MY LIFE AND MY COUNTRY

Memoirs of a Pakistani Economist

Parvez Hasan

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Introduction

This is a story of a journey that started three-quarters of century ago in British India in the 1930s, when English rule was supreme, Indian independence was not on the horizon, Pakistan was not even a dream; the worldwide depression, low commodity prices, and the scarcity of jobs made life and future prospects for most Indians–especially Muslims, who had been left behind in education and skills–difficult and uncertain.

It is the story of an individual who is old enough to remember the first real stirrings of the Pakistan movement in the early-1940s, the unbelievable speed of the political transfer of power by the British in 1947, the creation of Pakistan against very heavy odds, the violence and upheaval of the partition of the Indian subcontinent, and the social, attitudinal, and economic changes that were triggered by independence and the massive ethnic transfers across the borders of India and Pakistan.

It is a personal memoir, but is deeply intertwined with the history of Pakistan, the sense of confidence of the first generation of Pakistanis who, like me, completed their education after the British left, and got their first jobs in an independent country, and the vast opportunities that opened up for them as the dominant Hindu and Sikh business and professional classes left, creating a great vacuum.

It is a memoir which also recalls a public education system that remained largely intact in the early years, despite a major turnover of students and faculty after partition and produced a large and distinguished number of Pakistanis whose essential education was home-based. I attended Government College Lahore (now University) for six years, from 1946–52. Though at times, style appeared to be given more importance than substance in college life, the overall quality of education was good, thanks to some highly motivated and outstanding teachers and the high quality of the student body. I recall with affection and gratitude my English teachers, Professors Ashfaque Ali Khan, Syed Mohammed Raza, Syed Manzoor Hussain, my Persian teacher, the renowned poet, Sufi Ghulam Mustafa Tabassum, and last but not least, my economics teacher, the eminent educationist, Professor M. Rashid who could have easily discouraged my study of economics and thus blocked the pursuit of a profession that has been a great joy of my life.

It is above all the story of an economist belonging to the first generation of the profession in Pakistan. I became a professional economist totally by chance and with some initial misgivings, but had the good fortune of becoming a central bank economist at of the age of 21, an Economic Adviser to the Saudi Arabian Monetary Agency before I was thirty, and a part of an elite group of Pakistani planners in the heyday of planning under President Ayub Khan in my early thirties.

As a member of the planning establishment in the second half of the 1960s, I witnessed or was involved in some fashion in major happenings of the time; the great resilience shown by the Pakistan economy after the 1965 war, due in part to the effectiveness of economic policies and planning and the rapid spread of the Green Revolution, Ayub's political decline, Yahya's breakup of West Pakistan as one unit, Bhutto's and PPP's rise, the widening divide between East and West Pakistan following Mujibur Rahman's Six Points, and the growing distance between West and East Pakistan economists, which contributed to the separation of East Pakistan in 1971.

My life took an unexpected and unsought turn when, almost out of the blue, I was offered an interesting job at the World Bank in April 1970. Pakistan's political turmoil was then just beginning. The breakup of West Pakistan was dispiriting for me personally, because it essentially removed a large part of the challenge of my job. I, therefore, accepted a three-year assignment at the World Bank. Little did I know that my service at the World Bank would stretch to more than a quarter of a century, indeed till my retirement!

What made my working life at the Bank fascinating was the opportunity to witness and participate in some of the great development stories of our time, the rise of East Asia, the entry of China in the global economy, and the economic turmoil and reforms in Eastern Europe and the former Soviet Union after the collapse of communism. As Chief Economist for the East Asia region for a decade (1974–84), I saw and, in some small way, assisted in what has come to be known as the East Asian Miracle, most notably the rise of Korea, Thailand, Malaysia, and Indonesia. I was also fortunate to be a part of the process of China's entry into the World Bank, as the head of the first and very large economic mission to that country in 1980. I was a witness to the economic backwardness and widespread poverty in China just a few decades ago and, like everyone else, have been amazed at the Chinese economic progress during the last quarter of a century. China's progress has no parallel in economic history because not only has its pace of its economic advancement been so rapid, but also there is no precedent of a large continental economy using export-orientation as the engine of growth.

While it has been exhilarating to be involved with economic success stories, it has been sad to witness economic mismanagement, often combined with inequity in countries like the Philippines, Egypt, Algeria, and the former Soviet Union. But nothing has been quite as painful as observing and analysing Pakistan's many missed economic opportunities and miscues.

Even in my World Bank years, I never lost interest or touch with developments in Pakistan, especially in the economic field. Several opportunities for advising the government during Ziaul Haq's rule made direct involvement with key policy makers possible. Later on, I was fortunate, during the first governments of Benazir Bhutto and Nawaz Sharif, to have direct responsibility for supervising World Bank economic and policy work as Chief Economist for EMENA, the group of countries in which Pakistan was included in 1987.

After retirement from the Bank in the mid-1990s, I have been able to devote most of my intellectual efforts on studying Pakistan's multi-faceted economic problems. Spending two years in writing a history of economic policies and performance, published in May 1998 as a book entitled *Pakistan's Economy on the Crossroads: Past Policies and Present Imperatives*, was a greatly satisfying personal endeavour and helped to deepen my understanding on why economic and social progress has so frequently faltered in our homeland.

I cannot claim that my book had much immediate policy impact because very soon after it was published, India exploded its nuclear device, Pakistan followed suit, sanctions were imposed by Western countries, and Pakistan went into a crisis management mode, as a sharp worsening of the foreign exchange situation and the freezing of foreign currency deposits shook confidence in the economy.

An initiative by Finance Minister Sartaj Aziz under the Nawaz Sharif government to ask me to head a debt reduction and management committee did not pan out, as Sartaj soon moved to the Foreign office. However, a detailed paper on Pakistan's debt problem submitted by me to the October 1999 meeting of the Pakistan Society of Development Economists, soon after he seized power, triggered fresh interest in setting up a high level debt committee under my chairmanship. My work in this capacity during 2000 and 2001 was most rewarding, because it contributed to an overall economic strategy including debt reduction and management and also resulted in the setting up the Debt Policy Office.

The early successes of the government were to lead to over-confidence, over-reliance on privatization sales to foreigners, and serious neglect of large, negative external economic shocks. After 2005, there was a sharp and steady deterioration of the balance of payments. My advice on the matter was sought in 2006, but was totally ignored this time, under what were presumably political compulsions.

Having seen the ups and downs of Pakistan's economy so frequently, I sometimes marvel at the fact that Pakistan has been able to make economic progress, despite its frequent political disorder, high burden of defence, inconsistent economic policies, and deep neglect of education and human development. Even though the population has grown more than fivefold since independence, the average living standards have risen three-fold, probably a little higher than the average for developing countries. But Pakistan has fallen seriously behind not only East Asia, but also China and India. More importantly, the economic future of the country again hangs in the balance, there is a deep financial crisis, sustained long-term growth has become uncertain, and inequity and poverty have reached alarming proportions. Above all, there is an existentialist threat from the militants and Islamic fundamentalists who are waging a war against the state. If this memoir can help throw some light on how and why we have stumbled so frequently and why other countries have succeeded beyond imagination, it might motivate the new generation of Pakistanis to do better. That is at least is my hope.

I look back at my life with satisfaction but also a realization that chance had much to do with my choice of profession and that the creation of Pakistan opened up opportunities beyond imagination for me and many million others. I have had a good life but a life very different from that I could have expected as a Punjabi boy in British India or as a young Pakistani in the early-1950s.

Parvez Hasan

August,20, 2010

Chapter 1

A Punjabi Childhood

I was born on 30 October 1931 on a Friday morning in Amritsar, the holy Sikh city, where, like most other babies, I was delivered at home by a midwife. This was in my Nana's house in the water carriers' street (Gali Mashkian), in a section of the city named after the weavers and dyers. The street had exclusively Muslim households. There were two wells in the street which the mashkis (the water carriers) drew on to ply their trade, there being no running water in the houses. The nearby city roads were still unpaved, but the bazaars were bustling with activity.

British rule in India was well established; almost all the important administrative positions were held by the British ICS officers. Amritsar was still haunted by the British massacre of civilians during a peaceful protest meeting in Jallianwalla Bagh in April 1919. Pakistan was at best only a distant dream, having been floated as an idea by the poet-philosopher, Allama Mohammad Iqbal, in 1930. The efforts of the Indian National Congress towards freedom had not yet resulted even in limited home rule: that was not to come till 1937.

It is a time and space long gone, completely overtaken by unimaginable political as well as social and economic changes.

Events moved quickly after the end of the Second World War in 1945. The creation of Pakistan and the partition of India (and Punjab) in 1947 was to result in massive transfers of population, especially between East and West Punjab. Today, there are no Muslims in Amritsar and no Hindus in Lahore. I am sure only a very few older residents of Amritsar have any memory of the many Muslim neighbourhoods, with their distinct culture which at one time proudly competed with Lahore, in cuisine, courage, and hospitality, the centre of civilization in Punjab. Most Muslim Amritsaris settled in Lahore after partition, much the same way as most Lahori Hindus headed towards Delhi. A few remnants of Amritsari style, culture, and accent can be found in Gowal Mandi and the Food Street area in Lahore.[1]

My Nana (maternal grandfather), Mohammad Sadiq (born around 1880), and my father were a part of the small white-collar Muslim middle class at the time, Muslims being, in general, substantially less off than Hindus who formed the majority of the population, in British India. In Gali Mashkian and Gali Tailian (the oil vendor's street) where my paternal grandfather's house was located and my parents lived, there were only a handful of white-collar households. My Nana was greatly respected in his street for having had two years of college education (in the late 1890s) and having risen to be the head clerk of the District Council. Still, neither his house nor my parents' house had running water or electricity.

My father, Sheikh Mohammad Hasan, eldest of four brothers, was born in December 1900 to Sheikh Khair ud din (died 1928) and his wife Fatima (1874-1922), daughter of the most distinguished of my ancestors Dr Ghulam Nabi. My Dada (paternal grandfather, was a very religious man. He had been a minor government functionary (Numberdar) and later served as the Imam of the mosque in his neighbourhood. He and my grandmother passed away well before my parents were married.

My father's choice of career was influenced by my Dada. My father had wanted to join the police force but my grandfather vetoed it on the grounds that the police department was too corrupt. Instead, he joined the excise and taxation department in the mid-1930s, after trying his hand at a couple of jobs in the private sector, including a stint as a Branch Manager of the Muslim Bank in Lahore, a venture that failed. It was the time of the Great Depression and jobs were extremely scarce.

My paternal grandfather died, leaving behind no assets except the house he had lived in. Despite his limited income, my father took his brotherly responsibilities very seriously. He especially looked after

[1] The large movement of Punjabi Hindus to Delhi has, however, had a much more transforming influence on the capital of India which used to be strictly an Urdu/Hindi speaking place and is now considered almost a Punjabi city.

the financial needs of his youngest brother, Ghulam Hasan, who was still in college.

My parents' marriage in December 1930 was arranged by Mai Khairan, a trusted housekeeper and go-between from my Dada's time. (Mai Khairan was killed in 1947 in the widespread and extremely violent communal riots in the months preceding partition.) My mother, Rashida Begum, was born in 1913 and had quit school in eighth grade because the math was too difficult. Both my parents were Kakazai Pathans. Marrying within your own baraderi/sect was the norm, rather rigidly followed at the time; indeed a lot of marriages actually were (and in many places still are) within the family, especially among first cousins. All my father's brothers married their first cousins.

My first childhood memory is of early 1936, soon after the birth of my second sibling, Jamshed Hasan, in my Dada's house in Amritsar. Male circumcision, required by Muslim religion, is an important event and generally the occasion for a celebration. But all I remember is the blood oozing out as the local barber (who also acted as a minor surgeon on all necessary occasions) performed this procedure on my younger brother right in our house. This memory certainly blots all others of that time.

In late 1936, my father, who worked for the excise department, was posted to Narowal and we moved from Amritsar. As a young child, I had great difficulty with the concept of a town or city and kept asking my mother what Narowal was, as the excitement about the move grew in the household. I do not think I got a satisfactory answer. So I remember arriving by train in Narowal and, thinking that the railway station was Narowal, feeling quite upset, thinking that it was where we were going to live.

Narowal

Narowal at that time was a Tehsil headquarter and a sleepy town of perhaps 10,000. Now it is a bustling district headquarter with a population of over 200,000, with its own impressive website. Narowal district, which has three representatives in the National Assembly, has produced several notable politicians, including my college mate Anwar Aziz, his son Daniyal Aziz, and Ahsan Iqbal.

We lived on the busy main street in a five-room rambling second-story residence, over a grain storage and feed business–still no electricity and running water. But we had the luxury of a HMV gramophone, with a large loudspeaker, which played 78 rpm records, one at a time and required frequent change of tiny needles. We also acquired full-time domestic help which was to remain a feature of our life for the next several decades.

My father, as part of the small group of government officials that included the Tehsil revenue officer and the police inspector, enjoyed a certain standing in the small town, something he had lacked in Amritsar. He enjoyed his position, especially as it involved occasional nightly raiding of illicit liquor-making activities and the opportunity of working directly under young English officers whom he so greatly admired.

While travelling from Amritsar to Narowal by train, I had my first encounter with a white person, a missionary nun, who was kind and gave me my first piece of chocolate, or at least the first I remember. The missionary presence was important in Narowal where, like elsewhere in British India, the Christian missions played a key role in providing educational opportunities for Indians. Indeed, it was in a missionary primary school in the city centre that I began my education in late 1937 directly in the second grade having had the benefit of some home schooling. (I am not sure if there was a government primary school in town.) The school was rather basic; we sat cross-legged on rough mats manufactured from jute. There were no real toilets and most children were from poor households–I remember being acutely embarrassed when my mother occasionally sent a snack for me through a servant late in the morning. I do not recall the teachers, but do remember taking a liking to learning, especially arithmetic early on and actually enjoying doing the homework.

The missionary school in Narowal had, however, a large campus for middle school and presumably a high school just outside the city. As a primary school student, I had the opportunity to visit its grounds only once on an annual day, when games and athletic displays were held. The ceremonies and performances appeared awesome to me because I had never witnessed anything like that before. Indeed, in the schools I attended subsequently, there were no annual days and rather limited sports activities that are the hallmark of the elite schools that some of my contemporaries had the opportunity to attend.

My life in Narowal as a young child was rather solitary. My sister Parveen, about two years younger than me, was my only companion. Jamshed was still small and Behram was born in January 1938, towards the end of our stay in Narowal.

There was a large unkempt yard at the back of our house and wild flowers, bees, and insects were the main attractions. One moment of excitement was an accident in which a driver of a bullock cart, a much-used vehicle for transporting goods at the time, ran over a child, killing him on the main road that ran in front of our residence. The death and the arrest by the police of the driver left a strong impression on me–a firsthand witnessing of crime and punishment. A more pleasant memory was a long visit by Ghulam Hasan, my father's youngest brother, as he prepared for his competitive exam for the provincial civil service.

Frequent Transfers and Family Dynamics

My father was transferred from Narowal to Sialkot in 1938, to Amritsar in 1941, and to Delhi in 1943.This meant a steady progression to larger cities, better housing, and very varied experiences in a succession of schools. Indeed, my nine years of school education was spread over six schools. Fortunately, right school choices were made when options were available.

Though I enjoyed school greatly, the biggest joys of the childhood came from the warmth of the immediate and extended family, the fun of frequent vacation visits to relatives, holidays in Simla and other towns in Kashmir, and the wonder of living, for a while, in Delhi, the capital of British India. I was also very fortunate that the adventure of living away from my parents at a young age–with my Uncle Ahmed Hasan's family–was an extremely pleasant one.

My parents were very loving and supportive but greatly encouraged independence in their children from an early age. I, as the first- born of nine children, was especially given a lot of responsibility, reflecting in part the dynamics of a large and growing family. I certainly was not treated quite as an equal among siblings. As the eldest brother, with the exalted title of Bhaijan, I had some real authority over my younger siblings and I am sure this did cause some resentment occasionally. The downside also was somewhat of a distance from younger brothers and sisters, younger than me by 6 to 16 years. I lost my closest sibling, Parveen, when she was barely twelve; I was to lose my closest younger brother Jamshed in 1979, when he was only 46. In childhood, my close companionship in the family came from first cousins, my uncles' sons Asif and Javed, who were the same age as I. Though some family rivalry and competition was unavoidable, spending a lot of time with these cousins was one of the great joys of childhood. These cousins were, however, not in the same town (except for my time in Ferozepur with Javed) and other playmates never became very close as we hopped from city to city. I discovered the joy of reading early.

Sialkot

Sialkot, a district headquarters, a sizeable city known as the birthplace of the poet Mohammed Iqbal, and already internationally known for its sports and surgical instrument industries, was a distinct improvement over Narowal. It is now a city of more than half a million and is the third largest economic hub in the Punjab, after Lahore and Faisalabad.

We moved into a fairly new large house consisting of five good-sized rooms in an attractive neighborhood on Kutchery road near the manned railway crossing. I was surprised to learn recently that a bridge over the railway crossing, a traffic bottleneck, was constructed only a few years ago–such is the sad state of infrastructure in my country.

In Sialkot, we also got our first access to electricity and a hand water pump (but not modern plumbing, for which we had to wait several more years) and my parents became proud owners of a handsome RCA radio set. This was a transforming experience for me because, among other things, of the high quality of plays, dramas, and comedies, broadcast by All-India Radio.

Later, my parents got me a subscription to the *Phool Akhbar* (Flower Times), a weekly paper which cost a paisa (penny) and had both news and stories. This paper was part of an enterprise launched by the famous writer and playwright, Imtiaz Ali Taj, who also authored a number of children books of great literary merit, summarizing great tales of world literature in pristine Urdu, and called the collection Paisa Library. One of my fondest memories is of my father bringing me, when I was just nine, a complete set of sixteen of these books from Lahore as a surprise.

After the World War started in September 1939, *Phool Akhbar* kept its young readers informed of developments with of course a slant in favour of the British, even though it was not clear till late 1942 that they could win the war against Germany.

Looking back, I am amazed that, as a young boy in the backwaters of Punjab, I was both interested in and could follow world developments through a children's newspaper and public radio. Perhaps it was because we were ruled by the British and did not consider ourselves as the centre of the universe. I sometimes wonder why my children and grandchildren, educated and living in the United States, do not have quite the same interest in the outside world. It may be that as nationals of the United States, a powerful superpower, they do not feel quite the same need to worry so much about the outside world. It also may be the distractions and attractions of modern life, a surfeit of toys, games including video games, television, internet, all tend, to some extent, to crowd out desire for book knowledge among children and young adults, not only about foreign lands but also about current affairs in the US. It may also be that I am looking at the past through rose-coloured glasses and do not know how much my grandchildren are learning about world affairs.

My schooling in Sialkot was, however, still rather basic. I was enrolled in an Islamia school, more than mile's walk from home through the crowded bazaars of the city, quite an adventure for an unescorted seven- eight year old. I studied there from grades three through five. The primary school students had to squat on the mats, higher classes had chairs. But the school was large and had toilet facilities. The teachers were industrious and took their jobs seriously, insisting on minimum threshold of achievements, such as memorization of advanced multiplication tables, before students finished primary school. English lessons only started in fifth grade and a classical language–Arabic, Sanskrit, or Persian–was added in the sixth grade.

There was also a great deal of emphasis on religious education and practice that I was to come across again in the Islamia High School at Ferozepore.

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RELIGIOUS EDUCATION

Most of my religious training was home-based. But in the primary school in Sialkot, in the fourth grade, the students were taken to the mosque for *Zuhr* prayers. A teacher stood guard with a small stick, as young students, aged 8-10, recited their prayers. When one goes into *Sajda*, prostrating oneself on the ground, I had a tendency to let my elbows flop to the ground. This is apparently is not a sound practice. The teacher gently motioned me with the stick to raise my elbows off the ground as I remained in *Sajda*. I have not forgotten this lesson.

While I learnt to pray early, it was Ramazan, a month that held a special attraction in my childhood. The month of fasting was in the middle of winter and so the length of the fast was relatively short. In any case, the temptation of freshly-cooked parathas well before dawn was often too strong. I kept my first fast when I was eight. But I was in bad shape by late afternoon because the thirst was overpowering. My teacher guessed my predicament, took me to the hand pump, and told me authoritatively to drink some water. I was happy to oblige and break my fast early.

Another step in religious education came in Delhi in 1943–44 when a Moulvi Sahib was hired to come and teach me and my sister Parveen how to read the Quran. While we did not learn to understand Arabic, the readily available Urdu translation of the Quran helped us to follow the many interesting stories about ancient prophets.

Islamia School in Ferozepur cemented my religious education. Moulvi Shibli, the theology teacher, also asked me to adjust my name. He thought Parvez was a heathen name and strongly suggested the addition of Mohammad before Parvez Hasan, to give a proper Muslim touch. I had to oblige. I am not irreligious but found the long name cumbersome. Trying M. P. Hasan invited comments about the initials from friends and teachers. Did they represent Military Police or Member of Parliament? The full name stuck for a while, till I quietly dropped 'Mohammad', when changing jobs later in my career. I hope there will not be a hell to pay.

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I remember our Sialkot stay fondly for the many vacations we took and the frequent visits from relatives, especially my father's brothers' families. Families were small, travel was very cheap, and the comfort standards of the modern day, such as guest bedrooms with baths and air conditioning, etc., had not yet intruded into the living styles. Life was simpler and expectations about hospitality standards, except of course for food, were low.

Nani's House

In my early childhood, till the age of about nine, my mother and children, then numbering four, (myself, Parveen, Jamshed, and Behram) used to spend a part of our summer vacation in my Nani's (Nurun Nissa) home in Amritsar. My brother, Nausherwan Hasan, (Sheri) was born in Sialkot in February 1940. These holidays were great fun, especially because the living there was very different from our normal household. The discipline over children was lax as my mother, still a young woman in her mid-20s, caught up with her many siblings who, including two married brothers, all lived in the same household. My Nana had died in 1933 suddenly of brain haemorrhage, leaving behind four teenage children younger than my mother. He was only in his early fifties. This was a major disaster for Nani and her younger children and was eventually to take a great toll in financial hardship, lack of education of my younger maternal uncles, and some stunted lives. Though my mother's older brothers were also not very well off, they spared no expense to spoil me. Almost every day, breakfast was bought from the bazaar: kulcha, halwa puri, bottles of sweet sodas in the afternoon, and all kinds of mithai (sweetmeats) after dinner.

My father was more westernized, preferring cereal and toast for breakfast and generally frowned on street food, except mithai. My older maternal uncles, unlike my father, did their own daily shopping for meat, vegetables, etc., and I often got the chance to accompany them on their daily round. I learnt about the cuts of meat, mostly mutton, at an early age. In our household, my father would buy fruit but left other grocery shopping to male servants or orderlies. All in all, I enjoyed the Amritsar summers greatly, but I now realize that the treatment I received was exceptional, as my mother was the only married sister with half a dozen brothers and I was the only one of her children old enough to relish going to the bazaar. In any case, the warm memories of my Nani's home stay with me and I do hope my two grandchildren who visit us often will carry similar feelings of warmth about their time spent with their Nana and Nani.

The family visits to Simla in 1938 and to Srinagar in Kashmir in 1939 were truly fascinating experiences. I fell in love with the mountains and the beauty of Kashmir. Alas, I have never been able to go back to Kashmir, but my love of mountains has taken me and my family for many visits to Switzerland. I still consider a vacation in Switzerland a dream vacation.

Simla

The visit to Simla, the summer Headquarters of the British in India, came about on the invitation on my uncle Ghulam Hasan, my father's youngest brother, who had joined the Government of India Secretariat in Delhi as an executive assistant, after having unsuccessfully tried for entry to the high civil service. My uncle was very close to my father and had been financially supported by him. So at the very first chance, he invited his eldest brother's family to visit Simla, where he had a three- room cottage overlooking a beautiful valley and mountains all to himself.

Simla, a beautiful hill station, now the capital Indian state of Himachal Pradesh, is situated at 7200 feet on the slope of the lower Himalayan mountains. It became the capital of British India as early as 1864. As Delhi was very hot in the summers, the whole of the Government of India moved to Simla for summer months–what luxury,-what style. Simla– as well as New Delhi which I was come to know in 1942–represented the most regal aspects of the British Raj in India.

The journey to Simla was long. From Sialkot, where we lived at the time, we travelled to Kalka and then took the exciting night train to Simla. The narrow gauge train, the first one I saw, wound through the mountains during the night and reached Simla in the morning.

Simla has a spectacular setting, the town being in a bowl surrounded by green hills and snow-capped mountains. Though quite a small town, Simla was beautifully maintained and I believe it still is. Anyway, it seemed pristine to me, cleaner than any city I had seen. No vehicular traffic was allowed in the town except rickshaws, pulled along by rickshaw-wallahs. Only the Viceroy's car could use the road. The Viceroy, the British throne's representative in India, lived in the Vice-regal Lodge at the top of a hill, a splendid residence, one was told, with palatial grounds. A few years later, when the famous Simla Conference on Indian Independence was held in 1945, I remember seeing pictures in the newspapers of the various Indian leaders, including Mohammed Ali Jinnah, arriving for talks in their separate rickshaws. No exception was made for them either. There also seemed to be no odium in riding a rickshaw, pulled on the hilly roads by a barefoot rickshaw-wallah.

Life in Simla centred on the Mall, which divides the city in two parts. At the centre of the city is the famous scandal point which, I was to learn much later, was immortalized by Rudyard Kipling.

Apart from enjoying the scenery and taking walks, I remember Simla for a visit to the large residence of my father's maternal uncle, Sheikh Abdul Hameed, who, as a senior civil servant, was our most prominent relative. Sheikh Abdul Hameed was the younger son of Dr Ghulam Nabi, the most distinguished of my ancestors and my father was very close to this maternal uncle (Mamoo).

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A VERY DISTINGUISHED ANCESTOR

Dr Ghulam Nabi (1852-1926), my father's Nana (maternal grandfather), made a name for himself as a physician. He was one of the first Muslim graduates of Lahore's King Edward Medical College– the oldest medical college in what was Northern India. Dr Ghulam Nabi started his career as an assistant surgeon in Peshawar. While there, he got a chance to serve as the personal physician to Mir Abdur Rahman, the King of Afghanistan, during his extended visit to India during March/April 1885. The King was apparently very pleased with this young Muslim doctor and told the Viceroy so. This brought Dr Ghulam Nabi to the notice of the top echelon of the British rulers.

Even though he left government service soon thereafter, annoyed at some condescending remarks by an English superior, and did not wish to serve under the British any longer, Dr Ghulam Nabi remained on good terms with the British. The Governor of Punjab recommended him to the Amir of Bahawalpur, a princely state in Punjab, when the Amir wanted a personal physician and also wished to set up a modern hospital. Dr Ghulm Nabi served in Bahawalpur for a decade (1887–1897) and the New Jubilee Hospital he had worked to establish opened in 1898. In 1905, again at the recommendation of the British Viceroy, my great-grandfather was selected to be the permanent personal physician of the new King of Afghanistan, Amir Habibullah. He served in that capacity for twelve years (1905–17). He also helped his younger brother, Ghulam Mohammed (1862–1946), also a physician, to become a doctor for the Royal female household in Kabul in 1906. Both brothers, though they came from a well-to-do landed family, were able to greatly add to their fortune.

Dr Ghulam Nabi paid a great deal of attention to the education of his two sons, Abdul Aziz (1884–1970) and Abdul Hameed (1890–1943). His eldest son, my great-uncle Abdul Aziz, was sent to England for studies in 1904 and stayed there till 1908, expense being no consideration. He was a contemporary and friend of Allama Iqbal, and a close friend of Abdul Qadir (later Sir), both of them becoming barristers-at-law in 1907. Abdul Hameed attended the Aligarh University and then got his MA degree from Government College Lahore around 1912.

In keeping perhaps with the times, my great-grandfather, however, paid relatively little attention to educating his six daughters, including my grandmother. Their education was rudimentary and they were married off at a young age, some when they were as young as thirteen and fourteen. Girls' education was not a high priority in the late-1800s, even in well-off households. My grandmother (Dadi) Fatima was born in 1874 and was married by 1888. Her first child, a daughter, named Iqbal, was born in 1891 and was married in 1908 to a physician, Dr Mohammad Sharif; by 1910; my grandmother was was thus a grandmother by the age of 36. My oldest first cousin (my father's sister's son) N. D. Yusuf (1910–86) was older than Ghulam Hasan, my uncle and his.

My great grandfather died in Batala, District Gurdaspur, where he had established a permanent residence by buying a big *haveli* (mansion) in the 1880s. I got a chance to visit this haveli as the guest my great uncle, Abdul Aziz, and his very open-hearted wife, Zainab, at a big family get-together in December 1940, during a long Christmas break which was ordained by the British to enable them to get away from their positions in far-flung places. The family fortune, inherited mainly by his sons, had not yet declined noticeably. Still, I marvel at the generosity of Abdul Aziz and his wife for opening their house to several of their nephews and their families for a week or ten days.

The information on Ghulam Nabi, my great-grandfather, is derived from two books, an Urdu book, *Wuh Hawadissi Ashna* (published by Al-Faisal, Urdu Bazar, Lahore), and an English Book A Journey into the Past :Portrait of A Punjabi Family, both written by his grandson, Khurshid Kamal Aziz (1927-2009), a most highly regarded Pakistani historian, about the life of his father Sheikh Abdul Aziz, Bar-at-law, Dr Ghulam Nabi's elder son. These book also traces Ghulam Nabi's ancestors to a seventeenth-century small landowner and part time *hakim,* Abdul Baqi, settled in the small village of Kahnuwan in Punjab, near the mountains on the eastern bank of the River Beas. It tells the story of Abdul Baqi's successful treatment of the Mughal Emperor Jehangir, when he was on one of his hunting trips in the Punjab forests, and consequently gaining land and access to the royal court. Abdul Baqi's descendants were all referred to as *Hakimon Ka Khandan* (Family of Hakims), for nearly two centuries before Ghulam Nabi was born.

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Visiting Sheikh Abdul Hameed's residence in Simla, called 'Stokes Place' (in the English style, big residences had their individual names), as a young boy, was a bit of an intimidating experience. I was overwhelmed by the size of the residence, the tall and very distinguished looking great uncle Hameed, his young beautiful wife Bobogul–a very fair Kashmiri girl–the number of children: eight in all, ranging in age from 19 to one, and the number of servants. Bobogul, at least twenty years younger than him, was Mr Hameed's second wife, his first wife having died in childbirth, leaving four children. By the time I first saw her, Bobogul (real name Farrukh), married in 1931, had four of her own children, Shirin, Salman, Tariq, and Riffat, all very fair and handsome. I must have been somewhat nervous. At the dining table, I kept stirring sugar in my teacup for a long time, till my mother told me to stop. Three of my father's female cousins, Bilquis (18), Shameem (11), and Naseem (10), however, did a great deal to make me at ease. They took me to the nearby Mall for snacks. They even tried to get me into the Parda Bagh (ladies and children only park) situated at the end of Mall but did not succeed because I was a male over six years old.

Just five years later, in September 1943, Uncle Abdul Hameed, often referred to by relatives as Deputy Sahib, was to die suddenly of a heart attack in Lahore, leaving Bobogul a widow at the age of 30, with eight children, some young, others teenagers. For the extended family, it was the loss of a major pillar of pride and standing in the community. My father was devastated; he lost both a mentor and a friend. In the following decades till his death in 1968, my father did all he could to provide moral support and affection to Bobogul and her family. Our families also drew closer as my father arranged the marriage of his younger brother, Ghulam Hasan, with their first cousin, Shameem, Abdul Hameed's second eldest daughter.

Bobogul's success in raising her large family is a story in itself. Suffice to say that she only recently died at the ripe age of 97, having remained in good health and with a sharp mind for all except the last couple of years. All of her children are well off and she has left behind not only a dozen grandchildren and an equal or larger number of great-grandchildren. I think it would be difficult to find examples of a young woman navigating over sixty years of widowhood so bravely and tenaciously and with so much dignity.

*Kashmir*Just a year after visit to Simla, my parents, still stationed in Sialkot, went, with their four young children, for a vacation to Kashmir, perhaps their first to the wonderful Kashmir valley.

My father must have been on the lookout for such a vacation for some time but was probably concerned with the cost. His opportunity came in early September 1939 with the start of the Second World War. As all the vacationing British military and civilian officers were ordered back for immediate duty, the prices in Srinagar, Kashmir's capital situated on the scenic Lake Dal, had collapsed, though the tourist season had still a month or two to go. My father must have heard of this: Sialkot is a district that borders the State of Jammu and Kashmir, and acted quickly, arranging ten days' leave and sending word to his family vacationing in Amritsar to return immediately.

So we headed for Kashmir. There were no trains going into the Kashmir valley. The only route was by bus on a very winding mountain road and the journey took more than a day. One had to go through the high Banihal Mountain Pass because there were no tunnels at that time. The bus had a deluxe class with about five comfortable seats in the front, right behind the driver, a section that we occupied. Despite the deluxe seating, the journey was tortuous and trying. Though I did not actually throw up, I remember feeling quite sick. My father had thoughtfully brought along several jars of lemon drops and these helped to contain headache and nausea. The scenery was, however, awe-inspiring, with the river Jhelum appearing deep down below like a ribbon of water in the chasm of the valley between mountains. We spent a night almost at the top of the pass in a rather ramshackle hotel which had a few cots in each room and not much else–water taps and privies being outdoors.

The next afternoon, we arrived in Srinagar situated in the heart of the Kashmir valley, surrounded by mountains. I was thrilled to learn that we were going to actually live on the lovely Lake Dal, in a large houseboat for the duration of our stay. The houseboat we occupied was not only a two-storey residence on water, but also beautifully furnished in western style with separate dining and living areas and three bedrooms. (What a contrast to the transit hotel in Banihal.) The linens, china, and silver seemed immaculate to me and I was impressed. The British really knew how to holiday–-meals were cooked on a separate boat anchored next to the houseboat and there was staff of at least three persons to serve us. All this for a price of Rs.100 a week, if I remember correctly. No wonder middle class households with moderate incomes could also afford occasional vacations in the mountains.

The most fabulous part of the vacation in Kashmir was the visits to the Mughal gardens. The Mughal Emperors in India, especially Jehangir (1569-1627) and Shah Jahan (1592-1666) were regular visitors to Kashmir. Delhi is several hundred miles away and one can only imagine the challenges of the journey that must have taken many days. But the attraction of Kashmir for the Mughal Emperors was very real. There is a couplet in Persian about Kashmir attributed to Nur Jahan, the wife of Jehangir, which translates as follows: If there is paradise on earth, this is it, this is it.

