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The Round Table
The Commonwealth Journal of International Affairs

ISSN: (Print) (Online) Journal homepage: https://www.tandfonline.com/loi/ctrt20

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To cite this article: Ilhan Niaz (2021) Pakistan's search for a successful model of national political economy, The Round Table, 110:2, 232-249, DOI: 10.1080/00358533.2021.1904590

To link to this article: https://doi.org/10.1080/00358533.2021.1904590

Published online: 30 Apr 2021.

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THE ROUND TABLE
2021, VOL. 110, NO. 2, 232–249
https://doi.org/10.1080/00358533.2021.1904590

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Pakistan's search for a successful model of national political economy

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ABSTRACT
This article examines Pakistan's search for a model of political economy capable of meeting the national objectives of industrialisation and accumulation of sufficient military power to deter India. It contends that the period of promise (1950s and 1960s) was made possible through heavy subsidies drawn from East Pakistan and the West. The resultant hubris blinded Pakistan's rulers to growing discontent in the eastern wing of the country while encouraging them to take serious strategic risks against India. The unravelling of this strategy plunged Pakistan into a permanent crisis of its national political economy characterised by underdevelopment, internal and external fiscal imbalances, and a failure to mobilise national resources on a scale commensurate with its national goals. Experiments with socialism (1970s) and neo-classical economics-inspired structural adjustments (since the 1980s) have failed to deliver the desired outcomes and, in fact, entrenched Pakistan's crisis of political economy.

KEYWORDS
Pakistan; political economy; International Monetary Fund; taxation; defence; industrialisation

Introduction

Pakistanis born after 1980 have been conditioned to accept the hegemony of the neo-classical narrative about their country's troubled economy. This narrative has consistently contended that Pakistan is bedevilled by deficits on the external and internal fronts. This means that Pakistan does not earn enough foreign exchange to pay for its imports and external debt while also failing to raise enough revenues internally to pay for the running of the government. The way out of these twin deficits is to cut expenses, let the currency weaken, eliminate subsidies, allow market forces to determine prices, and improve tax collection. Once the deficits are addressed through a combination of austerity, taxation, and price corrections, Pakistan, its people are assured, will achieve sustainable economic growth built on the solid foundations of macroeconomic stability. Fifteen IMF programmes since 1980 later, what has happened is that each cycle of adjustment has stalled economic development, reduced employment opportunities, made external debt more expensive, left the balance of trade in the red, encouraged the expansion of the informal sector, led governments to pursue steroidal policies to produce short-lived growth spurts, and brought Pakistan back to the IMF when growth collapses and the self-defeating contradictions of this approach assert themselves. The capture of

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the political space around economic issues by neo-classical discourse is so complete that Pakistan's military, the left-leaning Pakistan Peoples' Party (PPP), the centrist Pakistan Muslim League-Nawaz (PML-N), and the reform-minded Pakistan Tehreek-i-Insaf (PTI), are all on the same page. Pakistan's current premier (Imran Khan, PTI) has often compared the state budget to a household budget and has practically reconstituted the economic team from the military regime of General Musharraf (1999–2008), which gave Pakistan a short-lived boom (2002–7) followed by the longest bust (2008–2016) in the country's history. A key appointment, which is that of a serving IMF official as the governor of the State Bank of Pakistan (SBP), reinforces the lack of alternate perspectives.

The central pillar of the Musharraf regime's reform agenda was improving tax collection while cutting external deficits. The regime failed on both counts as it saw tax collection fall from about 13% of GDP to 10% of GDP, while liberalisation of the import regime caused imports to rise much faster than exports. The present government's agenda is identical in content and nearly the same in terms of those charged with delivering results. In its first year in office, the PTI government has gone to the IMF, introduced harsh austerity measures (such as slashing the recurring budgets of public sector universities), and squeezed the salaried classes as well as the poor by withdrawing subsidies and raising prices. Inflation has shot up, the currency has depreciated, unemployment has grown, and economic growth, at barely 2.5% (pre-COVID19), is level with population growth with little prospect of a return to higher rates within the government's tenure. The current account deficit has been brought down by the collapse of domestic demand, while foreign exchange reserves have improved by SBP policies encouraging 'hot money' to get into the country's capital market by offering high returns on government borrowing.

All indications are that not only will the current round of adjustments and reforms fail to deliver their declared objectives, but that they will also, like previous rounds, leave Pakistan relatively worse off than before. While the cycles of Pakistani economic history conform to steroidal booms in which deficits outrun growth, followed by periods of stabilisation in which deficits and growth both fall moderately, it is useful to examine the origins of these persistent deficits with a view to explaining why so many reform attempts have failed.

Imperial political economy up to 1947

In early and medieval South Asia the importance of taxation and financial administration was clearly understood. Kautilya's *Arthasastra* (c. 300 BC) provides an enormous amount of detail about how a sound financial system can be organised. The objective of the state, in the classical Indian tradition, is to increase its own power and this is accomplished through effective revenue generation. Land revenue, customs, internal duties, and special levies are all part of the regular taxation machinery employed by a ruler. In addition to these regular measures, confiscation of wealth and the creation of state monopolies in key sectors could also be employed. Many modern practices, such as having a budget projection, checking accounts, economic intelligence, and effective record-keeping, are explained by the Kautilya, the Mauryan statesman and philosopher, in Rangarajan's (1992) edition of the *Arthashastra* (c. 300 BC).

