for viewers what is news and what is opinion, and prominent news channels sway public opinion with what is often heavily opinionated reporting (Sadullah, 2012). Critics have also identified inexperienced journalists and the lack of internal checks on content and investment in investigative journalism as fundamental problems. These deficits have led many news channels to rely on talk show

formats, reportedly creating “a troubling tilt toward right-wing, highly opinionated” content with dubious sourcing (Ellick, 2010).

Between 2002 and 2010, the number of journalists in Pakistan increased five-fold to 10,000 while professional training and ethics organizations have been unable to keep pace (Mezger & Sial, 2010). Lack of training and professional expertise (the average age of journalists has dropped from 43 in 2002 to 27 in 2010) means that many journalists lack the expertise and tradecraft required to analyze, and present the complex political and economic issues currently facing Pakistan. The Pakistan Federal Union of Journalists (PFUJ) recently has called for the creation of a code of conduct and additional education for the media as a means of encouraging responsible journalism (The International News, 2012).

Compounding the concern with inadequate journalist training are the efforts of numerous forces to manipulate the content of political reporting. If the information individuals use to determine their political views and preferences is distorted their political actions—who they vote for, the policies they support or protest—will be similarly distorted. On the one hand, an expanded information environment generally, and in Pakistan can have positive implications for governing stability. More forums for discussion of alternative points of view coming from a variety of domestic and international sources offers Pakistanis greater opportunity to engage with the political system and hold leaders accountable.

However, Pakistani citizens do not have access to completely uncensored political information. Political stakeholders (e.g., the government, army, ISI), aware of the value of controlling the media, have used the constitution, legislation, the courts and at times violence to put pressure on journalists covering sensitive issues (Malik, 1996; Mufti, 2009). Pakistan is notoriously one of the most dangerous countries for journalists due to harassment by the government, militant groups and local tribes (Freedom House, 2011; Reporters without Borders, 2012). Consequently, reporting from conflict areas such as FATA and parts of KPK is difficult. In Balochistan, the country’s most dangerous region for reporters, journalists are likely to face harassment from both the government and Balochi nationalists (Lieván, 2011). Media organizations and journalists far from conflict areas have also been threatened and attacked. As Din (2010, p. 2) reports, “In October 2009, a Taliban group sent two letters to the Lahore Press Club – one on October 12 and the other on October 14 – warning that if the media ‘does not stop portraying us as terrorists ... we will blow up offices of journalists and media organisations.’” The effect of harassment and threats against journalists is to hamper the abilities (and willingness) of many in the Pakistani media to report fully and truthfully is hampered (Freedom House, 2011; Lieván, 2011).

When combined with political pressures on the media this type of self-censorship distorts by omission. Even if people are paying attention to what the media are reporting, and are aware of possible sources of bias, if they are simply unaware of certain events and conditions, those factors in the extreme case, will not be included in their assessments of reality – political or otherwise. In effect, they are unable to hold leaders truly accountable for their performance, as they are unaware of crucial aspects of that performance.

While freedom of information is an integral part of a democratic society, it can be destabilizing, particularly for democratizing states vulnerable for example to challenges from former rulers and other

opponents (Gunther & Mughan, 2000). For the civilian government in Pakistan—facing economic problems, internal threats from militant groups, and a highly contentious and unpopular relationship with the United States—negative information on these issues has the potential to fuel popular discontent and further erode support. The less support there is for the government, the less capable it will be of implementing policy further weakening support for and legitimacy of democratic rule. In the past, this pattern has preceded military take-overs in Pakistan. Thus, the government’s desire to control media coverage, either by suppressing or manipulating coverage, is understandable.

### *Extremist messaging*

As suggested, more media outlets also make it easier for extremist groups to spread their messages. There is “a very active and widespread radical (jihadi) media” in Pakistan and militant groups in Pakistan have used media effectively to broadcast their political aims, benefitting from the traditional social and religious conservatism of many news outlets (International Media Support, 2009; Mezzera & Sial, 2010). There are more opportunities for conservative politicians and particularly Islamic party leaders, to appear on television (e.g. on the multitude of talk shows.) Some Islamic parties operate religious television stations and radio channels as well as publish newspapers (International Crisis Group, 2011; Mezzera & Sial, 2010). Militant groups also have banned newspapers critical of their activities, prompting news agents in areas they control to refuse to carry those papers (Din, 2010). The support of Pakistani mainstream media for, or seeming tolerance of, radical extremist groups is often cited as an example of the failure of the media to fulfill its democratic role (e.g., Din, 2010; IMS, 2009; Jan, 1999; Mezzera & Sial, 2010). This changed somewhat following 2009 and the Taliban take-over in the Provincially Administered Tribal Areas (PATA) followed by the military’s offensive in the Swat Valley. Still, as Din (2010, p. 4) writes, tolerance of calls to violence remain:

*The anchor of a religious programme on the same channel incited viewers to murder Ahmedis. Though two Ahmedis were shot dead the following day, no action was taken against the anchor, who did not express any remorse on his anti-Ahmedi tirade that led to the assassination of two human beings.*

These types of information sources can have significant negative effects on stability. They extend the reach of militants and fundamentalist clerics whose highly political messages directly challenge the legitimacy of the national government and incite support for militant groups, undermining security. In the North West Frontier Province, where there are an estimated 150 illegal radio stations, broadcasts by clerics threaten locals with severe reprisal if they help the government in its fight against militant groups (PEMRA, 2010; Azami, 2009). According to retired Brigadier Mahmood Shah, “[t]he Taliban have used radio in a clever way to increase their influence and intimidate the general population. Of course, the illegal stations have contributed a lot to the spreading of militancy. They issue instructions on the radio to their fighters and use it to recruit and organise them” (Azami, 2009, para. 14).

### ***Health & Welfare Information***

In addition to news and political information, better information about a range of health-related issues – typically but not always delivered with the help or approval of public health officials -- has been shown to be critical in health and nutrition outcomes in the developing world. Information about family planning, basic nutrition, and sanitation can dramatically reduce incidents of maternal death and disease and improve basic health levels, particularly for children. This has a direct and substantial impact on quality of life, as well as long-term economic security.

The Pakistan government uses both television and radio to provide information on family planning with fairly wide coverage. A 2006-07 national survey<sup>92</sup> found that 41% of married women had seen family planning messages on television and 11% had heard them on the radio. Not unexpectedly, there is considerable variation in exposure to television between urban (58% saw messages) and rural women (33% saw messages) and between provinces with only 13% of Balochi women surveyed exposed to a family planning message in the month preceding the survey, compared to 51% of Punjabi women, 39% of women in Sindh, and 33% in KPK. Exposure to family planning messages through the media has been found to be a critical factor in increasing contraceptive use in Pakistan (Mahmood, 1992; Mahmood & Ringheim, 1996). Although more recent data are not available, the wider range of programming now available to Pakistani television viewers, in particular, would suggest that the ability of media to moderate or even change traditional attitudes toward family planning is likely to increase. Such a change could have a significant effect on Pakistan's ability to reduce its rate of population growth, one of the factors that has been identified as critical to increasing quality of life and economic security for Pakistanis (see, for example, Greene, Joshi, & Robles, 2012).