It is said that that it was in Kashmir that the Mughal Garden was brought to perfection. The most famous gardens are Chashma Shahi garden built by Shah Jahan in 1632, Shalimar garden built by Jehangir for Nur Jahan, and Nishat Bagh designed by Asaf Khan, brother of Nur Jahan. These gardens, all located around Lake Dal have terraced lawns and fountains and paint-box–bright flower beds. They have sweeping vistas of lakes and mountains like Zabarwan and the snow-capped Pir Panchal range.

On our trip, we spent one day each at these famous gardens. The routine was to leave after breakfast with a packed lunch and travel by a comfortable gondola (called shikara) and come back in the evening. Roaming around these gardens for hours was a real joy. I am sure it was very important for my parents that these excursions were very affordable. I still remember that the whole day hire of a shikara was one rupee (25 US cents) excluding the tip. In the mid-1990s, my wife Parveen and I were able to finally visit Venice. The gondola ride we took there for half an hour or so cost close to US $80.

However, our very first visit, also by a Shikara was to the famous Hazrat Bal shrine located in a village on the banks of Lake Dal. This shrine is famous because it houses a hair of the Prophet Mohammed and thus is a holy place for Muslims. This visit was combined with a visit to Naseem Bagh, a simpler garden but with many trees and vast grounds.

Kashmir is, of course, much more than Srinagar. Its industrious and good-looking people, its meadows and saffron fields, as well its world famous resorts like Gulmarg, Pahlgam, and Sonamarg leave a lasting impression on the visitors. Gulmarg, meadow of flowers, situated at 8600 feet above sea level was the special hang-out of the British in those olden times. Long before I learnt to play golf, I had heard of the 18-hole golf course in Gulmarg, one of the highest and most beautiful in the world. I did not get a chance to go outside Srinagar but my father made a day trip on to Gulmarg to see his Uncle Abdul Hameed and family who were vacationing there.

The food cooked on the houseboat was excellent and the fruit, especially the pears, incomparable. Shopping for Kashmir handicrafts, papier-mâché goods, namda rugs, woollen and Pashmina shawls, and woodcarvings, all very affordable, also kept the family happy and busy.

There is one memory of visit to Kashmir, however, which is not so pleasant, that is the memory of my father pushing me into Dal Lake as we were coming aboard the houseboat after a trip. My father had many good qualities and a generous nature but also had a very quick temper–unfortunately, the less good quality that I seem to have inherited. As a 7-year old, I fell into the habit of chewing my lips, perhaps a sign of shyness. Anyway, I was being admonished for it for several months for this bad habit but could not get rid of it. So it went on in Kashmir. But suddenly at some moment my father's patience ran out. Unfortunately, that moment came when I was perched on the side of the houseboat. Half a dozen Kashmiris attached to the houseboat quickly fished me out of the water. My bad habit was gone and I have never felt any particular resentment against my father. But my wife Parveen and daughters, Samia and Samira are convinced that it is this trauma that made me afraid of water and has kept me from learning how to swim.

Alas, I have never being able to go back to Kashmir. Kashmir has been a disputed territory between India and Pakistan almost since partition. There have been at least two wars and several smaller conflicts between the two countries; Kashmir is in fact divided along the ceasefire line, which is the Line of Control. But the valley of Kashmir is in Indian hands. Both countries and especially Kashmiris have suffered from this long-standing conflict. The great potential of Kashmir for tourism and hydro-electric power has not been exploited. As a Pakistani, I feel that since a large population of the Kashmir valley is Muslim, it should have been allowed to join Pakistan. That the Indian presence is resented in Kashmir is evident from the half a million Indian troops that are needed to control Kashmir. The Indian viewpoint that the insurgency in Kashmir is mainly fed by cross-border infiltration is subject to serious dispute. But the reality is that no military solution of the Kashmir problem is possible. It would in the interest of India and Pakistan to opt for interim solutions, which effectively de-militarize both parts, allow free travel, trade, and possibly investment across the ceasefire line for all Kashmiris and Pakistanis. I have only a faint hope that this will happen soon or that I will be able to visit Kashmir again.

Amritsar

Our family moved to Amritsar in early 1941 and was to stay there till the summer of 1943. The Amritsar we lived in was, however, very different from the Amritsar of my mother's family in the inner city.

We lived in one of the suburbs, Hussainpura, obviously a Muslim neighbourhood, not far from the famous Company Bagh, a large and well laid-out park and garden in the elegant section of town.

The house was not as large as in Sialkot but was pleasant enough, with a large courtyard and quarters for keeping animals, so we acquired a buffalo that was cared for by our servant and my father's two orderlies.

An early right decision was the choice of a school, in which I had a say. There was a Muslim school conveniently located right across from where we lived. So I was initially enrolled there. On my first day there, however, I found myself in a class of 80-90 students and refused to go back. That is how I ended up in a very well equipped government school, even though it involved a long walk for a nine/ten year old–2 miles each way.

The government high school in Amritsar, which I attended during 1941–43, was a religiously-integrated school with a good mix of Muslim, Hindu, and Sikh boys as well as teachers. It was also the best equipped school in my experience, with large classrooms, desks, vocational training workshops, and ample grounds, most of which were first-time experiences for me.

This was the only school where I had some Hindu friends. In the Hindu school (Anglo-Vernacular Sanskrit High School) that I later attended in Delhi (and which still exists), there were had only a half a dozen Muslim boys and they were rather left out of things.

However, it was also in Amritsar that I had firsthand experience of the divide between Hindu and Muslim cultures. Visiting the home of a Hindu friend and playing in their courtyard, I happened to approach the cooking area. His grandmother became very concerned, screamed at me to stay away, terrifying me. A Muslim boy's stepping on the kitchen site would have apparently made the place unholy and would have required some kind of exorcism. But actually this incident probably did not come as a total surprise. In my childhood, all railway stations had separate drinking water facilities for Muslims and non-Muslims–all food vendors on railway platforms offering their services were divided along religious lines.

As children, we did greatly enjoy the Hindu festivals, Diwali (the festival of lights), Dussehra (carnival to celebrate the return of Sita to Ram in Hindu mythology), and Holi (the colour-throwing extravaganza). Living in the multi-ethnic society in Punjab under British rule also meant a lot of school holidays. In Pakistan, with its predominant Muslim population, we do not have such colourful festivals as Diwali and Dussehra, though the *Eid ul Fitr* celebration at the end of Ramadan can be a lot of fun. The closest Muslims come to a carnival-type festival is the tazia and alam processions taken out by the Shia Muslims during the lunar month of Muharram to commemorate the very tragic killing of Prophet Mohammad's grandson and his family in the battle at Karbala. But these processions are essentially an occasion for mourning, accompanied by the chanting of elegies and self-flagellation. Lately, however, the celebration of *Basant*, a non-religious festival of kite flying to celebrate the arrival of spring, has taken hold in the Punjab and the Basant weekend in Lahore has become the place to be at.

My father, though he himself did not go to college, I guess because of financial reasons, was dedicated to his children's education and I, as the first-born, got special attention. He did his best to motivate his children to excel. He used to frequently recite to me a line of Persian poetry, *Kasb-a-Kamal Kun Ke Aziz-e-Jahan Shawi,* meaning 'attain such excellence that the world comes to adore you'. It has been hard to live up to this lofty ideal. But I do feel that his direct interest in my studies, especially in the early years, and his confidence in my abilities was an important source of whatever academic success I achieved.

An anecdote from my sixth grade in Amritsar amply illustrates my father's patience, and ability to teach–and also perhaps a little of my ability to learn quickly. As was the norm at the time in non-English medium schools, sixth grade students started learning a classical language, the choice being among Persian, Arabic, and Sanskrit (this was on top of starting to learn English in the fifth grade, the basic teaching remaining in Urdu). I opted for Persian but somehow was put off by the teacher and spent most of the Persian classes looking out of the windows which opened on to the playgrounds. As a result, my knowledge of Persian was near zero in the early months of the academic year. As the first quarterly exam approached, my father asked me whether I was comfortable with my preparation and I told him I was in all subjects except for Persian.

So it came to pass on a Sunday morning before the test, in the winter of 1941-42, that he sat down with me and started teaching me from the very first lesson of the Persian textbook well into the night, till such time that we finished the part of the text covered in class. It was at least a twelve-hour session. With his enthusiasm and encouragement, I found the going easy and understanding basic Persian grammar and vocabulary was not very difficult. I did reasonably well in the Persian test but was very surprised, when the result came, to have scored the highest marks in the class. My surprise was more than matched by that of my teacher's. Indeed, he was quite upset, because he had been well aware of my lack of attention in class. He rather unkindly told me that I must have cheated by copying from someone else. I, of course, did not have either the presence of mind or the courage to tell him that, with the highest score, I could not have copied answers from any other student.

My sister Shaheen was born in Amritsar in June 1942, following three brothers and with exceptional looks, she quickly became my mother's favourite.

Several other episodes from the Amritsar period remain in my memory.

Living close to the Company Bagh provided good opportunities for family walks there. At some point, my mother decided that she would enjoy the freedom of morning walks. But since my father was not willing to get up so early in the morning, she decided that I should escort her. Though an eleven year boy could not have been much good in case of trouble, but times were safe. We began to enjoy these walks. My mother (Apa Ji) got really enthused. She woke me up well before dawn one morning, when it was still very dark. We set out without checking the time. The trouble was that that when we came back an hour or so later, it was still dark. I was glad we did not run into a night policeman.

It was often my duty to accompany the orderlies when they went for grocery purchases, etc. One orderly made it point to go through Heera Mandi (the Red Light District) that was, I believe, on one side of Hall Road, the main shopping centre. I saw business being transacted in late morning or early afternoon and, while there was haggling on the tip, the basic rate was one rupee. I never reported these side excursions to my parents.

I once got bad case of mumps and was delirious with high fever. My feverish yelling was mostly about missing the upcoming quarterly exams. It got so bad that my father had to request the Headmaster who lived nearby to come and assure me that exams were not due for several days.

Finally, there was a child molestation attack on one of my younger brothers who was only seven at the time. We did not fully realize the damage the culprit had done. The perpetrator was not prosecuted and was simply dismissed by his employer and our neighbour, the Superintendent of Police. Such matters were hushed up according to the mores of the time.

Delhi

After over two years Amritsar, it was time again, in the spring of 1943, for a fresh posting for my father. By this time, the number of children had risen to six, four boys and two girls.

My father must have been doing well in his job because he was specially selected for service in Delhi, the capital city. He was, however, uncertain whether to accept the offer. Indeed, he agonized, for a few days, over the decision because it involved leaving the security and familiar surroundings of the central Punjab and moving 250 miles away to live with Urdu-speaking people. Relatively progressive and liberal though he was, my father was a creature of his time, bound by provincial prejudices and tribal loyalties. To his way of thinking, only the central Punjab was the comfort zone. In the years before partition and the creation of Pakistan, the notions of mobility were very different. I remember being consulted. I was all for Delhi, having visited there during a vacation spent with my Uncle Ahmed Hasan and his family a year or so earlier and found the city the most glamorous of all cities in my experience. Eventually, my father made the right choice and we headed for Delhi.

How the world has changed! Now, half a century or so later, two of my parents' grandchildren, Usman and Saad, often commute hundreds of miles each week to work.

I was sent to a Hindu school in Delhi because my father decided that the well-known Anglo-Arabic school, run by a Muslim foundation, appeared rowdy and lacked discipline. Later, the family worried that I might lose a year because the Delhi school system had an 11-year course, rather than the ten-year course in the Punjab. So I was sent, at the age of 12, to live with my uncle Ahmed Hasan in Ferozepur

Cantonement, and thus completed my school education in Islamia High School there.

We lived in Delhi for three years till August 1946. Even though for much of this period I was away in Ferozepur for studies, living in Delhi was one of the most enjoyable periods of my childhood. We had a large six-room house, with spacious open grounds to the side and at the back of the house. What is more, the house (12 A, Darya Ganj–*river place*) was in the shadow of the Mughal Red Fort. The old city wall, which overlooked the forest called Bela and the River Jumna, was barely a hundred yards away behind the house. There was an old gate of the city wall a stone's throw away and we had access through it to the Bela and the river just a mile or so away. The family often took walks there.

In front of the house was a road leading to a beautiful small mosque, the Moti Masjid built by one of Emperor Aurangzeb's daughters. Beyond that was a large park named after King Edward VII. Behind King Edward Park and between the Red Fort and the famous Jamia Masjid, there was a large open expanse of green grass. It was a great feeling, living near so many Mughal monuments while having such open spaces around you.

The contemporary touch was provided by the large Transit Military Camp between our house and the walls of the Red Fort. The Second World War was in full swing in Europe and the Pacific, and Delhi was an important stopping point for troops moving between and the Eastern and Western theatres of the war.

Another landmark near the house on the road to Moti Mosque was the large Purda Bagh for ladies and children only. This is where all of my siblings went most afternoons to play and this is where several of them contracted small-pox, despite immunizations. Apparently, in old Delhi, the disease was still rampant, especially in the inner city behind Jamia Masjid. Fortunately, the attack was not severe.

The large verandah running across the back of the house overlooking the inner courtyard had the look of the field hospital with several beds for a few weeks during our second summer in Delhi. Fortunately, my father's work involved some supervision of the famous Hamdard Dawakhana, the institution for local medicine which, after partition, was established in Karachi under Hakim Saeed's leadership.

Hamdard Dawakhana had a small factory near our house and the head of family, Hakim Saeed's elder brother, visited this factory regularly early each morning. He was thus able, as a courtesy to my father, to come round a few mornings a week to our house, while my siblings were down with small pox. His treatment consisted mainly of jars of Khamira Marwarid and tying pouches around the hands of the patients so that they could not scratch their body. The treatment was most effective. All the children recovered fully and, more important, small pox did not leave any permanent marks on their faces.

While we were in Delhi, we had also to cope with frequent bouts of malaria. I remember getting malaria almost every year in the malaria season (August/ September). It left one very weak and wobbly in the legs. The treatment was large, awful-tasting doses of quinine.

One illness that I brought on myself was a serious stomachache that threatened to become chronic. My parents were very strict with giving any cash allowance to their young children. So in my school in Delhi, I looked with great envy at other children buying spiced-up chaat, alloo tikki, gol gappas, etc., from the unsupervised food vendors at the half-time break. The snacks brought from home were not nearly as appetizing. My chance came when my mother went for a visit to Amritsar and left me in charge of day-to-day expenses. I found that skimming off four annas (a quarter of a rupee) out of daily expenses of two to three rupees was not a difficult job. These four annas went directly to the food vendors in the school as I gorged myself on all the forbidden street food in the half-time break. Unfortunately, I was to discover at a huge cost that I had a sensitive stomach. By the time my mother came back, I had an almost constant and severe pain in the stomach. My father took me to a well-known Bengali doctor, Dr Sen, who was a neighbour and had an office in the middle of the famous Chandni Chowk. Dr Sen told me that the cure required that I limit myself to bread and milk for at least two months. This of course came as a great shock.

My father had a better idea. He was great believer in a hydrotherapy nature cure developed by a late nineteenth century German doctor Louis Kuhne. Kuhne devised and successfully practised the friction sitz bath,father of the Detox Bath, or for over 3 decades. He created an establishment in Leipzig, Germany in 1883, where he cured thousands of various illnesses and diseases. I do not know how my father learnt of this treatment. But he had used it to cure himself after a debilitating attack of rheumatic fever which had seriously damaged his heart. This was in 1932, soon after I was born. The doctors who treated him told him that he could not expect to live a normal active life. So he turned to alternative medicine. The nature cure worked perfectly for him and he became a strong believer in it. The treatment, lasting at least three weeks, required a very strict food regime, eschewing tea, coffee, any sugar products, and meat. Only fruit, less than fully ripe, and lightly-cooked vegetables with sparing use of oil, whole-wheat bread, and milk were allowed. It also involved soaking one's mid-section in cold water, sitting in a tub every morning and every evening for half an hour, and then taking a brisk walk.

Faced with the prospect of only sliced bread and milk, I agreed with my father's suggestion to give what was called Louis Kuhne's Tub Bath a try. I have to admit the treatment worked wonderfully for me and my stomach problem did not recur for another twenty years.

My sister Parveen, who came down with a very serious attack of rheumatic fever in late 1945 at the age of 12, was not so lucky. Convinced that the nature cure would work for her as it had done for him years earlier, my father put her through several courses of the treatment. But she got steadily worse as her heart weakened. The doctors called in were also not able to help. This was before the age of antibiotics. Finally, she was admitted to hospital in early April 1946, but it was already too late. She died on 19 April 1946. I was away in Ferozepur during the academic year and returned only after taking the matriculation examination in March 1946.

A few years later, when my younger brother, Behram, was struck by rheumatic fever in early 1947 in Lahore, my father was able to obtain the very best medical help for him. Behram was successfully treated in March/April 1947 by the famous cardiologist, Dr Ilahi Baksh, who was later Principal of King Edward Medical College and treated Quaid-i-Azam Mohammad Ali Jinnah, the founder of Pakistan, during last days of his life in August/September 1948. I remember Dr Ilahi Baksh as a tall handsome man with a great deal of confidence and charm, but also with a somewhat haughty manner. I got to know him because it was my duty to fetch him from his office for house visits– even famous doctors then made house calls for the then princely sum of rupees 32 per visit. Dr Baksh came by car but insisted on an escort because he did not want to waste any time in searching for our house in Qila Gujar Singh, off Davis road. When my father thanked him for his bold and effective treatment of my younger brother, Dr Baksh replied that what distinguishes a really good doctor from an average one is his willingness to take chances with very large doses of medication. I also remember that once I was waiting in the good doctor's office to take him on one of his four or five visits to our house, when he singled me out for one of his visitors, saying, 'I saved his brother'.

A quarter of a century later in Washington in the early-1970s, my wife and I were to get to know Humayun Baksh, one of Dr Ilahi Baksh's sons, and his only daughter Shahida. We became good friends with both of them as well as with Humayun's wife, Naseem. Humayun's looks and style always reminded me of his distinguished and accomplished father. My sister's death was a big blow to the family and to me personally because she was my closet sibling. Her death came only a few months before we left Delhi. We also had two additions to the family in Delhi: my sister Yasmin was born on 16 January 1945 and my sister Mahjabeen was born on 15 March 1946, only a month or so before the family was to face its first death. Mahjabeen was the first child in the family who was born in a hospital.

For the most part, I have happy memories of our stay in Delhi, though I was away for half that time in Ferozepur. I fondly remember the many Mughal and pre-Mughal monuments, not only for their own beauty but also for the settings in which they are placed. The Mughal Red Fort with its ramparts overlooking the river Jumna, the Jamia Masjid across from the Red Fort, with nothing but grass between the two historic buildings, the road to Chandni Chowk, the famous old shopping mall, starting just in front of the Red Fort, the vast grounds of Ferozeshah Kotla, Humayun's tomb, Qutb Minar, Purana Qila, and Shershah Suri's Masuleum. All of these were the venues of frequent day-long enjoyable picnics and were never really very crowded.

Our family, like the vast majority of the population, did not have a car so the hired horse-pulled tonga was the transport of choice. My uncle, Ghulam Hasan, who became an officer in the Indian Air Force in the summer of 1943 and lived with us for a couple of years (1944-46) in Darya Ganj in old Delhi, commuted to the Air Headquarters in New Delhi each working day by tonga. This rather extravagant style as a bachelor changed only when he got married in September 1944. Becoming more cost conscious, he switched to a bicycle.

The British added a great deal to the beauty of historic Delhi when they decided to move the capital from Calcutta. A whole new city called New Delhi was developed right next to the old city constructed by the Mughal Emperor Shah Jahan. The War Memorial, called the Gate of India, occupied a central place in New Dehli and was at one end of a magnificent boulevard, then called Kingsway, which led to the impressive Vice Regal lodge (now called Rashtrapati Bhawan–the President's House) perched atop a hill, and other important government buildings, notably the North Block Secretariat and the Central Assembly Building (now Parliament House). Some have compared New Delhi in its scale, magnificence, and extravagance to Paris or Washington, also developed as new cities. The grandeur of the central administrative area of New Delhi, a true testament to British imperial presence, as well as the modernity of the business and shopping centres of Connaught Place certainly made a strong impression on me. There was nothing quite like that in the Punjab. In my vast world travels since, it is not often that I have felt quite the same excitement as on seeing New Delhi for the first time. The image that lingers in my mind is that of a beautifully-designed city, with very wide open spaces and no large crowds–of course, the latter reality long gone.

It was during a visit to the Gate of India, probably in the closing months of our stay in Delhi, that I discovered that I was near-sighted. Standing at this War Memorial at dusk, my father commented on how nice it was to have the names of the war dead inscribed on the Gateway. When I asked him what names, he was a little shocked at the thought that I would need glasses. Neither he nor any of his brothers wore glasses. My near-sightedness came from my mother's side; one of my maternal uncles wore really thick glasses.

New Delhi was also my first introduction to meals in western-style hotels and restaurants. The family often went for high tea in restaurants in Connaught Place. But I owe my early western-style dinners to the company of my father's cousin, Zubair Hameed (son of Sheikh Abdul Hameed), who was a few years older than me but was still in his teens. The English food that we ate was probably not very good, as it consisted largely of boiled meat and vegetables–the English have never been known for their cuisine. Still, I thought it fashionable to eat in the style of the rulers and so experimented at home by boiling peas and potatoes and calling it English food.

The cultural life in Delhi was far richer than in Amritsar, the only other large city we had lived in. My introduction to Urdu movies produced in Bombay had started early. Probably it was in Sialkot that I saw my first film called 'Rifle Girl'. But the first exposure to the films in English came in Delhi, though it was a bit frustrating not to be able to understand these very well, especially if there was a serious drama involving a lot of dialogue. New Delhi also had a large theatre, where my parents took me to see the great Indian Kathakali dancer, Udhay Shankar. In addition, there were roving theatre companies which often set up tents in Old Delhi, for a week or two. The performances may not have been sophisticated but they seemed most exciting at the time. How is it that our family was able to go to the cinema and theatre so frequently? The simple answer is that they were free. My father's position in the excise and taxation department involved oversight of all entertainment establishments and thus there was no shortage of complimentary passes.

A cultural activity of a different kind was the Qawwalis, especially at the annual Urs at the shrines of the great Muslim saints buried in Delhi. The biggest event was held at the mausoleum of Hazrat Nizamuddin Aulia (1238-1325), a very famous and revered Sufi saint in the Indian subcontinent. One year, my father took me there to an all-night Qawwali. The audience, squatting on white chandnis, was in near rapture. I am sure the Qawwals were the best India had to offer but, around midnight, I was too sleepy to care. This must have cut short my father's enjoyment of the event.

New Delhi also provided me with my first glimpse of Americans. US troops in large numbers were often in Delhi, either in transit or on rest and recreation leave. People generally liked them because they were, unlike the English masters, quite open, friendly, and generous with tips. That Americans had much more money and a much higher standard of living than the British seemed obvious, even to the general public. In any case, the British were feared but not liked by the masses. Indeed, all the British soldiers were called Tommies, a kind of a code word for *harami* (illegitimate). The sexual mores of the rulers, as imagined by the masses, were greatly looked down upon and the public showed its disapproval by spreading the gossip that many serving British soldiers were born out of wedlock.

Ferozepur

I was very fortunate that the adventure of living away from my parents at a young age, with my Uncle Ahmed Hasan's family, turned out extremely well. My uncle and aunt broadened my horizons and living with my cousin, Javed Hasan, who is my age, was great fun.

I learnt much from my aunt Akhtar about Urdu literature and poetry and my uncle introduced me to politics and the English newspaper, *Dawn*, just as the Pakistan movement was gathering momentum and the pace of India's march towards independence from the British was quickening.

My aunt Akhtar (1911-95) was the daughter of the very learned scholar, Abdul Aziz, the eldest son of Ghulam Nabi, (see above) and the older sister of K. K. Aziz the noted historian; my uncle, Ahmed Hasan, married his first cousin (his Mamoo's daughter). Chachi Jan Akhtar, who was better educated than my mother, introduced me to the great poet, Iqbal, through *Bang-e-Dara*, his first volume of poetry, and to Hafiz Jullandhari though his *Shahnama-i-Islam*, the epic poem on Islam's early history. She also had copies of important monthly Urdu literary magazines, dating back to the 1930s, which I read most eagerly.

My uncle was deeply interested in political issues, especially those touching the future of Indian Muslims. During his stay in Delhi, working first for the Railways and then for the Government of India Secretariat, he had known Maulanas Mohammad Ali and Shaukat Ali, the Ali brothers who led the Khilafat movement in India in the 1920s; it had started as a Muslim protest against the British dismemberment of the Ottoman Empire. By the early 1940s, he was a Jinnah devotee and subscribed to *Dawn*, the English newspaper that Jinnah had founded in the early 1940s and that was issued from Delhi, rather than any newspaper from nearby Lahore.

He encouraged me to read *Dawn* with him, following political news, commentaries, and cricket. I recall a rather incendiary series of articles titled, 'It Never Shall Happen Again'. These articles dealt with the many excesses committed against Muslims under the Hindu-dominated Congress Party Government's rule in UP (then called

United Provinces and now Uttar Pradesh) that came into power after the 1937 elections that provided Indians with a measure of self-rule. It is generally agreed that the treatment of the large Muslim minority by the Congress government in UP provided a great impetus to the Pakistan movement, starting with 1940.[2]

Javed Hasan and I became very good friends and explored adolescence dreams and fantasies together. I did play a lot of cricket and hockey as a child, but my wild enthusiasm for these games never translated into skills nearly good enough to make the school teams.

Most important, the Islamia High School that I attended during 1944–46 provided me with a reasonably strong academic grounding, though I am afraid it did not help with my English pronunciation. This school, run by a Muslim foundation, had a precarious financial position. Most of the student body consisted of the sons of blue-collar workers, who themselves had little education and little ability to pay. My closest friend and competitor, Mohammad Hanif, came from a family of barbers and was the first one to attend high school. The fees were low and the teachers were not very well paid. At the same time, donations apparently depended a great deal on the performance of the school, the results being measured by students passing and getting good grades in the external matriculation exam held at the completion of the tenth grade. After having come from a year at a very competitive Hindu school in Delhi, I found myself quickly near the head of the class, which resulted in teachers giving me special attention. This greatly helped my acclimatization to my new surroundings away from the immediate family.

The school teachers whom I remember most fondly were the ones who taught me in the ninth and tenth class at Islamia High School in Ferozepur. I specially recall fondly, Anwar, Science teacher, Munir, Mathematics teacher, and Shakur, History teacher, all led by the energetic and determined Head Master, Mr. Tirmizi who taught English . The challenge of teaching a large number of students whose home conditions were not particularly conducive to learning was enormous. The school performed well but used rather draconian measures to achieve good results. As I started my final year of school, I

[2] A very recent book by Jaswant Singh, Jinnah: India_ Partition- Independence, 2009, also dwells on this point

was a little horrified to learn that the school day had been extended by two hours for the tenth class. It meant reaching school at 8 a.m. and leaving at 5 p.m. In the winter months, all the daylight hours were spent in the school. But that was not all. For the final year students, the Sunday holiday was cancelled; the day was used for regular tests. Poor marks on the test resulted in corporal punishment. As a good student, making only one or two mistakes on the test, I was often lucky to escape with only one or two strokes of the cane on the palms of my hands. Whatever the fairness of the system, it did achieve results. The teachers took no chance with homework being done.

I also recall how my mathematics teacher, Mr. Munir Ahmed, used a bit of derision to spur me to greater effort. I was an excellent student in math, nearly at the top of my class, but had trouble in making neat geometric drawings, leading to deductions for untidy work. After one of the Sunday tests in Mathematics, Mr. Munir handed back my paper in the open class with a comment–accompanied by a bit of a sneer–that I would never get a near-perfect score because of my poor drawing skills. That did it. I gave full attention to my drawing and, just a few months later, in the final matriculation exam was able to get a 97 per cent score in math, with 60 per cent being first class–the equivalent of an A grade.

Looking back, it comes as a bit of surprise that, except for two years in a government school in Amritsar, all the schools I attended were run by what today are called non-governmental organizations (NGOs), covering a gambit of Christian, Muslim, and Hindu charities. While self-motivation and parental interest were important, these schools provided a reasonably good quality of education, notwithstanding a lack of adequate facilities and an excessive emphasis on memorization and book learning.

As I reflect on my school experience six or so decades ago, in a much poorer country setting than today's Pakistan, and contrast it with the present breakdown of the public education system, two thoughts come to mind. The accountability, skill, and motivation of the teachers are of paramount importance in the delivery of a good quality education. But these can be achieved only in a decentralized setting, where educational institutions are close to the ground realities and have real authority to hire and fire teachers. NGOs also succeed to a greater extent because they have financial constraints that force them to focus on the quality and quantity of educational output being delivered.

I also believe the tremendous variety of schools I attended, though disruptive in terms of developing long-term friendships, was on the whole an enriching experience.

*Final Delhi Days*A thrilling highlight of my final Delhi days was the opportunity in early April 1946 to attend the historic Muslim League Legislators' Convention. I had returned to Delhi in late March 1946, after appearing in the Matriculation Examination in Ferozepur. Even though I was quite young, my political education, under my Uncle Ahmed Hasan's loving tutelage, had advanced considerably during my Ferozepur stay. I was well aware that the aspirations of Indian Muslims for a separate homeland had taken a great leap forward after the central and provincial assembly elections of February 1946.

These elections provided the All-India Muslim League, under the leadership of Muhammad Ali Jinnah, with a most convincing victory. The Muslim League had captured 446 seats out of the total of 495 Muslim seats in the central assembly and it had won 113 seats out of a total of 119 in the Bengal provincial assembly. In the Punjab, the stronghold of the feudal-based and British-supported Unionist Party, the League had staged its biggest upset by capturing 79 out of a total of 86 Muslim seats; there were separate electorates for the various religious groups.

Its remarkable success in the 1946 elections affirmed the basis of the Muslim League's claim that it alone represented the Muslims of India. Till then, the Indian National Congress, led by Mohandas Gandhi and Jawaharlal Nehru, had also claimed that it had substantial Muslim support. The Muslim League had not fared well in the previous elections in 1935–36, the first ones held under the 1935 Government of India Act which involved Indians in political governance for the first time.

I witnessed the excitement of the elections first-hand in Ferozepur earlier in the year and, with my uncle and cousin, had actually attended a couple of public political meetings, where top Punjab Muslim league leaders, such as Nawab Mamdot, Mumtaz Daultana, and Raja Ghazanfar Ali were present.

Ferozepur was largely a Sikh-populated district, but among the Muslim population, the level of political consciousness was very high and support for the Muslim League and Jinnah was palpable. I do not know how many people actually believed at that time that a separate homeland for Muslims could be created. But there was full confidence, even among the largely illiterate Muslim public, that the Muslim League and Jinnah represented the best hope of getting a good deal from the British and the Hindu-dominated Indian National Congress.

My attending the Muslim League convention was both encouraged and made possible by my uncle, Ghulam Hasan. He was a good friend of Qazi Muhammad Issa, the top Balochi Muslim League leader, and thus was able to get me a pass for the VIP enclosure. (The convention was open to public with a two-rupee general admission ticket.) My father and uncle could not attend the convention because they were government servants. In Ferozepur, my uncle Ahmed Hasan, also a government servant, had blithely ignored such a ban.

To a young boy in his early teens, attending the Convention was a fascinating experience. It enabled me to get a close look at Jinnah, the great leader, and other Muslim leaders from all over India: Liaquat Ali Khan from UP province, H. S. Suhrawardy from Bengal, Mohammad Ismail from Madras, Ismail Chundrigar from Bombay, Qazi Issa from Balochistan, and Abdurab Nishtar from the NWFP. I heard some of the speeches. The atmosphere was electric and the sense that Muslims of India were on an important threshold was there. I have two important impressions about the Convention still with me: the dominance of Jinnah as a leader and the great passion and articulateness demonstrated by leaders from UP, Bengal, Madras and Bombay. Sadly, I do not have any recollection of any forceful presence of leadership from the areas that now constitute Pakistan.

It was only later in life that I realized how historic the Muslim League Convention really was. It was at this convention that the Pakistan Resolution, properly so-called, was passed on 9 April 1946. The original Lahore Resolution passed on 23 March 1940, and which is celebrated as Pakistan Day, called for Muslim states in the areas in which Muslims were numerically in a majority in the North-Western and Eastern Zones of India. However, there was no mention of Pakistan in the 1940 Resolution. While the demand for a separate homeland was the key agenda of the Muslim League for nearly a decade, it was left to the Delhi Resolution to specifically mention Pakistan and ask for a single state consisting of Bengal, Punjab, Sindh, Balochistan, the NWFP, and Kashmir. The resolution came in the wake of the electoral success of the League, but perhaps the immediate triggering factor[3] was the new British Labour government's plans to accelerate the independence of India.

In May 1946, the matriculation results were announced. I obtained a high first division but missed the first position in my school by some margin–the main culprit was the science practical that I nearly flunked. This turned me against a career in science, either engineering or medicine. But I was ready for college and my parents were agreeable to my seeking admission to the premier educational institution in Punjab, the Government College, Lahore, which a couple of my uncles had attended. I left for Lahore in early June and this was the practical end of my stay in Delhi, as my father was transferred back to the Punjab a couple of months later. I guess the start of college was also the practical end of childhood.

In early 1988, my wife Parveen and I had a chance to revisit Delhi, the city of our childhood; Parveen as a young child had also lived in New Delhi–of course unknown to me–in the years immediately before partition with her sister, Saeeda, and brother-in-law, Anwar Ali, a finance official in the government of India. It was a very emotional return for both of us as we both looked for landmarks of our childhood and looked back at the past with great nostalgia.

The 12 Darya Gang house was long gone and the address was now actually a busy commercial street, full of shops selling auto-parts. The old city wall and the Bela next to River Jumna were also no more, having made way for a large circular road, connecting New and Old Delhi. It was comforting to find the Moti Masjid where I remembered it. But it was sad to see that the Jamia Masjid was not in a state of good repair and the open spaces around it had shrunk vastly; the Urdu Bazar next to it had greatly declined. New Delhi was a new and much bigger city, still glamorous but very crowded. All the monuments there were in good shape, but the air was polluted and the visibility from our hotel room, which overlooked Humayun's tomb, was very poor; the clean air

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[3] A Cabinet Mission led by Sir Pethick-Lawrence, Secretary of State for India, visited India in late March 1946 to seriously begin political discussions for the independence of India.

and open spaces had fallen victim to progress and population pressures. I do understand, however, that the pollution problem has been brought under control in recent years, through limiting the entry of diesel-fuel-burning vehicles.