For the period of Muslim rule in South Asia, there is ample historical evidence of the taxation machinery being used. Under the Sultanate of Delhi (1206–1526), and during the Timurid (Mughal) Empire's classical period (1526–1707) an elaborate and effective taxation system endured over large parts of South Asia. The Timurids, in particular, excelled at the collection of revenue from land and other sources. These revenues were divided into two broad categories. The royal revenues were collected directly by the emperor from lands under his administration while the service nobility (*mansabdar*s) collected taxes from their land revenue assignments (*jagir*s) for the purpose of maintaining military forces and undertaking civil administrative duties. Revenues from land accounted for about two-thirds of the total, while all other sources, including taxes on trade, contributed the remainder. The revenues were used to pay for the military, which accounted for three-fourths of state expenditure, and to maintain the lifestyle of the ruling elite. The percentage of GDP collected as tax was more than one-fifth, a very large amount for a pre-industrial state, and significantly higher than what India and Pakistan collect. These revenues were extracted from a stagnant economic base that saw very little organisational or technological change under the Timurids.

Under Akbar (r. 1556–1605), revenues stood at 130 million rupees a year, rising to 200 million rupees under Shahjahan (r. 1628–1658), and peaking under Aurungzeb (r. 1658–1707) at 380 million rupees. 'The bulk of the realised revenue – estimated at something between a third and a half of gross national product' ended up in the hands of 'the emperor and the *mansabdars*' (Raychaudhary & Habib, 1982, p. 172). For all its cosmopolitanism, the ruling elite during this period invested little in productive enterprises or any kind of innovation. Aware of the printing press, ocean navigation, and advances in gunpowder weapons from extensive contacts with European traders, the Timurids made no effort to harness these developments for the benefit of their empire. Health, education, and public infrastructure (except for that required by the military or the ruling elite) were almost entirely neglected. Meanwhile, '. . . the Hindu Rajas, who had more long-term interests in the economic welfare of their territories do not appear to have shown any awareness of the fact' (Raychaudhry & Habib, pp. 173–4).

The political economy of the major empires of the pre-British period appears to have been characterised by relatively heavy formal and informal taxation accompanied by heavy expenditures on the military and elite consumption. When the state was effective, it enforced its claims and took the lion's share for itself, and, when it weakened or fragmented, intermediaries, freebooters, and local warlords appropriated a greater share for themselves amidst conditions of intense violence and instability. The tax burden thus shifted from a pattern of heavy but somewhat organised extraction by a strong imperial elite capable of providing at least some public goods (law and order, protection from invasion), to even heavier exaction by warring local elites and invaders who failed to maintain order or defend the frontiers. In both conditions, taxpayers had little good to expect from the rulers, though, at least in the case of effective regimes, some collateral benefits arising from internal peace could materialise.

The British Raj (1757–1947) succeeded the Mughals and others as the paramount power in South Asia. In the first 30 years of British imperialism in South Asia, there was little difference between them and other invaders. The conquest of Bengal in 1757 followed by its catastrophic mismanagement over the next 15 years set the stage for parliamentary regulation of the East India Company. As a consequence, from the mid-

1770s, the British began to develop a kind of political economy that was in some ways different from earlier empires. One important difference was that rather enforcing the universal proprietorship of the regime in the mould of earlier empires, the British effectively co-opted landed elites and the indigenous mercantile classes. This was achieved through a variety of land revenue settlements (some of which worked better than others) that vested ownership of land in individual landlords or farmers, and by making it possible for money-lenders to secure effective enforcement of the terms and conditions of their loans. While doing so, South Asia's overall trade and investment environment was subordinated to the needs of Britain's industrial and mercantile interests. The result was a sustained *horizontal* expansion of Indian demography and economy accompanied by appropriation of trade surpluses and leverage from debt/loans and an acute lack of investment in local industrial development:

> British India was predominantly a rural society based on agriculture and handicraft industry. Its GDP per capita was around 550 USD (in 2012 dollars), similar to poor countries such as Burundi, Central African Republic, Niger and Togo today. Throughout the period studied here, agricultural expansion was the mainstay of economic growth. The colonial regime played a role in enhancing the productive power of agriculture by means of the railways and investments in large irrigation schemes. Industrial expansion suffered from European manufactures flooding the market. As a result, most economic historians regard the period as an episode of 'de-industrialisation'. The share of agriculture in total employment rose from 72.4% to 74.5%. In small-scale industries that used no machinery like handloom weaving and leather manufacture employment fell from 13.4% to 11.3% of the workforce. In large-scale industries like cotton, jute, iron and steel employment increased from 0.2% to 1.2%. (Bergeron, 2014, p. 13)

The two most important examples of British investment in India, the irrigation network and the railways, underscore this point. In the context of irrigation and access to hydraulic infrastructure, the purpose was to maintain an increasing population without adding significantly to its ability to consume while also ensuring that it could contribute resources, revenue, and manpower, to the imperial regime. Punjab received much of the investment in canals and irrigation after 1849. 'The first task of colonial power was to stabilise the society for restoring law and order. The second task was to reform land institutions and revenue system in such a way that, in addition to the procurement of necessary funds required for administration, "friends among the enemy" would increase. The third task was to increase production for which the demand had been increasing outside the country' (Hirashima, 1978, p. 12). Regarding the railways, the manufacturing of carriages and engineering components was kept with British firms for both public and private railway lines while the British Raj provided easy credit for the latter. Thus, Indian tax money and credit were to be spent on subsidising private enterprise in 'free-trade' Britain:

> The rapid expansion in railway construction provided substantial benefits to the City of London, too, since every journey by ship required insurance, given that losses through sinking were an ever-present risk. The overall effect on Britain's economy was significant enough to reverse its balance-of-payments deficits, initially through supply of railway equipment and then through the enhanced opportunities for carrying imports from Britain further into the Indian hinterland that the railways afforded. (Wolmar, 2017, p. 65)

The other component of the British imperial political economy in South Asia was the operation of a permanent austerity regime. The state's revenue demand and its expenditures were rationalised, made accountable to the British Parliament, and emphasised leaving development in India to the gradual operation of market forces and social movements. The result was a state that took about 10% of GDP as taxes, spent about two-thirds of that amount on defence, interest, and administration, and the rest on public infrastructure (especially canals and railways), with minute allocations to health and education (Kumar, 1984). While no one could accuse the British of running a developmental dictatorship in South Asia, the nature and composition of revenues evolved steadily in favour of receipts from heads other than land. In the 1860s, land revenue accounted for over 60% of the taxes collected, but by 1946–7, this had fallen to about 6–7%. Customs duties and income tax, in particular, had emerged as the largest sources of central revenue by the 1930s (Joint Committee on Indian Constitutional Reform, 1934).