The influence of information on health outcomes is evident in the case of childhood vaccinations. Immunization, improved access to clean water and sanitation, have been identified as the most important factors in reducing childhood mortality rates, (Plotkin, Orenstein, & Offit, 2008; WHO, UNICEF, World Bank, 2009) and a necessary condition for development more generally (United Nations Millennium Declaration). In 1978, the Pakistan Ministry of Health launched its Expanded Programme on Immunization (EPI), which explicitly incorporated health education campaigns to raise awareness of the benefits of childhood vaccination. Since 1998, vaccination rates have increased from 79% to 91% (Lorenz & Khalid, 2012), and child mortality rates have dropped from 124 (per 1,000 live births) in 1990 to 87 in 2010 (UNICEF, 2012).

However, Pakistan remains one of the few countries in the world where polio remains endemic<sup>93</sup>, despite increased government expenditure through the Polio Eradication Initiative (PEI), supported by the World Health Organization (WHO). In fact, in recent years the incidence of polio cases has increased from a low of 28 in 2005, to 198 in 2011 (WHO, 2012). The Pakistan Government's 2012 Augmented

<sup>92</sup> Pakistan Demographic and Health Survey 2006-7. National sample of ever-married women between 12-49 years, n=10,023, response rate 94.5%. Survey was not conducted in FATA or several areas in Balochistan and KPK due to security concerns and "resistance and refusal of the community" (National Institute of Population Studies (NIPS) [Pakistan] and Macro International Inc., 2008)

<sup>93</sup> According to the WHO in 2012 polio was endemic in only Nigeria, Pakistan and Afghanistan (WHO, 2012)

National Emergency Plan for Polio Eradication (NEAP) identified consistently poor performance by vaccination teams, exacerbated by population movement, security issues, and vaccine refusal as the major driver of this resurgence (Government of the Islamic Republic of Pakistan, 2012). Vaccine refusal is one area where information has played a prominent role in driving the resurgence of polio in Pakistan and undermining public health outcomes. Awareness of polio campaigns in Pakistan is correlated with higher vaccination rates (Government of the Islamic Republic of Pakistan, 2012).

Research by the WHO and others has shown that fear of sterility, lack of trust in the vaccine's efficacy, and fear that the vaccine might contain religiously forbidden ingredients are the most commonly cited reasons for vaccine refusal (Walsh, 2007; Khowaja et al., 2012). One parent interviewed by Khowaja's team reflected a prevalent narrative that combines these concerns: "Polio vaccine is prepared in the West and sent here. It is then given to our children in order to destroy their ability to reproduce in the future" (Khowaja et al., 2012). Belief that vaccination is part of a Western conspiracy has been fueled by many conservative clerics, and militant groups, who preach against the "infidel vaccine" both in the mosque and over the many unlicensed radio stations (Latif, 2012; Tinder, 2012; Walsh, 2007). They have been aided in this effort by the CIA's launch of a fake polio campaign as cover for their search for Osama Bin Laden (Burke, 2010; McNeil, 2012). Taliban commanders in North and South Waziristan and parts of KPK have issued bans on polio vaccines, accusing health workers of being US spies and stating the ban will not be lifted until US drone strikes in the area are stopped (Associated Press, 2012; Sherazi, 2012).

In an effort to move Pakistan back toward the goal of polio eradication by 2015 the government has clearly identified information as a crucial strategy in overcoming resistance to vaccination. Toward this end, the NEAP will include a large-scale mass media campaign including public service announcements on government owned media channels and print outlets using celebrity "polio advocates", and more briefings of editors, journalists and prominent TV anchors on provincial and national stations (Government of the Islamic Republic of Pakistan, 2012). There is also recognition of the need to counter directly the messaging of conservative clerics. Toward this end, key religious and tribal leaders have been recruited to participate in polio campaigns and endorse the safety and religious appropriateness of the vaccine (Government of the Islamic Republic of Pakistan, 2012; Reuters, 2012). There is some indication that the backlash against the vaccine may be diminishing, with a decline in the number of families refusing to have their children vaccinated declining by 44% during the October 2012 nationwide drive (Agence France Press, 2012).

### **The Institutional Environment**

Critics charge that competition and the drive for profits in the liberalized media market have encouraged sensationalism over quality journalism (IMS, 2009; Kugelman, 2012). As in many countries, advertising finances TV, radio and newspapers in Pakistan, and as a result the interests of advertisers can influence content. According to one Pakistani editor (Jan, 1999), "we don't charge for what we publish, we charge for what we don't". This situation is further complicated by the fact that that 25% of the advertising budget of regional newspapers is provided by the state, enabling the government to add financial pressure to political pressure when seeking to influence media coverage (IMS, 2009; Mezzera & Sial, 2010). In one example, in October 2010 the PPP, in response to the Geo Television's anti-

government editorials, announced a boycott of Geo's parent company, the Jang Group, a move intended to contain the company's anti-government message (Bertelsmann Stiftung, 2012).

There is growing public discontent in Pakistan with the quality and impartiality of reporting over electronic media. Some concerns are similar to those heard regarding the US media like inappropriate language, depictions of violence and sex, and biased portrayal of ethnic and religious minorities. Others are more specific to Pakistan's media performance, such as derogatory/satirical programs, unethical talk shows, pirated content, debate on *sub judice* issues (i.e., those currently under trial or being considered by a judge), unconfirmed news, and depiction of banned outfits. The government has in fact responded to the public call for regulation of content. In 2002, it established the Pakistan Electronic Media Regulatory Authority (PEMRA)<sup>94</sup> to regulate the private electronic media. In 2012 PEMRA met with members of the media, civil society activists, educators, and politicians prior to drafting the Pakistan Electronic Media Regulatory Authority (Content) Regulations, 2012, which sets standards for all electronic media content. The Regulations attempt to balance public concerns over content while ensuring that "[f]reedom of expression is protected as enshrined in Article 19 of the Constitution of the Islamic Republic of Pakistan and growth of free, fair and responsible electronic media in the country is promoted." Standards for the presentation of material relating to religious and ethnicity, social and ethical values, images of violence and sex, and privacy of personal data are defined. There are also guidelines for news and current affairs programs that are designed to encourage the "objective, accurate, impartial and balanced" presentation of information and requiring that "news shall clearly be distinguished from commentary, opinion and analysis."

Although the jury is still out on implementation of the regulations, the consultative manner in which they were drafted and general public support for improving the quality of media in Pakistan suggest that regulation could enhance the quality of electronic media content in Pakistan. PEMRA has a record of taking action against media outlets that have violated its code of conduct including warnings to five television channels in 2010 for airing unconfirmed or false news as well as blocking Fox News for "airing derogatory and defamatory news about Pakistan" (PEMRA, 2010). PEMRA has also made efforts to stop operation of illegal FM radio stations, closing 30 in 2010 (20 in KPK) allegedly "involved in fanning religious hatred and promoting militancy." Overall, PEMRA's activities appear to be an example of a strengthening and energetic bureaucracy – potentially a good sign for central governing performance in this area.

While content regulation can be an important tool for improving the quality and professionalism of media programming, it can also pose a threat to media independence and freedom. Article 19 of the Pakistan Constitution guarantees that, "Every citizen shall have the right to freedom of speech and expression, and there shall be freedom of the press." However, this freedom remains "subject to any reasonable restrictions imposed by law in the interest of the glory of Islam or the integrity, security or

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<sup>94</sup> PEMRA also "has mandate to improve the standards of information, education and entertainment and to enlarge the choice available to the people of Pakistan including news, current affairs, religious knowledge, art and culture as well as science and technology." It has central offices in Islamabad and regional and sub-regional offices around the country as well as a complaint call center(<http://www.pemra.gov.pk/pemra/>).



defence of Pakistan or any part thereof, friendly relations with foreign States, public order, decency or morality, or in relation to contempt of court, [commission of] or incitement to an offence.”