Chapter 2

Government College Lahore, Partition, and the Emergence of Pakistan

In early June 1946, when I was not quite fifteen, I appeared for an interview for admission to Government College, Lahore. Since this would require living in the hostel, the expense was going to be considerable–rather more than my father could easily afford. But the subject did not come up in my presence. The family must have been willing to dip into its savings or sacrifice some comforts to finance a good education for their first-born.

Even though I had achieved a high score in the Matriculation examination, entrance to the very competitive Government College could not be taken for granted. So it was important to make a good impression in the interview. However, the fact that Muslim students had a sizeable quota reserved for them was a plus for their chances–presumably, purely on merit, more Hindu and Sikh students would have been selected, edging out the majority population in the Punjab.

Unfortunately my summer wardrobe consisted almost entirely of half-sleeved shirts and shorts, not an appropriate dress for an interview. So, a decent summer suit was ordered for me from a tailor in Delhi, there being hardly any ready-made clothes at the time. The problem was that the suit was not ready when I left for Lahore by train. So I anxiously waited for the package in the mail every day–fortunately, the mail really worked in those days. The back-up plan was to borrow a pair of corduroy trousers from a younger cousin, even though these were a couple of inches too short. Wearing the national dress qameez-shalwar was not even considered an option, presumably because of the fear that it might denote backwardness. Luckily, the suit arrived the day before the interview. I was saved. As it turned out, very few applicants wore suits–long- sleeved shirts and trousers were the norm.

In the interview line, I found myself sitting next to Iftikhar Rasul Malli and Hanif Ramay. Later, both of them were to become my life-long friends. The interview, with a panel headed by the British Principal, Professor Dickinson, was short and uneventful; but as I came out, the senior boys waiting outside to heckle the prospective freshmen, did show appreciation for my suit by shouting 'smart'.

The last full year before partition, 1946-47, was to turn out to be a turbulent year, though there was little foreboding of the cataclysmic events to come.

The last half of 1946 was relatively uneventful. Since I could not get into the hostel because of space limitations, I stayed most of the academic year with my uncle, Jameel Hasan and his family on Mayo Road. This meant commuting four or five miles on a bicycle, even in the winter months, without a hat or gloves. Consequently, I was very cold some mornings but do not recall whether it was carelessness on my part or reluctance to ask my parents for additional money that led to not being properly winterized. Living away from college also meant missing out on some of the social activities in the evening.

Still, I did greatly enjoy the early months of college. The independence from the strait- jacket of Islamia School was very refreshing, though the academic atmosphere in the college was both serious and competitive. Indeed, in the years after partition, the academic emphasis of the college became somewhat more relaxed. It was probably due to the exodus of Hindu and Sikh boys who appeared more driven, either because of their more educated family backgrounds or because of their desire to make the most of the merit quotas for engineering and medicine.

In any case, the Hindu presence in the college appeared formidable. On average, Hindu students were better-dressed and more confident than their Muslim counterparts. Though motorcars were not allowed inside the college campus, many of the well-to-do Hindu boys were dropped by car just outside the gate. Few Muslim boys were so privileged. It is not an exaggeration that Muslim boys, typically from the middle class, felt a bit like poor cousins.

The chasm between well-to-do Hindu boys and middle class students like myself was brought home to me in the gym class one day in early 1947. A tall good-looking Hindu friend, obviously from a rich family, casually asked about my career plans. As a 15-year-old, I had not given much thought to the future. As a non-science student, my choices were rather limited. So I blabbered something about seeking entry to the higher civil service through a competitive exam. He was not impressed and told me that he was going to the United States for aeronautical engineering studies just after his Intermediate (two years of college). My shock was evident as my mouth literally fell open. I had never heard of any one going to the United States for studies. Only a few aspiring or very well-off students made it to Cambridge or Oxford. Moreover, while I was of course familiar with engineering education, back then I had not heard of aeronautical engineering as a discipline. Obviously, my friend's family, with their education and wealth, could afford to look far into the future of commercial aviation and prepare their son for a career in a new and exciting field. This luxury of planning for the future of their children based on a breadth of horizon and financial means was beyond some of the better-off Muslim families.

I sometimes tell this story to illustrate the difference that the creation of Pakistan made. Pakistan, with all its costs and troubles, can be considered as one of the greatest affirmative actions of the twentieth century. It opened up opportunities for Muslims on an unprecedented scale, thus both broadening their horizons and increasing their confidence. Certainly, in those days I could not imagine that, only about a decade later, I would be enrolled for a doctorate in economics at one of the most elite US universities.

Punjab Politics

The quiet college life began to be disrupted in early 1947, as politics spread to the campuses. The big issue in the Punjab was the acute resentment against the government of the Unionist party leader, Khizr Hayat Tiwana. The Unionist Party, very loyal to the British and composed largely of big landlords had dominated Punjab politics for more than a decade. But it did poorly in the 1946 elections, getting only a few seats in the provincial assembly, as the Muslim League, winning most of the Muslim vote, became the single largest party in the legislature. Hindu and Sikh leaders blocked the possibility of the Muslim League forming the government by offering their support and the chief ministership to Tiwana. He formed the government entirely with Hindu and Sikh support but became anathema to Punjabi Muslims. His act of 'treason' was never to be forgiven.

Starting in February 1947, political agitation by the Muslim League against Tiwana started on a large scale and quickly spread to college campuses. Students joined mostly peaceful processions, shouting slogans such as 'Khizr Hai Hai' and 'Khizr Murdabad'. Processions also brought out mock funeral processions for Khizr–equivalent to what in the West would be burning an effigy. College closures became frequent, as there was a strike at least once a week. At one point in late February or early March, Muslim students marched on the nearby Punjab Government Secretariat and tried to block its main entrance by offering their mid-morning prayers in front of the gate. I was part of the crowd and the prayer line-up. Soon, the police moved in and arrested many students, releasing them a few hours later in the Lahore suburbs. I was not brave enough to court even a temporary arrest and managed to slip away.

Khizr resigned a few weeks later and was never to enter politics again. Around the same time, communal riots that had started in the Noakhali district of Bengal in August 1946 spread to the Punjab. The start of very serious communal rioting came in the wake of a total impasse between Congress and the Muslim League on the future of India.

The Political Backdrop

The Labour Government in Britain had sent a Cabinet Mission, led by Sir Pethick-Lawrence, Secretary of State for India. He visited India in late March 1946 to seriously begin political discussions for India's independence. This mission came up with the plan of a loose federation, consisting of three fairly autonomous regions: group A in the North West, consisting of Punjab, Sindh, NWFP, and Balochistan; Group C, consisting of Bengal and Assam; and Group B consisting of the rest of India. This arrangement was to stay in place for ten years, after which the Group A and C could secede from the federation. This plan was initially accepted by both the League and Congress but later, Jawaharlal Nehru said that the constituent assembly elected after independence would be sovereign and could change the Cabinet Mission plan. Since the constituent assembly was to have a large Hindu majority, the Muslim League backed out of the agreement.

Jinnah, who had till that time, relied principally on a constitutional dialogue, was greatly frustrated and called for 'Direct Action', presumably inviting his supporters on to the streets. By March 1947, communal rioting throughout India was almost out of control. At one point, colleges in Lahore were closed for more than a week and curfew was imposed, as random stabbings became frequent and it became very unsafe to move across varying ethnic neighbourhoods.

The British government was increasingly concerned with the situation and decided to accelerate the process of Indian independence. Lord Louis Mountbatten, a relative of the royal family, was sent to India as the last viceroy in April 1947 and was authorized to negotiate final arrangements with the Indian leaders. After weeks of intensive consultations, Mountbatten came to the conclusion that the partition of India was inevitable. While this was a major blow to the Congress, Jinnah had also to accept the partition of two major Muslim majority provinces: Bengal and Punjab. He said he was getting 'a moth- eaten Pakistan'.

Partition Announced

The partition plan was announced on 3 June 1947 and the date for independence was set for 15 August the same year. For the general public, the sudden prospect of independence and the creation of Pakistan evoked mixed feelings. Joy was mixed with apprehension. In the Punjab, the shock of the partition of the province sank in slowly, especially as the new boundaries were not to be announced till 18 August.

Though there was a great deal of uncertainty and anxiety in the two months preceding independence, nobody could have predicted the cataclysmic events that were to come in the next six months. The large-scale killings and the huge transfers of population were entirely unforeseen. Whether the tragic events could have been avoided if the independence process had not been so hasty and if there had been better safeguards in place is an impossible question to answer. Certainly, my impression remains that most people, perhaps not even the political leaders and the British Viceroy, were thinking very clearly and were totally unprepared for what was to come.

Horrors of Partition

Partition had many unintended and unforeseen consequences that have continued to shape the economic and political history of Pakistan, including the role of the military and relations with India. As noted, no one foresaw the heightening of communal violence and the mass movement of population across the new borders immediately before and following independence, largely fed by religious fears. According to most conservative estimates, casualties included 250,000 dead and 12 to 24 million refugees.[4] While there was movement of population across the border between East Pakistan and India, West Pakistan was the most affected by the transfer of population. Almost all Hindus and Sikhs left the west wing, while all of the Muslim population in the Eastern Punjab migrated to the Pakistani side. At the same time, a significant part of educated Indian Muslim elite in other Indian provinces also moved to Pakistan. They came to be known as Mohajirs (refugees) and settled in major cities, especially Karachi, the capital at the time, and partly filled the vacuum created by the migration of the dominant commercial and professional classes of non-Muslims.

Some of the agony and the pain caused by partition are captured beautifully by Saadat Hassan Manto (1912-1955), arguably the best Urdu short story writer of the twentieth century, in his famous stories, most notably 'Thanda Gosht', 'Khol Do', and 'Toba Tek Singh'. These stories depict an artist's view of the traumas surrounding independence. Ironically, Manto was tried several times for indecency by Chaudhry Muhammad Hussain, the Director of Punjab Printing Press (and official custodian of morality in literature) and there was an attempt to ban some of his stories especially 'Thanda Gosht' and 'Khol Do'. Fortunately, Manto was acquitted by the courts and his stories about the frailty of human nature and the collapse of morals in the political

[4] *Pakistan: A Country Study*, edited by Peter R. Blood, Federal Research Division of the Library of Congress 1995 Chapter 1. See also a recent thoughtful book on Pakistan, Stephen Philip Cohen, *The Idea of Pakistan*, Brookings Institution Press, Washington DC , 2004

turmoil of 1947 escaped censorship. Bapsi Sidhwa 's beautiful novel, *Cracking India*, as well as Qudrutullah Shahab's *Ya Khuda* also provide important insights into the madness of the times.

Our family was lucky enough to escape the worst horrors of the partition: killings, arson, rape, abduction of young women, and extended stays in refugee camps. My immediate family was in Lahore in the days before partition and had been living there since March 1947. On 9 or 10 August, we moved to Gujrat where my father had been posted on promotion just a month or so earlier. So we were securely in what was to become the territory of Pakistan. But all of the maternal side of my extended family had to leave their homes and all their personal belongings in Amritsar, though they were fortunate to escape with their lives because of their precautionary move to Lahore. My father's ancestral home in Amritsar was also lost, including some precious handwritten and decorated manuscripts of the Holy Quran dating back at least a century. My uncle, Ghulam Hasan, and aunt Shamim were also lucky to escape injury but lost all their personal belongings while travelling from Bombay to Pakistan.

The surrealism of those crazy days just before partition is brought home to me as I reflect on my short visit to Amritsar in late July 1947 and my maternal family members' 'temporary' visit to Lahore on 11 August.

My Nana had, in his lifetime, purchased a small house abutting his own residence and gifted it to my mother at the time of her marriage. This was rented and managed by my eldest maternal, Uncle Abdul Ahad. My mother used the small supplemental income as a financial cushion. She collected the accumulated rent every few months. She must have needed the money, and since my father was already away in Gujrat, I was deputed to go to Amritsar for a day trip and bring the cash. Amritsar is only 35 miles away from Lahore and there were almost hourly trains between the two cities, the journey taking about an hour.

I had been warned not to take the normal route from the railway station to Gali Mashkian because it passed through Hindu and Sikh neighbourhoods, which were no longer safe for Muslims. So I walked from the station, skirting the city wall, going through the large parks that surrounded the city and made it safely to my Nani's house–a distance of about three to four miles. In the afternoon, after lunch and rent collection, I was ready to head back to Lahore. But my youngest maternal uncle, Mohammad Yusuf, only four years older than I, said he wanted to show me something first.

I was totally unprepared for what I saw that afternoon. Yusuf took me to the adjoining neighbourhoods that had consisted of Hindu households and proudly showed me street after street that had been burnt down by Muslims, I suppose in retaliation to actions by Hindus and Sikhs elsewhere in the city. The eeriness and the silence of hundreds of burnt-out houses, as we two teenage boys roamed through the narrow empty streets, have stayed with me. But I am ashamed to admit that I shared some of the pride that my maternal uncle showed at the ethnic cleansing of the neighbourhood–such was the madness and frenzy of hate generated by communal tensions and rioting in the months before and after the announcement of the partition plan. It also never occurred to me that a walk through burnt-out streets was unsafe. May be there was no danger from hostile gangs or possible snipers, but certainly the structures that were standing were hardly stable.

In early August, Yusuf came to Lahore to let my mother know that the family members in Amritsar were becoming apprehensive that there would be violence in the days between independence on 15 August and the announcement of the boundary commission award on 18 August. They were, therefore, planning to come to Lahore for a few days to avoid any undue risk. This was the mirror image of Hindus leaving Lahore temporarily. I witnessed their exodus first hand at the Lahore railway station as we prepared to depart for Gujrat.

In any case, the vague idea that our Amritsar relatives had was that they would all come and stay with us for a few days. My mother informed Yusuf, her youngest brother, that we were all packed and were taking all our furniture and belongings with us to Gujrat, but that she would leave the keys of the house for them. I do not think that the impracticality of what was being proposed registered very clearly either with my mother or with Yusuf and definitely not on the relatives back in Amritsar. We left for Gujrat as planned.

We learnt later that nearly two dozen of my mother's relations (her mother, two married brothers with four children, three unmarried brothers, her maternal uncle and aunt, with six grown up children, and her mother's sister) all landed up in the empty house in Lahore on the afternoon of 11 August, with just their clothes and without either beddings or utensils. They were dismayed and angry with my mother when they found no appropriate arrangements for them and sat around the courtyard of the house on their haunches, mulling over the crisis. Fortunately for them, the house belonged to a Hindu colleague of my father's, who had shut off one room in which he had stored all his household goods. According to the story that I heard, after waiting for a few hours, my mother's maternal uncle, Sheikh Jalal ul Din, the senior-most relative, ordered the lock on the shuttered room broken so the family could have access to furniture, bedding, and household wares. This was the microcosm of what was to happen on both sides of the Punjab just a few days later, when the refugee flow swelled, killings became rampant, and the prospect that the refugees could return home disappeared.

It is interesting to note here that as the vistas of valuable Hindu refugee property opened up, my maternal relatives were not content to stay at the small house in Qila Gujar Singh. Indeed, under the 'sagacious' leadership of Sheikh Jalal Din and quick and opportunistic moves by his grown up sons, the family was able to move within two weeks to a large well-furnished Hindu mansion in a street in the centre of Gawalmandi, right behind Mayo Hospital. That major life- changing events took place in the space of a few weeks and were totally unanticipated boggles the mind. But as I said, my Amritsar relatives were the lucky ones, as there was no loss of life and no real hardship.

In general, the refugee property left by Hindus and Sikhs was more valuable, at least per household, than property abandoned by Muslims migrating to Pakistan. In my view, the seizure of this property, either directly or through government allotment, had two sad consequences for Pakistani society. One, the grabbing of valuable property promoted a behaviour of rent-seeking, i.e., obtaining something mainly through connections rather than real effort and hard work. Secondly, the persons who benefited the most were those who showed the least moral scruples and did not hesitate to make most of the opportunities, without worrying about either the morality or the legality of their actions. There was thus quite a notable shift of fortunes among the migrating population. The decent, law-abiding migrating elites did not always do well. But there are those who will argue that the race was to the swift and entrepreneurial behaviour, often on the borderline of legality, was rewarded.

In Gujrat, independence day on 14 August was celebrated by official ceremonies in open grounds the morning and an eloquent speech in the evening by the young, articulate Deputy Commissioner, Mian Riazuddin, a member of the elite ICS. I was impressed by his youth (he was only in his late twenties), his knowledge of Arabic (as he quoted several times from the Quran), and his air of confidence.

Though there was uncertainty in the air and fear among non-Muslims, Independence Day passed peacefully enough. Our next-door neighbours were a Hindu family and there were many other non-Muslim households down the street in the relatively affluent area of Kucthery Road, where we had moved to. This was to change quickly in the next two weeks as the stories of the massacre of all the refugees in trains and caravans in the East Punjab headed to Pakistan began to spread. A particular incident that triggered violence in Gujrat was the murder of Jarnail Singh, a Sikh notable, on 18 August. It was rumoured that Jarnail Singh had a cache of arms. This led to a Muslim mob attacking his house and, in the exchange of fire, Jarnail Singh was killed. Soon, violence spread and non-Muslims were herded into refugee camps, essentially for their own safety. Our next-door neighbours decided not to move to a refugee camp, preferring to wait till evacuation arrangements to India could be made. But they lived in terror. Their children were under strict instructions not to step out of the house. Since our houses were in the same compound, one of their boys once dropped in to see me, only moments later to be called back by his panicked mother. Such were the times.

My Father's Good Deed

Of course, not everyone became hostile to Hindus and Sikhs who had been their friends and neighbours. There were countless cases where Hindus and Sikhs protected the life and property of Muslims in India and vice versa in Pakistan. For me, my father provided a fine example. A retired Hindu colleague of his lived a couple of houses away. As it became necessary for them to move to the refugee camp, he came to ask for my father's help, though they had known each other only a month or so. He wanted us to store his entire household effects, because they could not be taken to the refugee camp and would otherwise have been looted. My father did not hesitate and offered to vacate one of our four rooms to lock up his colleague's belongings. This was not a popular action. There were murmurs of disapproval among the general public, partly because they would have liked to loot the stuff. There were also insinuations that we would end up expropriating the property. My father probably got away with providing this protection because he was a government official. My wife, Parveen, tells me of a similar but unsuccessful attempt by her father, Sheikh Nazir Ahmed, who was a lawyer in Gujranwala, to help a Hindu friend. The police intervened, saying that the stream of refugees coming in badly needed household effects and took possession of the so-called evacuee property left with Nazir Ahmed.

There was a happier ending to my family's help to the retired excise officer from Gujrat. A year and a half later, in early 1949, when passions had cooled and more normal transport had been restored, a son of my father's colleague came and, armed with a government-issued permit, was able to move their belongings to Delhi. By this time, our family was temporarily in Lahore as my father had moved on to Karachi to start a new business. As a token of his appreciation, our Hindu visitor treated my cousin, Asif Hasan, me, and a couple of younger children to high tea at a fashionable restaurant. We greatly enjoyed the tea. I confess, however, that I felt some personal disappointment that there was not more of an appreciation of our good deed. As my father had moved directly to Karachi from Gujrat, it had been left to me to arrange and supervise the packing and transport by rail of all belongings, including those held in trust. It was a substantial expenditure of effort and money, not to mention the loss of living space entailed by storage. It was typical of my father not even to think of such things. I am afraid I do not have as big a heart as my father had and felt a little resentment that there was not even an offer to compensate us at least for our cash expenditure.

A Missing Uncle

I was to stay in Gujrat for about six weeks before returning to college and hostel towards the end of September 1947. My dominant recollection of the time, even more dramatic than the refugee turmoil, is the picture of my father in an armchair listening to the All Pakistan Radio for several hours every day for several weeks, listening to personal messages that might bring news of his youngest brother, Ghulam Hasan and his wife, who were deemed missing. Ghulam Hasan, an air force officer, was stationed in Bombay; he had opted for Pakistan and was supposed to travel by train from Bombay to Lahore after the middle of August. There was no news of him for five or six weeks. As the massacre of passengers on trains coming into (and going out) of Pakistan started, my father feared the worst. He was afraid that, as a military officer with his own revolver, my uncle would foolishly feel safe and insist on travelling by train through East Punjab.

Communications had totally broken down. We of course did not have a telephone but the telegram and mail service was entirely disrupted. The national radio was the only means used by families for sending messages to relatives and friends about their safety and whereabouts. So that is how my father ended up spending most of his waking hours listening to the radio. His excise and taxation work had come to a virtual standstill as the liquor businesses owned largely by Hindus and Sikhs had mostly closed down. But there was no news till late September, when we eventually received a telegram from Lahore that, a few days earlier, Ghulam Hasan and Shamim had safely reached Peshawar, the new Air Headquarters of the Pakistan Air Force.

It turned out that my uncle and aunt had been on a train from Bombay to Peshawar, with all their household effects, in the second half of August; but as the train passed through Delhi, several of their friends met them and persuaded them to leave the train because of the great danger of travelling through East Punjab. They made a wise choice because that train never made it to Pakistan. I do not know how many passengers who were not so warned perished. My uncle’s loss was limited to his worldly goods. He and his wife stayed with friends in relative comfort till they were evacuated by air to Peshawar. Air travel was extremely limited and was possible for my uncle only because of the privilege of being an officer in the air force. Reportedly, only about 7000 persons were air lifted from Delhi to Pakistan.

Return to Lahore: Changes Wrought by Partition

As I returned to Lahore, the world seemed to have changed in a matter of weeks. Hindus and Sikhs were gone. Most of the Muslims from Amritsar were in Lahore and the city was full of refugees from East Punjab as well as from other parts of India. Refugee camps at the edge of city in Walton were full. Government College had opened, with a very large turnover of both students and faculty. The Punjab University Economics department that I was to join a few years later lost its entire faculty, with the exception of Dr S. M. Akhtar, an Islamia College teacher who lectured on economic history part-time.

It was more than a little unsettling to see so much change. Candidly speaking, both the city and the college seemed less glamorous. This had partly to do with the departure of well-to- do Hindus and Sikhs but also reflected a general sadness on the turmoil and loss of life. It was also a bit disturbing to see so many valuable books being sold for a pittance on the pavements in the bazaars. These books came from the personal libraries of educated Hindus and Sikhs and since many of those who now occupied their homes were less educated or less interested in books, they were put on sale. I picked up quite a few bargains.

The weirdness of a new feel in old surroundings was soon drowned by the excitement of living in a hostel, making new friends, and, for the first time, experiencing independence and exposure to a multitude of new experiences. For the four out of the next five years I was to live in the New Hostel (which, belying its name, was at least twenty years old when I started living there). Living on the campus was a great educational experience in itself and also a time of carefree fun.

But before I return to the story of my academic progress and hostel years in the most exhilarating environment of Government College, I would like to note some of the significant ways in which partition and the creation of Pakistan changed our family. Our experience was hardly unique but does throw light on the broader social and attitudinal changes that were unleashed by the dynamics of independence and large transfers of population.

Attitudinal Changes

In my youth, my mother Rashida had always worn a burqa, a head-to-toe veil. Over time, the burqas had become fancier and became nothing like the original 'tent'. Though the veils had become gauzy, purdah was still the order of the day till 1947 in our family. But a few weeks after partition, my mother declared, unilaterally, that she had had enough of burqas. So purdah was gone. My father did not protest. What brought it about? I cannot be sure. Maybe it was seeing the pictures of so many women in caravans, marching to Pakistan, without their faces covered. Or was it the loss of her ancestral home in Gali Mashkian in Amritsar that made a break with the past possible. I do not think she could have easily imagined traversing the long and narrow street to her mother's house at the end of a cul-de-sac without a veil. Or may be it was the growing number of her children which signalled less of a concern with so much modesty. In any case, the fact that the change came just after creation of Pakistan, I find quite amusing.

Just a year or so after independence, my father decided to make a major career move. He was in his late 40s and must have realized that his moderate income was not going to be sufficient for requirements of his large family, consisting of a wife and eight growing children. My youngest brother, Owais Hasan, was born in Gujrat in early January 1948. The prospect of retirement a few years down the road, at the age of 55, with a modest pension after twenty-odd years of service must also not have been a welcome thought, especially because he wanted to provide the best possible educational opportunities for his children.

A close friend of father's from his childhood Mr Azim Khan Ghauri, who had migrated to Bombay, had become a very successful wholesale textile trader there. Azim Khan, by now a very rich man, wanted to establish a foothold in Pakistan and invited my father to set up, in partnership with his son in law, Mr Ahmed Saeed, a wholesale cloth shop in the Gwarhandas Market in Karachi. My father agreed to put up enough capital to take a 25 per cent share in the business, provided he could count on a substantial fixed salary (more than double his income at that time) as the managing partner. The total invested capital was Rupees one hundred thousand. It was a shrewd but very courageous move. It meant losing his status as a government official, which he valued highly. It also required being bound to long fixed hours of business. It involved a move to Karachi, far away from the Punjab. Last but not least, it involved learning a new trade and risk-taking.

As I mentioned earlier, just five years earlier in 1943, my father had agonized about a move to Delhi, not nearly so far away as Karachi, and actually involving higher pay and status in a government job. One does not know what would have happened to my father's career and fortune if Pakistan had not been come into being. But the events surrounding 1947 certainly brought about significant shifts in many personal lives. On the one hand, they opened up new opportunities and, on the other hand, they emboldened people and made them more open to change.

My father successfully ran his business, Shahi Cloth House, for nearly 15 years (1948-1963), made enough money to support his family at a reasonable standard of living, and was able to provide good schooling to his children. My younger brothers, Jamshed, Behram, and Nausherwan, all attended good schools. Jamshed and Behram went to Sheldon High School while Nausherwan (and later Behram) made it to the prestigious Sind Madrassa, a school that Jinnah had attended. My younger sisters were educated in English-medium schools and all finally graduated from the well-known St. Joseph's College, run by Catholic missionaries.

My father's attitude towards the education of girls also changed over time. Earlier on, he had felt that study up to high school would be quite appropriate for his daughters. After all, his mother, our Dadi, had been married off at 16 and my mother was married at 18. But as the years went by, he realized the value of higher education for girls as well: two of my sisters, Shaheen and Yasmin, completed their Master's degrees, while Mahjabeen stopped studying after BA. Yasmin was to later obtain an MBA in the United States, while working at the Chemical Bank.

I was, however, the biggest beneficiary of my parents' willingness to invest in the education of their children because I enjoyed the privilege of living in the hostel in Government College Lahore for four years, an expense that consumed a significant part of my father's not very large income at the time. This was a considerable sacrifice. From my point of view, this expenditure was well worthwhile, because without living in the hostel, I cannot imagine that my educational experience would have been so enriching or complete.

Living in Karachi, a large growing and diverse metropolis, opened new horizons for all of us. But there were costs. My father was never very comfortable in the role of a businessman. All transactions required dealing in black money. In order to avoid or reduce taxes, all transactions were shown at a fraction of their value, requiring two sets of books. This widespread and necessary but illegal practice galled my father. He used to remark that an honest man could not do business in that city.

The other costs related to cramped living quarters. Housing in Karachi, a city that grew manifold almost overnight after partition, was extremely scarce at the time. For several years we, a family of ten, had to make do with a small flat consisting of four rather small rooms, off Pakistan Chowk. Indeed, it was not till 1956, when I was allotted a new three-bed room flat by the State Bank of Pakistan that we had our first modern accommodation in Karachi.

By 1950, new housing was being developed in Karachi on a large scale. The first premier housing society, Pakistan Employees Co-operative Housing Society (PECHS) was developed mainly for public servants, as they were allotted new plots of land at concessionary prices. The elite neighbourhood of PECHS was centred on Drigh Road (the airport road that is now a six- lane highway, called Shahrah-e-Quaid-i-Azam). My uncle Ghulam Hasan obtained a sizeable plot (1500 square yards) at 17F, Block 6, and offered to share it with my father. In 1953, together they built two modern and comfortable adjoining houses, each consisting of large three bedrooms with attached baths, with a lot of living space, verandahs and terraces. Far more luxurious villas were constructed by more senior civil servants. This was a dramatic break with the housing standards of the past though the main beneficiaries were the relatively well-to-do.

In our case, my father occupied the house only in 1965, just three years before his death in September 1968. Renting out the first house owned by the family over 1954-65 was necessary to repay part of the construction costs and to supplement income from my father's business. But from 1965 till my mother's death in November 1989, 17 F was the family home where most of my siblings lived before marriage and it was the house to which we always came back. However, for a dozen years before my mother's death, the responsibility of running the house had passed on to my younger brother Behram and his wife Ghazli. The 17 F house was finally sold in 1993, when my younger brother Behram shifted to his own residence. But the house still stands, though its turn to be converted into a high-rise building, like the hundreds of buildings that now adorn both sides of the airport road, will probably come soon.

Life in the New Hostel

I joined the New Hostel in September 1947 and stayed there till the summer of 1952, except of course for the summer vacations and the academic year 1948-49, when our family temporarily established a residence in Lahore, before joining my father in Karachi in the summer of 1949. As a second-year student with good academic standing, I was able to get my own room next to the one occupied by my close friend, Iftikhar Rasool Malli; we were quite inseparable for the next year. Other close friends that first year in hostel were Muhammad Yusuf and Azim Khan. Yusuf was a year ahead of me and Azim a year behind.

Malli and I had fathers with similar level government positions and we were perhaps typical in terms of the middle income and social background of the students living in the hostel. But the striking thing was the wide divergence from this middle. There were the sons of tribal chiefs from the Frontier Province and the tribal areas; there were the sons of large landlords, including the Noons and the Tiwanas; there were the sons of relatively high-level civil servants and senior professionals; and then there were students from more humble backgrounds: sons of small landowners and small businessmen. Merit played a very large part in admission to the Government College, though a good family background and alumni connections did provide an edge.

Though there were no comprehensive scholarships covering residential costs, ways were found to help students with no financial means, provided they had good academic credentials. My friend Yusuf's case illustrates the point. Yusuf joined as a third-year student in 1947and lived down the hall from Malli and me in a large dormitory room all by himself. He always looked very sad and serious. As we got to know him, we discovered why he looked so sad. He had seen his father and mother shot before his eyes during the Hindu-Muslim riots a few months earlier in the city of Jullundhar. He had no sibling and practically no family and was penniless. But he was an excellent student. Realizing this, the College had not only admitted him but had waived all fees and arranged to cover his hostel expenses.

Unbowed by the tragedy in his life, Yusuf, a mathematics student, surprised us all by topping the list of all candidates in the Punjab University BA exam in 1949. After that, many hands reached out to him. My father, when told the story, persuaded a family friend, Mian Afzal Hussain, at that time chairman of the Pakistan Public Service Commission, to write to the Vice-Chancellor of Punjab University for help. I am afraid all this attention and additional money diluted Yusuf's academic zeal and he did not fare that well in MA Mathematics and had to be content with a lectureship in a small college in Swat.

In terms of money, among my immediate friends, Azim Khan was on the other end from Yusuf. Azim Khan, the only son of a rich landlord from Kasur, had an ample monthly allowance and was very generous in frequently paying for several of us in our frequent visits to the cinema. He had a rather limited interest in academics and unfortunately had to drop out after some hanky panky in the intermediate examination in 1949.

Azim's generosity meant that we saw more Indian films than we would have otherwise. This was the time that Indian actresses such as Kamini Kaushal, Nargis, Madhubala, and Indian actors such as Dilip Kumar, Raj Kapoor, and Ashok Kumar reigned supreme. Some of the memorable Indian movies of the late 1940s and early 1950s were 'Andaz', 'Barsaat', and 'Mahal'. The best tickets were at the back for a relatively affordable two rupees and four annas. The proletariat paid only four annas per ticket and sat in the very front rows, thoroughly enjoying the show and making a lot of noise.

By and large, however, it was fashionable for Government and Forman Christian (FC) college students to watch English films at one of the two more sophisticated cinemas, Regal and Plaza on Mall road. Azim joined us if they were showing one of the films of the bathing beauty, Esther William, not requiring much attention to dialogue. But there were a lot of serious films, including renderings of Shakespearean dramas such as 'Hamlet' and 'Henry V' (starring Lawrence Olivier), and 'Madam Bovary'; there were comedies with Alec Guinness, Bob Hope, and Red Buttons. Charlie Chaplin, of course, had attained world fame as a comedian in his silent films. I recall that my friend Iftikhar Malli went to Regal Cinema with great anticipation to watch one of Charlie Chaplin's first films after the Second World War, 'Monsieur Verdous', a tale with a moral, about a murderer. We were greatly disappointed because there were very few laughs. I have always wanted to revisit the film to see the redeeming features we missed. But in general also, in his subsequent films, 'A King in New York' and 'A Countess in Hong Kong', Chaplain never found the truly comic touch.

The film that introduced me to Alfred Hitchcock was 'Strangers on a Train'. I ended up watching that film three times in its two weeks' showing. From then on, I never missed any of his new films. But it took years to catch up with his earlier brilliant work, notably '39 Steps', 'Notorious', and 'Suspicion'.

Well-to-do though my friend Azim was, there were hostel residents who were far richer and much more sophisticated in their search for evening entertainment. There were at least a couple of students from the tribal areas, very fair and handsome, who rarely stooped down to having their dinner in the dining mess hall. They would don tuxedos and head down to Metro or Lorang Hotel for an evening of drinks and dinner. Lahore had several hotels and restaurants that had regular dinner and dance most evenings. There was no prohibition and liquor was served in most good restaurants, beer being available in some tea-rooms like Standard. I do not think that age restrictions were observed very meticulously. But there was no big fuss about this and there was little rowdiness associated with drinking of those few who enjoyed it and could afford it. Life was much more relaxed and less self-righteous in the good old days.

College Ethos

The landlord-types and the tribal chieftains did not always attend classes very regularly and were true gentlemen of leisure. But, in general also, only a minority took academic studies very seriously. The emphasis on sports, social and literary functions such as debates and Mushairas, visits to tea-rooms and coffee houses were considered the essence of college life. Academic excellence was relegated somewhat to the background, partly because the system of term exams fell into disuse after partition and there were no markers of academic performance except through the general external exams at the intermediate, BA, and MA levels.

This is not to say that outstanding academic performance was not recognized or even revered. Indeed, in my years at Government College, the College was still reverberating with the academic excellence of Abdul Salam, later a Nobel Laureate in Physics, who had set several new records and left on a scholarship to Cambridge after finishing his MA in Mathematics in 1946. Abdul Salam obtained a double first in Physics and Mathematics from Cambridge in 1949 and a Ph.D. in 1951. He returned to Government College as a full Professor in Mathematics in 1951, an unprecedented break with the normal rules, only to return to Cambridge in 1954. But I also remember the story that Abdul Salam's teachers and many admirers, including Qazi M. Aslam, later Principal of the College, were concerned that because, of his lack of extracurricular activities, Abdul Salam might not do as well in the entry to the ICS (Indian Civil service), considered the pinnacle of ambition and success. So they successfully pursued the idea of getting him elected as the President of the College Union to improve his resume. I am afraid the idea of a brilliant scientific career as a goal in itself escaped most minds in the pre-independence mentality.