Another important aspect was that the provinces and local governments collected more than 40% of the total revenues from heads under their control, with the centre collecting about 55% (Joint Committee on Indian Constitutional Reform, 1934). The British Raj ran an imperial political economy that was predictable, low-taxing, low-investment, and geared towards austerity. Exploitation of India's resources, labour, and trade, as well as starving the country of industrial investment, went hand-in-hand with institutional development and the inculcation of a system of property rights. Compared to other European colonies or zones of imperial contestation (like China), South Asia was prosperous and stable. This meant that the leaders of India and Pakistan had good reason to hope that once freed from the overt control of Britain they would be able to make rapid progress towards industrialisation.

Pakistan's transition to a national political economy

At independence, Pakistan faced challenges that strained its resources almost to breaking point. Between August 1947 and January 1955, Pakistan dealt with an influx of 7 million Muslim refugees (largely poor farmers), the outflow of 6 million non-Muslims (practically the entire business, manufacturing, and trading elite), war with India over Kashmir, and had to rebuild its central state apparatus from its inadequate share of pre-independence assets (financial and military components of which were delayed or denied by India) (Government of Pakistan, Cabinet Secretariat, 1949a, 1949b). These challenges were exacerbated by a lack of foreign funding, the indifference of the United States, and the latent hostility of the Soviet Union. In view of the situation, Pakistan's founders set the national political economy along the path they thought would best enable the new state to survive. This transition entailed modification of policies inherited from the British Raj in many key areas, with elements of continuity in others.

The most important modification pertained to the defence burden. National security became the overriding priority and received 60–70% of the fiscal resources between 1947 and 1958. Another significant modification was the centralisation of revenue collection so that about 90% of the taxes became federal (Government of Pakistan, 1947). Provinces would receive funding from the centre from a divisible pool and no longer raise substantial revenues on their own. Then, industrial development was

deemed critically important to the future of Pakistan and this was to be achieved through incentives to the private sector, reallocation of evacuee property, and, where needed, direct state intervention (Government of Pakistan, 1949a, 1949b). Pakistan, therefore, moved quickly to set up the machinery of central planning and regulation that was meant to oversee the industrial transformation. The trouble was that Pakistan did not have the resources to pursue all these objectives simultaneously. This led to a deliberate search for an alliance with the United States and a use of surpluses earned by East Bengal (East Pakistan after 1955) to pay for economic development. Once external assistance became available in 1955, thanks in part to the Pakistan–US alliance, more resources could be devoted to development. The easy availability of external funds and rule by military dictators appear to coincide with all three of Pakistan's economic growth spurts (1960–69, 1980–89, and 2002–2007). On the other hand, the civilian rule has coincided with difficult access to external funds and low rates of economic growth (1948–53, 1972–77, 1989–1999, 2008-present) (World Bank, 2021a).

Pakistan's national political economy was from Day 1 set objectives beyond its means and became dependent on warped incentives. Defence spending became unquestionable, opaque, and devoid of civilian oversight. This was something done by Pakistan's civilian and military leaders *together* and the occasional noise notwithstanding, there is a functional elite consensus that defence and allied sectors as well as the military's overall economic interests are to be protected regardless of the broader situation. The other part of this bargain was (and is) that Pakistan's elite (and the wealthier segments of society) would not pay taxes commensurate with their wealth leading to a situation where Pakistan has had a ratio of tax-to-GDP of between 9% and 11% since 1947. This is about the same as the ratio maintained by the British Raj only that then it was without the heavy defence spending and expansive development promises. At the same time, Pakistan spends 15–24% of its GDP via its federal and provincial budgets leading to a permanent gap between what the state earns and what it spends of 5–11% (Cyan & Martinez-Vasquez, 2015).

Unable or unwilling to invest properly in productivity-boosting sectors like health, population-planning, education, women's empowerment, Pakistan has spent much of its development budget on building physical infrastructure (some of which has proven essential), dispensing patronage, and pet projects, with a significant share of that intercepted by corrupt intermediaries or wasted. Even while Pakistan's experiment with pro-market developmental dictatorship in the 1960s never yielded the results it promised and extracted too high a political cost, the period of democratic socialism that followed (1972–77) gravely diminished the productive potential of the economy while expanding the role of an increasingly corrupt and politicised bureaucracy. It is not a surprise that Pakistan's competitiveness has fallen since the 1970s relative to other developing economies and that, at present, it is running out of countries to fall behind. Pakistan's overall political-economic configuration bears a striking resemblance to the Soviet Union in the Brezhnev era in terms of stagnation, unwillingness to reform, and entrenched military predominance in decision-making, albeit without the high level of human resource development and with the added burden of runaway population growth (still clocking in at 2.4% a year in 2019–2020).

Table 1. Pakistan public development expenditures, 1948–1961 in rupees.

	East Pakistan	West Pakistan	Total
Central Allocation	1.72 billion	4.3 billion	6.02 billion
Provincial Allocation	3.27 billion	4.61 billion	7.88 billion
Total	4.99 billion	8.91 billion	13.90 billion
%	30	70	100

[Approximately 4.80 PKR = 1 USD at then Exchange Rate]
Source: Finance Commission, Government of Pakistan, 1962.

For the first 25 years of Pakistan's existence, the revenue and foreign exchange generating ability of East Bengal/East Pakistan combined with aid inflows from the West (after 1954) made it appear that the country might well manage an industrial take-off. With the federal government collecting about 90% of the revenues after 1948, enjoying sole access to a centralised planning and a development regime aimed at manipulating market incentives to deliver growth, Pakistan did in fact see considerable economic growth. Through the divisible pool the centre would allocate the amounts the provinces could spend. East Pakistan generated about 60% of the total revenues but got far less in return. Some 80% of federal expenditure was in West Pakistan, while on the development front outlay was as shown in Table 1.