### **The Effect of Increased Access to Information on Stability**

In June of last year, Pakistan hosted “Network!”, its first international social media summit. One of five workshop tracks was dedicated to political and social activism and covered topics such as “The Role of Social Media in Disaster Management” and “Blogging for Minority Rights.” There were panel discussions on the use of social media to advance education, good governance, women’s issues, and social activism (PC World Pakistan, 2011). While these sorts of events are still restricted to a very small audience within Pakistan, they are indications that a widening variety of groups within the country are beginning to see the potential for use of information via communications technology to address political and social issues.

At the same time, there is evidence that disparities in information access are creating media markets in Pakistan with different political identities and relations to the state. This situation could well entrench existing social cleavages within Pakistan and make the process of national consolidation more difficult. Moreover, traditionally underrepresented and underprivileged groups are excluded from the spectrum of political information and discussion that has emerged with media liberalization, and thus remain at a disadvantage in terms of exercising their political rights.

Figure 6-2 presents a loop diagram of the major stability effects of increased access to information as determined by analysis using the Pak-StaM. Better information can have a direct positive effect on quality of life by increasing people’s ability to meet their physical needs (e.g., information on health and nutrition, as well as government services). This in turn has a positive impact on governing stability by increasing perceptions of legitimacy. Quality of life can also be improved by the potential for increased social and political awareness to decrease intergroup intolerance.

On the other hand, increasing access to information, especially for disadvantaged or minority groups, has the potential to expose or generate popular grievances by making these groups more aware of social, political, and economic inequalities. Similarly, if the burgeoning news media do not regulate the quality and accuracy of the information presented, or if they deliver sensationalist stories rather than information, popular opinion could be further polarized, magnifying intolerance and generating grievance. Popular grievances are the primary stimulants of social (including religious) and political activism which, if unaddressed, can lead to social and governing instability. Use of media by extremist groups to broaden their audiences can also play on existing inter-group intolerance, especially where violence becomes involved. This both decreases the quality of life of competing groups and perceptions of government legitimacy, undermining governing stability.

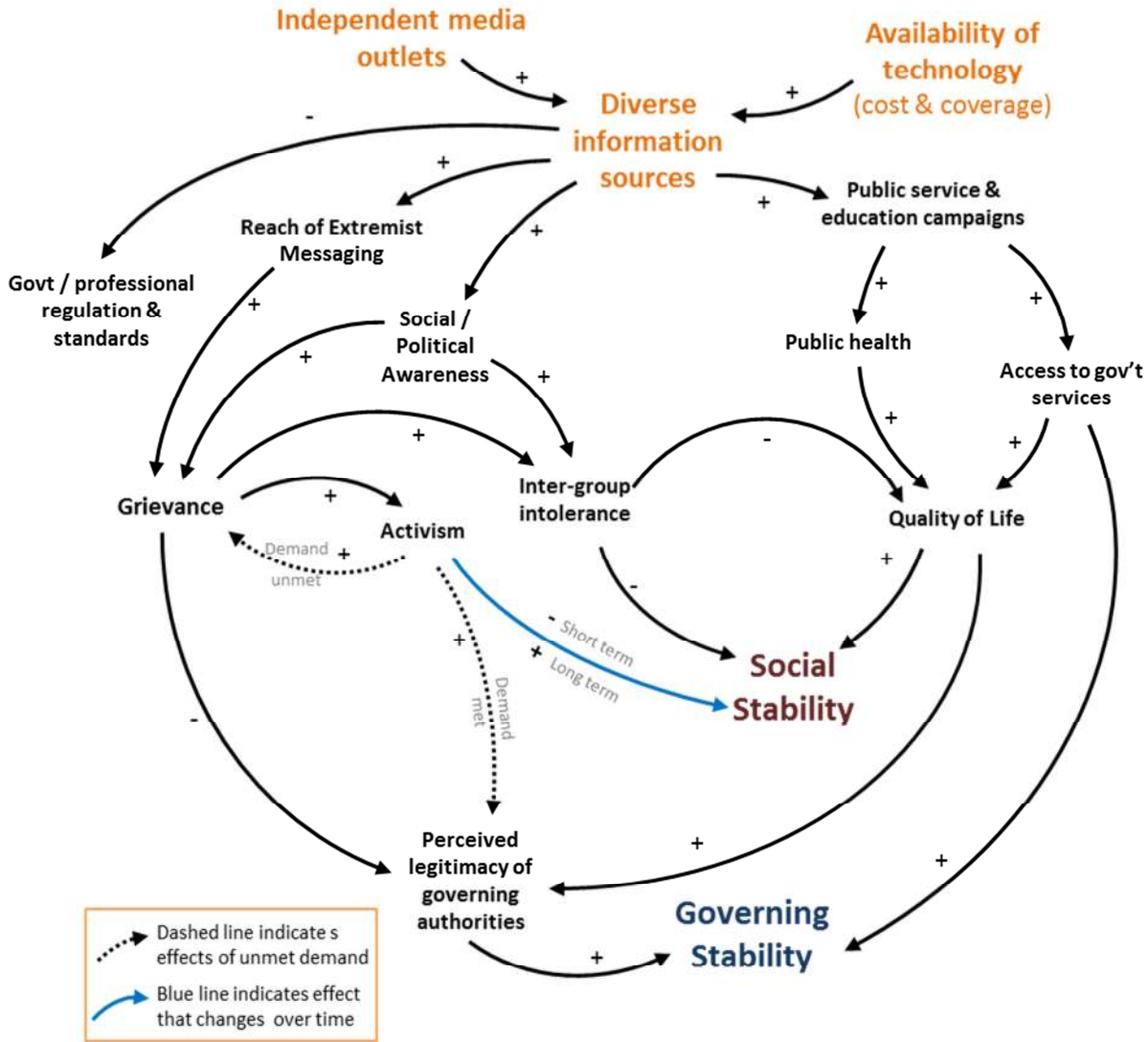


Figure 6-2: Loop diagram of major effects of increased access to information on stability

**Implications for Analysts**

The Pakistan Stability Model (PAK-StaM) analysis of Pakistan’s stability-instability dynamics suggests a number of implications for how US analysts and observers consider and anticipate stability conditions in Pakistan. These include:

- Consider information and news sources in assessing the worldviews and attitudes of sub-populations in Pakistan;
- Monitor differences in discourse between media sources and access patterns among media audiences as a way to locate possibly overlooked social and political conflict lines or cleavages; and
- Monitor and explore PEMRA’s bureaucratic activism as positive examples of (non-military) institutional strengthening and governing performance.

## 7 Pakistan Stability Dynamics: Summary and Implications

The *Pak-StaM Analysis: Drivers of Stability and Instability in Pakistan* report presents a detailed analysis of the major internal drivers of instability and buffers to stability in Pakistan. This chapter provides a brief overview of those findings and their implications for analysts.