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ABDUL SALAM

I had the honour of meeting Professor Abdul Salam very briefly twice. The first time was at the Dhahran terminal in Saudi Arabia in December 1962, when my wife and I, newlyweds, were heading to my parents' home in Karachi for the Valima and other festivities. A common friend introduced us, but the meeting was brief. The second time I met him was at a reception in his honour given by Pakistan's Ambassador in Washington D.C., a few weeks after he had received the Nobel Prize. As I approached him, I was very surprised that he remembered where and when we had met and what my background was. He told me that that he had been just to Pakistan where he had been treated very well by the Government. He lamented, however, that in reprinting his acceptance speech at Stockholm, the press had edited out the long preamble, in which he had quoted Suras from the Holy Quran, because, as an Ahmedi (see discussion below) he was considered a non-Muslim. He seemed genuinely hurt and could not understand why, even if treated as a non-Muslim, he could not quote from the Quran. I also felt quite awful.

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In any case, Abdul Salam was entirely in a class by himself. Lesser mortals had to be careful to avoid the title of 'bookworms'. I myself had sometimes to study on the sly, say between a visit to Lawrence Gardens to watch the delightful international exhibition tennis matches, and dinnertime.

There were less visible signs of recognition of academic achievements compared to excellence in sports, debating, and the drama club. One could wear the college colours on one's blazer if you attained distinction in the latter fields. The recognition of academic achievements came in the form of Rolls of Honour, which were far fewer than colours and came only at the end of the BA and MA degrees.

There was of course a tremendous amount of intellectual activity, centred on groups like Bazm-i-Iqbal and Sondhi Translation Society, the College Magazine, *Ravi*, the College Union, a debating society, and a very active drama club. Still, I cannot avoid the impression that style, sometimes more than substance, mattered to Government College students. Hostel residents were almost always well-dressed, often with a coat and tie in winter when they came out in the evening for a walk on the Mall or a visit to one of the coffee houses or for social functions.

Content with my small group of friends and with easy access to evening activities in the College, debates, performances of the drama club, literary society meetings, and evenings at the cinema and occasional visits to teahouses, I found hostel life quite pleasant. The hostel meals were ample though greasy–I found many residents draining the excess ghee from the curries before starting their meal. The tuck shop, a combination of a coffee shop and room service, was a joy because no cash payment was needed.

Central to hostel life was a personal servant, assigned to a group of seven or eight students. In my case, he was a tall gangling man of thirty-something, named Ali Baba, who had come to serve in the hostel in his youth. Ali Baba brought me breakfast, made my room, arranged laundry, barber visits, and, the wonder of it all, in the summer months, before the college closed, took the *charpais* (cots) of his *boys* every evening all the way (three floors up in some cases) to the roof, through the very wide central stair hall, so that we could sleep in the relative cool of the high roof under an open sky. In the mornings, the *charpais* were brought down, since they were important part of room furniture, serving as sofas. Those less adventurous stayed in the courtyard. But practically nobody slept in the rooms, it was simply too hot.

The discipline in the hostel was generally strict with the Hostel Superintendent living in a large flat in a corner of the hostel. The doors closed at 9 p.m. Presence was marked by the student prefects for each floor, though perhaps not perfectly (I was to rise to this exalted position in my sixth year and was put in charge of the top floor). One could stay out till 10:30 p.m. with prior permission. This ruled out the late show at the cinema which ended at midnight. Soofi Ghulam Mustafa Tabbassum, a famous professor of Persian and Urdu and an accomplished poet in Punjabi, Urdu, and Persian, was the Superintendent for most of the years I was in the New Hostel. But with Iftikhar Malli's encouragement and connivance, I did break the rules a few times. At the side of the hostel, a few glass door panes were missing, probably 18 inches by 9 inches in size. We learnt to squeeze through the gap after a late cinema show. You had to be young and very slim. We were never caught, but I was not comfortable, hanging sideways in the middle of the door at midnight before safe entry.

I did manage to study hard. I was perhaps too young and too shy to be a debater and not skilled enough for acting. I also fell short of college standards for major sports teams. I did not hang out much in the common room and never became proficient in table tennis. I became active in student politics only in my final year, when I successfully sought election to the position of the President of the Economics Society. This was to have major consequences for my career and life.

The hard work paid off. I got a high first division in the Intermediate Arts examination, with the second place in my highly competitive college. I recall that in 1948, university exams were postponed to accommodate students affected by partition. They took place in the searing heat of June, just before the month of Ramadan started.

As I look back on the first year in hostel, some memories stand out: An evening spent with Professor Ahmed Shah Bokhari, who had taken over as Principal some time in 1947 and found time to spend a few hours with young students over dinner, was quite memorable. Professor Bokhari was a brilliant man, great humourist, and a most charming conversationalist. He also had the reputation of being a very effective English teacher. My friend Yusuf, who was in his third year of college, attended his class and found it a most rewarding experience. Now, six decades later, I still recall a joke Professor Bokhari narrated when he was asked to make an after dinner speech to the students. He told us about a man who was thrown in front of a lion in the Rome Coliseum by a Roman Emperor as per entertainment of the times. The man showed great courage and whispered something in the lion's ear. After this, the lion just walked away. When asked what the man had said to the lion to avoid being killed, the man said that he had just told the lion that if he ate him, he would have to make an after-dinner speech.

I was not fortunate enough to attend a class with Professor Bokhari who left Government College in 1948 to serve in the new Pakistan UN mission in New York. Later, he would join the UN rising to one of the few positions at that time of Under-Secretary General. He died in New York in the late 1950s, while still with the UN. His enduring legacy is the slim volume of humour in Urdu, *Patris Ke Mazamin (Patris's Essays,* Patris being his nom de plume*)* which is still regarded an important contribution to satire.

Early in the hostel year, I became familiar with the custom of ragging the first year students. One notable victim was Safdar Kazmi who was from rural Sheikhupura and had his Jinnah cap on with his qamiz shalwar at all times, much to the amusement of more modernized seniors. Safdar, however, bore his teasing with equanimity. But he shed his cap soon afterwards, becoming a regular presence in the common room and actually becoming a champion table-tennis player. He was to join the CSP in 1956 and had a long and distinguished career.

One haunting memory is that of a handsome senior who committed suicide in the bathrooms next to my wing of the hostel. He just swallowed a large ball of opium which was readily available from licensed shopkeepers, a tola (about 11 grams) costing just over a rupee. I guess a few tolas were enough to take your life. Actually, the control on some narcotics, such as opium, was quite lax. I remember being asked by an aunt, before I joined college, to buy a little opium which she used in very tiny doses to keep her colicky baby sedated. The shopkeeper was happy to sell the stuff to a teenager.

Stumbling On Economics

It was the summer of 1948. I had successfully completed the Intermediate examination in Arts, securing high marks. I was, however, rather at my wits end about the choice of two optional subjects for the BA degree. I had studied Persian, Mathematics, and History in the first two years of college, but even though I did well in these subjects, I was not particularly excited about them. I was thus toying with the idea of opting for Political Science, a new subject that was offered at the BA level. To some extent, the subjects did not matter. The goal for most good students was to obtain a decent MA degree and seek entry to the high civil service through a competitive examination.

I have to confess that I had no real clue about economics as a discipline. Then, in one of those rare moments that shape one's future, I bought a book on the economic problems of India for a small sum from one of the many pavement bookstalls that had sprung up in the wake of partition. I was greatly taken with the book, whose name I do not recall, and was immediately attracted to economics. As I had not studied economics in the first two years, being accepted to BA classes could not, however, be taken for granted. So, as the college opened, with some hesitation, I approached Professor Muhammad Rashid who had become, at the young age of 28, the head of the economics department, following the exodus of Hindu and Sikh faculty. I made a request to join BA economics classes and he, in his characteristic and somewhat imperious style, asked me whether I was a good student. After I told him that I was, he encouraged me to join. This was a second step towards my becoming an economist. If Professor Rashid had said 'no', I would not be an economist. I owe him a great debt.

From the beginning, I enjoyed economics classes the best and thus also enrolled for BA Honours in economics. I spent a great deal of time on the Honours courses, neglecting somewhat the normal coursework in economics. This led to a less than scintillating performance in the BA exam.

Indeed, 1950 was a low point in my academic career. The academic goals were to obtain a first division with the highest place in Honours in economics. I failed rather miserably in pursuit of these goals. Not only did I miss a first division, I did not qualify for the Honours course. To qualify for that, one had to get at least 50 per cent marks in the main course, in my case economics. This I failed to do for reasons that I do not fully understand. Maybe there were gaps in my knowledge of some basic issues because I had missed out on economics in the first two years of college. Maybe it was the system of external exams which sometimes led to bizarre results. It could also be, as I said, that I focused too much effort on the three Honours courses. The irony was that I topped in the Honours courses–as I learnt later–and had greatly impressed the examiners, some from my own college. Had I got a decent grade in themain economics course I would have had a first class Honours degree with the highest position in Honours in economics. But this was not to be. I took the loss of academic distinction hard and my health suffered, enough to worry my parents.

My father's confidence in my abilities might also have been shaken. He asked whether I would like to pursue my MA studies in Karachi which, by living at home, would save a good deal of expense. I am glad that I did not waver, because the final two years of Government College and New Hostel turned out to be the most rewarding in terms of friendships formed, cultural experiences, extracurricular achievements, and considerable academic success.

Academic Success

Despite the failure to achieve academic distinction in the BA exam, I felt confident and at ease in MA economics classes right away, especially enjoying the new courses in economic history, macroeconomics, and statistics. All that economics reading for Honours courses eventually paid off, as I obtained a first class first in Masters in Economics in 1952 from Punjab University, with my close friend, Moinuddin Baqai, obtaining the only other first class. Moin Baqai and myself were very pleased to compete successfully against other good students (and friends), Azam Alizai, Fateh Khan Bandial, Hasan Zaheer, and Imtiaz Ahmed Khan. The last three had very successful careers in the civil service of Pakistan. Azam Alizai, after a distinguished career in the private sector and as a head of the PIDC in Pakistan was a Director in the IFC and a colleague in the World Bank Group for nearly a quarter of a century. My close friend Hanif Ramay also completed his Masters the same year, but did not take his economics particularly seriously. In the end, he was to make a greater mark on the public life in Pakistan than any of his classmates of the MA economics class of 1952.

That I would succeed so well in the final exam could not, however, have been predicted because the competition was strong. The last two years were memorable, not so much for eventual academic success but for the sheer joy of learning, writing reasonably well-received economic essays analysing Pakistan's economic problems, enjoying senior status in the hostel as one of the three Prefects, being elected and becoming very active as the President of the Economics Society, and last but not least,developing deep new friendships. In the process, I had to learn the rudiments of public speaking and this also forced me to become more outgoing and less shy.

Deepening Friendships

The friendships with Mohammed Hanif Ramay and Muzaffar Ali Syed on the one hand and Moinuddin Baqai on the other both broadened and diversified my circle of friends and interests. The former two helped my intellectual development and enhanced my literary interests, the latter contributed greatly to the sharpening of my economic skills.

Iftikhar Malli, the first college friend with whom I formed a close bond, was an outstanding athlete who became the captain of the college hockey team. Through him, I remained connected with the hockey crowd, which included, among others, a young hockey player, Javed Ahmed, who was to be a future brother-in-law, an older brother of my wife, Parveen. But in autumn of 1950, Iftikhar went to Law College, only to return to MA economics classes next year. That is when I started spending a lot of time with Muzaffar and Hanif .

I had first met Hanif Ramay in June 1946 when we found ourselves sitting next to each other in an interview line for admission to the Government College Lahore, We did not, however, become close friends till 1950, when Hanif also joined MA Economics classes and came to live in the New Hostel. Hanif's family owned the prominent and progressive Urdu publishing house of the times, Maktab-e-Jadid. Painting was his first love and he was already designing book covers for his family's firm while still a student.

Hanif Ramay and Muzaffar Ali Syed (an MA English student who later had a career in the educational branch of the Pakistan Air Force) became my friends as well as guides on all matters relating to Urdu and English literature. The three of us spent hours discussing great works of literature. While Muzaffar was an English student and an editor for the Urdu section of *Ravi*, the college magazine, Hanif had the advantage of personally knowing the main Urdu writers and closely following their writings through his prominent family business. While Hanif was an artist with a very warm and engaging nature, Muzaffar was a critic at heart, who would sometimes mercilessly take apart our views on all matters intellectual and would poke serious fun at the primarily career-driven efforts of the large body of students. He could get away with it because of his sharp wit. He showed tremendous literary promise. It was a great pity, in my view, that he opted for the safety and stability of a well-paying job in the Air Force, teaching young cadets, and did not pursue an academic career. He would have been a great teacher and an even more important literary figure than he became.

Hanif and Muzaffar also introduced me to the emerging poets of the time: Nasir Kazmi, Shahzad Ahmed, and Ghalib Ahmed. During a December vacation, when I was away to Karachi, I left my keys with Muzaffar. On my return, he proudly told me that Nasir Kazmi had slept in my bed and stayed overnight when they were celebrating New Year's Eve.

It was at Hanif's invitation that I met Saadat Hasan Manto. It was the spring of 1951 or 1952 and Manto had already started drinking himself to death. According to Hanif, he was going through a bottle of Red Label whisky every day, financed by his publishers. We found Mr Manto well hidden under a very large bush in front of the Town Hall grounds, alone but for his bottle of Scotch. He was obviously very fond of Hanif and kept us mesmerized with his stories for a couple of hours.

My closest and most enduring friendship, however, was to develop with Moin Baqai. Moin did not live in the hostel and came from Karachi to join the economics MA classes in 1950, after being somewhat frustrated with his studies at Islamia College there. Moin Baqai was an outstanding student and a very close competitor. But somehow we managed to underplay our natural rivalry and liked to study together, trying to overcome the deficiencies in teaching and the curriculum. This helped us both especially in learning Keynesian economics. J. M. Keynes' path breaking *General Theory of Employment, Income and Money*, which had been published in 1936, had not made to the economics reading lists by 1950. Later, Moin and I were to join the State Bank of Pakistan, working together for a few years and then for a number of years were to inter-act on planning matters.

Moin was a remarkable individual, a distinguished economist, and a civil servant. His father had died young, leaving behind a young widow and five young boys. Along with his mother, Moin became head of family at the ripe old age of twelve. With very limited means, young Moin Baqai , with the help of his mother, an exceptionally courageous woman, provided a remarkable education to all his brothers. Moin himself served with distinction as Secretary Planning and Economic Adviser to the Government of Pakistan. His untimely death in 1989 deprived Pakistan of a very talented economist and policymaker. His younger brothers have all also made their mark. The best-known of Moin's brothers, Dr Farid Baqai, was able to establish with his wife, Dr. Zahida Baqai, one of the first private medical universities in the country in Karachi, a modern expression of their family's tradition of being notable hakims.

By the summer of 1952, as the finals approached, Hanif, Moin, Iftikhar, and I were almost inseparable as we prepared for the exams. As we studied, we managed to find time for long and wonderful lunches, with countless glasses of salty lassi delivered to my room by Ali Baba from the mess (privilege of being a Prefect). It was great fun studying together and relishing what was the Last Hurrah of our college days.

One of the most satisfying elements of my last year at college was the moral support and helpful advice that I and my immediate group of friends were able to provide to Iftikhar Malli, who increasingly began to suffer what these days would be called depression. Iftikhar, a close friend from 1946, had often talked about an unhappy childhood and family difficulties because he found his mother overbearing–to put it mildly. But probably his excellence at hockey helped to keep his mental anguish at bay. After BA, however, when he went to the Law College, he became seriously distressed, possibly because of the new surroundings and the lack of the anchor of captaincy of the hockey team. His confidence shaken, he decided to come back to Government College Lahore for MA in economics in late 1951. All the hostel slots were taken by that time, but I was more than happy to vacate one of my two rooms (again the perk of being a

Prefect) for him. For a while, everything seemed to go well and it was very pleasant once again to live next to a close friend. But Iftikhar complained often of his inability to focus on anything, especially reading, and his mood was frequently down.

It occurred to me one day that the situation was serious enough for him to seek outside help and I suggested that he should go and meet Qazi M. Aslam, the head of the college psychology department. My studying books on psychology in my spare time may have prompted me towards this action. This was to turn out quite wonderfully. Qazi Aslam was most helpful and arranged therapy sessions with Dr Ajmal, another psychologist on the college faculty, all without charge. Iftikhar responded extremely well to the treatment. His anxieties began to disappear. He successfully completed his studies, did well in the civil service exam in 1956, joining the Police Service of Pakistan. He married in 1960 and had two children in the early 1960s. We re-established close contact with each other when I came back to Lahore in 1965 and he was the superintendent of police in the nearby Sheikhupura District.

Mental illness went often undetected and untreated at that time. It was Iftikhar's good fortune that he stumbled on to the right treatment. But initially, Moin, Hanif and I took far too much direct interest in Iftikhar's psychotherapy sessions with Dr Ajmal. It was such a novelty for him and us that he would come back and tell us all about what was said during the therapy sessions. But soon Dr Ajmal learnt of this and put a stop to it, saying we were making the effectiveness of sessions evaporate.

Another hostel resident, also a class fellow of ours, Mohammad Zulfiqar, was not so lucky. Zulfiqar, a brilliant student, was somewhat of a recluse. A giant of a man, he was blessed with high intelligence but not an attractive or friendly face. At times, he seemed to have delusions of grandeur. He came close to Iftikhar in the third year (1949-50), the year I was not in the hostel. The very next year he committed suicide by throwing himself in front of an oncoming train near Shahdara railway station, just a few weeks before the BA exams. After his death, he was diagnosed as a probable schizophrenic. Later, Iftikhar's psychologist told him during the sessions that it was lucky for him that his friendship with Zulfiqar was cut short early.

Zulfiqar's suicide was the second in the hostel during my years there. But there were other excitements too in an otherwise placid environment. There was a gun attack on a student during the night, fortunately unsuccessful, reportedly the fallout of a love affair. It was totally forbidden for girls to come to the hostel, but one or two gallant young men managed to flout the rules by openly having an affair. There was also a sex scandal, when a very senior student was expelled for reportedly sexually assaulting one of the handsome young boys serving in the tuck shop and delivering room service. The news of all these incidents was spread rapidly by the corp. of servants. But these happenings were very rare exceptions to an essentially orderly life in a hostel which, like the college, was essentially a male fortress.

Other Friends and Contemporaries

Among hostel students, Fateh Khan Bandial along with Zia Shafi and, Zamir Azar, were notable presences, not only because they were good students and good sportsmen but also because they had a very elegant style of living. They combined academic success and strong extracurricular activities with a good sartorial standard.

Ansar Hussain, a couple of years my senior, was an excellent student, a fine debater and English editor of *Ravi*. He left Government College before completing his MA, for new openings in the UN in 1951. I feel he joined international service prematurely and probably suffered in his UN career because of a lack of high academic credentials.

Akhlaque Hussain, a physicist with a wry sense of humour, was an effective writer and a great debater. He was at the very top of candidates to qualify for the Civil Service of Pakistan (CSP) in 1954 and served with distinction until his death in early 1990s.

Among excellent science students, Saeed Akhtar Durrani combined serious study with literary endeavours and, after a distinguished career as a physicist, has been very active in the literary life in Pakistani circles in Birmingham, England and has published a volume of Urdu poetry.

Among those not in the hostel was Moeen Qureshi. Moeen Qureshi did his Masters in economics in 1951 and proceeded to Indiana University soon thereafter on a US Fulbright Scholarship. After obtaining his doctorate in economics in the US and serving for a few years in the Pakistan Planning Board, he joined the IMF in 1957. Mueen was to rise to great heights in international finance, including long service in the World Bank as Senior Vice President, Operations. Mueen Qureshi served as Caretaker Prime-Minister of Pakistan in the summer of 1993 with great distinction, gaining further respect of his country. What I find interesting, however, is that Mueen was a formidable and polished public speaker, even when he was barely 20. He and Iqbal Riza were also notable presences in the Government College Dramatic Club. My friendship with Mueen grew when we moved to Washington in 1970 and we became colleagues at the World Bank. We still remain in touch well after retirement from the Bank.

Iqbal Riza (Ikki), after a distinguished career in the Pakistan Foreign Service, made headlines when he resigned in April 1977 when firing on protestors under Bhutto killed a score of persons. He later joined the UN and rose to be Chief of Staff to Secretary General Kofi Annan and served in that capacity for over seven years. Iqbal Riza and his wife, Parveen, became our close friends during Ikki's many years as Deputy Head of Mission at the Pakistan Embassy in Washington during the 1970s.

I got to know S.M. Zafar, when he ran successfully for the position of Secretary of the Government College Union in 1949. I recall my first impressions of him, his smile and charm. He was an impressive speaker and became a formidable lawyer, serving as the country's law minister for a time. He is now considered a top constitutional authority and an elder statesman of Pakistan.

The point to ponder is that, despite some shortcomings, the public education system produced at the top end high quality graduates who did not always need foreign education to lead very successful careers.

Broadening Interests

As my college years were coming to a close, I was also becoming conscious of the thinness of my resume as far as extracurricular activities were concerned. In autumn of 1951, therefore, I took the plunge and contested the election to the post of the President of the Post-Graduate Economics Society. The contest required a ten-minute speech/presentation of the candidates' case before the members of the society. This made me nervous because I had never done any public speaking before. I got help from Akhlaque Hussain, who was a friend and very strong debater. The speech had a dig at my taller and heavier opponent, Imtiaz Ahmed Khan, saying that personality should not be judged by weight or height alone. Since I was not ready to depart from my prepared text, and was not prepared for an impromptu response, I requested our teacher Syed Munir Hussain, who was conducting the election, to let me go first–a concession that was made possible because Munir had also attended Government College, whereas Imtiaz was an FC college student. I managed to win the election by a couple of votes. It turned out that a dozen or so girl students (out of a hundred or so students) voted for me en bloc possibly because I came in the contest as an underdog. Being elected as the head of the Economics Society was to turn to be another crucial step towards becoming an economist.

The society arranged afternoon lectures at high tea on the lawns of the Old Campus of the Punjab University on Mall road. Zahid Hussain, the first governor of the State Bank of Pakistan and a notable thinker, was one of our early guests. Zahid Hussain, a true institution builder, not only graciously accepted the invitation to spend an afternoon with us, but also told about his efforts to build the economist profession in Pakistan. He spoke proudly of his small but upcoming Research Department. It was a subtle but effective recruitment pitch.

Soon thereafter, through my friend Moin Baqai, I met, Azizali F. Muhammad, who had just joined the Research Department of the State Bank of Pakistan. Azizali was Moin Baqai's mentor, having taught him at Islamia College Karachi. Azizali, and Dr. S. A. Meenai, a fresh Ph.D. in economics from the London School of Economics, who had been appointed Deputy Director of Research in the State Bank, were charged by Zahid Hussain, who was also the President of the Pakistan Economic Association, to organize the annual meeting of the association in Karachi in early 1952. Azizali graciously showed enough confidence in Moin Baqai and myself to invite us to contribute papers to the conference and offered to pay part of our travel expenses. If I recall correctly, finally there were four or five of us students who wrote papers and went to Karachi for the conference. Unfortunately, the Pakistan Economic Association is now moribund and the Pakistan Society of

Development Economists is the only professional body for economists in the country.

My paper to the conference was on 'Financing Economic Development in Pakistan' and was published as part of the proceedings. It was a great feeling to be able to present a reasonably well-received paper to a professional body. Indeed, it was a heady experience for a 20-year-old. I correctly diagnosed the serious problem of mobilizing public resources for development (large external assistance, both military and economic began to flow only after 1954 after agreement with the US).However, the pitch for large-scale deficit financing (I was just learning enthusiastically about the Keynesian revolution) as a solution turned out to be not so well advised.[5]

The preparation of papers by several students, including Moin Baqai, Hasan Zaheer, and Imtiaz Ahmed Khan did lead to another venture–the bringing out of the *Punjab University Economist* in May 1952, an effort that unfortunately was not sustained. Moin Baqai and I were the self- appointed editors of the journal and were rushing around reading proofs and bringing out final copies just days before the exams. The small budget came from the funds of the economics society. In retrospect, it seems rather amazing that Moin and I took some risk with our preparation for the finals for no other reward than bringing out a set of essays and a rather 'learned' editorial by me on the importance of economic development. Clearly, the analytical bug had bitten us.

[5] Pakistan did resort to substantial money creation in the 1950s to finance a large expansion in public investment but at the cost of growing balance of payments difficulties, foreign exchange shortages and adverse impact on private sector investment. By this time, I was at the State bank of Pakistan and was concerned enough to make the impact of deficit financing on inflation, balance of payments and capital formation as subject of my PhD thesis at Yale University.

Chapter 3

Remembering Pakistan's Early Years

College and even high school students who were Muslims had been greatly involved in the Pakistan movement and were very active in demonstrations against Khizr Hayat in early 1947. However, after the creation of Pakistan student activism died down somewhat. Still, as students we were very aware of the acute difficulties the country faced as it lurched from one crisis to another in its early years. The interesting thing is that as one looks back, the serious issues that emerged in the years after partition–tensions with India, especially on Kashmir; the role of Islam; military and politics; the concentration of land holdings and the need for land reform; even the question of a balance between consumption and savings and the tendencies towards conspicuous consumption–have all remained essentially unresolved 50-60 years later. But other issues that did not exist or were not a huge problem, such as law and order, the strength and integrity of public institutions, including educational institutions, dominance and belief in merit as a criterion in recruitment for public services, and tensions among provinces have developed as major national challenges. Still, the country has survived many shocks and progressed, albeit somewhat unsteadily, notwithstanding a five-fold increase in population. Odd though it may seem, despite its many problems, notably the most recent threat from violent extremists, I believe Pakistan and Pakistanis are on a stronger footing than they were in the months and years following partition. This apparent paradox can only be understood in the historical context of how far Muslims had fallen behind the majority Hindu population in British India.

There was a great deal of uncertainty in the air in the fall of 1947. In the aftermath of partition, population transfers, and the refugee crisis, there was a great deal of anguish and anxiety. Some of those uprooted were questioning the rationale of partition. Relations with India deteriorated quickly. The disputes on the transfer of assets and the distribution of common canal waters began and were greatly aggravated by the accession of Kashmir, a princely state with a largely Muslim population but ruled by a Hindu Maharaja, to India in October 1947. Pakistan refused to recognize the accession, which was clearly against the will of the majority of the Kashmiri people. The military conflict that ensued between the two countries ended only in January 1949, when the UN Security Council brought about a cease-fire.

Quaid-i-Azam Mohammad Ali Jinnah, who had assumed the office of Governor General at the creation of Pakistan, came to Lahore and addressed a large public gathering at the University Stadium on 30 October 1947, the only large public meeting he was to hold in the Punjab as the head of state. University stadium is not far from New Hostel. 30 October happened to be my sixteenth birthday and I was happy to celebrate it by going with a group of friends to listen to Jinnah.

Jinnah's speech focused on several things: The sacrifices involved in the creation of Pakistan had been huge, but the alternatives to the 3 June plan would have been horrendous, Muslims have suffered because of a great conspiracy, Pakistan has come to stay, building Pakistan would require further sacrifices and savings, the treatment of minorities in Pakistan must be fair ,regardless of the treatment of Muslims in India.

This speech came only a couple of months after Jinnah's speech to the Constituent Assembly on 11 August 1947 when he said, 'You are free; you are free to go to your temples, and you are free to go to your mosques or to any other place of worship. That has nothing to do with the business of the state…. We are starting with this fundamental principle that we are all citizens and equal citizens of the one state. I think we should keep in front of us this ideal and you will find that in the course of time, Hindus will cease to be Hindus and Muslims will cease to be Muslims, not in the religious sense, because it is the personal faith of each individual, but in the political sense as citizens of the State…'.

Jinnah was not a particularly religious person; indeed his life-style was that of a thoroughly modern and secular man. He never thought of Pakistan as a theocratic state. In fact, all Islamic political parties had vehemently opposed the Pakistan movement and the partition of India. I believe that the economic and social uplift of seriously backward Muslims, especially in the Muslim majority provinces of India, was the major objective of Jinnah's political efforts and in the end he was convinced that it could not happen without partition.

Unfortunately, Jinnah died in September 1948 and the vision of a secular Pakistan suffered a major setback. The task of leadership fell entirely on the shoulders of much less charismatic but extremely honest and sincere politician, Liaquat Ali Khan (1896-1951), who had become Pakistan's first Prime Minister in 1947. Liaquat, whose mother tongue was Urdu, had neither Jinnah's stature nor a strong political base in Pakistan. Nevertheless, he proved to be an effective and pragmatic leader who calmed the nation after Jinnah's death, defused the anger of the public when India forcibly annexed Hyderabad, a Hindu majority state under a Muslim ruler in September 1949, largely by the symbolic act of showing a fist (*mukka*) to India, agreed to a ceasefire in Kashmir, and made the first overtures for support from the US through a highly successful official tour in 1950. Liaquat's contributions to the formative years of Pakistan were considerable and have been under-rated, though he can be criticized for fomenting divisions in Punjabi politics. Still, his assassination in October 1951 dealt a severe blow to the cause of democracy in the country.

Conspiracy theories apart, Liaquat's assassination was the act of a lone gunman, Syed Akbar, an Afghan national who had been living in exile in Abbotabad under the protection of the British. He was apparently motivated by resentment over the political detention of his brother, Pakistan government's cautious attitude towards Kashmir (Akbar had participated in the 1948 tribesmen attack on Kashmir), and, reportedly, by the high profile of Begum Rana Liaquat Ali Khan and her efforts to organize women of Pakistan through the All Pakistan Women's Association (APWA). The conservative Muslim sentiment and jihadi leanings typified by Syed Akbar and the violent act he committed were, in some sense, forebodings of Pakistan's future struggles about the nature of the Pakistani state, the pace of modernization, and the role of Islam in society.

Begum Liaquat (1905-1990), a highly educated woman, was a very visible presence, both as the wife of the Prime Minister and as a leader of social work. This caused resentment not only among religious conservatives but also made many middle-class Pakistanis uncomfortable. The discomfort was not due as much to the initiatives for social work as to the glamorous images of Begum Liaquat and other Begums around her, running APWA. Unfavourable comparisons were made with Jinnah's surviving sister, Fatima Jinnah, who had a low-key personality and a very simple dress style, more like the women Congress leaders in India. This was unfortunate because Begum Liaquat was a talented woman who had a modern vision for women and served the country well in various ambassadorial assignments after her husband's death.

It is also not widely known that Liaquat Ali Khan left practically no assets at his death. He, as a scion of an aristocratic family, had owned considerable property in India but had refused, despite entreaties from his aides, to use his position to get prime refugee property allotted to his name, saying it would set a bad precedent. The government of Pakistan had to provide for the education of his children. The display of such financial integrity has been extremely rare among Pakistan's leaders.

In early 1951, Liaquat was able to foil the first attempt by a group of military officers led by Major General Akbar Khan to take over power. The case came to be known as the Rawalpindi Conspiracy case. Akbar Khan, as a brigadier, had led regulars of the Pakistan army in Kashmir in 1947-48 when the Indian army landed in Kashmir and confronted the Pathan tribesmen who were advancing towards the valley. He was dissatisfied with the support given to Pakistani fighters by Liaquat; he was of the opinion that the acceptance of a ceasefire was a mistake and that the armed struggle against India should have continued.

Though the military takeover attempt did not succeed, underlying themes of what should be done about Kashmir and the army's view on national security and appropriate foreign policy, especially the relationship with India, have continued to shape Pakistan's chequered history. In retrospect, Liaquat Ali Khan's biggest mistake was not to seek a fresh mandate from the public to give democracy roots. Elections in what was then West Pakistan were not held till 1958. The Constituent Assembly consisted of representatives elected in early 1946 under very different conditions.

A unique feature of the Rawalpindi Conspiracy was the support it enjoyed from the Communist Party. The Secretary General of the Communist party and left-leaning and communist sympathizer and poet, Faiz Ahmed Faiz, were named among the conspirators. Under Liaquat, the communist party was not permitted to function openly as a political party and was being repressed and Akbar Khan had promised that it would be allowed to take part in the elections.

The arrest of Faiz Ahmed Faiz, who already was the leading Pakistani poet and fast becoming a national icon, caused a great deal of disbelief and dismay in Government College and hostel. Faiz had often presided over Mushairas in the college and it was well known that he, Professor Taseer and Professor A. S. Bokhari (when he was in town from his job in New York) were often guests at intellectual gatherings and drinks at the residence of Sufi Ghulam Mustafa Tabassam, the Superintendent of New Hostel. Several of us took vicarious pleasure from these high level literary séances nearby.

One fallout of Faiz Ahmed Faiz's arrest was that his wife, Alys, an Englishwoman, joined MA English classes in our college in order to prepare for a teaching career, a wise move because Faiz's imprisonment was to last several years. She thus became a class fellow of Muzaffar Ali Syed, who often talked about her courage and grace.

The political consequences of Liaquat's assassination were dire. Initially it meant the rise of top bureaucrats like Ghulam Mohammed, the finance minister (who became Governor General in place of Khawja Nazimuddin, a sincere and honest politician from East Pakistan who stepped down to become Prime Minister); Secretary General Chaudhry Muhammad Ali (who became Finance Minister) and Iskander Mirza, Secretary Defence (who was to succeed Ghulam Muhammad in 1954). These civil servants, though able administrators, were not able to lay the foundations of a functioning democracy and both directly and indirectly paved the way for the military takeover by Ayub Khan in 1958.

On the college campus, democratic institutions were intact but disdain for politicians had begun to creep in, mainly because of the mechanizations of two rival political groups of the Muslim League in Punjab, led by Mumtaz Daultana and Nawab Mamdot respectively. I am sure fresh elections would have provided for greater clarity and less intrigue. Meanwhile, the drive for building the Pakistan army was on.

Entry exams for the officer corp. were held every six months and judged strictly on merit. Many students opted for the army.

The issue of Kashmir was also very much a topic in college discussions. Chaudhry Zafarullah, Pakistan's first foreign minister, who had become known for making speeches several hours long at the UN Security Council, advocating the case of Pakistan, came to address the students more than once. Chaudhry Zafarullah, who later became a judge of the International Court of Justice at the Hague was a member of the Ahmadi sect, now declared non Muslims in Pakistan. At that time, however, the anti-Ahmadi sentiment had not grown strong. But the fact that Zafarullah did not join the funeral prayers for the Quaid-i-Azam was well known. When asked by a foreign correspondent why he did not join, he said, 'You can regard me as Muslim in a non-Muslim nation or a non-Muslim in a Muslim nation'. The Ahmadis are a Muslim group who believe their founder was also a genuine prophet, a belief which goes against the grain of all Muslims who believe in the finality of Prophet Mohammad (may peace be upon him). The growing resentment against them, especially from the public, led to their being declared non- Muslims in the mid-1970s. Ahmadis to some extent brought the problem on their own heads by saying that they did not consider any Muslim who did not share their view of Mirza Ahmed as Muslim at all. I still believe that deciding who is a Muslim is not a function of the state. In any case, the large majority should always show greater tolerance and forbearance for minority views.