In terms of Pakistan's balance of trade, East Pakistan ran up a surplus of Rs. 4.3 billion between 1948 and 1961 while West Pakistan generated a deficit of Rs. 2.55 billion, which left the country with a net positive amount of Rs. 1.74 billion. (Finance Commission, Government of Pakistan, 1962)

In light of these economic indicators, it is not surprising that by the mid-1960s East Pakistanis grew increasingly wary of footing the bill for consumption, development, and militarism, in West Pakistan. The lack of political democracy effectively denied East Pakistan any peaceful method of reworking this one-sided arrangement to its advantage, while the West Pakistani elite, historically unconditioned to any kind of success, got carried away by a few years of good economic growth and access to quality military equipment and blundered into the 1965 war with India. That conflict created an enduring rift with the United States, exposed the un-viability of the notion that the defence of East Pakistan lay in the West, and marked the beginning of the end for the Ayub Khan military regime.

The Six Point programme of Mujib-ur-Rehman, leader of the Awami League, squarely addressed the grievances of East Pakistan and rejected the possibility of continuing to run a national political economy in which one wing paid for the development and security of the other on a permanent basis. The implementation of this programme would have led to Pakistan becoming a loose confederation in which each wing would have to manage its own trade, currency, foreign exchange, banking system, and pay for its own defence. This was completely unacceptable to the West Pakistani elite, which had brazenly declared the 1965 War a great victory, failed to reformulate its defence strategy, and tried to continue as if all was well by celebrating a 'Decade of Development'.

The insensitivity to the situation in East Pakistan ran all the way to the top. Ayub Khan, on 1 September 1967, wrote in his journal:

> M. M. Ahmed, deputy chairman Planning Commission, came to see me. He discussed several things *inter alia* the rate of development in East Pakistan. He said that despite giving greater resources to East Pakistan, the disparity between the two provinces was increasing. And this had happened since they got greater autonomy. The trouble is that they waste money on buildings and prestigious things instead of spending it on agriculture . . . This is

> not the fault of the governor. In any case, he does not understand economics and developmental problems much. He is served by young Bengalis who are not reckoned for their sense of realism. However, the next time I go to East Pakistan I am going to tell them some whole truths. (Ayub Khan, 2007, p. 143)

The wishful thinking that prevailed in the Ayub regime set the stage for popular revolts in both wings of the country, with the leftist Pakistan Peoples' Party (PPP) gaining momentum in West Pakistan and the Awami League winning over popular opinion in East Pakistan. An essential reason for the success of these movements was the perceived emergence of crony capitalism in Pakistan whereby a small number of families dominated the economy. This was an eminently plausible point of view given that by 1970, 77% of 'gross fixed assets of all the companies listed on the Karachi Stock Exchange' were held by 44 'monopoly houses' while seven banks held 60% of the total deposits (Wizarat, 2002, p. 12).

It was also a matter of some concern that between 1958 and 1970, 65% 'of the total loans disbursed' by the Pakistan Industrial Credit and Investment Corporation (PICIC) 'went to thirty-seven families' (Wizarat, 2002, p. 13). The tenuous political settlement between the elites of East and West Pakistan broke down over insufficient power sharing resulting in a fragile authoritarianism that for a short while made it seem as if Pakistan could economically blitz its way to wealth and stability. (Mushtaq Khan, 2010) As this arrangement broke down, the crisis that followed consumed the Ayub Khan regime, plunged the country into civil war, and led to the secession of East Pakistan after a brief war with India in November/December 1971. Yahya Khan, Ayub Khan's successor as military ruler, gave way and handed the reins to the PPP, which promised democracy, socialism, and progress.

The 1970s and the onset of permanent fiscal crisis

The first PPP government inherited an unenviable situation from the Yahya Khan military regime. The secession of East Pakistan eliminated the positive trade balance Pakistan had enjoyed. With East Pakistan out of the picture, overall revenue availability declined but the defence burden remained the same. Moreover, relations soured with the West, and the Pakistani government was no longer able to run a central budget surplus. Returning Pakistan to a condition where it would be able to pay for its imports *and* meet its internal expenditure required investment in human resources, export-orientation, and financial and administrative discipline designed to allow productivity to increase. Unfortunately for Pakistan, the PPP, having ridden a wave of left-wing populism to power by promising everyone food, clothing and shelter, had little idea of how to build a welfare state and banish the dual deficits. The economic programme of the PPP called for socialism and this implied a more rigorous and centralised planning process to handle increased public sector investment in industries and services. Such an approach would, presumably, replace the crony capitalist version of industrial development pursued in the 1950s and 1960s.

In reality, the PPP did away with the discipline of the 5-year planning process and relied on arbitrary confiscations of private wealth via the nationalisation of industries and services. This nationalisation was carried out with little thought as to how the enterprises would be managed and led to a flight of capital, the collapse of private

investment, and left the government saddled with assets it had no plan to run profitably. The socialist shock therapy administered to the economy was accompanied by purges and politicisation of the civil administration. This created an ideal environment for corruption and waste on an unprecedented scale as demoralised and increasingly corrupt administrators were put in charge of confiscated wealth. To pick up the tab, the government was forced to devalue the currency and increase spending so that by 1974 Pakistan was collecting about 13% of GDP as taxes and spending 25% of GDP, leaving a deficit of 12% of GDP (Taxation Commission, Government of Pakistan, 1974).

'The large amount of money' being injected into the economy by the government was 'bound to have an inflationary effect' even as the state took on a more direct role in the economy (Pay Commission, Government of Pakistan, 1976, p. 25). The effect was devastating for the poor and difficult for the middle-class, including government employees. So, while British India 'had neither in theory nor in practice accepted the responsibility for housing' government employees on a permanent basis, the Pakistani government had taken up this challenge (Pay Commission, 1976, p. 105).