A conceptual model of state stability, the StaM, was used to conduct a comprehensive analysis of the conditions influencing governing, social, and economic dimensions of stability and instability in Pakistan. We find that while there are evident drivers of instability, there are also less immediately evident areas of resilience that buffer the stability of the state of Pakistan and its people. Moreover, the factors that appear to underpin Pakistan's resilience to collapse are closely linked to those that may promote instability in the longer term. That is, it appears that, for Pakistan, shorter-term stabilizers can easily become destabilizers in the longer term. Conversely, there are factors that disrupt to the status quo, and can appear destabilizing, but are in fact an essential part of generating the structural changes Pakistan needs to achieve long-term stability. Accounting for both the short-term and long-term effects of these factors is essential for understanding their full implications for stability.

Specification of the StaM for Pakistan identified six factors as the primary internal drivers of instability and buffers to stability in Pakistan: the grey economy, formal foreign remittances, patronage, weak civilian institutions, education, and access to information. A discussion of each factor and a detailed analysis of how each influences both short and longer-term stability is presented in the body of this report. A summary of the major stability effects of these factors and the implications for analysts is presented below. The section concludes with observations regarding the overall implications of these factors for Pakistan's future path.

### Drivers of Stability and Instability in Pakistan

The StaM model suggests that effects of these factors on stability are far from simple and, in some cases, they are counter-intuitive. For example, increased access to information was found to drive instability across all dimensions in the short term; however, in the longer term its effects are expected to provide a buffer to stability. In other instances, effects of specific factors on stability were mixed, particularly in the longer-term, with some elements buffering stability and others potentially driving instability.

#### The Grey Economy

In the short-term the size and strength of the grey economy in Pakistan has positive and stabilizing effects on social and economic stability. Barriers to entry for unskilled workers are low, increasing the ability of new urban migrants to find work and meet their basic needs. Operating within the grey economy is also attractive to business owners because it relieves them of the burden of regulation and taxation, making their businesses more competitive and profitable. However, in the longer-term the existence of a strong grey economy can drive governing instability.

While the grey economy appears to reduce demands on government-provided social services, it increases demands on infrastructure (such as electricity and sanitation) essential to economic stability, without contributing revenue to support maintenance or improvements. Lack of revenue erodes the strength of institutions and the capacity of the government to provide services. This creates a potential vicious cycle: poor service delivery decreases satisfaction with governing performance, increasing incentives to move to the grey economy to avoid tax and regulation. Migration of economic activity into the grey sector further decreases governing revenue and, thus, the ability to provide services and infrastructure falls further behind. A strong grey economy can also perpetuate social and economic inequalities as it provides little protections for workers, particularly marginalized and vulnerable groups such as minorities, women and children.

### ***Implications for analysts***

- Appreciate the potency of the grey economy as a buffer to widespread economic, political, and social instability and the importance of considering the social and microeconomic impacts of reform efforts carefully;
- Track not only legislation, but also implementation of reforms to strengthen bureaucratic institutions, especially those responsible for rule of law and distribution of social services, but anticipate the barriers established by entrenched, elite economic interests;
- Be aware that efforts to quickly eliminate or reduce the size of the grey economy could have significant negative short- to mid-term effects on quality of life in both rural and urban areas, which could foster social conflict and discontent;
- Consider the potential for indirect means, such as monitoring and reducing child labor and increasing education, to facilitate future growth and development of the formal economy; and
- Anticipate the negative impact (higher unemployment, economic disruption) of reform efforts undertaken without significant prior strengthening of formal governing and economic systems.

### **Formal Foreign Remittances**

Formal remittances are a significant source of revenue for the Pakistan government and they provide a buffer to governing stability by improving capacity. At the individual level, remitted income provide households with the resources to gain access to the services they need and want, independent of government performance. This creates an indirect buffer to governing stability by reducing the impact of poor service provision on a segment of the population.

Remittance income also broadens the availability of education for non-elites and increased education is often associated with more interest in political participation and reform. In the longer-term, broader education could change patterns of political participation in Pakistan. While initially this is likely to foster political unrest and disruption, wider participation is a strong buffer to the stability of traditional democratic governance.

Considering the importance of remittance income to Pakistan's economy, a significant or precipitous disruption in the inflow of remittances could produce wide-ranging destabilizing effects. Loss of remittance work could result in increased frustration and anger at the government among newly

returned workers if they are unable to find well-paying jobs. Loss of remittance income will also leave more Pakistanis reliant on already overstretched government health and education services, and result in a decrease in quality of life for those currently relying on remitted income.

### *Implications for analysts*

- Monitoring formal and, where possible, informal remittance flows to households (i.e., non-terrorist finance) and determining where and how the money is spent, will improve our understanding of which groups are benefitting from this income, and will be disadvantaged if it is lost;
- Anticipate the possibility of increased social or political tensions in Pakistan following seemingly unrelated world events like drops in Gulf oil prices, rises in nationalism, and/or foreign efforts to indigenize work forces or curb migration;
- Be aware of the importance of tracking demographic shifts (ethnicity, locale, gender) in those receiving secondary education, as systematic shifts could signal greater social mobility, changing patterns of political participation, driving social and political disruption, but potentially buffering longer-term stability; and
- Consider carefully all U.S. or foreign military, diplomatic, or commercial activities that might hinder transfer of formal or informal remittances to Pakistan.

### **Patronage**

Patronage networks are ubiquitous in the organization of political and economic activity in Pakistan. Consequently, their influence in the areas of political, economic, and social stability is considerable. In the short-term, patronage networks appear to buffer stability by providing social continuity and access to goods such as jobs that ease the economic and social dislocation often associated with the types of urban migration seen in Pakistan. However, an argument can be made that in Pakistan, as in other developing countries, entrenched political and economic patronage networks hinder economic development as well as longer-term governing stability. Employment in the grey economy is often organized through patronage networks that connect business owners to specific rural areas. This practice increases the ability of new urban migrants to find work and reduces the social dislocation and change associated with urbanization, increasing social stability.

In the longer term, the influence of patronage over political and social interactions perpetuates traditional social cleavages and class distinctions, which block the development of broad-based economic and political reforms necessary for sustained growth and development. While patronage networks do provide a buffer to stability by inhibiting rapid social change, in the longer-term lack of social mobility can be a driver of instability. If those groups and individuals excluded from the benefits currently distributed through patronage networks mobilize, or if the level of inefficiency patronage creates in political and economic activity becomes greater than the system can support the continuation of this practice could drive instability across the system.

### ***Implications for analysts***

- It is not possible to understand political or economic processes in Pakistan without understanding and accounting for the role played by patronage networks. The incentives and barriers patronage networks create have the potential to prevent the reform and change essential for long-term development and stability;
- Patronage is distinct from corruption and, unlike corruption, involves the redistribution of public goods in a socially understood manner;
- Patronage is a fundamental element of social, political, and economic interactions in Pakistan. Attempts to abolish the influence of patronage networks are likely to provoke considerable opposition as well as triggering instability;
- Identifying and understanding the connections between patronage networks and formal institutions will help in predicting Pakistani responses to U.S. policy and its outcomes; and
- While patronage networks do provide a buffer to stability by inhibiting rapid social change, in the longer-term, they stymie the development of effective state institutions and provide opportunities for exploitation and corruption.