The climate on religious matters was certainly more liberal in the early 1950s. The discussion on the role of Islam was not off-limits, either in debates or in articles in the college magazine, *Ravi*. I recall an article, probably written in 1949 by a bright young student, Ehsanul Haque, who was later to join the army, talking about breaking some of the chains of tradition imposed by thirteen centuries of Islam. This was in part a reaction to the Jamaat i Islami, which was actively organizing student associations and arguing for rule of Sharia at college campuses. I do not think such an article could be published today.

Economic Issues and Early Economic Decision Making

My sense of certain things not having changed in Pakistan's political life over time applies to some economic issues as well. As economics students under Dr S. M. Akhtar, head of the university economics department (who for a while was the author of the only book on Pakistan's economy), we learnt early about the concentration of land holdings and the drag it was on progress in agriculture and alleviation of widespread poverty. Despite two attempted land reforms under Ayub Khan and Zulfiqar Ali Bhutto, the pattern of land holdings has not changed, especially in Sindh. Agricultural productivity in Pakistani Punjab remains considerably below that of Indian Punjab and consequently rural poverty has persisted. A more equitable distribution of land holdings in the Indian Punjab has certainly been an important factor in its better agricultural performance.

I have written elsewhere on the economic policies in the early years of Pakistan.[6] But two economic decisions–the non-devaluation decision of 1949 and the use of the windfall of foreign exchange earnings arising out of the Korean War-related commodity boom–illustrate the pre-occupation with asserting the country's economic sovereignty, especially in relation to India. 'Ever since the idea of Pakistan was put forward, doubts had continually been thrown on its economic and financial viability.'[7] Policymakers were thus determined to demonstrate that they could cope with the numerous problems arising out of partition. Unfortunately, it sometimes clouded the judgment on economic matters.

One of the most important economic decisions which the government faced followed the United Kingdom's devaluation of the sterling by nearly 30 per cent in September 1949. Both India and Pakistan were members of the sterling area. India and a number of other countries followed the UK and devalued their currencies. Pakistan, however, decided not to devalue the Pakistani rupee. The decision effectively appreciated the rupee *vis-à-vis* the currency of its dominant trade partners, India and the UK. India refused to accept the new parity of the rupee. This led to a trade deadlock with India and a precipitous decline in the exports of raw jute, East Pakistan's principal export. Whether India's reaction should have been anticipated is a moot question. But there is little doubt that Pakistan's non-devaluation decision dealt a major blow to jute exports from East Pakistan. The dramatic fall in raw jute exports to India, accompanied by an increase

[6] Parvez Hasan,Pakistan's *Economy at the Crossroads*, Oxford University Press, Karachi,1998, Chapter 2.

[7] Muhammad Ali, *Emergence of Pakistan*, New York, Columbia Press 1967.

in raw jute production in India, resulted in a steep decline in Pakistan's share in the total world jute production.[8]

The decision was thus costly. 'An important element in the final decision was the feeling that it would enhance Pakistan's prestige.' Unfortunately, for Pakistan the emotive appeal of non-economic factors has, at critical junctures, often outweighed the cold economic calculus.[9]

Fortunately for Pakistan, the non-devaluation decision did not have to be tested in the trade war with India for long. Starting in the mid-1950s, the commodity boom induced a rise in raw material prices to unprecedented levels. India finally accepted the new exchange rate parity in early 1951. Pakistan, however, frittered away the sizeable buildup of foreign exchange reserves on massive import liberalization. This, combined with the exchange rate which was overvalued, helped to bring down prices not only of essentials such as cloth, but also of a wide variety of consumer durables, including luxury cars from the US. The trouble was that this import expansion was totally unsustainable and ended up with a ban on imports of textiles and others goods just a year or so later.

Meanwhile there was somewhat of an orgy of consumption of consumer durables, benefiting mainly the upper middle classes, including the senior civil servants. I recall an industrial show in Karachi in December 1951 where General Motors cars from Chevrolets to Cadillacs were being displayed and sold. Even as a student, I was struck by how relatively inexpensive they seemed. Cadillacs were priced at around Rs25,000 while Chevrolets cost Rs16,000 or so. Not surprising, most of the half a dozen of the Cadillacs on display had already been sold to secretaries in the government and Air Vice -Marshal Asghar Khan, the new young chief of the Pakistan Air Force, among others. The monthly salary of senior civil servants and top military officers was Rs4000 a month. As discussed later, this conspicuous consumption came to be deeply resented in East Pakistan, though Fazlur Rahman, the Commerce Minister, a major force behind temporary import liberalization, was from East Pakistan.

[8] See Hasan, 1998 pp 110-117.

[9] Hasan op.cit.

Living beyond one's means and preferring short-term consumption to long-term investment are weaknesses that have continued to plague Pakistan through out its economic history.

Chapter 4

Becoming a Professional Economist

The summer of 1952 ended on a high note for me. Having moved back to Karachi after the MA Economics exams, I spent the early months of the summer in some anxiety about the results which were to be determined entirely by external examiners, based on candidates' written answers to questions posed in four three-hour sessions. My experience with this system in the BA economics examination had been fairly disastrous. So I awaited the outcome with trepidation, not least because the coveted first division was usually attained by only one or two students and this high distinction mattered a great deal in the subsequent pursuit of a career.

Thus, it was with immense relief and unbounded joy that I learnt that I had topped the list with a first division, my good friend and close competitor, Moin Baqai, obtaining the only other first division. My family, especially my father, was elated and proud because their confidence in my abilities was reinforced.

With a first class first MA it was not difficult to land my first job as a lecturer in Economics at Islamia College Karachi at a decent salary of Rs325 a month.

Islamia College was one of the many private educational institutions set by M. A. Qureshi in Karachi after partition in 1947 as the population of the city grew manifold in a matter of months. Qureshi was a true entrepreneur and a pioneer in private education for profit. The remarkable thing was that he was a man with limited education himself and was proud of saying that he had begun his career by pulling a cart. But obviously he had a great sense of opportunity and actually started his forays into education with an English medium school. The Marie Colaco School, which was attended by two of my sisters, Shaheen and Mahjabin, was considered second only to St Joseph's Convent School, a missionary school.

The students at least in economics were predominantly part-time and had regular day jobs. Their hunger for additional education seemed strong and they were clearly strongly motivated. This made the task of teaching easier, but the fact that most of the students were older than me was a little discomforting.

Another consequence of the part-time student body was that the classes were held early in the morning. I had to be at work by 7.30 a.m. and my two classes were finished by 9.30. It felt strange to be able to return home most days by noon.

I also learnt that grown-up part-time students had to be treated differently. Once, when I was giving an exam, a couple of students wanted to order tea from the tuck shop. I objected, because this was not my idea of class etiquette. They appealed to Professor Maulvi, the kindly principal, who ruled in their favour and politely asked me to be more flexible.

I also remember that teaching at Islamia College afforded me my first opportunity to attend a large diplomatic reception. Islamia College was located in a building next to the Afghan Embassy in the Jamshed Road area of Karachi. On the occasion of their National Day Reception, the Afghan Embassy showed great courtesy by inviting the entire faculty of the college, numbering a score or more. Most of the teachers eschewed the invitation but I attended eagerly. It was a lively party with liquor flowing freely. I had also never seen so many elegant women in strapless gowns. The world has changed. I cannot imagine that an Afghan National Day Party under Taliban in the 1990s would look anything like the party in 1953 and I am not sure what the position is today.

After the freedom of the hostel years, living with my parents and seven siblings, ranging in age from 6 to 16, in a rather small four room flat off Pakistan Chowk was in some ways quite constraining. But the availability of a substantial cash income made possible free spending and long evening rounds of bookshops, tea houses, and restaurants. My friend, Moin Baqai, had found a job as a lecturer in Urdu College and we got together most evenings. Qadir Jasbani, a lawyer whose family had migrated from Bombay, and my first cousin, Asif Hasan, who had started working at Habib Insurance often joined us in these forays.

Cinema houses, notably Palace and the newly developed Rex, which showed the latest movies from Hollywood and Great Britain, were also a big attraction for both the elite and the masses. Visits to the cinema were relatively inexpensive. The top tickets in the balcony cost Rs 2.50 and the cheapest tickets in the front row below were about half a rupee. Even a labourer earning a daily wage of 2 to 3 rupees could afford an occasional visit to watch the most glamorous western movie stars. But for most of the public, Urdu and Punjabi movies were the big draw. The trade deadlock with India in late 1949 halted the import of Bombay films but provided strong incentives for the nascent Pakistan film industry.

In this day and age of not only hundreds of channels of television provided by twenty four hours cable networks covering the globe and VCRs and DVDs, it is hard to imagine the paucity of avenues of entertainment in the 1950s. Pakistan got its first television (in black and white) in 1966 through the official network, PTV; color television was introduced only in 1976 at the orders of Prime Minister Zulfiqar Ali Bhutto.

Moin Baqai, I, and other close friends confined our interest to English language films because films from the subcontinent had not reached the level of sophistication that they have now. Also, the range and scope of foreign films was tremendous. There were the blockbusters of early 1950s, 'Quo Vadis', 'The Ten Commandments', and 'The Greatest Show on Earth' (the latter two by Cecil de Mille). There were the charming English comedies like 'Lavender Hill Mob' with the inimitable Alec Guinness, dramas such as 'Country Girl' (which made Grace Kelly famous), 'Caine Mutiny' (with Humphrey Bogart), and 'From Here to Eternity' (with Deborah Kerr and Burt Lancaster), a classic musical, 'An American in Paris' (with the dancing genius, Gene Kelly),, and the most famous western, 'High Noon' with John Wayne. There were other memorable films which effectively introduced exciting new actors: Marlon Brando in 'A Street Car Named Desire' (Brando soon followed with his success in 'Viva Zapata' and 'On the Water' Front for which he won his first Oscar), Audrey Hepburn in the delightful 'Roman Holiday', and Marilyn Monroe in 'Monkey Business' and 'Niagara'. It must be said to the credit of the film distributors that they did occasionally show art films like the famous Japanese classic 'Rashomen', which won several international awards in 1952 and 1953.

I had become a movie buff from my college days, but in Karachi easy access to the latest western films became a central part of social life, as one was cut asunder from the manifold activities of Lahore college life: debates, sports events, drama club. Because of the long years spent in Lahore, I had fewer friends in Karachi. Still, life in the first couple of years was quite enjoyable. The novelty was living continuously in a coastal city for the first time and enjoying the Clifton Beach and Sunday trips to Manora Island from Keamari in a sail boat hired, for the day for Rs20 or so.

But the big question of career choice was hanging over me in late 1952, amidst all the merriment and a lot of leisure–thanks to relatively light teaching duties. I never gave serious thought to teaching as a career because the teaching profession was not well paid and not very highly valued by society, which judged success among salaried classes by the administrative power that one could wield and the help one could provide to friends and family, without most people worrying too much about the ethics of nepotism and favouritism. Unfortunately, very few of the best and the brightest opted for academic careers in the early decades after the creation of Pakistan and this has been one of the reasons for the decline of public education, especially of higher education. This is only one example where the society has paid a heavy price for its values drawn from the feudal culture of governance.

For ambitious young men a career in the very prestigious Civil Service of Pakistan (CSP) or the Foreign Service through the annual competitive examination for all central services was the thing to shoot for. The fall-back position was to earn a slot in the police, accounts, customs, and income tax services.

Opportunities in the private sector were quite limited. The new industrialists ran their factories as family businesses, had no concept of professional management, and even relatively progressive businesses like Habib Bank and Habib Insurance were loath to pay the new recruits more than Rs300 per month. Unfortunately, half a century later the family orientation of many Pakistani firms has not changed and reliance on professional management is growing very slowly.

Multinational companies and banks like ICI, Burma Shell, Lloyds, and Grindlays Banks were much better employers but still relied heavily on expatriates. The recruitment of Pakistanis in the so-called covenant grade was limited to a handful of people and generally required good family connections.

In contrast, in the aftermath of partition, the power of CSP officers (former ICS) had grown enormously, partly because their numbers were small, their competence and integrity levels were generally high, and the esprit de corps among them made co-ordination and problem-solving in administrative matters easier. All this enabled them to stand up to politicians, who were often not well qualified and lacked full legitimacy because of the absence of elections for a long period of time.

At that time, CSP entrants could expect to become Deputy Commissioners, top administrators for districts with large discretionary powers, in a matter of five or six years. As under the British, the Deputy Commissioner remained a pivot of the administration: he was the district magistrate, the principal revenue officer, and had control of the police.

My first personal exposure to some ICS officers who had opted for Pakistan was in Karachi in the early 1950s. My uncles, M. B. K. Malik, a senior railway officer, and Ghulam Hasan, a senior air force officer, were close friends of Nazir Ahmed, a 1938 ICS officer who had spent most of his career in the Sindh Government. This is how my father and, through him, I got to meet Nazir Ahmed who was in his late 30s at the time and was the Refugee Rehabilitation Commissioner and Revenue Officer for the Sindh province. We noticed that he was on easy terms with most of the ministers of the Sindh government who sometimes casually dropped by his residence. It was not only his official position but also his forceful personality, irreverent but humorous manner, and strong political connections which were the source of his considerable influence in Karachi.

Nazir, a Punjabi with a modest family background had married Afroze, a Sindhi beauty, and a daughter of a grandee of Sindh, Shaban Mirani. (One of late Shaban Sahib's sons, Aftab Mirani, has served as Chief Minister of Sindh and in many federal cabinet positions and is at present a senior leader of the People's Party) What struck me most about Nazir Ahmed was that he seemed to treat all persons, whatever their station in life, in the same casual slightly irreverent manner. As Oscar Wilde said, 'the best manners are to have the same manners for everyone'.

Nazir Ahmed became Commissioner, Hyderabad Division, in 1955 when West Pakistan became one unit and 11 administrative divisions were created, in place of the earlier four provinces, and an attempt was made, not very successfully, to decentralize decision making. He was later to serve as Information Secretary, Defence Secretary, and Cabinet Secretary under Ayub Khan, became a good friend of Zulfiqar Ali Bhutto and supported, with Aziz Ahmed and M.M. Ahmad–other powerful civil servants–the aggressive stance towards Kashmir in the summer of 1965 which ultimately led to the most unfortunate war with India.

Through our family visits to Nazir Ahmed's residence at 2, Bleak Road, I also had the occasion of meeting a couple of his former ICS colleagues, two very different personalities, both of whom made a strong impression on me.

Agha Shahi, a 1943 ICS officer who was Deputy Commissioner Thatta District, was headquartered in Karachi, and shared a large-unit house with Nazir Ahmed. Agha Shahi, a strong intellect, was, however, seeking a transfer to the Pakistan Foreign Service which he was to join the early 1950s. He became an eminent personality and a foreign office icon, who served in many high positions including foreign minister from 1977-82.

Masood known as Masood Khaddar Posh, because he insisted, like Gandhi, on wearing home spun textiles, was a true maverick and independent spirit but one who used his position as an original ICS officer to promote his unconventional ideas. Masood had made his name by writing the only dissenting note as a member of the Sindh Government's Hari Committee around 1950. The plight of the haris, the landless labour in Sindh, remains dire to this day. But Masood showed moral courage by recommending far more radical solutions for eliminating hari poverty than the establishment was willing to consider. Later, Masood was to create a stir by advocating that Muslims should pray in Punjabi rather than Arabic, so that common people could understand what they were reciting, a reformation idea too radical to be considered seriously by religious and political leaders.

The point is that through some interaction with these senior civil servants, I was well aware of the power, prestige, and influence that CSP officers could command. My father was also convinced that the CSP offered the best career opportunity. He took me to meet Mian Afzal Hussain, at that time Chairman of the Federal Public Service Commission and an old acquaintance of his, to learn more about the virtues of the CSP. Mian Sahib was very kind: he told me of the immense powers of a Deputy Commissioner as well as the social privileges, such as presiding over Mushairas. The latter did not strike me as much of an incentive.

More relevant for me personally was the fact that several leading lights of Government College Lahore and Punjab University, among them Aftab Ahmed Khan, Masood Nabi Noor, Masud Zaman, Fazlul Rahman Khan, Saeed Khan, and our popular and handsome economics teacher, Syed Munir Hussain, had joined the CSP during the years from 1949-1952. In 1953, my friend Asif Rahim, who was actually a year behind me in MA Economics, was selected for the civil service and joined it, leaving his high- paying job in ICI Pakistan. In 1954, my economics classmates and friends, Fateh Khan Bandial and Hasan Zaheer as well as my friend from New Hostel, Akhlaque Husain, followed suit. Indeed, among my contemporaries only Zia Shafi, who had joined Pakistan Tobacco Company at a high entry level spurned the CSP, despite his selection.

The entry to both the Civil Service of Pakistan and the Pakistan Foreign service was very competitive; it required scoring high marks in an elaborate written examination, doing well in the interview with the public service commission, and finally clearing a tough medical exam. My chances with a strong academic record appeared good, though my record in extracurricular activities were confined to the presidentship of Punjab University Economics Society and the editorship of the University Economist. Still, an entry into the CSP was not a sure thing and required substantial preparation. Fortunately, for me there was no hurry. Because of my age, I was eligible to take the competitive exam not only in 1955 but also in 1956 and 1957. Meanwhile, one could not afford to ignore other opportunities that presented themselves.

The two critical steps that took me towards the economics profession came over the next two years: in 1953 when I joined the State Bank of Pakistan as an economist and in 1954 when I was selected for a year's training in the US. Meanwhile, an unfortunate incident–and my timid response to it–created an unnecessary doubt in my mind about my medical fitness for the administrative services.

The Netherlands government offered a full scholarship for Ph. D. studies in the social sciences in the summer of 1952. I applied, but was fortunate not to be selected because then I would have lost the chance for economics training in the US: Khurshid Hasan, the talented daughter of a friend of my father's , Hasan Mohammad, was selected, obtained a Ph.D. and later served with distinction as a Professor of international relations at Karachi University.

The application had to be accompanied by a medical clearance certificate from the civil surgeon, a public servant who was not supposed to charge any fee for this service during official hours. So I showed up at the civil surgeon's office early one morning and waited in line with others. In due course, the civil surgeon examined me and then asked me to wait. As the afternoon progressed, all the others left with their certificates and I was left alone. Finally, the civil surgeon called me in and muttered something about some problem with my heart as I was going to a cold climate. I was shocked but did not have any reason to doubt him. Surprisingly, after a further wait I was given the clearance certificate, out of pity, I assumed.

I knew that the news about a heart problem would come as a real shock to my parents, so I decided not to tell them or anyone less. This was a big mistake because I believed, quite wrongly as it was to turn out, that my career options might have become limited. I cannot imagine why I did not share this important information with my father and did not take any steps to rectify the so-called medical problem.

I am not proud of my naiveté: it took me many years and a sequence of medical examinations to finally realize that there was nothing wrong with my heart. The civil surgeon told me a lie because he had expected a fee to be paid to his assistant, a small bribe for public service. His second conversation with me was a final try to get a payment from me without directly asking for it. I, however, had no money to give him because my father, a former government servant, also innocently believed that no payment was required. This was my first exposure to public corruption, though I did not realize it at the time.

The civil surgeon's behaviour caused me much mental anguish over a few years. I do not think that my final career choice was affected by this nagging doubt about my medical fitness. Still, this petty corruption episode was very unnerving, though the responsibility for not taking any steps to clear up the situation is mine and must be attributed to my lack of experience.

Soon after I started teaching at Islamia College in September 1952, the State Bank of Pakistan advertised for positions for economists in their Research Department. As mentioned earlier, I had had the opportunity to meet State Bank's Governor, Zahid Husain, a few times and was aware of his ambitions for his Research Department. At the Pakistan Economics Association meetings in late 1951, I had also met Azizali Mohammed, one of the three Research Officers recruited in 1951, and Dr. S. A. Meenai, who had not only a MSc. but also a Ph.D. from the London School of Economics and had been recruited as Deputy Director and future head of the Research Department. These were impressive young economists.

Naturally, Moin Baqai and I applied for the posts. After a written examination and a long interviews held in both Lahore and Karachi, four of us were selected: Mahbub ul Haq, Moin Baqai, Abdul Karim, and myself. Abdul Karim was already in the Research Department in a junior position. He stayed with the State Bank all his professional life, retiring in the late 1980s as Economic Adviser.

Mahbub ul Haq's selection was also not surprising. Even though he still had not completed his MA, he had topped the list of all BA candidates in the Punjab. I had met him at the Punjab University convocation in December 1951, when we received our respective medals for academic distinction. He was very young, only 18, but clearly brilliant and most charming. As we sat next to each other at the convocation, he told me that the remaining copies of the *Punjab University Economist*, which Moin Baqai and I had produced, were in great demand and were widely read–just the right thing to say to me.

So it was that in the summer of 1953, the group of us four new research officers shared a room in the Old Museum Building at the edge of Burns Garden in Karachi that housed the central office of the SBP. We were under the tutelage of senior research officers, Azizali Mohammad, Ziauddin Ahmed, and Abdul Matin, who had a room all to themselves next door.

It was a memorable summer. The pay, nearly Rs400 per month, was quite good for someone living at home. The work was exciting because it mainly involved following economic developments at home and abroad, carrying out a multitude of economic reviews directly for the Governor: I was assigned the external sector and the US economy as special areas of interest. Moin and I became very good friends with Mahbub and joined other friends on daylong sailboat picnics to Manora Island most Sundays.

Zahid Husain retired as Governor State Bank in late July and was succeeded by Abdul Qadir, who had been Finance Secretary. The officer cadre of the State Bank was small enough for us new recruits to be included in some of the farewell parties for the outgoing governor.

Mahbub left for Cambridge, England at the end of the summer. It was a mark of Zahid Husain's farsightedness that he granted Mahbub two-year leave of absence (without pay of course), after his being only three months in the job. Mahbub completed his tripos in economics in 1955, with a first class, and then headed to Yale for a Ph.D., not returning to Pakistan till 1957, when he joined the Planning Board.

The economists at the central bank were better paid than economists elsewhere in the government: indeed, the starting scale was better than that of the CSP. However, in the early 1950s, there was no clear career path for economists in the government. The highest position that an economist in the government occupied was the position of Deputy Economic Adviser (equivalent to a deputy secretary), initially held by Dr Anwar Iqbal Qureshi, who had been a Professor of Economics at Osmania University in Hyderabad, India, before partition. There was no Planning Commission and no Pakistan Institute of Development Economics; they were to emerge as strong institutions only in the 1960s.

The first breakthrough for economists in government came in 1954 when Moeen Qureshi, a fresh Ph.D. in economics from Indiana, was hired by Zahid Husain as an Assistant Chief, directly in the senior scale, a grade reserved for government servants with at least six or seven years' experience as class one officer. Drawing on this precedent, Mahbubul Haq also joined as Assistant Chief in 1957. Later, those who had obtained a first division from Cambridge or other good universities were easily inducted into the Planning Commission, a relatively prestigious start in the government service.

In May 1953, for me joining the State Bank was not a final career decision. Apart from the imagined worry about medical clearance, I was genuinely in two minds. A career in economics appeared to be uncertain, compared to the prestige and privilege of the so-called superior government services. On the other hand, the attraction of becoming a policy professional was held out by a visionary like Zahid Husain, who saw a clear role for economists in the future and was thus trying to attract the best talent to the State Bank of Pakistan.

Meanwhile, family pressure on me to take the competitive civil service exam was also strong. My father was convinced that CSP was a better option and in his candid style said as much to the Governor, State Bank, Abdul Qadir, whom he happened to meet at a social occasion sometimes in late 1953. My father did not realize that Governor Qadir was a stickler for rules and also tried to ensure fairness for all his staff. So when I was selected for a year's training in balance of payments under a USAID programme in the spring of 1954, Governor Qadir called me for a personal interview and told me that I could go to US, provided I agreed not to take the competitive exam after my return. My father unwittingly had narrowed my options. The bird in hand attraction of a year in the United States tipped the balance in my mind in favour of becoming a professional economist. So I gave my word that I would stay with the Bank.

Thus the die was cast. But I was not totally comfortable with my choice. I was well aware that an MA Economics from a Pakistani university was not enough training for a career as an economist. So investment of time and money would be required for a good Ph. D. abroad. Moeen Qureshi was already back with a Ph. D., Mahbub had left for advanced studies abroad, and Moin Baqai had secured a scholarship for Ph. D. study at Kansas University, which he successfully completed in 1956 in a relatively short -span of two years.

Chapter 5

Travel to the US: The Year in Washington D.C. 1954–55

In the summer of 1954, my dominant emotion was excitement about the coming visit to the US and the prospect of nearly a year's stay in Washington DC. This was my first experience of international travel and was to afford me the opportunity of visiting several European cities on the way to and back from the US.

To top it all, I was to travel in luxury in first class. The US government was quite rich at the time and could afford first class travel, not only for its personnel but also for foreign government officials like me, who were proceeding to US under the Point 4 Technical Assistance Program introduced by President Truman in 1950. Pan American and TWA were the only two US Airlines on international routes and the US government- financed travel had to be on one of these carriers. But the competition between the two was intense. A first class return ticket from Pakistan to the US cost about $10,000 (about $60,000 in today's US dollars). So it was not surprising that an agent from the Pan American office paid several visits to my office to facilitate and help finalize my travel arrangements.

On an early morning in mid-September I headed to London by Pan Am on the way to the US and was seen off by my whole family, including all my younger brothers and sisters. The journey to London took more than 20 hours, with stops in Beirut, Istanbul, and Frankfurt, but I do not remember feeling tired: each major international airport seemed like a different world and there was the temptation to buy knick knacks that seemed like great novelties.

I was fortunate to be sitting next to a senior gentleman, David Summers, who lived in Washington DC. Summers was at the time

General Counsel at the World Bank and was returning after an official visit to Pakistan. He was kind and reassured me that I would not have any major adjustment problems living in Washington. He also told me that he was a good friend, a bridge partner, and an admirer of Mohammad Shoaib, a senior Pakistani finance official who was serving as Executive Director on the Board of the World Bank. Just a few years later, I was to get to know Shoaib personally when he returned to Pakistan as Finance Minister (1958-66) under Ayub Khan. He was also instrumental in persuading me in 1965, when I was in Saudi Arabia, to return to the newly-created position of Chief Economist, Government of West Pakistan. Finally, when I joined the World Bank in 1970, Shoaib was back in Washington again as Executive Director and we had regular social interaction (including some bridge games) with him and his family till his death in 1976. But that was all in the future. In the mid-1950s, top government officials appeared to me larger than life and quite distant.

I spent a few very delightful and busy days in London, in the company my father's cousin, Salman Khan (son of Sheikh Abdul Hameed and Bobo Gul): visiting the major tourist attractions: Big Ben, the Houses of Parliament, Westminster Abbey, Buckingham Palace, Trafalgar Square, Piccadilly Circus, National Gallery of Art, 10, Downing Street, Hampden Court Palace, etc. I enjoyed London's many gardens and parks (Hyde Park, Green Park, Regent's Park) and was awed by the marvellous London public transport system, including the underground (known as the tube) and the red double-decker buses.

But soon it was time to take another Pan Am flight. This time it was the famous round the world flight, Pan Am 101, on its last leg, directly to New York from London with a stop in Gander, Newfoundland. This was a few years before jet aircraft came into operation and the trans-Atlantic flights left Europe in the late evening, arriving in New York early morning. The pride of the Pan Am Fleet was the Lockheed Super Constellation. Compared to today's jumbos, the plane was quite small. An innovative and much-advertised feature was a horseshoe-shaped bar lounge in the belly of the plane for the eight or ten first class passengers. You had to go down a very narrow staircase to visit this bar, which was hardly 80 square feet. I do not drink but could not resist a visit after dinner to this most exclusive of clubs in the air.

After a flight of about thirteen or fourteen hours, we landed at New York International Airport's (renamed JFK International Airport in 1963) only terminal. The immigration and custom formalities were minimal and soon I caught the connecting flight to Washington DC, landing shortly at the National (Reagan National) Airport. This airport was really small then and the extant central rotunda of the original airport was the only terminal building.

A short taxi ride brought me to a hotel near Dupont Circle, next to the International Center for foreign trainees and visitors situated on Rhode Island Avenue, a few steps away from Connecticut Avenue. This was the Center where there was a week- long orientation program for the newcomers.

Washington DC in the mid-1950s was like a small southern town, segregated, conservative, friendly, but with little ethnic flavour. Blacks were kept in their place and the rest of the town appeared solidly white. Today's population mix, with a large number of Spanish-speaking people, Indians, Pakistanis, East Asians, including Chinese, Koreans, Vietnamese, and persons of Middle Eastern origin, would have been totally unimaginable fifty years ago. The lack of diversity was reflected in the food available and the restaurant scene. Even the Chinese, French, and Italian restaurants were few and far between and I do not recall any eating-place with an Indian subcontinent focus. The addition of hundreds of ethnic restaurants–Thai, Vietnamese, Japanese Indian, Pakistani, Afghan–has shaped the development of a truly international metropolis, and reflects it too.

My first impressions of Washington were of a pristine-looking city, with well-laid out streets and avenues, wide open spaces and impressive national monuments that were all too visible even on the short ride along the Potomac River from the National airport. Looking back, I also realize how safe the city was. Though the city was strongly segregated, I felt no discrimination at all as a brown foreigner during my entire stay. Indeed, most people on the street, in the stores, and in the restaurants were friendly and helpful.

Checking into a $5 per night hotel, I quickly realized (money management has always been my strong suit) that an extended stay there would needlessly cut into my stipend of $250 per month. Fortunately, I had come well-briefed on the accommodation situation in Washington. I had been told that many rooms for rent were available, though rooms with private baths were scarce. Such is the energy of youth that I felt no fatigue after my long journey. After a couple of hours of rest and getting freshened up, I was ready to explore the city in search of suitable accommodation.

I think it was a Sunday. I got the newspaper and spent a few minutes familiarizing myself with the very convenient alphabetic and numbered grid system of streets of NW Washington and then went room-hunting.

After having roamed around for several hours and checked many rooms, I was lucky to find what I thought was bargain for $45 per month: a large room overlooking the street, with a queen-size bed, a small kitchenette, and an attached bath, which had to be shared with only one other boarder. The house at 1736 R Street, only a few blocks from DuPont Circle still stands, but in a renovated form. (I should also mention that the segregated black district at that time started with U and 18th Street going westwards.)

Best of all, my landlords were a young, recently married couple, Bob and Joan, thirty-something professionals, and their close bachelor friend, John. All of them were from Texas and were journalists by profession and very liberal in their outlook. They were aghast at McCarthyism, a movement of intense anti-communist suspicion–led by Senator Joe McCarthy–that had engulfed the US in the 1950s. Though by late 1954, the influence of Senator McCarthy had begun to wane, partly as a result of the courageous counter-attack by Edward R. Murrow, the famous broadcaster and TV personality ('We must not confuse dissent with disloyalty'). McCarthyism remained a potent force till the late-1950s. It tarnished the reputation of many major figures, especially in the arts: among them, Edward Bernstein, the composer and conductor; Charlie Chaplin, the actor, Arthur Miller, the playwright and essayist; and Orson Wells, actor. A recent feature film, 'Good Night and Good Luck' on Ed Murrow captures the political flavour of those times beautifully.

In general, living with these young Americans and exchanging views was a great delight. I remember being asked what my impressions of the US were and I had to say that the place did seem less glamorous than I had thought–my view of the US having being coloured by

Hollywood films. In turn, I was curious about the life-style of millionaires and how they differed from ordinary folks, because it seemed as if it was every American's dream to become one. There were no billionaires then. My intellectual and socialist-leaning friends dodged the question and gave their view of capitalism and reflected by saying that the first hundred thousand was the hardest.

Making the Most of My Training Opportunity

I had come under a US technical assistance programme for training in balance of payments, an area that I covered at the State Bank of Pakistan. There were other trainees from Mexico, Thailand, Guatemala, Paraguay, Cuba, and Surinam–a truly inter-racial group–and we were given desks in a large room overlooking the Washington Monument and the Mall in the US Department of Commerce Building on Constitution Avenue and Fifteenth Street NW. We were under the tutelage of a relatively young economist, Nora E. Dollymore. Nora was a six-foot tall, thirty-something Roman Catholic lady of Irish descent. She presided over this diverse group of foreign men from more than half a dozen countries with dignity, charm and firmness.

I soon discovered, however, that the training was rather basic and would not have added a great deal to my analytical capacity to study balance of payments problems. Using my time, somehow, to advance my long-term agenda of obtaining a Ph. D. was also very much on my mind. I presented my problem to the head of the balance of payments division, Dr Walter Lederer, and his deputy, Mrs. Nancy Culbertson. They were most kind, took me directly under their wings, and took a few unusual steps to ensure that I benefited fully from my visit and, in the process, without my realizing it, limited my leisure time and extracurricular activities.

At Lederer's suggestion and intervention, the IMF agreed to let me attend their regular course on Balance of Payments. This was a prestigious annual course that was attended by nearly a score of officials from various central banks and finance ministries. It was a lively group, three of whom were later on to head the central banks in their countries, Greece, Jordan, and Thailand. The group also included a Mr Fields from the UK treasury. Ironically, he was the one who found adjustment to American ways most difficult and returned to London in a couple of months.

I benefited immensely from the IMF 1954-55 course and, at the same time, was largely exempted from the routine training at the Department of Commerce. I maintained my desk there, however, and enjoyed the social company of the largely Latin Group whose social leader was a Cuban who could dance the latest dance craze, the Cha Cha Cha, beautifully.

Somewhat to my surprise but to my great delight, Walter Lederer also agreed to my rather unusual request that the training grant finance my part-time graduate study at George Washington (GW) University. Fortunately, all the graduate courses were given in the evening. So I eagerly enrolled in three courses–three-fourths of the full load–and promptly applied for formal admission to G.W.'s Ph. D. programme. But the latter required crossing another hurdle: passing a reading examination in a major European language. Not to be deterred, I hired a French tutor, a young man with limited income, who did not charge me too much money but who enabled me to meet the rather antiquated language requirement. I did quite well in my courses in both semesters and thus it was my hope to return to GW on some kind of assistantship a couple of years later.