Furthermore, British India 'never accepted any liability for providing either free or subsidised transport or a subsidy in cash for travel between the place of work and the residence of an employee' (Pay Commission, 1976, p. 115). It was only during wartime emergency, British India 'sanctioned conveyance allowance to subordinate staff in certain big stations if they had to live far away from their offices' (Pay Commission, 1976, p. 115). Thanks in part to inflationary pressures unleashed by the PPP's economic policies, the situation was, by 1976, desperate as 'housing and children's education' as well as transport, becoming 'beyond the means of a Government Servant' (Pay Commission, 1976, p. 118). Unable to pay even its officers a living wage, the Government of Pakistan took to subsidising plots, perks, benefits, special allowances, and other post-specific privileges. In this way, corruption was institutionalised and became easy to justify on the grounds that the state was no longer paying its officials a fair wage. Since the government's ability to manage the provision of subsidies and facilities was compromised by bottlenecks and inefficiencies a permanent rationing regime took hold of the apparatus wherein appointment on key posts through which patronage was distributed became a source of intense intra-bureaucratic competition.

Under these circumstances, it was almost inevitable that productivity would fall as deficits rose. And then confiscatory nationalisation accompanied by subversion of the civil service structure denuded that state machinery of leadership and integrity even as its powers over society were being rapidly increased. It was under these circumstances that Pakistan returned to military rule in July 1977 after the opposition took to the streets and refused to accept the outcome of the March 1977 elections as legitimate. The military regime of General Zia ul Haq (1977–1988) would deliver Pakistan internally into the hands of its resident medievalists while also submitting to the emerging neo-classical consensus in favour of structural adjustment being advocated by the IMF, World Bank, and the mainstream free-market fundamentalism of the economics profession. And in doing so it would fail to address the underlying crisis of productivity. Indeed, between 1980 and 1999, Pakistan labour productivity growth fell from 4.2% a year to 1.8%, and this declined further to just 1.3% for 2000–2015, and has stagnated at 1% a year since

2007 while India's labour productivity growth for 2000–2010, in contrast, stood at four times Pakistan's (Amjad & Awais, 2016).

Pakistan's encounter with free-market fundamentalism, 1980-2000

For the first 30 years of Pakistan's existence, the goal of every government had been to bring about an industrial revolution. In the 1950s and 1960s, this objective was pursued through incentives, regulations, licences, the subsidisation of industrial production through high prices for locally manufactured goods, and direct intervention by the state where necessary. The cartelisation of Pakistan's economy coincided with the emergence of an integrated commercial and industrial elite that operated under state patronage and delivered high GDP growth rates. The availability of foreign aid combined with the economic subsidy from East Pakistan allowed the government to run a temporarily successful centralised national political economy of defence and development that concentrated positive outcomes and investment in the western wing.

The loss of East Pakistan was due in substantial part to the policies pursued by the central government in the 1950s and 1960s, and, in the 1970s, Pakistan also had to make do without large amounts of aid from the West. What this meant was that Pakistan's industrial revolution was in deep trouble since it depended on subsidies that were no longer available after 1971. Rather than taking measures to safeguard the interests of commerce and industry and move towards greater sustainability, the ill-considered nationalisation of Pakistan's wealth-generating sectors in the 1970s derailed the country's industrial transformation and exacerbated the internal and external deficits. Simply put, the legacy of the 1970s was a state that could not raise sufficient revenue, a country that could not earn enough foreign exchange, and a society that could not compete with others in its peer group (and would soon be left behind).

Since 1977, every government has tried to deal with the permanent crisis of Pakistan's national political economy and failed. Resort to over a dozen IMF programmes, extensive borrowing from the World Bank and the Asian Development Bank, and periods of easy access to Western aid (1981–89, 2001–2010), have allowed for periods of high economic growth rates (1981–89, 2002–2007), but these have been followed by a return to the ICU. The underlying cause of this failure appears to be more a matter of market fundamentalist epistemology and ideology combined with the historic reluctance of Pakistan's leaders to either think rationally for themselves or permit those who have this capacity to guide policy.

At the heart of the born-again free-market ideology represented by neoclassical economists is the belief that markets are inherently more efficient at allocating resources and rewards than any other mechanism of exchange. This view is one that few historians can take seriously because in the actual working of an economy complexity, friction, and the influence of deep structures (like mentality, demographics, political culture, etc.) will always influence economic decision-making. This means that while markets might indeed be more efficient at doing some things, social movements, states, communities, and informal networks, might well be better at providing other goods and services. At best, the works of Adam Smith, David Ricardo, J. S. Mills, Karl Marx, J. M. Keynes, Milton Friedman, and many other

philosophers of economics can be understood as Platonic attempts to arrive at definitions that can then be employed to better understand reality in terms of deviation from an ideal. But this not what either neo-classical or Marxist ideologues had in mind, for both these extremes of economic thought see themselves as 'scientific', and (unlike actual science or rational thought), ultimately infallible. Neo-classical economists, like hardcore Marxists, genuinely came to believe that their *model was reality* and that *reality was a deviation from their model* that needed to be corrected through adjustments.

Pakistan, desperate for foreign exchange, its productivity in crisis, and its national political economy unstable since 1971, after a disastrous experiment with Marxism, found itself swing to the extreme right. The Zia military regime, which seized power from the PPP in July 1977, embarked upon a policy of Islamisation that empowered traditionalist clerics within Pakistan while beginning to embrace the free-market orthodoxy increasingly in vogue in the West after 1979. In the West, this orthodoxy steadily undermined the scope of democracy and political action, while empowering monied interests, by conflating the private power that flows from economic wealth with the public power of popular representation:

> What the market does is to reduce greatly the range of issues that must be decided through political means, and thereby to minimise the extent to which government need participate directly in the game. The characteristic feature of action through political channels is that it tends to require or enforce substantial conformity. The great advantage of the market, on the other hand, is that it permits wide diversity. It is, in political terms, a system of proportional representation. Each man can vote, as it were, for the colour of tie he wants and get it; he does not have to see what colour the majority wants and then, if he is in the minority, submit (Friedman, 1982).