### **Weak Civilian Institutions**

In Pakistan, corruption in governing institutions has created a wicked cycle: The historical (and current) weakness of Pakistan's civilian institutions makes them susceptible to corruption, which further compromises governing performance and challenges legitimacy, further weakening institutions. Weak institutions lack internal monitoring and enforcement capabilities, making it both possible for corruption to occur and problematic to prosecute offenders. Corruption also reduces the funds available for service provision and infrastructure development, which not only undermines governing stability, but limits the capacity for economic growth and development, also threatening economic stability. Within Pakistan the institutions with the most profound direct or indirect impact on stability are the components of the domestic security and judicial systems that affect provision of the rule of law and financial and economic regulation.

In both the short and longer-term, inadequate policing capacity directly compromises the physical security of the population, which undermines popular perceptions of governing performance as well as quality of life for many Pakistanis, driving governing and social instability. Fair and efficient rule of law is compromised by the politicization of the police force. Police are frequently used to influence local elections through vote rigging and intimidation, and the politicization of violence in large cities, particularly Karachi, undermines the ability of police to combat organized crime and violence. The impartiality of policing is further compromised by corruption, with business owners and landowners using the police to intimidate workers who complain about poor conditions and wages or cause trouble. These conditions undermine public trust in the government's capability and reinforce the popular perception that the police are agents of oppression, rather than protection, challenging the legitimacy of a democratic government, potentially undermining its stability.

Regulation of economic activity is a second area where weakness drives political, economic and social instability in Pakistan. Complex government regulation increases the cost and time it takes to do

business in Pakistan's formal economy. Poor management and development of essential infrastructure, such as energy, decrease economic productivity and increases costs, making Pakistan less attractive to foreign investors and even forcing some Pakistani business owners to relocate their factories out of Pakistan. Failure to achieve growth will leave the formal economy unable to provide sufficient jobs for young Pakistanis, creating greater potential for disillusion with and opposition to the government. One buffer to this type of destabilization is the, as yet, unknown capacity of the grey economy to absorb workers, particularly those with few skills. However, the ability of the grey economy to function and grow is still partly dependent on the government's ability to provide services, such as electricity and water.

The government's capacity to deal with these problems is severely limited by its chronic revenue shortage, created in part by a tax system that is inefficient and perceived by most Pakistanis as unfair, thus making tax avoidance a common and accepted practice. The failure to provide basic services undermines public perceptions of governing capacity, as well as compromising the quality of life for many, thus potentially creating governing and social instability. Combined, weak rule of law, weak regulatory institutions and poor infrastructure create an environment in which economic growth and development is unlikely.

### *Implications for analysts*

- When tracking efforts to reform and strengthen policing and the justice system anticipating barriers established by entrenched interests such as patronage networks and negative popular perceptions of the police will be critical;
- Be aware that judicial independence, although a hallmark of democracy, has the potential to undermine the stability of Pakistan's civilian government by creating a three-way struggle for power and popular legitimacy between the judiciary, government and military;
- Recognize that effective but not burdensome rule of law and economic regulation underpins all aspects of stability – political, economic and social;
- Barring significant improvements in financial and regulatory institutions, the size of the grey economy is unlikely to shrink relative to that of the formal economy. However its capacity for accommodating Pakistan's growing population is unknown; and
- Improved financial regulation and taxation is a necessary precondition of future economic growth and development.

### **Education**

Increasing the availability, quality and access to education, particularly beyond primary school has positive implications for governing, economic and social stability. An educated population has greater capacity to independently assess governing performance. In the longer term it is expected that expanding higher education could generate public pressure for better government performance and the institutional reform necessary to achieve it. The ultimate effect on stability however, is contingent on how grievances are addressed: pushing back or otherwise failing to meet grievances of a now more politically aware population is likely to foster disruptions or further antagonism especially to civilian authorities perceived responsible for the deficit. On the other hand, a government seen to be meeting

performance expectations could gain in stability-enhancing governing credibility and legitimacy. Enhanced education would also produce a larger semi-skilled and skilled workforce in Pakistan – a necessity for economic development and diversification. However, here again, whether the outcome is stabilizing or destabilizing depends on how well changing expectations regarding employment and resultant socio-economic mobility are met. Fortunately, there is a lag in provision of education and the employment and other demands that must be met to avoid simply developing a more politically aware but frustrated population segment. This lag time leaves a window of opportunity for the government in Pakistan as well as NGOs and aid funders to implement necessary reforms and investment strategies needed to create jobs for a greater percentage of semi-skilled and skilled students than the economy has had to absorb in the past. In short, the results of broadened educational opportunity over the coming years could produce two effects in Pakistan. On the one hand, it could help spur instances of social and political disruption followed by eventual stabilization and positive economic growth if increased demand for jobs and improved government performance are met. If these are not met however, educating more Pakistanis and for longer could result in a population disappointed by poor government performance, frustrated by class and other social divisions and potentially significant growth in the already immense and ultimately destabilizing informal economy.

### ***Implications for Analysts***

The Pakistan Stability Model (PAK-StaM) analysis suggests a number of implications for how US analysts and observers consider the potential stability-instability effects of Pakistani, NGO and US aid efforts to broaden education in Pakistan. These include:

- The importance of monitoring school enrollment, including enrollment in private schools and *madrassas*;
- The importance of monitoring changing education demographics (socio-economic class of the family, gender) and in the case of increasing educational attainment, plans for creating additional jobs to accommodate the new educated population;
- Anticipate the possibility of increased social disruption and expansion of the grey and black economies in the event of a lack of economic opportunities for newly educated citizens;
- Anticipate the possibility of political disruptions and perhaps tensions as the population of those with secondary and tertiary education increases; and
- The importance of tracking enrollment rates and levels of grievance, frustration and social uncertainty particularly among children who are the first in their families to receive secondary (middle and high school) and tertiary (college) education. They are a prime target for extremist recruitment.

### **Access to Information**

In the short-term access to information is a driver of governing instability. Although participation in new information and communication technologies is still restricted to a very small audience within Pakistan, there are indications that more groups within the country are beginning to see the potential for use of information via communications technology to address political and social issues and challenge the existing status quo. There is also evidence that disparities in information access are creating media markets in Pakistan with different political identities and relations to the state. This situation could well



entrench existing social cleavages within Pakistan and make the process of national consolidation more difficult.

Better information can have a direct positive effect on quality of life by increasing people's ability to meet their physical needs (e.g., information on health and nutrition, as well as government services), improving social stability. However, the use of media by extremist groups to convey their message and garner support for their cause can also play on existing inter-group intolerance, decreasing the quality of life of competing groups, and challenging the government's legitimacy, which drives governing instability.

In the longer-term, access to political information is critical for a well-functioning participatory state. At present, the impact that increased, yet uneven access to information will have on social, political and economic stability in Pakistan is difficult to pin down. Nevertheless, the issue and the range of possible effects that should be anticipated, deserve careful consideration

### ***Implications for analysts***

- Consider access to information and news sources when assessing the worldviews and attitudes of sub-populations in Pakistan;
- Monitor differences in discourse between media sources and access patterns among media audiences as a way to locate possibly overlooked social and political conflict lines or cleavages;
- Monitor and explore the Pakistan Electronic Media Regularity Authority's (PEMRA) bureaucratic activism as positive examples of (non-military) institutional strengthening and governing performance;
- Be aware that new technologies and their increased affordability may provide a means of bridging the current divide in access to media between wealthy urban Pakistanis and the rest of the population; and
- Recognize the potential for harnessing new information and communication technologies to increase awareness of public health issues and basic health and nutrition information.