As I look back, I am rather amazed at both my initiatives–I have a self-image of a rather shy, low-key person–and the energy that I displayed in advancing towards my goals. On the three evenings that I took courses, I did not get back to my room till 10 p.m., generally walking the twelve blocks or so from 20th and G and having dinner on the way in one of diners that was open late.

How did I find the time for all these activities? One secret was that I did not have a television set and thus did not watch any television during my year in Washington. The other was that two-day weekends were a new and welcome luxury. But above all, it was the confidence and the spirit of youth as well as the exhilaration of new experiences that made all this possible.

Wonderful New Experiences

Sightseeing in Washington

As a part of the orientation of foreign visitors, there was an extensive and well-guided tour to all the major monuments and sights in Washington: the White House, Capitol Hill, the Washington Monument, the Library of Congress, the Supreme Court, the Lincoln Memorial, the Jefferson Memorial, and Arlington Cemetery.

The Lincoln Memorial was and remains my favourite Washington monument. The design is breathtaking, some forty-odd steps leading up to a huge hall called The Temple, with the majestic Lincoln Statue, in white marble, sitting high in a chair. Despite its gigantic size, the Lincoln Statue conveys to me a sense both of immense achievement and great humility. The famous quotes from Lincoln's speeches, including the Gettysburg Address, are greatly uplifting, though I recall reading with some amusement that when President Abraham Lincoln delivered the speech on the battlefield after the bloody battle at Gettysburg, his address received only limited attention and coverage in the press next day.

In the mid-1950s, the Lincoln Memorial, overlooking the reflecting pool, was the only major landmark this side of the Washington Obelisk. In the 1960s, the area around the reflecting pool was the location of two history-making events. On 28 August 1963, Dr Martin Luther King Jr. led the March on Washington to demand civil rights for blacks and made his famous 'I have a dream' speech from the steps of the Lincoln Memorial. About a quarter of a million persons, a record number at the time, attended the March. On 15 November 1969, the Lincoln Memorial was the centre of what was probably the largest anti-Vietnam war protest which attracted perhaps close to half a million persons.

In the last half century, many important memorials have been added around the Mall: the poignant black wall of the Vietnam Memorial, the large salute to the veterans of the Second World War, the monument remembering the Korean War by recalling the Inchon Landing ordered by General Macarthur, and last but not least, the FDR Memorial, honouring the many achievements and contributions of the great President Franklin Roosevelt. I wonder what monuments might come up in the next fifty years. Will there be a memorial to the disastrous Iraq War and if so, what shape will it take?

A few other impressions linger from those early visits to Washington landmarks.

I was rather amazed at the informality and openness of area around the White House. Of course, there was no security perimeter at the time and around the President's Residence; traffic flowed right in the front and the back of the White House. More importantly, I found a few pavement artists and an occasional lone protester right in front of the open steel railing. Lafayette Park, across the street from the White House, was and remains a venue for more organized protests and demonstrations.

I was delighted, as a Muslim, to hear from the guide in the entrance hall of the Supreme Court that the name of Prophet Mohammed (PBUH) was included in the short list of great lawgivers of the world.

Finally, while greatly enjoying the visit to Mount Vernon, the wonderfully situated private estate of George Washington on the Potomac River, I was struck by the relative modesty of the main residence. It bore no comparison to the palaces of kings and rajas on the Indian subcontinent of two or three hundred years ago. Of course, for absolute rulers there was no distinction between private and state property.

Fall and Spectacular Change of Colours

A month or so after I arrived in Washington, the lady officer incharge of the Pakistan desk at USAID, invited me and a couple of other trainees from Pakistan (Mr Sabzwari from the Bureau of Statistics and Mr Ijazuddin Ahmed from the Ministry of Finance) to join her on a Sunday outing to the Skyline Drive in the Shenandoah Valley to see the glorious colours of fall. It was a fabulous sight and a new experience. There is practically no fall in Pakistan's plains, because the changes in temperature are more gradual and leaves really do not change colour much; the falling of the leaves does not come till January, much after winter has technically set in.

Enjoying fall in the Eastern United States, especially in the states of Connecticut, Vermont, and New Hampshire was to become one of life's pleasures for me. But from that first trip to Shenandoah Valley, I remember not only the glory of the Skyline Drive but also the drive back which took several hours in bumper to bumper traffic on route 29, the only road to the valley at that time. These days it takes a little more than an hour to reach Front Royal, thanks to the Interstate

66, which is connected to Capital Beltway 495, that itself was not completed till 1964.

Later on, the same USAID officer invited me to what was my first concert at Constitution Hall. She also arranged for a few of us to spend a weekend at a working farm in Virginia. Fortunately for us trainees from Pakistan, she was not married but still her efforts to introduce us to different aspects of US life, including occasional dinners with host families was very kind. The great goodwill and friendship shown towards what was then the relatively new state of Pakistan made life for us few Pakistani trainees quite pleasant.

Social life

It was natural to try to get to know some young American women and to test the waters of the American dating system. My first date was, however, a sobering experience in terms of the effort and expense involved. In our first week, there were several cocktail parties at the Orientation Institute. At one of these parties, I met a very pretty girl and asked her out for an evening. Somewhat to my surprise, she quite readily agreed.

On the agreed date, I had to go by bus from Dupont Circle to Macarthur Boulevard near Reservoir Road to pick her up. After dinner at a nice restaurant, she suggested we visit the only nightclub in town, because a relatively unknown but very promising young country singer, named Johnny Cash, was performing there. I could not refuse. The nightclub, situated at 14th Street and New York Avenue, just a few blocks from the White House, was quite conservative: there were no strip tease or burlesque shows in Washington DC: for that, you had to go all the way to Baltimore.

Johnny Cash sang quite a few ballads, giving me my first taste of American country music. He certainly made an impression on the club audience. But all this came at a cost. I was not quite prepared for the high price of a couple of hard drinks that my date had ordered: I confined myself to orange juice. All in all, the evening, pleasant though it was, cost me a princely sum of $25, roughly my food budget for a week. I was far more careful in seeking dates after that and kept a close eye on what an evening might cost. But as Johnny Cash's career took off in the 1960s and he became more and more famous, I was quite proud of having heard him sing in person.[10]

Fortunately, there were frequent social parties and dance get-togethers. Not knowing how to dance was a major handicap. So I proceeded to remedy the problem by getting a few lessons at the Arthur Murray Dance Studios. I never became very proficient but managed to learn a few steps not only of the foxtrot and the waltz but also the Latin tango. Parties also presented some problems: it was a funny feeling as the evening progressed, almost everyone got at least somewhat drunk while I remained cold sober.

Introduction to Western Art: Learning to Appreciate the Impressionists

A visit to the National Gallery of Art, which had opened in 1941, was a part of our orientation. I was struck by how modern, airy, and full of light the art gallery seemed. It was also an introduction to 19th century French painting, especially the Impressionists and the post Impressionists. But my interests in the latter developed greatly as a fellow IMF trainee, an Englishman named Fields, waxed lyrical about Cezanne and I discovered a small private gallery specializing in Impressionist paintings a few blocks from where I lived .

The Phillips Collection at 1600, 21st Street at that time was entirely housed in what was originally the founder's residence. It is now acknowledged as Washington DC's foremost museum of modern art and has expanded several-fold during the last fifty years. In the mid-1950s, it had an extremely intimate feel of the private home that it was. The paintings on display probably were a few hundred, compared to today's permanent collection of 2500. But even then, there was a dazzling collection of outstanding impressionist paintings by Van Gogh, Degas, Monet, Cezanne, and Renoir. The painting that struck me the most at the time was Renoir's great masterpiece 'Luncheon of the Boat'. This large painting hung on a landing of the huge staircase and was then, as now, the best-known work of art in the collection. The attraction for me was not only that it was only a few blocks from my rooming house, but also that the entry was free (sadly no longer). I

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[10] Johnny Cash first recordings 'Hey Potter' and 'Cry, Cry, Cry' were released by Sun issued in 1955.

was thus able to spend an hour or so a couple of times a month admiring the glorious Impressionists.

New York–New York

I made it to the Big Apple around Christmas 1954. It was a most enjoyable visit, particularly because my dear friend Moin Baqai could join me in all the sightseeing. Moin and I spent most of the time together for what was a marvellous five or six day visit. On a break from his studies at Kansas University for Christmas, Moin was visiting with his uncle Irshad Baqai, who was an official at the United Nations.

I stayed at a hotel on 42nd Street near Times Square: back then the neighbourhood was free of the adult entertainment and peep shows that were to come in the 1960s and 1970s and were to be cleaned up in the 1990s. Not only Times Square but the whole of mid-town Manhattan at Christmas time, was a spectacular sight, nothing like anything we had seen. The illuminated skyscrapers, extremely tastefully decorated shop windows, the huge Christmas tree in the Rockefeller Center, the open air ice-skating in the Plaza below, Radio City Music Hall and its world famous dancers called Rockettes, and the Broadway theatre district were all great sights to behold.

We also made the almost obligatory visits for all first time tourists: the top of the Empire State Building, the Statue of Liberty in New York Harbour, the Financial District and Wall Street at the southern tip of the Manhattan Island, and the Metropolitan and Modern Art Museums mid-town.

The Empire State Building completed in 1931 was, with its 102 floors, to remain the tallest skyscraper in the world till 1972, when it was overtaken by the World Trade Center and Sears North Tower in Chicago. After 11 September 2001, terrorist attacks that destroyed the twin towers of World Trade Center, the Empire State Building became once again the tallest building in New York, but is only the eighth highest in the world. Burj Dubai (now Burj Khalifa) has recently become the world's tallest tower, with most of the rest of the tall towers situated in Asia, notably in China and Korea. In a further sign of a changing world, of a dozen or so of the tallest buildings that are expected to be completed during the next couple of years, all are outside the United States.

The most wonderful experience of our visit to New York was the lights of Broadway and the two Broadway shows that Moin and I saw. In retrospect, the ease of finding good orchestra seats at reasonable prices of only $5.50 per head at Christmas time seems rather amazing. But the real surprise was the breathtaking quality of the shows.

I fell in love with the American musical when we saw 'Peter Pan', starring Mary Martin (1913-87) in the principal role of the androgynous lost boy Peter, who wanted to fly. Apparently, this was not the first time that Mary Martin had played Peter on Broadway. I was not familiar with the story but in any case was not prepared to see Peter fly so high and wide across the stage. It really seemed magical. As the New York Times critics said at the time, Peter had never flown like this before–I guess the technology of the wires and the pulleys had improved over time. The interesting thing is that Mary Martin was 41 at the time.

The other show that we saw was 'The Teahouse of the August Moon', the 1953 Tony Award winning play, a comedy that satirized the US occupation of Japan. It was genuinely funny, as it showed the not so successful efforts of an American army captain, who is told to bring democracy and free enterprise to an Okinawan village. The captain finally gets assimilated into the Japanese culture and provides the villagers with what they really want–a tea-house. The Pulitzer-winning novel on which the play was based became an entertaining motion picture in 1956 with Glenn Ford and Marlon Brando as the wily Japanese interpreter. I am sure that in time there will be satire about the US occupation of Iraq and the attempts to bring democracy there.

Eid Celebration and Embassy Dinner

The end of Ramadan marked by the Muslim holiday of Eidul Fitr fell some time in May 1955. I do not recall fasting much, but was excited about joining Eid prayers at the Islamic Center on Massachusetts Avenue. This first relatively small mosque in Washington DC, with space inside for only a few hundred worshippers, is architecturally distinguished and beautifully decorated with Quranic verses on the front, walls, and ceiling. It had been completed just a year and a half earlier, in November 1953. It was and remains an important and attractive landmark on Embassy Row in Washington.

I joined the only other two Pakistani trainees in town for the prayers in the covered hall. I do not think the total congregation exceeded a couple of hundred persons. Now there are scores of mosques in the greater Washington area and all of them have several sessions of Eid prayers, the total attendance being in the tens of thousands. At this rate of increase, the mosque attendance on Eid might well swell to a million Muslims over the next half-century–well within the lifespan of my grandchildren.

My friends told me at prayers that there was a dinner at the Pakistan Ambassador's residence on S Street, just a few blocks away from the Islamic Center and there was an open invitation to Pakistani officials in town for training. This was welcome news. Good hearty Pakistani meals had been scarce during my entire stay. So, with great anticipation, I headed to the Embassy Residence at S street for the evening meal.

Syed Amjad Ali was Pakistan's Ambassador at the time. He was a scion of a very prominent and successful Shia business family of Lahore. I had heard of him but had never met him. Later, I was to get to know him well and appreciate his many personal qualities and his important contributions to the polity in Pakistan.[11] But even at that time, I was impressed by Amjad Ali's graciousness as a host, his interest in food, and his genuine desire to learn about his guests like me whom he was meeting for the first time. I was also surprised to learn that that he had personally overseen the preparation of dinner. The food was marvellous but he went around asking whether it was okay. Indeed, he did not have his dinner till his guests had finished theirs. What old style charm! Certainly, a great contrast to what I had expected–the more distant kind of behaviour typical of senior bureaucrats. But of course Amjad Ali was from the private sector.

Thinking back, I am amazed that the entire Pakistan professional community fitted in comfortably in the large living room of the Embassy. It was a gathering of no more than thirty or thirty-five, including wives. The Embassy officers numbered only four or five at that time, including Economic Counsellor, Zaheeruddin, the late brother of my friends Zahur Azar and Zamir Azar. The senior

[11] His younger brother Babar Ali and his wife Parween and their sister Sarwat Sultana and her husband Akhtar Ahsan were also to become our very good friends.

Pakistanis at international organizations included Mohammad Shoaib, Executive Director World Bank; Anwar Ali, Director, Middle Eastern Department, IMF; and Dr Anwar Iqbal Qureshi, an Adviser also in the Middle Eastern department of the IMF. The party also included members of a small Indus Basin Delegation, headed by G. Mueenuddin, a very senior civil servant, and including Syed Salar Kirmani, a top-ranking engineer: they were in Washington for an extended stay to negotiate with India the Indus Basin Treaty on distribution of water resources under the auspices of the World Bank. This treaty was finalized in 1960. Altogether, it was a very distinguished group of Pakistanis, many of whom were to serve their country in even more important positions in the years to come, bringing credit to themselves and their homeland.

With the phenomenal growth in the Pakistan professional community in Washington DC, an elite gathering like the one in 1955 could easily run into several hundred persons today.[12] But then I also recall that that the IMF and the World Bank occupied a single building on 18th Street NW from their beginnings in 1946 to 1958. Today, the World Bank's main complex alone occupies an entire block of what were previously six buildings, bounded by 18th, 19th, H and G Streets. In addition, there are quite a few large buildings of the World Bank Group across and down the street. The IMF occupies another two blocks nearby, consisting of several buildings. Such growth of these international institutions would have been hard to imagine the in mid-1950s. But growth has brought its own problems, increasing questions about the purpose, relevance, and effectiveness of these Breton Woods twins, created by the 1944 International Conference in New Hampshire in the closing days of the Second World War. Surely, the next half-century will be much tougher for them. While they are not likely to disappear, their best days in the international order might be behind them; however, this may not be so because of the enhanced powers given to the IMF after the deep financial crisis of 2008.

Washington has not only grown but has also changed beyond belief. It is a large multi-ethnic, multi-cultural town. But of course, the biggest change that came in the 1960s because of the civil rights movement has been the end of segregation and wide- spread

[12] The total population of Pakistani origin in the greater Washington area probably exceeds 100,000.

discrimination in jobs and housing. Till the 1960s, there were restrictions in housing not only for the blacks but also for the Jews.

However, it was the black neighbourhoods, schools, restaurants, movie houses, etc. that were totally segregated. Indeed, I feel that the blacks, then called Negroes, were not only subdued but also seemed largely invisible, despite their presence in low service occupations.

During my stay, I had no social interaction with black professionals except on one occasion and that too through a black Foreign Service officer named Bohlen, who had been posted in Karachi as an economic attaché in the US Embassy. Bohlen had become a good friend through his many visits to the State Bank of Pakistan for economic discussions but had moved back to Washington D.C., about the same time that I arrived there. He and his wife were kind enough to invite me to their apartment for dinner and this provided me an opportunity to meet some of their friends.

By and large, however, the segregation was so complete that it did not register on me with any force except on a couple occasions. Once, I was invited for dinner by a white couple from the South. The hostess informed me that the Negroes could not be treated as equal because they were inferior racially. I tried to argue that in my belief as a Muslim, there was no inherent difference among races. Indians and Pakistanis were also substantially behind the Westerners, but it was mainly due to a lack of opportunities under the British colonial rule. I could not convince her. Her husband did not say anything but was apparently embarrassed at his wife's bringing up this subject with a non-white foreigner.

However, the time when segregation hit me most strongly was when I went on a trip to the University of Virginia in Charlottesville. Mr. Lederer, among his many kindnesses, had agreed to review a few of my analytical essays. While he liked them, he also arranged for me to visit Professor Raymond Mikesell, a wellknown international economist, to get his comments. So I boarded a crowded bus in the hot month of June 1955–of course, there was no air conditioning yet on most buses. It was then that I witnessed the reality of blacks at the back of the bus. I was equally shocked, when, at a stop we made on the way, I saw clearly defined separate toilets for Blacks. What is more, these were very shabby and seemed very poorly maintained, compared to the counterpart facilities for the Whites. Fortunately, nobody objected to my using either the Whites only seats or the Whites only bathroom.

It was only a few months later on 1 December 1955 that Rosa Park (1914-2005), a black seamstress from Montgomery, Alabama, was to make civil rights history by not yielding her seat in the whites-only section, even when asked to, thus breaking the law. Her action was to inspire her generation, though the civil rights legislation and its implementation were to take more than a dozen years.

As I write this, Barack Obama, an African-American, has just been elected as the next President of the United States. What a change time has wrought! But this kind of radical transformation of society is hard to imagine in any other country. It shows the inherent strength of American society and the ability of the United States to reinvent itself.

Heading Back

By early July, my training period over, I was ready to head back, proud of the fact that I had managed to save all of my salary ($150 p.m. remitted in foreign exchange) as well as nearly one-third of my training stipend ($ 250 p.m.). This saving required careful money management because I did spend a fair amount of money on the New York trip. Scrimping involved skimping on the clothing budget, almost shamelessly so, doing my own laundry–made easy by newly fashionable drip-dry Dacron shirts–and eating in cafeterias and diners, rather than restaurants, and often walking (a pleasure) rather than taking the trolley to and from work. But the times were also inexpensive. The meals at Scholl Cafeteria on Connecticut Avenue opposite the Mayflower Hotel and Department of Commerce eatery were only 70 to 80 cents. The Hotte Shoppes cafeteria and diners cost more, but rarely above a dollar. Movie tickets were about a dollar.

All told, I had accumulated about $2200, a small fortune at the time. So I had enough money to buy a newly-styled automobile, a 1955 Chevrolet, BelAir, the best-selling car in America at the time, my trophy to take home. It cost me $1750; fortunately, the shipping company agreed to accept the freight charges in Pakistan rupees. Before finalizing the deal, I had to solve the problem of getting the car to the Baltimore port as I did not know how to drive and certainly did not have a driving license. I presented my dilemma to the car salesman and to my delight and relief, he very kindly agreed to drive the car to the port as a part of the deal. For all this effort, the gentleman probably made less than $50 as commission.

Paris, Geneva, Rome

I spent more than a couple of hundred dollars on gifts for my family, mainly for younger brothers and sisters. But my priority was also to have enough money to visit the key cities in Europe: Paris, Geneva, and Rome before returning home. So I budgeted $150 for the ten days in Europe, a sum that proved more or less adequate. The exchange rates were very favourable then. The mighty US$ was worth 4.3 Swiss francs, 4.2 German marks, and 625 Italian liras in 1955. Today, the relative value of US dollar in Swiss francs is a little more than a quarter of what it was then and only a slightly less decline has taken place in dollars value in relation to major European currencies, now embodied in the Euro.

Travel to France, Switzerland, and Italy on a Pakistani passport did not present any problem. Indeed, there were no visas required for these countries for Pakistanis, the result of goodwill shown to the newly independent nation after 1947. Nowadays, travelling on a Pakistan passport, even with a valid visa, invites scrutiny at immigration counters almost everywhere.

I had a wonderful ten days in Europe. This was a time when American tourists totally dominated the summer season in the major cities of the Continent and not only because of the strength of the dollar and the US economy. There was only limited intra-European travel as most of the European currencies were not convertible. The hordes of Japanese and Middle-Eastern tourists were also to come in the future.

In some places, there were reservations about the influx of US tourists. I recall seeing a sign on Lake Geneva pier that serviced excursion boats, saying something to the effect that American tourists were most welcome but, taking into account the Swiss culture, no persons in shorts were permitted on board.

There were also clear differences among countries in the standards of living. Switzerland had of course not been affected by the Second World War and, if anything, benefited from its neutral status. France was still recovering from the impact of war but Paris showed no signs of hard times. But Rome was a different story. As I arrived there from Switzerland, my strong impression was that Italy was much nearer home in terms of the garrulousness of the populace, the traffic discipline or the lack thereof, and the general level of prosperity. Apart from the impact of the War, Italy was also much less developed than the rest of Europe. Most of the cars one saw on the road were the small Fiats 500cc and 600cc. For most of the middle-class families, scooters, the Italian innovation, were the only affordable mode of transport.

Sightseeing in Paris and Rome was greatly facilitated by wonderful little handbooks by the now defunct Trans World Airlines (TWA). TWA, an American airline, was probably the largest carrier of US tourists to Europe after the World War. These free guide books not only provided information on all the major sights but showed how to access many of them on foot. I do not think I have ever walked as much as I did in those few days, easily 10-12 miles a day. Guided tours were in any case beyond my budget. But it was a blessing. I got a feel for these cities that made many subsequent visits more focused and enjoyable. The language was sometimes a problem. In Paris I lost my way to the Eiffel Tower and though it turned out that that I was not far from it, I could not get directions from several passersby. I was really surprised that those Parisians did not know about the Eiffel Tower. Finally, someone came to my rescue by asking whether I was looking for le Tour Eiffel.

It was my love of mountains and the fond childhood memories of Simla and Kashmir that attracted me to Switzerland. Geneva is a beautiful city around Lake Laman. But you cannot see any high mountains around. In my frustration I went to the office of the American Express and asked one of girls on duty where the mountains were. It was my good fortune that she had been to Wengen just the weekend before and suggested that I make an overnight trip there. Wengen is a beautiful hill station, deep in the Jungfrau Mountains. Its distinction is that it cannot be reached by road and thus has no pollution. But to reach it from Geneva requires a change of trains at least twice. In any case, my brief visit there was exhilarating and I have returned there a few times, including once with my wife soon after our marriage and once with both our daughters as well. It is the closest I have got to reliving the childhood memories of mountains.

My visit to Rome, from where I was headed back straight home to Karachi ended on a little bit of a panic note. My flight was in the evening. By the time I made to the terminal after a hard day of sightseeing I was exhausted and hungry. But I was also by then totally out of money, having paid the taxi with the few remaining liras. But I felt good that my budgeting, though tight, had worked out and I was eagerly looking forward to a good meal in the first class in Air Italia. On arrival at the terminal, I was told that the flight was six hours late. The delay did not bother me but the thought that I might have to go well into the night without food troubled me. Probably my worry showed, so the ticket agent quickly assured me that they would arrange for my dinner in the fancy restaurant next door. The five course Italian dinner seemed fabulous after my ten days of most frugal meals. I have rarely in my life so appreciated a good meal.

Some Reflections on the USA Stay More than Half a Century Later

As I returned home from the exciting, educative–and financially beneficial–year in the US, I could not imagine that all of my life after 1970 would be spent in Washington DC. Of course, nobody can foretell the future. But as I write this, I clearly recall that wonderful and productive though my time spent in America was, it did not evoke any sense of envy at the American way of life or any desire to live in the US or work for the Washington-based international institutions, the IMF, and the World Bank.

Even though I had clear plans for returning to the US for completing my Ph. D. studies, I never thought of it as a steppingstone to a career abroad. The optimism of first generation of Pakistanis like me, who completed their education soon after partition and found their first jobs in an independent Pakistan, was unbounded and their confidence in the country's future very strong. Personally, after I had decided to remain as an economist at the State Bank of Pakistan, the height of my ambition was to become its governor one day. This seemed more attractive than anything that the outside world might have to offer.

No doubt Pakistan has made considerable economic and social progress in face of daunting challenges: a very high rate of population growth, the Kashmir issue, poor relations with India, and related to it, a high rate of defence expenditure. But an inability to develop a true national identity, strong institutions, and good governance has also meant that political instability has plagued the country and kept it from fulfilling its considerable promise. I am sure that if Pakistan had been able to attain greater progress and more political stability, many professionals like me would not have ended up by spending so much of their time abroad.

Chapter 6

The State Bank Years
1955–1958

The three years between my return from Washington in the summer of 1955 and leaving again for the US for Ph. D. studies in the fall of 1958 were personally not particularly happy years for me. I could not imagine getting married and settling down because, though I earned a decent salary, it was not nearly enough to afford an independent household. In any case, my priority was to finish my education and conserve whatever savings I had accumulated for that purpose. Meanwhile, I was living with my parents in a house full of siblings. My social life was not so lively either, particularly in the absence of my close friend, Moin Baqai, who returned from the USA in 1956.

My father suffered a serious heart attack in December 1956 at the age of 55 and it revived his earlier heart problems caused by a rheumatic heart when he was in his 30s. Though he recovered well, his confidence was shaken. The heart attack came at a time when his textile imports business was in a decline as rapidly expanding domestic production largely eliminated the need for cloth imports. It became difficult for him to branch off into new directions because of his health. All this was a source of considerable family stress.

Career-wise, there was not much upward movement. Mr Abdul Qadir was a conservative administrator who did not believe in promoting his officers too quickly. The batch of economists senior to us had joined in 1951; they were not promoted to the rank of Assistant Director of Research till 1958. To be fair to Governor Qadir, he could hardly visualize a rapid expansion of his Research Department at a time when the State Bank of Pakistan's monetary policy role was limited.

The bank rate, the chief instrument for influencing interest rates and money supply growth, was to remain at three per cent for decades. The import deposit requirement against letters of credit was, however, used effectively in 1952-53 to curb import demand and deal with the foreign exchange crisis.

The one good thing was that, by 1956, I had been given one of the new flats built for State Bank Officers in the heart of Karachi's Saddar area, on Preedy Street. Even though Moin Baqai and I were bachelors, Governor Abdul Qadir showed great kindness in allotting the flats to us on the grounds that we were living with our families. It just shows how closely he kept track of his young officers–it was possible also because the organization was small. Moving to the State Bank flat with three bedrooms and three baths was a big improvement over our Pakistan Chowk apartment. Still, the area of the flat probably did not exceed 1800 square feet and the family consisted of ten persons.

Being of use to the family in obtaining better accommodation was a source of satisfaction. However, there were nagging doubts in my mind whether joining the Civil Service or the Foreign Service would have allowed more independence and greater room for personal development. After having finished the two year training at the academy, my contemporaries in the CSP were Sub divisional Officers, enjoying considerable prestige and authority.

My doubts were reinforced during a visit to our residence by my very dear friend, Iftikhar Rasool Malli. Iftikhar had overcome some emotional problems he had experienced during college, had completed his MA in Economics, had successfully competed in the CSP exam, and had been selected for the police service in 1956. By early 1958, when Iftikhar came to see me, he was only an Assistant Superintendent of Police. He had an official car and was accompanied not only by the driver but also by a police inspector. He was not too impressed with either our brand new apartment or my year in the US. Rather, he shook his head implying that I had not done well by foregoing the prestigious civil service. Since I had been a top student, Iftikhar had no doubt in his mind that I would have made into the CSP. This coming from a close friend and a well-wisher was a bit disconcerting.

After the next few years, my career as an economist was to take off and I never again felt the need to look back with any regret on my career choice. But the mid-1950s were not a most comforting time for me emotionally for various reasons.

Work Experience Valued in Retrospect

Looking back half a century later, I realize that, despite some personal frustrations, I really gained a lot professionally, as an economist, as a policy analyst, and as a writer in those few years at the State Bank. This was through a variety of things: following global economic developments, especially in the US, extensive analytical writing, my exposure to senior policy makers on the all-powerful foreign exchange control committee, serving as a liaison with the IMF missions, and, last but not least, my early induction into the deeply divisive regional economic issues between East and West Pakistan and learning firsthand about the depth of feeling among leading Bengali economists about the unfairness of distribution of fiscal and foreign exchange resources between the two wings of the country–a good fifteen or sixteen years before these issues contributed to the violent separation of East Pakistan.

Reflecting on those years, I also sense that working in the State Bank's research department, when it was a very small organization with a short chain of command to the Governor, was a great and a rare privilege for a young man in his early twenties. Surely, the economic analysis in State Bank reports is now far more sophisticated and extensive, but I wonder if the young economists have quite the same opportunities of exposure to policy makers.

Lots and Lots of Writing

My routine work involved coverage of the international economy, Pakistan's trade and balance of payments, and the principal export commodity sectors, notably jute and cotton. Since Azizali Mohammad, my senior, had left for training at the IMF in Washington in 1955, I had become the lead economist for these areas. It was not unusual to prepare more than half a dozen reviews every month for submission directly to the Governor through Dr S. A. Meenai, the head of the department. I am not sure how helpful these reviews were for Abdul Qadir or what use he made of them. We did not get much feedback. But one thing is sure: the reviews were read by him very carefully.

The process of typing and retyping of papers in the typing pool by not very-well-paid but very hard-working typists was laborious and time consuming–this was decades before computers and word processing became available and actually well before copy machines made cut and paste changes easily possible. There were thus inevitably typos that escaped detection by us in reading a series of drafts. But the keen eye of the Governor always spotted them. My training in attention to detail started quite early.

The preparation of reviews of the US economy required regular reading of important newsletters from two major US commercial banks at the time: First City Bank, and Morgan Guarantee Company; and from the UK, the London *Economist* and the *Banker*–not a bad intellectual diet.

The analysis of Pakistan's balance of payments was to turn out to be a major life-long interest and passion, while the study of commodity sectors provided me with the opportunity to learn more about the real economy, agriculture as well as manufacturing. Occasionally, there were research assignments coming to my desk initiated by the Governor himself. I remember three of them: one was the issue of the differences in the import data in foreign trade statistics and the balance of payments figures; the other was the serious lag between commitments and disbursements of foreign aid; and a third was the estimation of net foreign exchange savings from development of the Sui Natural Gas by the PIDC, then under the dynamic and charismatic leadership of Ghulam Faruque.

The feeling that PIDC was making excessive claims about foreign exchange savings from Sui gas development–there was healthy competition among senior economic managers–probably triggered the last one. My calculations showed that, even after taking into account all the direct and indirect foreign exchange costs, natural gas development would save considerable foreign exchange–hardly a novel finding in light of Pakistan's heavy dependence on imported oil. While my analysis was not questioned, the purpose of the study, to possibly dampen the enthusiasm of Ghulam Faruque, was not really met.

The divergence between the Customs department and State Bank data on foreign trade, which still puzzles the uninitiated, brought me in touch with the senior officers of the Central Statistical Office, contacts that were to prove very helpful in my future work.

There was a very large build up in commitments of US assistance after 1954, but the rate of disbursements was very slow because of substantial time-lags in utilization of project assistance–time-lags which have now come to be accepted as largely unavoidable. I was commissioned to write a paper on the subject. The idea was perhaps to put some pressure on the Economic Affairs Division, then under Secretary, Said Hasan (later Deputy Chairman of the Planning Commission), to pay greater attention to issues in utilization of aid. I was asked to discuss my paper with Rashid Ibrahim, the Deputy Secretary in Economic Affairs, a most genial, unassuming, but highly competent civil servant who became a friend. The State Bank queries did put the Economic Affairs division on the defensive. So while the State Bank's policy role was limited at the time, Abdul Qadir, as a former finance secretary, did try to exercise a vigilante function on the economy.

It was also fun to be involved in the preparation of early drafts of State Bank annual reports to the Board of directors and the Governor's annual speech. The extensive drafting of reviews, papers, and speeches was an invaluable help in improving my writing skills. Indeed, when I started my graduate studies at Yale in 1958, I found few other students, somewhat younger than me, but all coming with a BA degree from prestigious colleges, could write as well.

Foreign Exchange Shortages and the Exchange Control Regime.

The economic situation during 1955-58 was difficult. Even though there was a sharp increase in US economic and military assistance beginning in 1955, the fiscal deficits continued to grow, as the central revenue base remained small (barely 6 per cent of GDP) and defence spending continued to pre-empt a large part of public resources. The deficits were financed largely through borrowing from the central bank: nearly 80 per cent of domestic credit creation during 1955-58 was accounted for by the public sector. The excessive monetary expansion fed inflationary pressures and directly increased the shortages of foreign exchange, given the fixed exchange rate. The major instrument for controlling foreign exchange expenditures were the quantitative restrictions on imports and strict exchange controls. These controls were increasingly ineffective in bringing about the desired allocation of resources and in the process created large economic rents through allocation of import licenses (Hasan 1998). Though these policies were the norm in developing countries at the time, Pakistan's reliance on quantitative restrictions on imports and strict rationing of foreign exchange reached an all-time peak during 1955-58

Later, I was to devote a good part of my Ph. D. thesis to understanding why Pakistan's deficit financing policies did not succeed in their objective of raising the levels of capital formation and why exchange controls worked so badly.

At the time, however, exchange controls lent an aura of authority to the State Bank and some of this rubbed off on the officers in other departments. In the 1950s, the State Bank of Pakistan Headquarters was still housed in the Old Museum Building next to the Burns Gardens at the corner of McLeod road. Almost all offices were makeshift, with temporary partitions. The exchange control department was located in a fairly open area just across from our offices. Mr. N. M. Uquaili, the Controller of Foreign Exchange, had, like other heads of departments, the only private office in that area.

Being in such close proximity, I became good friends with Uquaili's two deputies, M.W. Farooqi, and I. H. Qarni, Assistant Controllers. These were very important persons in the public eye. The foreign exchange quota for international travel was quite meagre but could be released directly by the commercial banks. For any amount above the basic quota for international travel, you had to approach these officers. There was, however, no automatic foreign exchange quota for travel to India, which was still quite extensive. Assistant controller Qarni had the discretion to issue permission to buy the princely sum of fifty Indian rupees to each traveller. I was approached several times by friends of family, acquaintances, and others to put in a word to Qarni on their behalf. And when he obliged–as he always did–I felt quite happy. Such was the absurdity of stringent exchange controls. What a hassle for the public! What a waste of administrative effort!