This argument was (and is) that Pakistan's state needed to rollback its overt interventions in the markets, privatise, deregulate, open up to foreign trade and investment, lower tariffs, and in so doing create an enabling environment for the private sector. The Zia regime did, in fact, move swiftly to reverse the nationalisation of agro-based industries in September 1977, and followed this initial wave with gradual privatisation between 1978 and 1983, while controls on industry were relaxed by cutting the specified list from 'fourteen in 1984 to seven in 1989′ (Wizarat, 2002, p. 15). This said, the government in the 1980s enjoyed a better fiscal position due to the resumption of Western aid on account of the Soviet occupation of Afghanistan and Pakistan's role as a frontline state. This limited the Zia regime's willingness to act on prescriptions being advanced by members of the civil service elite reference wholesale reform of the state machinery. The refusal to enact meaningful reform of the state was accompanied by the policy of Islamisation, the raising of legions of holy warriors to fight the Soviets, and the warping of Pakistan's social fabric by drugs and small arm proliferation. That this combination of state inertia on reform and aggressive pursuit of medievalism coincided with high GDP growth rates (6% a year, 1981–89) proved that Pakistan could simultaneously grow its GDP without addressing underlying problems of productivity, competitiveness, or modernisation.

The Soviet withdrawal from Afghanistan led to the rapid collapse of the Pakistan-US entente and the onset of nuclear-related sanctions. The immediate objective of defeating the Soviet Union achieved, the US moved to obstruct Pakistan's pursuit of a nuclear deterrent. This meant that Pakistan had to face international isolation and reaped no

lasting benefit from its frontline status. Pakistan was not about to dismantle its nuclear weapon programme and its leadership opted to continue to intervene in Afghanistan, which rapidly descended into chaos. Having failed to take advantage of the 1980s to reform, Pakistan was left to grapple with the dark legacy of Islamisation and the socio-economic fallout of the anti-Soviet struggle in Afghanistan. Finding it impossible to manage its deficits without repeated recourse to the IMF, Pakistan was locked in a vicious downward spiral of structural adjustment. These adjustment policies encompassed liberalisation of the trade regime, removing restrictions on capital flows, accelerating privatisation, withdrawing subsidies on consumption, and shifting the burden of taxes from tariffs to sales tax. Successive Pakistani governments, desperate for IMF cash, did as they were told.

On tariffs, the maximum rate was cut from 225% in 1986/7 to 90% in 1993/4 and it stood at 35% by 1998/9 while the negative list of items was reduced from 214 to 68 between 1989 and 1999 (Zubair Khan, 2001). Rich countries, however, effectively choked off the possibility of higher textile imports from Pakistan through non-tariff barriers, anti-dumping policies, withdrawal of special quotas, and by imposing demands for certification. Having de-linked the rupee from the US dollar in 1982, Pakistan, in July 1994, adopted 'current account convertibility', liberalised foreign exchange regulations, and lifted all 'restrictions on repatriation of profits and capital associated with foreign direct investment' (Zubair Khan, 2001, p. 26). Pakistan had, by 2000, privatised 97 of 150 state-owned enterprises and moved decisively to dismantle its customs regime while shifting the burden of taxation to an even greater degree to poor consumers via the General Sales Tax (GST) regime in the 1990s.

As a result of these policies, one could expect Pakistan's trade to improve and overall competitiveness to increase. The trouble was that the source of Pakistan's lack of productivity and competitive edge lay not in its trade policies but in its dysfunctional governance, strategic overstretch, and socio-political discord – problems beyond the scope of neo-classical circular reasoning. One such problem is that over two million people in Pakistan are practically slaves (bonded labour) and that such forms of labour are integral to several sectors of the Pakistani economy, including brick manufacturing, mining, fishing, and some forms of domestic work. Such labour is brought into bondage through indebtedness to owners of capital, the existence of laws and a Supreme Court of Pakistan verdict notwithstanding (Qureshi & Khan, 2016). Consequently, the adoption of these policies made Pakistan worse off by nearly any metric. Absolute poverty, measured by caloric intake, after falling from 46.5% in 1969 to 17.3% in 1988, rose to 22.3% by 1993. (Zubair Khan, 2001) Pakistan's Gini Coefficient shot up from .355 in 1985 to .400 in 1993 while the Theil Coefficient rose from 0.23 to 0.27 during the same period (Wizarat, 2002). Exports stagnated at 13.5% of GDP while investment fell from 20% of GDP in 1992/3 to 15% of GDP by 1998/9 (Zubair Khan, 2001).

While Pakistan's trade stagnated, investment fell, poverty rose, and inequality tracked sharply upwards, the total external debt liability ballooned from approximately US 20 USD billion in 1990 to US 38.90 USD billion by 1999, with annual liabilities of 5 USD billion (Government of Pakistan, 2007). Fiscal deficits remained stubbornly high at 6–7% of GDP throughout the 1990s and tax collection remained inadequate pushing Pakistan into a debt trap. By 1999, Pakistan was practically bankrupt with a third of its foreign exchange reserves committed to servicing external debt, and a third of total government expenditure (241% of the development expenditure) going to paying interest

on debts. This imbalance in Pakistan's debt profile arose in part from 'the adoption of a market based monetary policy arising from a WB-IMF conditionality', which caused domestic borrowing to become more expensive and encouraged loans 'from the international agencies at concessional rates' (Wizarat, 2002, p. 28).