### **Concluding Observations**

These findings, summarized in Table 7-1 below, shed light on our initial question: *What are the primary drivers of instability and buffers to stability in Pakistan?* With the exception of weak civilian institutions, no single factor identified has a uniformly negative effect on stability in Pakistan. Furthermore, there are mutually reinforcing relationships between certain factors, such as education and access to information, that offer the potential for significant longer-term improvement in stability *if* certain other conditions are met. In particular, the potential for factors, such as education and information, to buffer stability are conditional on the ability of the government to provide the institutional framework necessary for economic development.

	Short-term Stability Effects			Longer-term Stability Effects		
	Governing Stability	Economic Stability	Social Stability	Governing Stability	Economic Stability	Social Stability
Weak Civilian Institutions						
Patronage						
Grey Economy						
Remittances						
Access to Information						
Education						

Driver of Instability  
 Buffer of Stability  
 Mixed effect - some aspects drive instability, others buffer stability  
 No effect, or effect highly contingent on other conditions

**Table 7-1: Summary of main effects on short-term and longer-term stability in Pakistan**

At present there appear to be few incentives for civilian or military governments to develop people-centric policies for Pakistan. As a result, there is little or no investment in the country’s human capital. In Pakistan, both civilian and military governments rely on small elite groups within Pakistani society for support. While there are some variations in interests between those who favor military rule and those who prefer civilian government, they are far outweighed by the similarities. Overall, neither civilian nor military regimes have demonstrated a genuine commitment to representing the majority views of the Pakistani people or using government capacity and economic policy to improve quality of life for “average Pakistanis.” Rather, political power appears to be a competition for control of state resources and government institutions so that financial resources can be extracted and patronage networks strengthened through lucrative government appointments. This assessment is reflected in the observation of Abida Husain, a Punjabi landowner-politician: “You know, a normal Pakistani with a normal human heart can’t really be pro-government no matter what the government is, because governments always look indifferent to the hardships of the people.”<sup>95</sup>

The potential destabilizing effects of the failure to develop people-centric policies may have been offset by several factors. Pakistanis’ willingness and ability to work around the limitations created by poor governance has minimized the blowback, both civilian and military governments experience from poor performance. A strong grey economy buffers governing and social stability by enabling people to meet their basic needs without relying on poor or non-existent social services or government development programs to build the formal economy. Remittances further insulate many average Pakistanis from the

<sup>95</sup> Lieven, 2011, p. 206.

limitations of government services by providing money for private education and health care, and a source of income independent of domestic economic capacity.

Low literacy rates and lack of access to information has left many Pakistanis unaware of the full extent of government failures and corruption. Despite recent liberalization of the media, access and usage patterns in Pakistan clearly favor wealthier, more educated urban Pakistanis—those who have traditionally benefitted most from the existing organization of political power and influence. Pakistanis in remote, rural, and low-income areas remain reliant on state-run media and mainly religious or militant-run radio stations for information. The disparities in information access are in effect creating two media markets within Pakistan, both with very different political identities and relations to the state. This situation allows the government (either military or civilian) to more easily control public opinion among the majority of Pakistanis who do not comprise the establishment elite, and therefore are not best served by the continuation of “politics as usual”.

Patronage networks can help offset some of the inadequacies of governing institutions. Political patronage networks enable politicians to allocate public resources to supporters and create the perception that needs are being met without instituting the large-scale reforms and development projects that would create more systematic, long-term improvement in standards of living for the majority and decrease the share of resources kept by the elites. Economic patronage networks perpetuate existing social structures and provide a network of support that relieves demands on government for services and, combined with the grey economy, minimizes the effect of poor government economic policy.

There are several emerging factors that may decrease the effectiveness of these buffers in the longer term, opening the potential for significant economic, social, and political instability before a new status quo is achieved. Although in the short-term patronage networks can increase social stability, they are also a driver of instability for governance. The uncertainty associated with any government’s hold on power in Pakistan creates incentives for politicians to concentrate on extracting what financial resources they can from the system rather than investing in it. As many bureaucratic posts are linked to political patronage networks, top bureaucrats, anticipating a loss of position and power at a moment’s notice if their patron falls from power, are similarly incentivized. This creates a vicious cycle in which the resulting deterioration of rules and institutional norms further undermines already weak civilian institutions. Weak institutions with little long-term policy planning reduce the ability of a government to effectively use the resources it has, further compromising its capacity to provide services.

Political patronage networks also distort the way in which civilian governments function, arguably moving them away from the democratic ideal that the majority of Pakistanis favor. Political systems based on patronage are incompatible with the effective implementation of broad-based programs for development and social investment, as the relationship between politicians and supporters is based on the expectation of individual benefit. Without effective economic planning and development policy, Pakistan is unlikely to experience economic growth sufficient to keep up with population growth, let alone increase living standards for the majority of Pakistanis. Economic prosperity and opportunity has

shown to consistently be a primary concern of Pakistanis, along with unemployment and job opportunities.<sup>96</sup> If the gap between perceptions of civilian government operation and performance remains inconsistent with Pakistani's expectations of democracy, then the patronage system that drives many of these discrepancies may create a legitimacy deficit that undermines civilian governing stability.

If education rates in Pakistan increase, and access to information becomes more widespread, it is likely that a broader cross-section of Pakistanis will become active in political life. Education and access to information provide citizens with the tools they need to independently assess the performance of their government. In effect, they create the potential for greater accountability in government. If education and access to information is extended to underserved groups, particularly the rural poor and women, the political landscape in Pakistan may change significantly. If politics is no longer restricted to competition between the establishment elites, and participation expands to incorporate the majority of Pakistanis, then support for the continuation of policies (such as no tax on agricultural income) that favor entrenched elites at the expense of crucial economic reforms are unlikely to survive. Such changes will inevitably generate short-term instability. However, such structural reform will create the conditions required for longer-term economic growth and development. In the longer-term, therefore, such shocks may create the potential for more enduring economic stability that will translate into improved governing and social stability.

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<sup>96</sup> IRI Public Opinion Survey Index (2012); Pew Global Attitudes Project (2011)

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### Introduction

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## Chapter 5: Education

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## Chapter 6: Access to Information

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## Appendix A: Components of Generic Stability Model (StaM)

The generic StaM<sup>97</sup> is a parsimonious conceptual framework for assessing political stability over the mid- to long-term, where overall state stability is presumed to arise from three necessary but not sufficient factors: economic stability, social stability, and governing stability. The foundational assumptions of the model are shown in Table A-1. The definitions and decomposition of the concepts into contributing and interconnected factors is based on a wide range of research and theory from the fields of anthropology, international relations, comparative politics, social psychology, and economics.

StaM Foundational Assumptions	
Assumption 1	Political, economic, and social stability are necessary but not sufficient to explain or predict durable state stability.
Assumption 2	Constituents look to and expect a governing, economic, and social system to provide them with certain “goods.”
Assumption 3	A governing economic or social system will be stable if it is perceived by its constituents to meet their psychological and/or material needs (i.e., provides “goods”) and expectations.
Assumption 4	Dissatisfaction with the provision of goods by a political, social, or economic system encourages opposition to and/or violence against that entity.