My official duties also afforded me the opportunity to observe the work of the Foreign Exchange Budget Committee. This Committee of Federal Secretaries was chaired by Finance Secretary, Mumtaz Hasan, and included the powerful Commerce Secretary, Aziz Ahmed. Mr. Uquaili represented the State Bank and advised on estimates of invisible receipts and payments. I was the staff person for this work because of my responsibilities for monitoring external finance developments. A few times, Mr. Uquaili asked me to join him in these important meetings, usually held twice a year.

Some impressions linger from these meetings a long time ago. Mumtaz Hasan had a deep interest in literary matters and a fair amount of space on his desk was always taken up by the latest works in Urdu literature. Aziz Ahmed was clearly a dominant personality. But altogether these top bureaucrats seemed to quite enjoy the allocation of what was at the time the scarcest resource in the country. Heads of public sectors agencies, including the all important Controller of Imports and Exports (under the Commerce ministry), had to wait sometimes for long hours, to be called on to present their case for allocation. I recall one time a distinguished scientist, Dr Salimuzzaman Siddiqui, head of Pakistan Council of Industrial and Scientific Research, had put in a request for a modest amount, not exceeding half a million dollars. There was no real issue for the committee, but when he appeared in the meeting after a long wait, these senior secretaries managed to make him nervous by their superior attitude. I did feel bad for this important scientist, a rather old man, whom I did not know personally.

Remembering N.M. Uquaili

My work with Mr Uquaili also showed me how street-smart he was. This quality was ultimately to help him to become Finance Minister in 1966. He was a stern-looking man who did not relax much with subordinates. But I do remember a piece of advice he once gave me: we were working on a draft reply opposing a policy proposal of some sort from the Ministry of Finance. We had come up with three or four points on why the proposal was not acceptable. I argued that a couple of other points could be added. While he agreed with the points, he told me that one should never show one's full hand, but keep a couple of arguments up your sleeve for further rebuttal if necessary in the meeting. Unfortunately, I have found it difficult to follow this advice because of my temperament. I tend to show my hand early and lay my cards on the table. Certainly, I am no poker player.

Working closely with Uquaili did not spare me from his watchful eye as the foreign exchange controller. As I mentioned in the last chapter, at the end my stay in Washington I had bought a new Chevrolet, mainly by saving my salary and living well within the trainee stipend. The permission to import a car under personal baggage rules was a great concession because there were strict limits on car imports and the market price of automobiles was much higher than the cost price at the official exchange rate. I was able to keep the car for only a few months because I had to borrow money from my father for paying the rather high import duties. Meanwhile, we hired a driver and I and my father were driven to and back from work. I was naïve enough not to realize that the sight of my chauffeur-driven Chevrolet of a somewhat more recent model than the Governor's staff car parked outside would rouse some consternation among senior officers.

So it was a shock when I got a notice from the Exchange Control Department some time in 1956 to explain how I obtained the foreign exchange to purchase the car. I went to my friend, Assistant Controller Farooqi, to find out what was going on. He explained that in order to make sure that import of cars under personal baggage allowance was not misused, the list of importers was regularly sent to the State Bank and random enquiries were made from them about their source of foreign exchange. I said that in my case savings from my salary and stipend were the source of the purchase, as everybody presumably knew. In response, Farooqi informed me that Uquaili himself had marked my name for enquiry. I was glad that I could submit a full explanation to assure the authorities that I had not bought foreign exchange on the black market. That was the end of the matter. However, I was impressed with the mechanisms for ensuring accountability, strict compliance with rules, and Uquaili's inscrutability. He never raised the matter personally with me.

Economic Issues between East and West Pakistan

The Pakistani establishment, dominated by West Pakistanis, was shaken by a book written by Dr A. Sadeq on *The Economic Emergence of Pakistan* and published by the Government of East Bengal Printing Press in 1954. Dr Sadeq, at that time director of statistics in East

Pakistan, essentially argued that East Pakistan was generating large surpluses in its foreign trade, while West Pakistan was running sizeable deficit and that, even allowing for the deficit of East Pakistan with the West Wing, there was a sizeable transfer of real resources from East to West Pakistan that was aggravating the already existing income disparities between the two regions. The 1954 elections in East Pakistan, in which young Sheikh Mujibur Rahman's new political party, the Awami League, won a stunning victory, routing the official Muslim League, gave further impetus to economic and other Bengali grievances, notably the language policy.

The view that any transfer of real resources from East to West Pakistan was taking place was vigorously contested by policy makers in the central government and the research department of the State Bank became involved in refuting Dr Sadeq's thesis. Mr Nazir Ahmed Chaudhry, Deputy Director of Statistics, and I were asked to develop a conceptual framework of regional balance of payments and apply it to one year's data (1957-58). This study brought out quite forcefully the limitations of such an exercise but also argued that the apparent surplus of East Pakistan was due mainly to the fact that most of the defence spending was located in West Pakistan, though it served the country as a whole. We argued that if these factors were taken account of properly, along with other invisible payments related to the profits and earnings of West Pakistani entrepreneurs and professionals, there were no real transfers from East to West Pakistan.

The distinction between the location of central government expenditure and the benefit of this spending was to become an increasingly controversial point in the 1960s. Over time, the analysis of resource transfers was refined by Bengali economists to include the cost of Pakistan's overvalued exchange rate to the East wing. In other words, it was argued that the large deficit of East Pakistan in their inter-wing trade with West Pakistan was overstated in international prices and thus West Pakistan gained in effectively receiving foreign exchange to settle this deficit. Finally, it was also argued, with much less justification, that East Pakistan's receiving less than one-third of the total foreign assistance to Pakistan over 1950-70, when its share in population was more than 50 per cent, was in fact a transfer of resources to West Pakistan.

Over 1955-70, the issues of resource transfer and the growing disparities in per capita between the two wings were to become central political issues and were ultimately to contribute to the separation of East Pakistan. I, as a Chief Economist of the Government of West Pakistan (1965-70), was to become much more directly involved in the partisan debate and discussions on regional economic issues My early work in the State Bank prepared me well for what was turn out to be not such a glorious task after all. The sad thing is that the Pakistani establishment, dominated by West Pakistanis, did not realize either in the mid-1950s or in 1970, when the country was heading towards a break-up, the depth of feeling on these issues in East Pakistan In this respect, I fared only a little better, though my sensitivities about Bengali feelings had been greatly enhanced by my first visit to East Pakistan in December 1955.

Visit to East Pakistan

The Pakistan Economic Association, a professional body of economists, remained quite active in the 1950s and held annual sessions fairly regularly. Unfortunately, the body has now been defunct for decades, another sign of our failure to preserve and grow institutions. Its session in 1955 was held in Chittagong in late December. I was asked to represent the State Bank and prepared a paper on the topic 'Economic Development with Unlimited Supplies of Labour', a subject popularized by Arthur Lewis, later a Nobel laureate.

The trip was both educational and enjoyable. As we took off from Karachi in a PIA Super Constellation for the nearly five-hour-long flight to Dhaka, I found myself sitting next to a young Englishman, a Cambridge economist named T. E. Wise, who was serving as a Professor of Economics at Peshawar University at local pay scales. He was clearly a maverick and a rolling stone who had migrated to Canada because he did not like England.

We chatted for several hours on the long flight to Dhaka. Among other things, he told me that he had had the opportunity to work closely with the brilliant civil servant, Ghulam Ishaque Khan (GIK), who was at the time serving as the Development Commissioner of NWFP. When I said that I had not heard of Ghulam Ishaque Khan, Wise taunted me, saying that Punjabis thought that only they had outstanding civil servants and that GIK was a Pathan and that may be why I had not heard of him.

A decade later, I was to come to know GIK very well and had the opportunity of working with him fairly intensively on several occasions, becoming well acquainted with his great qualities, outstanding intellect, total dedication to work, untiring energy, and great integrity, as well his not-so-good qualities: a single-mindedness that sometimes bordered on stubbornness, his rather unfavourable view of the private sector, and some lack of sensitivity to the economic grievances of East Pakistan. He was to rise to be the President of Pakistan (1988-93). But more about this distinguished Pakistani later.

As I arrived in Chittagong, the beautiful port city, after an overnight stay at the State Bank's modest guesthouse in Dhaka, the plane was met, among others, by M. R. Khan, the manager of State Bank of Pakistan's branch there. M. R. Khan (Rashid), an ebullient, smiling, and strong manager was then in his mid-30s but still a bachelor. He was to serve the State Bank as an Executive Director in the 1970s before moving on to become the Chairman of the Pakistan Banking Council; later, he was called back from retirement to help restore United Bank to health, which he did in a most courageous manner.

Rashid told me and Wise that since hotel space was limited, we would be staying with him: he had a large four bedroom flat all to himself. My stay with M. R. Khan was most enjoyable and, in the course of the week, we became good friends. Rashid told me that he was from Kashmir and said somewhat wistfully that most of his male relatives were serving as officers in army. I assured him he had made a good career choice and, in any case, his military bearing and no-nonsense manner showed that he had not missed the army altogether.

Chittagong was a delightful place, green, with rolling hills, and, unlike Dhaka, not too crowded. The conference was well attended and I had opportunity of meeting a lot of people for the first time. The most impressive of them was Dr Nurul Islam who had just that year come back after finishing his Ph. D. in Economics from Harvard University and had become a Reader in economics at Dhaka University, though he was still in his mid-20s. We got along well. Later, we were to interact a great deal professionally, when he became

Director of the Pakistan Institute of Development Economics in 1963 in Karachi. Unfortunately, as effective heads of the East and West Pakistan panels of economists in 1970, we argued ceaselessly and disagreed rather vehemently and this did somewhat colour our personal relations. The violent process of the separation of East Pakistan in 1971, when we were both at the World Bank, put a further distance between us.

But in December 1955, representing the new breed of economists in the country's two wings, we were very comfortable with each other. Indeed, towards the end of the conference, Nurul Islam was kind enough to invite me to a dinner at his father's house. His father was serving in the prestigious position of Inspector of Schools in the Chittagong Division. I demurred because on that last day, there was a final conference dinner at the elegant Chittagong Club that had a beautiful location at the top of a hill. I told him I would let him know. I mentioned the invitation and my hesitation to Wise. He told me in his blunt fashion that, since I was a Punjabi, it would be good for me to go to that dinner because I would learn what non-Punjabis think. I took his advice and though I did not exactly enjoy the evening, it was one of the most memorable for me.

When I arrived for dinner, I found to my surprise that, of the dozen or more guests, I was the only West Pakistani there. Apart from the host, the others were all senior Bengali academics, teaching economics at Dhaka University and other colleges. Among them was Professor Huda, who was later to serve as finance minister and then Governor of East Pakistan. After a pleasant dinner, I gradually found myself besieged by a torrent of criticism about the ways of the Pakistan government in Karachi. The complaints partly reflected the underlying concern about the use of East Pakistan's foreign exchange resources for West Pakistan's development. But they also focused on the lifestyle in Karachi: large houses, big cars, and an emerging ostentatious style of living.

As someone who had imported a large car just a few months ago, I was a little on the defensive. However, that did not keep me from countering the attack, saying that indeed the pace of development was faster in West Pakistan because the private sector was very active, especially in the textiles industry. I also argued that Karachi had a major concentration of industry and thus the signs of prosperity and good living in that city could not be generalized to all of the West Wing. I do not think I convinced anyone there because some of them went to the extent of saying that they had not created Pakistan to have such a divergence in lifestyles. The criticism was substantially valid. Bengalis lived modestly, saved more, and relied less on external resources for their development. West Pakistan managed to grow faster than East Pakistan, even though it had a lower savings rate, because of larger external resources, as noted earlier.

The momentum of growth that had been set in motion was to lead to further divergence in growth rate in the 1960s and further widening of income disparity between the two wings. Serious efforts were made by Ayub Khan to narrow the income disparity under his regime. Indeed, he was persuaded, at the suggestion of leading Bengali economists, including Professors Huda, Hussain, and Nurul Islam, to include reduction of disparities in the 1962 Constitution. But it was essentially an unrealistic goal and could not be met (Hasan 1998).

The point is that the storm of discontent in East Pakistan was already gathering strength in 1955 in the wake of movement against Urdu as a national language and the 1954 elections in which the Awami League gained an overwhelming victory over the ruling Muslim League. What I saw that evening was a glimpse of this, though I could not put it in its proper broader context then. Still, I believe I must have been among very few from West Pakistan who had this kind of exposure to leading Bengali intellectuals at that time.

Returning to the US for Studies

I was not to return to GW to complete my Ph. D. My economic theory teacher, Professor Watson, was kind and had told me that, since I was a very good student, I should try to get admission to an even better university. Eventually, I went to Yale in the autumn of 1958, where I was given credit for my work at GW.

Returning to US required a lot of effort and persistence on my part. Already in early 1957, I had started my efforts to return to the US for my Ph. D. By this time, the Planning Board had been established under the Chairmanship of Zahid Husain, the first Governor of the State Bank. The Harvard Advisory Group under Dean Edward Mason, head of the Harvard School of Public Administration (now called the Kennedy School of Government) was advising the Commission. Mason visited Pakistan a few times a year and so I went and saw him to seek his help. Due to his intervention, I was accepted to the MPA program (direct admission to Ph. D. programs at top university was nearly impossible), but the financial assistance offered was limited to a tuition grant only. Because I could muster enough funds for living expenses only from my savings, I again sought Mason's help. He was able to rather quickly arrange a travel grant for me from the Asia Foundation. Thus, I was ready to proceed for studies in the fall of 1957. But I knew that leave of absence for two years would be a problem. So, instead of applying through the 'proper channels', I sought an interview with Governor Qadir. He turned down my request saying I had just returned (just two years ago). But he was gracious enough to say that he would allow me to leave the following year, perhaps as his five-year term was ending in August 1958.

Mahbub ul Haq returned from Yale in late summer 1957 with a Ph. D. and joined the Planning Commission as assistant chief of a division. His return and friendship made Karachi life more bearable. Mahbub was full of enthusiasm about Yale's upcoming economics department which had attracted among its luminaries James Tobin, William Fellner, Henry Wallich, Tjalling C. Koopmans, and Robert Triffin. He encouraged me to apply and said Yale also had more funding. I agreed to apply to Yale for 1958, though my admission to Harvard had been deferred for a year.

Pakistan's Political and Economic Situation

Meanwhile, Pakistan's political and economic situation was worsening. The regimes in this period, even before the imposition of martial law in October 1958, had limited political legitimacy because there were no elections for the central parliament. Iskander Mirza had succeeded the quite sick and disoriented Ghulam Mohammad some time in 1954 as Governor-General as a result of essentially a palace coup with support from Ayub Khan as Commander-in-Chief. As Governor-General and later as President under the first Constitution approved in March 1956, Iskander Mirza exercised a great deal of direct as well as indirect control by manipulation of the political forces.

There were four prime ministers during this period. Of these, the most distinguished and longlasting was Chaudhry Mohammad Ali (August 1955–April 1957), an outstanding and honest civil servant who had been closely associated with the partition arrangements and had later served as Secretary General (1947-51) and Finance Minister (1951–1955). It was to Mohammad Ali's credit that as prime minister he piloted the adoption of the 1956 Constitution. He was also a major brain behind the creation of West Pakistan as a political unit in October 1955 by abolishing the provinces of Punjab, Sindh, NWFP, and Balochistan. The creation of one unit was essentially an effort to justify parity in representation between West and East Pakistan that had at that time a much larger population. Unfortunately, the considerable administrative decentralization envisaged by the One Unit never took place. Power remained concentrated in Lahore, the capital of One Unit and this further added to resentment among smaller provinces against Punjab which had about 60 per cent of West Pakistan's population.

After Mohammad Ali, the prime ministership passed in quick succession to I. I. Chundrigar, H. S. Suhrawardy, a noted Bengal politician, and finally to Malik Feroze Khan Noon. None of the four prime ministers had a strong political mandate. The role of former and serving bureaucrats and behind all this the role of the army remained important. The weak governments also were not able to ensure financial discipline. There was heavy recourse to borrowing from the State Bank of Pakistan which fuelled inflation and aggravated balance of payments pressures. Indeed in the fiscal year 1958-59 (July-June), government bank borrowing (net of counterpart aid funds accruals) reached an all time high of nearly Rs 700 million or about 3.5 per cent of national income (Hasan 1962).

The State Bank of Pakistan was very unhappy at these developments but could not do much to change government policies. The strongly-worded letters from the Governor to the Minister of Finance had little effect. But I became aware of how personally frustrated Governor Abdul Qadir felt about all this only by chance.

In the spring of 1958, the Secretary of the Bank, Mr. Kazi, needed urgent leave for personal reasons. To my surprise, I was asked to head this important administrative department for a few weeks. It was certainly unusual for a research economist to be selected for this job. I am sure it was Governor Qadir's way of letting me know that he liked my work. In any case, I tried to learn quickly about my new temporary assignment. One of my main duties was to serve as Secretary to the State Bank's Board of Directors, consisting of individuals from both the public and the private sectors; supervise logistical arrangements; and draft agenda, minutes, etc. The next meeting was in Lahore and the issue of excessive credit creation by the government inevitably came up. I had never seen Governor Qadir so agitated. He said he was doing his best but there was no result. At one point, he cited the situation in Indonesia, where the central bank governor had taken up arms against the collapsing central government of Soekarno and retreated to the hills, saying that this was not an option open to him.

The Board meeting in Lahore also offered me an opportunity to show my efficiency. Apart from government borrowing, another big issue was the recent takeover of the Bank of Bahawalpur by the State Bank. Such takeovers are rare and are an extreme step taken only in cases of total failure of commercial bank management and/or fraud. One of my friends from Government College, Syed Ashfaque Hussain, who had joined the State Bank on the banking side, was deputed to take charge of the Bank which was located in Bahawalpur. Later, Ashfaque was to describe his experience there as 'A Bad Day at the Black Rock', a contemporary movie starring Spencer Tracy as a one-armed Government agent who single-handedly investigates the murder of a Japanese family in California whose son was serving in the US army and had died in battle, earning a medal for valour, and who brings the local thugs to justice.

In any case, there was great excitement in the State Bank about the takeover, especially because the owners had gone to court and the judgement was eagerly awaited. I travelled to Lahore by overnight train in the comfort of an air-conditioned sleeper. Qadir and his wife were also on the same train with a coupe to themselves. In mid-morning, I got off at one of the railway station stops en route and picked up a newspaper, finding, to my delight, that a judgment favourable to the State Bank had been given the evening before. This was long before instant communications, cell phones, text messages, and 24 hour TV channels. I took the good news to the Governor's compartment at once.

When we reached Lahore, I learnt that we were all invited to lunch at Syed Maratib Ali's residence. Syed Maratib Ali, a very successful businessman, was at that time a director of the State Bank. One of his sons, Syed Amjad Ali, was serving as Finance Minister, and the others, Wajid and Babar, were already established industrialists. I knew that lunch would be sumptuous and the company excellent, but I decided to skip lunch and went instead to the Bank office. There, I arranged the retyping of the newspaper reports about the Bank of Bahawalpur and had copies ready for all the directors as they returned from lunch. There were of course no copying machines then and retyping was a tedious and time-consuming process. The arrangements for the meeting were much appreciated and I felt pleased with myself.

Little did I know that my good performance might throw a spanner in my career plans! A month or so later, I heard from Yale and found that they offered me not only a tuition grant (a meagre sum of $1,000, compared to current tuition rates of $ 40,000) but also a subsistence allowance of $600. Since Harvard had just repeated its tuition offer, I opted for Yale, after having ascertained from the Asia Foundation that their offer for a travel grant could still be utilized. I might be unique in the sense of using a travel grant arranged through Harvard for studies at Yale. So, quite joyfully, I put in my application for a two-year leave of absence, without pay of course.

Governor Abdul Qadir was a man of his word and felt committed to grant me leave of absence. But apparently he did not really want me to go for a number of reasons. He was given a two-year extension in his term of office. He had also taken over as the Head of the Taxation Enquiry Commission, in early 1958, after the death of Zahid Husain, and wanted all his key research staff around him. Finally, he had been pleased with my work as the acting head of the Secretary's Department.

At a more basic level, Abdul Qadir, being in the mould of a very successful bureaucrat, was not convinced of the value of a Ph. D. So he sent me an offer through Dr Meenai, our head of department, saying that I would be promoted right away and could expect another promotion to a Deputy Director's position within a year's time. In addition, I would, along with others, be given a special pay for working on the staff of the Taxation Enquiry Committee. This would have virtually doubled my salary in a short span of time. I am happy that I had the foresight to turn down the offer, without giving it any serious thought. I believe that the consequences of not pursuing further graduate studies or even of postponing those for a few years would not have helped my career as an economist: indeed, it might have propelled me to more managerial jobs in the central bank. I remember my colleague Azizali Mohammed once saying that just as a man is not complete without marriage, an economist is not complete without a Ph. D.

I did get my leave but did not get any financial support from the State Bank. Looking back, it seems somewhat strange that the management of the Research department did not actively encourage graduate study abroad on their volition. Mr. Zahid Husain, the first governor of the State Bank, had a clear vision about the importance of the economics profession in Pakistan and wanted to build a very strong research department to be a leader in the economic field in the country. To translate this vision into reality, it would have been necessary to attract a few top economics graduates to the State Bank every year and to provide them an early opportunity of pursuing higher education abroad. This did not happen. There was no direct recruitment to the Research Officers position between 1953 and 1958 and no-one was sent for academic studies abroad on the State Bank of Pakistan's initiative and/or expense. What a pity! The research department of the State Bank could have become a powerhouse, generating a steady flow of capable and well-trained economists.

Chapter 7

The Yale Years (1958-60)

My Yale years were a memorable period: a time of tremendous learning opportunities, many new friendships, and much kindness from key members of the faculty. All this and a lot of hard work enabled me to pursue my extremely ambitious goal of completing my Ph. D. requirements within a mere two-year stay in the US.

As I travelled to US in late summer of 1958, the contrast with my earlier trip in 1955 was not lost on me. Economy class travel was sobering. The prospect of a tight budget was worrying. The city of New Haven, which was in the early stages of urban renewal, was a letdown compared to the beautiful Washington DC; though the elegance and beauty of the Yale New Campus–an oasis in a rather dreary urban environment–was very refreshing. Also, the three churches standing next to each other on the Village Commons in the heart of New Haven were a splendid sight.

Finding adequate housing turned out to be a big challenge: the very pleasant university accommodations in the Hall of Graduate Studies were already filled up. After a great deal of searching, while staying at the YMCA for several days, I had to be content with a modest but front-facing room, a sub-let from a married philosophy graduate student at a rent I could afford, though we all had to share the bathroom. The house at 232, Dwight Street, next to a funeral home, was a good twenty-five minute walk from 37, Hill House Avenue where the Economics Department was located. But I was able to negotiate the use of kitchen facilities for breakfast and an occasional meal that further helped with my budget.

The choice of accommodation was, however, a very fortunate one. John (Jack) T. Wilcox and his wife Pat were from Atlanta, Georgia and were both Emory graduates and school sweethearts. Jack was a fellow graduate student at Yale, studying for a doctorate in Philosophy. They were strong intellectuals, very religious, and very liberal at the same time and greatly concerned with the plight of the Negroes in the South. They were also eager to learn about Islam and the role of religion in life in Pakistan. We became very good friends and were to spend hours discussing issues of religion, race, and culture. Indeed, Jack and Pat were to invite me to the very first meeting convened by Reverend William Sloane Coffin, at that time the Yale Chaplain, to discuss civil rights issues in the South. Later, in the 1960s Coffin was to play a major role in the civil rights movement and has remained a major religious progressive figure for decades.

Because of my close friendship with the Wilcoxes, I did not seek university housing next year and ended up staying put for nearly two years.

My pace of work was truly frantic in the first four months at Yale. I had to jump many hurdles in these months and work very hard before I could feel comfortable with my progress towards my almost obsessive search for a quick Ph. D. In the process, my weight dropped nearly 10 lbs to 115 lbs and my very long hours in the Sterling Memorial library began to be noticed by my classmates and others. But my new friends, Jack and Pat Wilcox, Bashir Karamali, and Samir Anabtawi, provided a great deal of moral support.

In those early months at Yale, and indeed throughout my stay in New Haven, a regular weekly letter from my father was also a great pillar of support and encouragement as well as family news. In this day and age of instant communications, it is hard to imagine that the only contact with one's family was just through a weekly letter, which, surprisingly enough, reached me in three or four days. Letters from my father also tried to calm me about the military takeover by General Ayub Khan in late October 1958, just a month or so after I arrived in the US; he assured me that it was being received well by the public. My reaction to the news of the coup had been extremely negative. I thought we had started on a cycle *a la* Latin America. My initial forebodings were to prove correct.

Because of what awaited me at Yale, I was glad that I had taken a week's vacation in Europe on the way to the US. I had made a couple of stops in Europe, including a few days in Brussels to see the 1958 World Fair. The contrast between the Soviet Union and the US pavilions was stark. The Soviets used the occasion to highlight their success by launching their space satellite Sputnik a year earlier in October 1957 and also emphasized their achievements in the heavy machinery field. The US pavilion was an elegant music studio with the latest records and hi fi equipment, a temple to consumerism.

My first challenge in Yale came within a few days of my arrival in New Haven while I was living at the YMCA, searching for accommodation. At that time, all major universities had an antiquated condition that a candidate for Ph. D. must first pass reading examinations in two languages other than English to their show proficiency to conduct research broadly. I was aware of this requirement and had gone through the drill of passing an exam, translating French economic texts into English, at George Washington University in 1955. But the quickly-acquired knowledge of French had also evaporated quickly. So in the summer, I had prepared afresh for a French test. However, I was not expecting such a test even before the university classes formally started. Still, after several days of cramming, I did pass this not very meaningful, examination.

The next stumbling block came when choosing the course work. I naturally wanted to register for the main economic theory course, along with other first year Ph. D. students. But I was told that since I had been admitted (along with another dozen or so foreign students) in the MA program in international economics, it was advisable that I enroll initially in the less demanding analytical courses. That would have been the end of my two year Ph. D. plan. However, when I pointed out my graduate study at GW, the department somewhat reluctantly agreed to my request to take the regular graduate economic theory course, with the proviso that I should not be embarrassed should I have to return to the MA program if, as likely, I found the going hard.

Being able to join the year-long economic theory course brought me into the mainstream of entering Ph. D. students. The class consisted of less than twenty students, mostly fresh US graduates of Ivy League colleges and universities. There were four girls, three of whom were American, graduates of Smith, Mount Holyoke, and Swarthmore. The boys were from Yale, Amherst, Brown, Swarthmore, etc. There were eight or nine foreign students, including myself, Gerry Helleiner, Bill Walsh, and Ron Soligo were from Canada, T.N. Srinivasan from India, Jean Baneth from France, and Bashir Karamali, a fellow Pakistani, also from the State Bank, and a Finnish girl, Eila Hanni who became a good friend.

It was a small enough class to really get to know all the students well. The way the main theory class was taught also brought the group closer together. Still, some of us foreign students–Bashir, Jean, T.N. and myself–regularly sat together in that class, perhaps because of our different backgrounds, all the others having come directly from American colleges and universities. Bashir, Jean, and T.N had already been at Yale for a year under the MA program and were a source of valuable advice to me. But I was the only non-conformist in the class in terms of dress. Invariably, I was clad in a coat and tie while others dressed informally or casually. May be it was a habit formed through years at the central bank but I never felt awkward or the need for change. May be also, I was anxious to show off some new silk ties that I had bought in Switzerland.

It is interesting that in later life my paths crossed mainly with the foreign students in the class. T. N., who is Indian and was known for his mathematical and theoretical skills even at that time, was to become a very distinguished professor and economist and was to serve as Chairman of the economics department at Yale in the 1990s. In the 1980s, when he came to the World Bank as a consultant for some time, we were regularly in touch. When I joined the World Bank in 1970, I found Jean Baneth already there. This cemented our friendship, because our work on the economic side of the Bank often brought us together and this relationship lasted over a quarter of a century. Bashir Karamali, after returning to the Bank and serving there for a few years, joined the IMF in the late 1960s and thus lived in Washington for nearly 25 years before retiring early. Gerry Helleiner, another very distinguished academic, became a professor in international trade at Toronto University and devoted a great deal of his research to issues of development assistance and the effectiveness of foreign aid. But I do not think he ever thought very highly of international financial institutions, especially the World Bank.

The mornings started at 9.30 with the class in economic theory. The good long walk to Hill House Avenue on chilly Connecticut mornings was not only good exercise but also served as a full wakeup call after limited hours of sleep. The course was taught by Professor William Fellner (1905-83), a Hungarian émigré. Fellner was an outstanding economist as well as a great teacher. I do not remember an economics course where I learnt more about the basics of economic analysis or one that was quite as stimulating.

Partly, it was the content of the course but it had also a great deal to do with Fellner's style of teaching. The daily class was two hours long but Fellner almost never delivered a formal long lecture. Instead, there was a long reading list and it was assumed that all the necessary reading for each lecture would have been done before hand. Then Fellner would start with a few sharp observations on the subject matter and rather quickly invite commentary, often picking a student himself to initiate the discussion; we went from there covering the topic, largely through discussion. This participatory style kept everyone on alert. One had to be fully prepared to avoid embarrassment. But the dynamics of learning worked well.

The other classes were not quite so challenging, though they were also taught by some very distinguished teachers and scholars, Professor Robert Triffin, an authority on the international monetary system; Professor John Sawyer, who taught economic history; Professor Gerald Meiers, who taught development; Professor Richard Ruggles, who was an authority on national income accounts. Each of them had their own characteristic style.

Professor Sawyer (1917-95) was a gentle person and a rather low-key personality. I was pleasantly surprised when he was picked to be the President of Williams College in 1961, soon after I left Yale. An even greater surprise was how strong and effective a leader he proved to be during his tenure (1961–1973). Under his direction, fraternities were abolished at Williams and he sided with and orchestrated the protest movement against the Vietnam War, launched by students and faculty in 1970, by involving trustees of the college as well.

Professor Ruggles (1916-2001) was a gregarious, outgoing individual with a great policy sense. He and his wife, Nancy Ruggles, had done pioneering work on national accounts. He agreed with his colleagues, James Tobin and Arthur Okun, all of them Keynesians, that the US economic policies should be expansionary, but also argued that fears about inflation were overblown because the inflation measurement indices failed to take full account of the improvements in quality. He famously used to say that nobody would opt for any merchandise from a ten-year old Sears Catalogue at today's inflation adjusted prices over the choices in the latest catalogue. His seminars were small–eight to ten students–and he held classes in the evening in the large living room of his house, where coffee was served.

The teacher who proved to be the source of greatest support to me in all kinds of ways was Robert Triffin (1911-83). He was a true benefactor and treated me almost as a protégé. Triffin, a Belgian national, had completed a Ph. D. at Harvard in late 1938, with a thesis on the theoretical subject of monopolistic competition. After teaching at Harvard for a few years, he had held positions at the Federal Reserve, the IMF, and the Organization of European Economic Co-operation before coming to Yale in 1951. He had turned his brilliant mind totally to policy issues in the international monetary system, his interest having been triggered by his work in forming the European Payment Union to solve the severe payments crisis in post-war Europe with no convertible currencies. By the late 1950s, he was fully immersed in analysing the problems with the Breton Woods System and very presciently foretold of the severing of the link between US dollar and gold, a dozen years before it happened under Nixon in 1972. Till then a US dollar could be exchanged by foreign holders for gold at $35 an ounce. Recently, gold price has been selling at well over $1100 an ounce. More than half century ago, he had argued for a creation of a world central bank and a gradual move away from the US dollar as a reserve currency. His ideas are now being revisited.

Triffin was also head of the program for foreign students under which I had been admitted. As I took his course on international monetary problems, he seemed very impressed by my background: work on the external sector at the central bank, a year at the IMF, and some courses at GW. I was indeed better prepared for his course than most other students in his class. Triffin had become what today one would call a Policy Wonk and had little patience with younger American students, most of whom had had little background and interest in policy work at that stage. This obviously worked to my advantage and, so to speak, he took me under his wing. It was only slowly that I discovered how valuable his patronage was to turn out to be.

However, it was my performance in the first semester that made it possible for me to seek special consideration from the economics department. Even though I had taken five courses (the maximum credit could be earned only for four courses), I managed to obtain the highest grade in all of them–thus exceeding my own and my teachers' expectations. It was a moment of rare glory. That enabled my professors as well as the university administration to allow me a one-year waiver on course work.

Around this time, I had hired a tutor to help me with rudiments of German language so that I could at least acquire a minimum of proficiency in translating texts. I do not think I did well in the language test. However, probably in light of my academic record, Fellner, who was also the head of the department, accepted my marginal performance and I was deemed to have met this not very stringent degree requirement. Thus, around March I was cleared for the Comprehensives in September.

The second semester was far more relaxed and I was obviously more confident in class. My grades did not suffer, despite other pre-occupations and I maintained my High Honours average. But this was at least partly due to the great kindness shown to me by two of my Professors, Triffin and Ruggles. They lightened my work-load by separately deciding that my class participation had been so good that I did not have to write the required term papers and would get the top grade anyway. This was a most welcome relief: even though I had taken five courses, I was tested in only three.

Actually, Professor Triffin went well beyond excusing me from the term paper. As the term was ending, Triffin had to leave for a few weeks for a conference in Europe. He called me in and said that he was leaving the grading of student papers to me. I was a little aghast, because some of the students were second-year students, but I could hardly say no to this extraordinary honour. After Triffin left and the word spread through the secretaries that I was to do the grading, I did get a couple of calls from classmates, inviting me to dinner, which I tactfully declined. The grading exercise was not difficult. When Triffin returned, there was only one appeal that I had been too hard and Triffin revised the grade upwards.

It was also through Triffin that I had an encounter that was to provide me, decades later, a pretext for surprising and amusing guests at dinner parties. With his policy interests and strong worries about the international monetary system, Triffin was much in demand and very active in testifying before US Senate Finance and Economic Committees. I guess because of this he was on very good terms with Connecticut Republican Senator, Prescott Bush (1895-1972). The senator was a Yale graduate and thus took special interest in the university affairs. One day in the spring of 1959, Triffin announced that he had invited the Senator to attend his class because of his interest in foreign students and the subject matter. Prescott Bush, a tall very handsome very distinguished-looking man, then in his sixties, did come and stayed with the class for the full two hours, sitting in a rather crammed space. I had been given the honour of providing an introduction to the Senator on the main themes and issues for the course and Triffin provided the Senator a little bit of the background about me and other foreign students.

This incident remained at the back of my memory, because having met a senator was not such a big deal. It was only when George Bush became President in 1989 that I realized that Prescott Bush was his father. But after George W. Bush became President in 2000, I could get real attention and sometimes invite disbelief at social occasions by saying that I knew GW's grandfather. Of course, this dated me also. When I mentioned this encounter at a lunch in Zambia, where I had gone as a World Bank consultant in the summer of 2002, the host Treasury Secretary innocently asked what year that was. When I told him that it was 1959, he burst out, 'Mr. Hasan, I was only three years old then!'