The only way for Pakistan to attract foreign investment was through extraordinary concessions, such as those made to Independent Power Producers (IPPs) in the mid-1990s. These capitulations saddled the economy with debts and inefficiencies that further eroded Pakistan's competitiveness, productivity and solvency through the extension of sovereign guarantees to the power producers. It also encouraged growth in the informal as opposed to the formal sectors leading to the de-formalisation of the economy after 1980. In true ideological fashion, the failure of each IMF programme would be attributed to the non-seriousness of Pakistani partners and their penchant for allowing some politically important subsidies to continue. The structure of Pakistan's political economy, its historical experience, or the needs and aspirations of its people were of little interest to the globalist apparatchiks and their local collaborators. The only prescription on offer was to increase the dosage of market-based solutions and decentralisation. That dosage would be upped considerably after Pakistan's military overthrew the elected government in a bloodless coup on 12 October 1999. The new military strongman, General Pervez Musharraf, was determined to modernise Pakistan and rapidly surrounded himself with market fundamentalists with solid globalist credentials.

Pakistan's political economy since 2000

Barring a period of 5 years (2002–2007), Pakistan's economic trajectory since 2000 has remained one of the relative decline. Each government entered into an IMF programme, depended heavily on the World Bank and Asian Development Bank, pushed the economy further towards liberalisation, and ended up with less manageable deficits than before. The Musharraf regime (1999–2008) was able to deliver better growth due to the windfalls that came its way owing to re-enlistment as a US ally and frontline state in the War on Terror after 2001. The enlistment bonus Pakistan received plus resumption of aid, rescheduling of debts, and lifting of nuclear programme-related sanctions netted a 25 USD billion fiscal space. The Musharraf regime was able to liberalise the financial and telecommunications sectors, further relaxed trade restrictions, and presided over a doubling of Pakistani exports accompanied by a quadrupling of Pakistan's imports. Musharraf declared he had:

> found a most capable governor of the State Bank in Dr Ishrat Husain. He came from the World Bank and turned out to be the best governor we have ever had. The country was also lucky to get the services of the entrepreneur Razzak Dawood as commerce minister. He rationalised our trade regime to a large extent. I appointed Tariq Ikram, the regional director of Reckit and Coleman, as head of the Export Promotion Bureau, while leading the economic team was former Citigroup banker Shaukat Aziz, who was brought in as finance minister and later elevated to prime minister (Musharraf, 2008, p. 145).

To this one might add Abdul Hafeez Sheikh, who was Minister for Privatisation and Investment from 2003 to 2006 and served as the head of the finance ministry in the PTI government till the end of March 2021. (Hafeez Sheikh was fired a few weeks ago.)

Once foreign funding was secure, the Musharraf regime, like Zia 20 years earlier, was able to ride a wave of favourable economic news. It renamed the Central Board of Revenue (CBR) as the Federal Board of Revenue (FBR) and ramped up a collection of Withholding Taxes (WHT) which operated just like indirect taxes but were counted as direct taxes. Reflecting on the early days of the regime, Shaukat Aziz, Pakistan's finance minister after Musharraf's coup, testifies to the lack of interest in anything he had to say on part of the IMF:

> I soon learned there was no room for any major changes because we were living under the invisible hand of the IMF. When I had my first review with the IMF team as finance minister in 2000, I came ready with suggestions about how we could improve Pakistan's situation. However, it became clear there was no room for input or discussion. The representatives from Washington had a narrow mandate, with little autonomy to alter the programme's terms. They said: 'These are our instructions, this what management wants – there is nothing we can do to change it . . . ' The net effect of the IMF's handling of Pakistan made it hard for the country to turn its situation around and return to a healthy economy. The fundamental issues that caused the crisis remained (Aziz & Mikhailova, 2016, pp. 150-1).

Without the post-2001 windfall, Pakistan would not have experienced a brief period of GDP growth (2002–2007) and would have remained permanently 'Straight-jacketed' by the IMF. But even with those restrictions eased, Musharraf's economic team did not seem to have any ideas of their own. Instead, they focused on getting Free Trade Agreements and implemented a wide range of trade liberalisation measures that saw the share of trade to GDP rise from 25.7% in 2001 to 30.4% in 2007 (Baig, 2009). The problem was that while the share of imports rose sharply from 11 to nearly 20% of GDP, reaching US$ 42 billion by 2008, exports were only about US 20 USD billion (Baig, 2009). Pakistan thus went from having a trade balance of negative 900 million US$ in 2000 to a negative 22 billion US$ balance in 2008.

By 2007, rising energy prices, intensifying electricity shortages, and a bloody Pakistani Taliban insurgency, derailed this brief consumption-fuelled turnaround. By 2016 the cumulative economic losses inflicted by the Taliban insurgency on Pakistan were about US 120 USD billion (State Bank of Pakistan, 2016). The shaky elected governments that succeeded Musharraf 2008-present had to turn to the IMF and locked Pakistani ever more firmly into a near-permanent austerity regime aimed at managing the current account deficit and improving tax collection. To their credit, the elected governments of the PPP (2008–13) and PML-N (2013–18) did manage to defeat the local Taliban and the latter was especially successful in improving Pakistan's electricity generation capacity by bringing in Chinese investment.

Neither, however, managed to address underlying problems of competitiveness or productivity and left behind critical fiscal imbalances. At the time of writing, Pakistan is deep into yet another IMF structural adjustment programme with much of General Musharraf economic team (responsible for the worsening of Pakistan's predicament between 2000 and 2008) back in key positions in the PTI government (2018-Present) and with the State Bank of Pakistan placed under an IMF officer. What is intriguing about Pakistan's economic underperformance is that it has occurred alongside a steady reduction in the proportionate share of defence expenditure since the 1980s. From peaking at 7% of GDP in 1987, Pakistan's defence expenditure fell to 4% of GDP in 2000 and has, since then, hovered in the range of 3–4% of GDP (World Bank, 2021b).