Table A-3: Foundational assumptions of the generic StaM

### Governing Stability

According to the generic StaM, the stability of a governing system is a function of three multi-dimensional factors: perceived governing legitimacy, governing performance, and governing capacity (i.e., bureaucratic strength and revenue). Again, it is important to note that the model is designed to apply both to formal and informal governing systems that include both formal and informal rules and institutions.

#### Governing legitimacy

Governing legitimacy is defined in terms of both the processes and outcomes of governance. First, the extent to which citizens agree with the way in which policy is determined and enacted and perceive their interests to have been heard (process). Second the extent to which policy outcomes reflect the interests, goals and beliefs of citizens (outcomes).

<sup>97</sup> The model, originally called the “Durability Model,” and its User’s Guide were first developed in response to a request to the SMA team by ISAF to measure the impact of actions and other activities on developing stable and *durable* political, economic, and social systems in Afghanistan. A more detailed discussion of the use and development of conceptual models, as well as examples of the application of the original Durability Model (State StaM) to Afghanistan, is available from the Strategic Multilayer Assessment Office, POC: Sam Rhem samuel.d.rhem.ctr@mail.mil.

### **Governing performance**

This can be thought of as how well a government delivers broadly-defined “goods” sought by individuals and groups in the political system. Performance itself is a function of three types of goods sought from governing systems: representation of one’s interests (political voice); security, against both internal and external threats (the provision of rule of law and justice); and the provision of various other social services (e.g., education, energy).

### **Governing capacity**

To provide services to citizens, the government must possess the *governing capacity* to do so. Specifically, the government must have the revenue needed to provide services, and the bureaucratic strength to distribute them. Irrespective of the degree of stability or instability, different political and social systems are distinguished by the different levels of importance they place on the various factors that contribute to governing stability. For example, in a totalitarian dictatorship, internal security is typically a major factor in maintaining political stability and political voice is minimized. By contrast, a socialist democracy is characterized by much greater concern with provision of social services such as health care and education.

There is an interesting relationship between capacity, legitimacy, and governing performance. In developing or post-conflict states, as the ability to increase revenue and the bureaucracy visibly strengthen, citizens often expect the government to provide better services, or an increased array of services. Researchers have shown that in many regions, the failure of a governing system to provide goods or services, whether from lack of political will or lack of capacity, often leads to a perceived lack of legitimacy for that system among political actors and constituents (e.g., failure to distribute oil revenue in the Sudan).

### **Economic Stability**

The stability of the economic system (rather than just its wealth) is defined in terms of two broad underlying factors: economic capacity and the level and rate of economic development.

### **Value of the economy**

This is the value placed on the elements of economic activity in a nation (e.g., measures of production, demand, and labor). In order to expand economic capacity, nations must acquire capital in both monetary and human forms--capital and labor. Observed over time, the value of economic capacity provides a measure of *economic growth*. Positive economic growth indicators include the maintenance of rule and law, development and expansion of free markets, small government consumption, and high human capital.

### **Economic development**

These involve qualitative change and restructuring in a country's economy. Rather than just *more* economic activity (measured in monetary terms) there is *different* economic activity that generates technological and social progress. The most common indicators of economic development are increasing per capita GNP (gross national product) or GDP (gross domestic product). These measures reflect an

aggregate increase in the economic productivity of the population and, thus, presumably, the average material wellbeing of a country's population.

While it can seem reasonable to assume that economic growth and development will always be a positive form of change, there are some instances in which development can be destabilizing. First, research demonstrates that disparities or uneven patterns of economic development that result in a small, wealthy upper class and a vast, extremely poor lower class can reduce stability at the economic, political, and social level, all influencing the stability of a political system. A second consequence is rapid urbanization, which can weaken the existing social order if older tribal communities and long standing family loyalties are abolished and there are few or no alternative social support systems to replace the former. Third, rapid urbanization can lead to overpopulation and lack of jobs resulting in high levels of unemployment and increasing poverty. Government inability to maintain basic sanitation, for example, or other identified needs of individuals or groups can result in further instability at the economic, social, and political levels.

### **Social Stability**

*Social stability* is defined in the StaM as a function of individuals' and groups' perceived quality of life, social uncertainty, and social cohesion. Social psychologists propose (and neurobiologists are discovering) that human beings possess specific psychological and physiological needs required for survival, and that these needs motivate individual and group behavior. When physiological needs are not met, this can lead to social instability.

### **Quality of life**

This is determined partly by the ability to meet basic physical needs, but also by how well individuals and groups are doing compared to others. When different groups and individuals within a state have different priorities, it can be particularly difficult for the government to satisfy or even respond to the interests and preferences of all. Researchers of psychological frustration-aggression theory pose that when these needs go unmet for an extended period, frustration increases, which can lead to violence. In a political system in which groups' needs are, or are perceived to be, unmet or unequally met, frustration can lead them to seek assistance through external or violent means or both, causing social instability, and thereby potentially diminishing the stability of the state.

### **Social certainty**

This also influences the stability of the social system. The occurrence of rapid social change can lead to a significant breakdown or even collapse of traditional social, economic, and authority structures, creating uncertainty that can lead to frustration and alienation. Frustration among certain groups and individuals can also emerge when they cannot determine where to seek resources or who or what is responsible for the provision of resources or services. This may contribute to increasing competition and exacerbation of existing social divisions in society, which leads to social instability.

### **Social cohesion**

This is a multidimensional concept incorporating social order and safety, upholding a common identity, a sense of belonging, and an absence of social exclusion. It refers to the density of the networks between members of a community, which can be political, but are most often observed as economic (e.g., exchange of goods, other economic interactions) or social (e.g., informal relations, common identifications). Central to the idea of social cohesion is the role it plays in generating voluntary cooperation between members of a community to reach a collective goal. Rapid social change can deepen existing divisions between social groups and lead to a backlash against the perceived forces of change and modernization. This decreases social cohesion and increases perceived deprivation contributing to social instability. The resulting social instability can impact state stability.

### **External Influences on State Stability**

Once operationalized for a particular state, the StaM can also be used to develop a comprehensive understanding of how and where different external actors can influence state stability. By mapping the points at which external actors intersect with components of state stability, the StaM can be used as the basis for a model of regional influence. Including the regional influences on a state's stability generates a more comprehensive, but more complex model. The advantage of this added complexity is most evident when it comes to assessing the potential for intervention or interference. Analysts and planners can identify potential points of influence open to the U.S. and other external actors, as well as the relative influence various actors have at each point. They can then trace how the impact of proposed U.S. (or foreign) actions travels from the initial point of contact with the domestic model, throughout the model. This helps improve our understanding of the most efficient and least risky options for enhancing a state's stability, as well as helping us to better understand the potential for help from allies, and, perhaps more importantly, interference from actors with competing interests and goals.



## Appendix B: Specification of the Pak-StaM

Academic research and theory provides the information required to construct the generic StaM. The boundaries of the model are set by the assumptions and relational structure of the key concepts: governing, economic, and social stability. However, before applying the model to a specific context, a further decomposition and tailoring of the model is required. It is at this stage that viewing the model as a set of hypotheses or questions about political, economic, and social dynamics, in this case, as applied to Pakistan, becomes most helpful. Following its organizing structure, the analysts tasked with completing this situational assessment were led to various sources and types of data. Quantitative data on political processes, popular perceptions and opinion, and economic and financial flows are added to extensive subject matter expert (SME) elicitation; current research on social, ethnic, economic and political and institutional cultures in Pakistan; social geography; and assessment of authority and political transitions through Pakistani history.