With slow growth, a rapidly increasing population, and permanent crisis in terms of ability to earn foreign exchange and collect taxes, it seems that Wizarat's analysis from 2001 about Pakistan and the applicability of the term 'developing country' to describe it have been validated:

> ... while Pakistan is disbanding its 'industrial economy' status, it does not seem to be acquiring the 'new economy' status either. In view of this, the wedge between Pakistan and the developed countries will widen further in the future. Pakistan and other countries similarly placed, will become poorer and more under-developed compared with the developed countries. The analysis indicates what a misnomer the term 'developing countries 'is. For it is the developed countries that are actually developing, while in Pakistan, euphemistically referred to as a developing country, it actually is an under-developing country (Wizarat, 2002, p. xviii).

Two decades later, one is constrained to admit that the term developing country is not an appropriate label for Pakistan and that it ought to be replaced by the harsh though the accurate term of under-developed country. At the core of this status as an under-developed country lie fundamental imbalances and failures in Pakistan's attempt at transitioning from an imperial political economy of stability and gradualism to a national political economy of development and industrialisation. The official economic survey (2018–2019) from the Government of Pakistan further indicates that Pakistan is locked in a path to stagnation and relative (in some cases absolute) decline, with industrial growth averaging 1.40%, agriculture growing by 0.85%, and services at 4.71% in 2018–19, exports contracting by 1.9% and imports falling by 4.9% (Government of Pakistan, 2019).

Conclusion

Pakistan gained independence from British rule in 1947 and made a promising start in terms of reorienting its economy and society towards achieving industrialisation. In the 1950s and 1960s, Pakistan's industrial productivity grew and the country came to be seen as a potential breakthrough story. That period in Pakistan's history is still reflected upon with nostalgia by many in the ruling elite and some associated with that period have continued to advise governments to the present day. Unfortunately for those emotionally invested in romantic notions of a Pakistan that was on the path of material progress, the gains in industrial concentration and output were achieved alongside high levels of defence spending through dual subsidisation. One aspect of this subsidisation was that West Pakistan did the modernising while East Pakistan paid the bills, and the other aspect was that the United States and its allies gave or lent Pakistan money, provided advice, political clout, and armed it (to fight communism). Whether access to such subsidisation could have been sustained for longer is open to question, but it is clear that the ruling circles in West Pakistan, which dominated decision-making since April 1953, had political and strategic goals that complicated matters.

Politically, there was a broad unwillingness to share power with East Pakistani leaders on fair terms that would concede the representative leadership in exchange for the economic subsidisation of West Pakistan. Different formulas and constitutional experiments by a governing corporation of largely West Pakistani civil servants and military officers alienated East Pakistan and pushed its leaders and people towards separatism.

While East Pakistanis were being made to pay for development in West Pakistan, the Pakistani government was interested in pursuing major foreign policy objectives against India. This contributed to the 1965 India–Pakistan war and marked the beginning of Pakistan's alienation from the United States, which was also facing its own problems on account of the Vietnam War. Between the alienation of East Pakistan and the alienation of the United States, Pakistan's leaders set the stage for evaporation of both sources of subsidisation. By 1972, Pakistan had lost both its eastern wing and the active military and economic support of the United States.

The challenges faced by the Pakistan government in 1972 were enormous. The goal remained to achieve industrialisation but the method switched dramatically to confiscatory nationalisation accompanied by purges and politicisation of the state machinery. The effect was that the country's industrial development was derailed, the gap between revenues and expenditures went above 10% of GDP, and the external balance (which had been positive due to East Pakistan's exports) turned negative. By the time the military intervened in 1977, Pakistan had ceased to be a developing country and the relative distance between it and other countries in its peer group started to grow to Pakistan's disadvantage. Indeed, countries that were significantly worse off than Pakistan started overtaking it after 1980.

Pakistan's return to military rule did not bring about a shift in favour of modernisation. Instead, while pandering to the emerging free-market fundamentalism abroad, the Zia regime aggressively promoted religious fundamentalism within Pakistan in order to gain legitimacy. This dovetailed neatly into the broader US-Soviet struggle on account of the latter's invasion of Afghanistan in December 1979. By 1981, western military and economic assistance was set to resume and, with it, internal proposals for meaningful reform lost regime support. That Pakistan's economy grew by a healthy rate of 6% a year between 1981 and 1988 temporarily masked deep structural failures of administration, provision of services, and planning. As soon as the Soviets were out of Afghanistan, the US ended its entente, put Pakistan back under sanctions, and refused to play any constructive role in coping with the fallout of that conflict. Pakistan, for its part, was locked into a predictable cycle of structural adjustment in which foreign exchange strapped governments went to the IMF for bailouts and received financial support in exchange for coercive liberalisation of the economy.

Each round of liberalisation left underlying problems unaddressed while making Pakistan more vulnerable to external shocks and competition. Exports stagnated, investment tanked, poverty and hunger grew, inequality rose, tax collection went nowhere in proportionate terms, and the country effectively de-industrialised. All these factors made productive spending more difficult owing to intractable defence and debt burdens. The Musharraf regime did have a chance to rewrite some of the rules in Pakistan's favour after 2001, when strategic necessity generated a favourable compensation package from the United States and its allies. But so entrenched was the hegemony of neo-classicism amongst Musharraf's economic team that they did of their own volition what previous governments had done under duress and left Pakistan with a US 20 USD billion trade deficit and no way to sustainably pay for it.

Pakistan's experience since 1947 is demonstrative of how borrowed ideas and borrowed money are damaging to efforts to industrialise and develop. It is also indicative of the fact that if domestic mobilisation of resources remains persistently inadequate then

a positive development trajectory cannot be sustained for very long (Ahmed, 2017). And finally, it shows that if Pakistan is to succeed in finding a model of national political economy that works for its people and delivers results that are globally, or, at least, regionally, competitive, it will need to think about development in epistemological, historic and administrative terms, and not just in the context of off-the-shelf neo-classical or Marxist economic models.

Disclosure statement

No potential conflict of interest was reported by the authors.

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