### Stability Analysis Using the StaM Framework

#### Step 1: Explore model-based stability hypotheses

Development and analysis of the tailored Pak-StaM model begins with the generic model as a set of theory-based hypotheses about political, economic, and social dynamics. These are used to guide the search through the myriad of sources and types of data on Pakistan. Data incorporated in the Pak-StaM includes: government and international organization reports and statistical data; newspapers; academic research and policy analysis on political processes, public opinion; and economic conditions; current research on social, ethnic, economic, political, and institutional culture; social geography; and assessments of authority and political transitions through Pakistani history. In all over 1000 unclassified sources were used to tailor the generic StaM for Pakistan.

#### Step 2: Tailor domestic models

As information is gathered, relationships represented in the generic StaM were specified for Pakistan in an iterative process that involved

- A. **defining model factors** in the Pakistan context (e.g., components of high quality of life (QOL) are viewed differently by a U.S. v. Pakistani population);
- B. **determining** whether the **theory- and research-based relationships** between factors in the generic model exist at all or in the same way in the Pakistan context; and,
- C. **adjusting, adding or eliminating** factors and relationships where necessary. For example, as shown in Figure i-2, the Pakistani military was added to the generic model as a political actor with its own source of legitimacy in competition with civilian governors and interests. (In the generic model, the role and performance of the military is incorporated under rule of law and national security.) It was also necessary to distinguish between internally and externally generated revenue as Pakistan is heavily dependent on foreign aid and loans to provide services. This creates a very different effect on stability, both economic and governing, than the same level of revenue generated from internal sources such as taxation.

### **Step 3: Explore and analyze factors/relationships that explain stability and instability**

Once the generic model has been tailored to the Pakistan context, and the appropriate specification of factors determined, the analyst can begin map how specific factors propagate through the model and how they interact with other factors and stability dimensions. It is these interactive effects that capture the complexity and interdependence of various stability factors.

### **Step 4: Add effects of external actors into appropriate places in the tailored model**

The process of tailoring the StaM to a particular case will also bring to light the external actors that have the potential to influence state stability at specific points. For example, Pakistan's dependence on foreign loans makes its government revenue and military spending vulnerable to policy actions by the U.S. For each external actor, national security, domestic security, economic growth, and international influence capabilities and goals were mapped (where appropriate) to their intersection with specific factors in the Pak-StaM.

## **Operationalizing the Generic StaM for Pakistan**

The generic model operationalized for Pakistan (Pak-StaM) is shown in Figure i-2 (Introduction). Using the theoretically based conceptual model facilitates a (relatively) straightforward construction of what is now a conceptually sound description of the dynamics of stability and instability tailored specifically to Pakistan. Examples of some of the Pakistan-specific amendments to the general model are briefly described below, and examples of how specific components of each stability dimension were operationalized are also provided.<sup>98</sup>

### **Governing stability in Pakistan**

To account for the strong political influence of the Pakistani army even during periods of civilian rule, the PAK-StaM considers the influence of the military on governing stability at a higher level than the generic model, where it is incorporated under rule of law and national security. The social services identified as salient to the Pakistani people, and therefore potential measures of their perception of government performance, are employment opportunity, health, and education and training. Finally, in the tailored model, it was necessary to distinguish between internally and externally generated revenue as Pakistan is heavily dependent on foreign aid and loans to provide services. This creates a very different effect on stability, both economic and governing, than the same level of revenue generated from internal sources such as taxation.

### ***Model-based stability hypotheses for Rule of Law component of governing stability***

1. How does provision of civil order affect rule of law in Pakistan?
  - a. Is the police force seen as free from undue political/sectarian/criminal (corruption) influence?
  - b. Are officials held legally accountable?
  - c. What is the level of perceived/actual corruption?
  - d. What is the perceived impartiality of law enforcement institutions?
  - e. Are there any challenges to civil order posed by the military?

<sup>98</sup> A full specification of the Pak-StaM is available upon request from the project POC, Dr. Allison Astorino-Courtois.

- f. Are there any challenges to civil order posed by VEOs?

Are there any other factors (positive or negative) that affect civil order in Pakistan?

Does each of the above have a positive or negative effect on rule of law in Pakistan? If there is no effect, why not?

2. How does the provisions of justice affect rule of law in Pakistan?
  - a. Is the judicial system (at the national level) regarded as fair and effective in resolving disputes?
  - b. Are there any challenges to provision of justice by the military?
  - c. Are there any challenges to provision of justice by violent extremist organizations (VEOs)?

Are there any other factors (positive or negative) that affect provision of justice in Pakistan?

Does each of the above have a positive or negative effect on rule of law in Pakistan? If there is no effect on rule of law, why not?

3. How does rule of law affect governing performance in Pakistan?
4. How does rule of law affect governing legitimacy in Pakistan?

### **Economic stability in Pakistan**

In Pakistan, as in many developing nations, the grey and black economies account for a substantial proportion of the country's overall economic activity. This has significant implications for economic stability directly and also for governing stability. Black economies by definition involve illegal activities, putting greater pressures on law enforcement and the judiciary, as well as creating incentives and opportunities for corruption, further undermining governing performance. The money generated in both the grey and black economies is effectively separated from the licit economy, where it would contribute to government revenue through taxation. In addition, organized crime can pose a significant threat to security, as well as providing the means for VEOs and other anti-government groups to finance their political activities.

#### ***Model-based stability hypotheses for Grey Economy component of economic stability***

1. What is the size of grey economy?
  - a. Value relative to GDP, percent of workers involved in grey versus formal economy
2. What activities comprise the majority of grey economic activity?
3. How does the informal economy in Pakistan affect economic capacity?

Overall effect of the grey economy on:

1. Growth and development of the formal economy
2. Governing stability, specifically government revenue, service provision, and rule of law
3. Social stability, specifically social cohesion, protection of workers, and workers' rights

### **Social stability in Pakistan**

The structure of the social stability dimension in Pakistan deviates less from the generic State StaM than the economic and governing dimensions. It is the relative importance of the underlying concepts that

requires tailoring to the specific conditions in Pakistan. In particular, rapid urbanization and the proportion of Pakistan's population under 25 years of age suggest that social uncertainty will have a strong influence on overall social stability.

***Model-based stability hypotheses for Quality of Life component of social stability***

To what extent does the level of physical needs satisfaction affect quality of life in Pakistan?

1. Food Security:
  - a. What percentage of the population has access to sufficient, affordable food and safe drinking water on a regular basis?
2. Shelter:
  - a. What percentage of rural families own land (clear uncontested title) sufficient to support their needs?
  - b. What percentage of the urban population is living in shanty towns or temporary shelters (slums) around urban centers with no legal rights (as either owners or tenants)?
3. Physical security:
  - a. What is the likelihood of being victim of a violent crime (including domestic violence) or loss of property?
  - b. How safe do people consider their community and district to be?
    - i. Consider here perceived effectiveness of police and military
  - c. How threatened do people feel by criminal (including government corruption) and VEO activity in their community?
4. Is there any evidence that any of the above factors have
  - a. displaced a significant number of families or forced them to migrate internally,
  - b. been responsible for an increase in the number of individuals involved in illegal activities (growing poppy, smuggling, theft), or
  - c. made individuals vulnerable to recruitment by VEOs or criminal organizations?