The end of the academic year also brought welcome financial news. Based on my more than satisfactory performance, the department awarded me the maximum graduate fellowship of $2700 for the 1959–60 academic year. Allowing for the tuition fee of $1000, I was to have nearly $170 per month for ten months, a great improvement over the small subsistence grant in the previous year. To top it, Triffin arranged to cover my summer expenses by providing $400 for looking after his program's small library–rather minimal duties–and another $400 for doing some new book abstracts for him.

This financial relief was very timely as my savings were being drawn down.

The beginning of summer brought new anxieties. The comprehensive exams were due in late September. I was fully aware that, since I had not taken the full range of economic courses at Yale, there were gaps in my knowledge which could show up especially during the long oral exam which, reportedly, was even more challenging than the four written papers. My friend Eila Hanni was away to Finland for the summer. My friend Bashir Karamali diverted most of his attention to cultivating a visiting summer student, Ivonne Gunasekra, an attractive woman and a devout catholic from Sri Lanka whom Bashir Karamali was to marry in 1961 in Karachi. It was also a long hot summer. Of course, there was no air conditioning in my room and I had to manage as best as I could with a small table fan. Even though I had bought an old 1953 Chevrolet for $350 with my improved financial position, there were only a few outings mainly to drive-in theatres with either Pat and Jack or Bashir and Ivonne. Drive-in theatres were to become extinct in the 1960s with the widespread advent of air conditioning.

The work and the anxiety about the comprehensives were wearing me out. I recall that by the time of the exams, I could hardly eat a proper meal.

As it turned out, I had no difficulty with the written exams. Indeed, as I was to learn later, in two of the four papers– economic history and history of economic analysis–I excelled. But some parts of the orals caused me quite a bit of embarrassment and awkwardness. I was able to answer most of the questions correctly. However, a young bright assistant professor for international trade whose course I had not taken, even though it was one of my sub-fields, was successfully able to show my lack of full familiarity with a well known text, Mead's *Geometry of International Trade.* Triffin, who was part of the examining panel, inadvertently made things difficult by asking me questions about the very latest international monetary developments to show how good a student I was. Unfortunately, in the rush of things in the summer, I had not fully kept up with reading of the weekly London Economist. So I did not quite rise to his high expectations either. All in all, it was a very difficult two hours. But running into the young assistant professor, my tormentor, next day, I gathered that I had survived.

The results came in about ten days and indicated that out of a group of twenty, a couple of students had failed, two, including T.N. Srinivasan, had obtained distinctions, and three students, including myself, got an informal honorable mention. I was more than pleased at this. The most difficult part of the Ph. D. endeavour had been completed in one year in line with my internal time- table.

Costs of Hurrying Through

Hurrying through the course work at Yale had its costs. I missed out on acquiring sufficient mathematical and model building skills that were becoming important tools of trade for professional economists, especially as the advanced quantitative economics course at that time was taught by Professor Tjalling C. Koopmans, who was also head of Cowles Foundation, the leading research centre for quantitative analysis, located at Yale. Koopmans was to win the Nobel Prize in Economics in 1975 for his contribution to the theory of optimum allocation of resources. But somehow I did not see building or working with econometric models as a part of my future work on development issues in Pakistan. Of course, if I had foreseen that I would spend a quarter of century leading and supervising economic and policy work at the World Bank, I might have made different choices.

I also hate to admit that in an informal seminar which Koopmans attended, he seemed strangely out of touch with world economic issues. At that time, large German surpluses in balance of payments were a major source of international concern, much like the Chinese surpluses today. As this subject came up and Koopmans moved to the black-board to illustrate the problem in the theoretical context with a diagram, he had to ask again whether Germany had surpluses or deficits. Obviously, Koopmans was at the very opposite end of interests of persons like Triffin–such was the range and the depth of economics faculty. The moral of this story is that we ordinary mortals should not even try to judge geniuses.

The two other economics luminaries at Yale were James Tobin and Arthur Okun. Tobin, considered a great teacher and noted economist, was away on a sabbatical during my years at Yale. So, unfortunately, I had no opportunity to attend his lectures. I also could not take a course with Arthur Okun, an upcoming young star who was barely 30. Fortunately, I was able to persuade him to serve on my dissertation committee. I benefited greatly from his advice and his considerable macroeconomic skills, though he professed that he was a closed economy man and did not have much knowledge of international trade.

President Kennedy, who took office in 1961, was the first US president to make effective use of his Council of Economic Advisers (CEA). His handpicked Chairman Professor Robert Heller and members James Tobin and Kermit Gordon made a major contribution to stimulating growth in the economy by convincing Kennedy of the need for major tax cuts. Tobin brought Okun to work on the staff of CEA. The two of them did much of the analytical work justifying the tax cut. Tobin returned to Yale. He was to receive the Nobel Prize in economics in 1982. Okun stayed on in Washington, becoming first member and then Chairman of CEA under President Johnson. Later, this extremely gifted economist joined the Brookings Institution and authored a brilliant monograph, 'Equality and Efficiency: the Big Trade Off' (1975). I had the occasion to meet him again a couple of times for lunch when I came to Washington in 1970. Unfortunately, he died young at the age of 52 in 1980.

Yale had an exceptional economics faculty, though I did not realize at the time how much of an influence on policy and profession they were exerting and how much further recognition some of them were to attain in the coming years. It was a lucky choice for me.

Soon after the comprehensives, well before the results, Bashir Karamali, a friend of ours, an Indian Muslim student at Yale law school, and myself set out on a weeklong trip to Niagara Falls, Toronto, Canada, and then back to the US through Vermont and New Hampshire at the peak of the New England fall season. It was a fabulous trip after months of tension. This was the first extended trip in my old car and it generally held well. There was a radiator leak near Buffalo but it was quickly repaired. The only other moment of panic came when we arrived at Niagara Falls. Leaving the car in the parking lot with all our documents, we rushed to the bridge spanning Niagara Falls and, without it realizing entered Canada, by going through a turnstile. Very soon, we realized our mistake and quickly turned back to the US immigration post and told them what had happened. The government agents at first did not believe us. They seriously thought we were trying to sneak into the US without papers. With difficulty, the matter was sorted out and we finally entered Canada after going through the control post.

The most memorable part of the trip was driving back through Vermont and New Hampshire, there were no inter-state highways then and the winding country roads forced you to drive slowly and fully enjoy the blazing colours.

The Second Year

After the hectic pace and uncertainties of the first year, the second year was anti-climatic and lonelier. With no classes to attend, I missed the interaction and stimulus of regular discussion with other students. Being tied to my allotted desk at the end of one of hundreds of book-stacks, high up in the tower of Sterling Library, overlooking York Street for eight to ten hours nearly every day was good for my research but not much fun for me.

I had already decided on a thesis topic. Based partly on my work in the State Bank, I was interested in exploring the relationship between inflationary financing and balance of payments in the context of monetary theory and Pakistan's experience during 1951–59. For obvious reasons, I wanted Professor Triffin to be the Chairman of the thesis committee and had the good fortune of getting young assistant professors, Lawrence B. Krause and Arthur Okun as members. I got the thesis outline approved by early November and started work in earnest, pestering my friends, Moin Baqai, and Mahbub ul Haq, back home for the latest data.

The celebratory mood resulting from passing the comprehensive was, however, still with me and my friend Bashir Karamali. Soon after our Canada trip, we planned a more adventurous car trip with our friends Eila and Ivonne to Miami Beach, Florida, for the December holidays. In order to reduce expenses, we gave a ride to an undergraduate student at Yale.

Florida was beautiful and warm. It had enormous luxury hotels along the Miami Beach, the likes of which we had not seen. The enormous expanse and wilderness of the Everglades Park through which we drove was exhilarating. The normal tourists attractions, the Parrot Jungle that still exists though on an even bigger scale under name of Jungle Island, the Aquarium with jumping porpoises, the Vizcaya Museum, visits to Cape Canaveral, Cypress Garden, and water skiing shows, and to dog races (where I actually won a couple of dollars) were all fun. And there was lots and lots of orange juice. But there was no Disney World at that time. It was a tiring but most enjoyable holiday.

We were able to find inexpensive accommodations in bed and breakfast places and shared all motoring, meals, and lodging expenses. We managed to visit one nightclub in the Eden Roc hotel. Still I do not think we spent more than two to three hundred dollars per person.

What I remember most vividly was the long, exhausting, almost non-stop car trip. Miami Beach is about 1400 miles from New Haven. Even though there were no inter-state highways southwards beyond the Connecticut Turnpike, we had planned no stop-over, feeling confident that five drivers taking turns and resting would enable us to drive through the night, which we did. The problem was the speed limits. Because there were no highways, the route took us through many, many small towns which had speed limits of 20 or 25 miles per hour. Even when driving in the dead of the night, we had to be very careful. We had been warned by our Southern friends that there were many speed traps along the way. The Sheriffs of small towns eagerly did night duty in order to collect a few dollars off errant northerners. Indeed, there was moralizing also. In Georgia, we came across a billboard which said, 'This is God's country, do not drive through it like a devil.' We did come across local police patrols but were able to avoid traffic tickets by sticking to speed limits. So it was slow progress. We had left new Haven at 11 a.m., kept going through the night and the next day. But we found that by about 4 p.m., none of us were willing to drive further. So we stopped at Daytona Beach, a very worthwhile stop, to visit the speedway and the beautiful beach. But Miami Beach was still a few hundred miles way.

Next morning, we left, stopping at St. Augustine, visiting the fort and dropping off our undergraduate friend. He was a nice young man with a perfect New England accent when we started. But next day, as we were in the deep South, we noticed that his accent was becoming increasingly southern. I asked him whether he was adjusting his accent to the locale. He said that no, the change was probably due to the fact that he was getting tired–a rather frank admission that the simulated New England accent required some effort and energy.

My friends, Pat and Jack Wilcox, had been worried that we, a racially mixed group with mostly brown faces, might encounter prejudice and problems in housing, eating, and other facilities in the heavily-segregated south. I am happy to say that there was no discrimination at all and we all felt comfortable throughout the trip.

Political Backdrop

Politically, this was a very exciting time in the United States. The young charismatic Senator John F. Kennedy, then only 43, announced his candidacy for President on 2 January 1960, among widespread skepticism that a Roman Catholic could ever be elected to the highest office in the land. The list of the Democratic aspirants included many party heavyweights, such as Hubert Humphrey, Adlai Stevenson, Pat Brown, and Stuart Symington. Lyndon B. Johnson, the powerful majority leader in the Senate, did not contest the Primaries but was a write-in candidate. He was to receive the second largest number of votes at the Democratic Convention at Los Angeles in July.

It was also a time of rising cold war tensions and worries that the US was falling behind in science and technology, fears triggered by the launch of space satellite, Sputnik, in 1957 by the Soviet Union. In May 1960, the Soviets shot down a photo reconnaissance US U2 spy plane, piloted by John Powers, one of many flights that had taken off from a little publicized American air base in Peshawar, Pakistan. Khruschev angrily warned Pakistan that they had put a circle around Peshawar on the map. With all this in the background, not only Kennedy's Roman Catholic faith but also his youth and lack of foreign policy experience were hammered home by his opponents.

Hubert Humphrey, a great, voluble liberal, appeared to be the favourite on the Yale Campus and actually spoke at a heavily attended meeting where I was present.

But Kennedy clearly fired the imagination of the US public and his well-run campaign, under the direction of his brother Robert Kennedy, scored decisive primary victories, starting with New Hampshire. He defeated Humphrey in Wisconsin and then decisively in West Virginia, which was heavily Protestant. In the end, Kennedy won ten primary contests out of fourteen held at that time, with Humphrey winning only South Dakota and DC. The other two, Ohio and California, were won by favourite sons. By the end of the primary season, Kennedy was assured of winning the nomination of his party at the first ballot. Nonetheless, the Democratic Convention was exciting– it was practically the only time that I watched television during my stay at Yale.

As I write this, a half-century later, another even more historic battle for the US Presidency has been won by Barack Obama, the first African-American to do so. Americans have overcome any remaining racial prejudice, and worries about Obama's very exotic background, his youth and inexperience, to give this charismatic, gifted, and extraordinary political leader a chance to lead the country in new directions. In showing massive support for Obama, voters have favoured character, vision, and hope over experience. However, the domestic and external challenges that the US faces appear to be more daunting than at any time since the Second World War. If Obama is able to tackle them reasonably successfully, he will usher in a truly new era of respect and influence for the US.

Beginning with the New Year1960, I began to give very serious attention to my thesis. Like many Ph. D. students, I soon discovered that my original topic was too broad and not defined rigorously enough. So I decided to focus on money creation, its impact on balance of payments and capital formation in the context of Pakistan's economic policies during 1951-58. Borrowing from the central bank was a major government policy instrument, used to finance budget deficits and the rising public development spending during this period. My research thus became an attempt to evaluate the effectiveness of these policies in the setting of the fixed overvalued exchange rate and strict exchange controls, drawing heavily on my experience in the State Bank.

Since my thesis was closely related to my work experience, I made fairly steady progress during the next few months. But by March, it was clear that I could not possibly finalize the thesis and get it approved by the committee by early May to actually get the degree in June 1960. That was clearly an impossible goal. So the best I could hope for was completing the process by the end of summer and getting the degree in 1961. My committee members were generally satisfied with the direction of my research.

In late April or early May, however, Professor Triffin, with the best of intentions and great kindness, made a suggestion which was to somewhat complicate my life during the next several months. During one of our discussions, he told me that it would be in my career interest to spend a few years at the IMF before returning home. I was not sure I wanted an IMF job, but I valued his advice greatly, so I agreed to go to Washington D.C. for interviews that he quickly arranged because of his contacts.

At the IMF, among others, I met Graham Dorrance, an Australian who was the head of the Monetary Division in the research department. I was a little surprised when, at the end of the interview in which we talked about the role of monetary policy in containing balance of payments deficits, he offered me a job at a tax-free starting annual salary of $7400–a fabulous sum for a student who had been living on less than $200 a month.

This was not an offer I could take lightly, so I sought the advice of my family. My father was favourably inclined towards it and certainly did not discourage me from seriously considering the job offer. But within a few weeks I learned that Dorrance did not have the authority to offer me a job without prior clearance of the State Bank, my employer, because of an IMF protocol with central bank. Thus started the lengthy process of the IMF seeking clearance for my appointment, a negotiation that was still ongoing when I left Washington for home at the end of August.

Meanwhile, the Economics Department at Yale was in the process of getting a large grant for setting up an Economic Growth Center in 1961 to intensify work on economic development. The plan was to initially undertake a series of country studies and thus there was interest in hiring new faculty members. I was approached that I should stay on and in fact was promised an Instructor's position for 1960-61 if indeed I managed to finish my dissertation by fall. A career in academia never really interested me. So I did not respond positively. This did not endear me to some key faculty members, who thought I was not sufficiently appreciative of this rare honour for a third-world foreign student.

The job offers were certainly flattering but did divert my attention from speedy completion of my research work, especially because the IMF job was in no way conditional on completion of my dissertation. Even a moderate slowdown in the pace of my work was to prove troublesome. By May, Triffin, my main thesis supervisor had, as usual, left for Europe and I was left to work mainly with Lawrence Krause. Under his direction, I finished the dissertation by August and at least Krause was fully satisfied. At the same time, my money was running out and, in the absence of Triffin, the department did not respond favourably to my request for additional funds. I am sure my turning down the faculty offer and the knowledge that I was maintaining a car on a student budget did not go down too well with some faculty members.

Faced with financial constraint and the assurance by Krause that my thesis was in good shape, I decided to leave for home, even though Professor Triffin was not back. In retrospect, it was a hasty and unwise decision. But the State Bank was taking very long to decide on my deputation to the IMF and, in any case, I wanted to see my family before accepting a posting in Washington.

It was good to be back with the family after two years and I went back to work almost immediately.

However, soon after arriving back at the job in the State Bank, I got a letter from Krause that my dissertation committee had met but together their concerns were additive and I needed to do more work. This was a shock, especially because now I was back at a full-time job. But the changes were not fundamental. I was able in a few weeks to submit a revised draft which was finally accepted for the grant of the degree in 1961. But a further reservation was added by an outside reader, Professor Gus Ranis, to the effect that before the thesis could be published as a part of Yale Economic Essays in late 1961, I should further revise the final chapter on summary and conclusions. These hiccups on the way to getting approval for the degree could have been avoided if I had not hurried home and had stayed another month at Yale. A few years later, Ranis, now a good friend, assured me that he had looked at the final published version and thought I had done a very good job.

Meanwhile, the saga of my clearance for the IMF job continued. One reason for delay on the decision was that Mr. Abdul Qadir's extended term was ending in August 1960 and he felt, appropriately, that the new governor, Mr. S. A. Hasnie, should decide the matter. Mr Hasnie was not happy about my having approached the IMF directly, but was inclined to allow me to go because Pakistan had few staff members in the IMF. This tentative decision met with strong representation from some senior staff members of the Bank, including my seniors and friends, Azizali Mohammad and Nazir Ahmed Chaudhry. The head of administration, Chief Accountant S. L. Haider, also felt that allowing me to join the IMF would be bad for staff morale because some other staff members had not been allowed to apply to the IMF. Faced with this opposition, Mr. Hasnie backtracked and decided to forward four names, including Azizali's and mine, for possible employment in the IMF but clearly indicating that only one officer could be given leave of absence.

Faced with this choice, the management of the Fund made the obvious choice. Azizali was more experienced, had a Ph. D., and was very well known to Jacques Pollak, Deputy Director of Research, who had been his thesis adviser at George Washington University. I was a little disappointed but was neither surprised nor dismayed. With Azizali's departure for IMF and our other Deputy Director, Mr Ziauddin's selection for studies at Harvard, my friend Moin Baqai and I were promoted as Deputy Directors. Becoming senior managers of the department, we looked forward to having a major say in running the department with some anticipation. Little did I know that in less than a year, I would be off on another assignment away from the State Bank.

More importantly, in retrospect a job at the IMF could have narrowed my career options, probably would have prevented my switch to a more direct involvement with planning and economic development in Pakistan and abroad. That involvement has turned out to be a passion and a joy. It certainly would have had other life-altering consequences. I owe a debt of gratitude to both Governor Hasnie and Azizali Mohammad.

So I was back in Pakistan with my goal of a Ph. D. in two years accomplished, at least *de facto*. Why was I so deadset on completing my graduate work in such haste? Career advancement at the State Bank of Pakistan was one consideration. But mainly it was peer pressure. Moeen Quershi and Moin Baqai had obtained their Ph. D. from American universities in two years. Most recently, Mahbub, a couple of years younger than me, had completed his degree at Yale in the same time-frame. I conveniently forgot that Mahbub had spent two years at Cambridge and obtained a First Class honours degree before proceeding to Yale. I did miss out on more technical economic accomplishments by spending a minimum time at Yale. But then, my life might not have taken the turns that have greatly enriched my life. This confirms my belief that chance and/or fate have at least as much to do with our life journey as the choices we make.

Chapter 8

Pakistan Interlude: Early Ayub Era 1960–1961

The Pakistan that I returned to in 1960 seemed, at least on the surface, a different and somewhat more confident country than the one I had left two years earlier. Ayub Khan had taken over as a military leader in October 1958 and had consolidated his powers by developing a system of Basic Democrats, who had elected him President through a Yes/No plebiscite in February. Work on a new constitution was ongoing. Political stability appeared assured. The country was at the beginning of a sharp economic upswing: substantial external resources were flowing in, Pakistan's ties with Western countries, especially the US, appeared to have grown much stronger, and competent and honest technocrats were in place to run vastly expanded public programmes and newly created or considerably strengthened development institutions, such as WAPDA, PICIC, and the Planning Commission.

However, Ayub's military rule set a terrible precedent. Several subsequent military dictatorships took courage from his example and long periods of military rule have greatly undermined the development of political institutions, meaningful democracy, decentralized governance, and, last but not least, of a sense of national identity, even after the separation of East Pakistan. The military governments have also contributed to the continued confrontation with India and thus to a level of defence spending much above what the country could afford. The consequence has been the relative neglect of social and economic development in a country where the population grew nearly five-fold in five decades.

But there was no such foreboding in the early years of the Ayub regime. Indeed, till the 1965 war with India, Ayub was quite popular in

West Pakistan and the discontent in East Pakistan was contained because of an increased tempo of development activity in the country as a whole and Ayub's very deliberate efforts to engage the Bengali intelligentsia, especially the economists. US assistance, both economic and military, increased sharply, as Pakistan joined CENTO and SEATO security pacts with the US and other countries as part of the cold war strategy to contain the Soviet Union. A substantial part of this assistance was quick disbursement of a large multi-year agreement US P.L. 480 agreement, signed in 1961 with the Kennedy Administration. In addition, the conclusion, under World Bank auspices, of the Indus Basin treaty with India, for sharing the Indus Basin waters also inducted additional resources into West Pakistan. All told, the net inflow of foreign resources more than trebled over 1959-65 and the level of foreign assistance as a percentage of GDP more than doubled to 7 per cent.

This provided a strong stimulus to investment and growth. Investment levels and growth rates of GDP doubled both in East and West Pakistan over 1960-65. The improved availability of foreign exchange, relaxation of economic controls, and the much improved availability of long-term industrial credit resulted in an even faster growth in private investment than in public investment (Hasan 1998). No wonder Pakistan came to be cited as model of development during this period (*New York Times*, 12 January 1965).

Several factors contributed to the stronger economic performance. First, Ayub's commitment to economic development was genuine and strong and economic and social reforms were high on his agenda. Though in the end, progress on key issues like land reform and education was limited, economic policy making remained at centre stage for most of his presidency.

Equally important, and a rather less known fact, is that Pakistan's defence spending from its own resources increased little in real terms over 1959-65. While extensive military assistance was used to upgrade weaponry and training, the size of the army remained unchanged at around 120,000 persons. Finally, Ayub relied heavily on honest, able, and experienced civilian bureaucrats to run ministries and major public corporations and listened closely to advice from the Harvard Advisory Group about the importance of planning and the role of economists. In sharp contrast to the later Musharraf era, the presence of serving or retired military officials in key civilian positions was relatively small.

Mohammad Shoaib, a very senior and able finance official, who had honed his economic policy skills as an Executive Director at the World Bank (1953-58), had become Finance Minister in October 1958. He was clearly the head of the economic team. Shoaib was one of the best finance ministers the country has had. He had a good intellect, was quick in decision making, was progressive and liberal in economic outlook and a great believer in profit as the motive for the fountain spring of human endeavour, next only to love.

On the advice of foreign economists, Ayub greatly elevated the position and expanded the role of the Planning Commission by assuming the Chairmanship himself and appointing an official of the rank of a minister, Said Hasan, as Deputy Chairman in 1961. The empowerment of the Planning Commission and strengthening of the Pakistan Institute of Development Economics (PIDE) opened up much greater career opportunities for economists and raised their profile.

PIDE had been established in 1957. Professor Gus Ranis of Yale served as its first Director (1957-59) and was followed by Professor Irving Brecher of McGill University, Canada (1959-1961), and later, Professor Henry Bruton of Williams College (1961-63). But initially, the staff recruitment was slow and large funds for foreign training came only after 1960.

Overall, I found a dramatic improvement in the work environment for economists, better prospects for the economy, and much greater interest of major donors, compared to 1958. Quite clearly, a great deal of this had to do with Pakistan's close alignment with the US and the joining of the Security pacts. US administrations under Eisenhower and then Kennedy did not have qualms about supporting military rule as long as political stability was ensured and the anti-communist stand of the government was clear.

As for myself, having my Ph. D. work behind me was a source of great liberation from pressure and anxieties. Moin Baqai and I, as Deputy Directors, were directly in charge of day-to-day running of the department under the broad direction of Dr S. A. Meenai, the Director of Research. By this time, Moin and I had become very close friends and there was no feeling of rivalry between us, possibly because becoming the head of department was not a reasonable short-term aspiration; Dr. Meenai was in his mid-thirties, and our seniors, A.,F. Mohammad, and Ziauddin, though abroad, were still very much part of the department. More importantly, senior level positions for economists were opening up in the fast expanding Planning Commission. The Planning Commission appeared the place to be in under Ayub and both Moin and I were hoping at some point to make the switch, because the economic policy-making role of the central bank remained limited.

Meanwhile, the research department had expanded to more than a dozen economists, six research officers, and an even greater number of research assistants. Most of the staff was relatively new, however. After a gap of over six years, several bright officers, including Mohammad Yaqub, A. K. M. Siddique, and Mohammad Bhuiyan (the last two from East Pakistan) had been recruited directly. Working with these officers and helping to train them was an exciting task for Moin and me, especially because all of them were committed to a career in economics.

Most of them eventually studied economics in the US (Yaqub for an MA degree from Yale in 1963 and a Ph. D. from Princeton in 1966). Yaqub, Bhuiyan, and Siddique ended up joining the IMF in the 1970s in Washington DC. Yaqub returned to Pakistan in a top position in the Ministry of Finance in 1991. He was appointed as Governor of the State Bank of Pakistan in 1993, a position in which he served for six years in what were increasingly difficult times financially. Yaqub was the first economist to be appointed to head the central bank and the only research department official to be elevated to this position. Yaqub's successors, Ishrat Hussain and Shamshad Akhtar, were also economists. At long last, Zahid Hussain's vision for economists to play a key role at the State Bank and for the research department to train the nation's economic leaders had been at least partly realized.

In September 1960, the most exciting event was the visit of Jawaharlal Nehru, the Indian Prime Minister, to Karachi to sign the Indus Waters Treaty, along with President Ayub Khan and W. W. Illif of the World Bank. This landmark treaty was an outstanding example of conflict resolution and took eight years of work by the World Bank and Indian and Pakistani negotiating teams. Nehru was given a rousing welcome in Karachi, which belied the serious tensions between the two countries since partition in 1947.There was not much public debate on the treaty in Pakistan. The country was still under martial law and the Press and Publication Ordinance of April 1960 had put quite stringent restrictions on the press. The diplomats were thus curious about public opinion. At a lunch in October at the house of the US Economic Counsellor, I was asked about the general public's reaction to the Treaty. I had to say that the government told the public that treaty was good for the country and the public believed the government. Frankly, Ayub's standing and credibility in the country was high in those early years. The only critical comment that I heard about the treaty came from the civil service gadfly, Masood Khaddarposh, who was upset that the perennial water rights had been given up in exchange for building of dams and canals that would silt up within decades. Additional investments would be required to replace dams and maintain water supplies. Masood sarcastically added that nation would in future be occupied for decades with digging dirt (excavating earth).

During the spring of 1961, I had the opportunity of being introduced to Ayub Khan, along with a couple of other economists, including Nurul Islam. The occasion was a seminar in Rawalpindi organized by the Bureau of National Reconstruction, under the leadership of Brigadier F. R. Khan. Brigadier Khan was the spokesman of the regime and the task of the Bureau was to present both a favoruable image of the regime and to keep an eye on the press. Ayub attended the first session and stayed for the reception that followed. Nazir Ahmed, a friend of the family, was Secretary Information at that time. He saw me and said, 'Come meet the President'. Consequently, some of us spent ten or fifteen minutes talking to Ayub. I was struck by his powerful personality. He was tall, handsome, very fair, and blue-eyed. He also had a confident but open and engaging manner. He certainly did not give the impression of a haughty dictator. Even more impressive was his deep interest in economic matters and his knowledge of facts and figures. When told that the sharp decline in international cotton prices was hurting Pakistan's export earnings, he was quick to point out that declining cotton output was an even bigger problem and cited actual numbers.

It was at this seminar that I had the occasion of meeting some of the notable industrialists of Pakistan. The one who impressed me the most was Abdul Jalil of the Amin Group of Industries, who had extensive investments in the jute mills in East Pakistan. I admired both his candor and his sense of humor. At the conference, he strongly criticized the bureaucracy for placing obstacles in the way of the private sector and said that he had come to the conclusion that, in order to succeed, a businessman must have at least one son in the government, even though he could just be a peon (*chaprasi*). To this, there was a quick response that indeed that the government was willing to hire one of his sons as a peon any time.

Jalil was to lose most of his fortune when East Pakistan became Bangladesh and had to make a fresh, albeit modest, start in Atlanta, Georgia in the United States in the 1970s. He had become a friend in the late-1960s, when he headed the large Pakistan National Oils Corporation and helped us in the Government of West Pakistan in the privatization of fertilizer distribution at the crucial time of the Green Revolution. The last time I saw him was in Washington in January 1977, when he had come, with Syed Amjad Ali, to attend the inauguration of the peanut farmer from Plains, Georgia, Jimmy Carter, as the 39th President of the United States.

I think it was during the same trip that I made the personal acquaintance of Finance Minister Mohammad Shoaib. We met in a small room reserved for first class passengers (yes, even mid-level officials like me flew first class then) at the Rawalpindi airport. We were held up there for a few hours as the flight to Karachi was delayed due to bad weather. Shoaib was friendly and talked about his economic reforms and push for private sector development. When I expressed concern about distribution issues and the large fortunes being made by a few new industrialists, his response was that the nation should initially let wealth be accumulated.

Shoaib was not the only one who believed this. My friend, Mahbbul Haq, in his book on *The Strategy of Planning*, published in 1962, also made the case for acceptance of income inequalities for the sake of rapid capital accumulation and growth. Mahbub was later to revise his views and stressed the importance of early emphasis on human development and poverty reduction. But by and large, the trickle-down theory remained popular with Pakistan's policy makers and only now have the grave consequences of not providing good education and adequate jobs for a large majority of the population come to haunt us.

But these bigger issues were beyond our daily concerns at the central bank. The monetary policy remained on hold as much larger availability of external resources reduced the need for deficit financing or money creation and price level pressures subsided. Indeed, my major source of satisfaction during that period was whatever little contribution I could make to issues of staff development and recruitment.

As Deputy Director, I supervised the work of three research officers, Kazi Badrul Islam, Siddique, and Yaqub. Badrul Islam had been in the Department as a research assistant for many years and did not need much supervision. Yaqub was a high performer. Siddique's performance was, however, not so satisfactory. In those days, the confidential reports were really confidential: the reportees were rarely told of the contents of their performance assessment. But I felt uneasy and called Siddique in and shared my concerns about his performance. I also wanted to know what was going on. It turned out that Siddique, though just in his mid-20s, was married and had two children and was having serious problems with accommodation as well as transport in the unfamiliar Karachi setting. These personal problems were the source of his underperformance. I made a note of this in the report and postponed a judgment on his performance. Whether it was this conversation or other factors, Siddique's work greatly improved in coming months. Later in the year, when I was being given a farewell party, Siddique asked to speak, recalled the episode, and thanked me profusely for my understanding. I was greatly touched. I regret that in our years in Washington, I did not make more of an effort to keep in touch with him.

In looking at the future of the Research Department, Moin and I were also convinced of the need to induct high quality fresh blood on a regular basis through competitive exams. We also envisaged that the selected economists would, after a couple of years, be sent for advanced studies abroad. This would ensure that incentives for talented individuals to stay at the State Bank would remain strong and the growing needs of the research department would be met, mainly through highly educated staff.

We took up the matter of regular direct recruitment at the research officer level with Dr Meenai, our Director. Dr Meenai was at first reluctant because he feared that we would not be able to handle the flood of applications that a recruitment announcement would trigger. We were not so easily discouraged, however, and were finally able to persuade him.

Dr Meenai was proven right insofar as the advertisement brought forth a few hundred applications. We had made the mistake of not using a written exam to screen candidates, a procedure that had been followed when we were hired. So one afternoon, Dr Meenai, followed by two peons, carrying candidates' applications, rather unhappily marched into the room that Moin and I occupied. After telling the peons to leave the files with us, he said that we had been forewarned. And now it was our responsibility to deal with the situation.

We were not ready to accept defeat. After Dr Meenai left, we discussed the options and decided fairly quickly that we would, at least initially, sift through large mass of applications, looking only for the most outstanding candidates. After spending a few hours doing this, by late evening we had spotted Mohammed Arif and Abu Shamim Arif as candidates who deserved to be called for interviews right away. Both had outstanding academic records and had topped the MA Examination in economics at Punjab and Sindh universities respectively. We presented our recommendation to Dr Meenai next morning and he became quite excited and took the matter to Governor S. A. Hasnie.

Hasnie was an able administrator, with a colourful personality and a somewhat flamboyant style. He decided to make a dramatic and bold gesture and not only authorized letters of appointment to be issued to the two leading candidates, but decreed that the State Bank in future would automatically offer a research officer's position to any MA economics who obtained a first class first.

We were a little aghast at the idea of offering positions without interviews, though we were confident of our choices. But the policy decision had been made and Arif and Shamim Arif were hired. In later years, among those who made use of this offer and joined the research department was Naveed Ahsan.

However, the State Bank was not able to hold on to these first-rate individuals, probably because career advancement was not certain and they were not provided opportunities quickly enough for higher education in the US. Both Arif and Shamim Arif joined the Civil Service of Pakistan in 1964 and Naveed Ahsan in 1967.

While the State Bank of Pakistan was not able to produce a sustained flow of Ph. D.s from its own cadres after 1965, many CSP officers opted for graduate studies in economics abroad, as the value of good economic training came to be widely recognized (See chapter 10).

Moin and I were doing some long-term planning for the Department, but the underlying assumption was that all of us would not stay put there because of the opening up of opportunities in other parts of government: both of us had at least half an eye cocked at the Planning Commission. Little did I realize that before the summer ended I would find myself in Saudi Arabia!

A Major Shift in Course

I guess it was the result of a chain of events, starting with my being offered a job at the IMF a year or so earlier, that I ended up in Saudi Arabia as an adviser in September 1961. I thought the matter had ended with the State Bank not agreeing to release me. But, as I was to learn later, my name caught the attention of Mr. Anwar Ali, a Pakistani Director of the Middle East department of the IMF, who was serving as Governor of Saudi Arabian Monetary Agency (SAMA) on deputation. Mr. Ali had been in Jeddah since 1958 and had been looking for a qualified economist to organize the research department at SAMA and prepare annual economic reports. Though he did not know me personally, my qualifications–a Ph. D. in economics from Yale, central bank experience, and a job offer from the IMF–attracted his attention. But he was a cautious man and also consulted some IMF officials, including his friends, John Gunther and Moeen Qureshi. Since the two knew me well, they probably did not hesitate to recommend me.

Thus, already by the end of 1960, Anwar Ali had decided to try to obtain my services from the State Bank. But hurrying was not his style and he was a great believer in right timing. So he decided to wait till Governor Hasnie came for Hajj in June 1961as a State guest.

Even though Hasnie was a personal friend of his, Anwar Ali had the finesse of letting the request for my services come through the Finance Minister, Prince Talal Bin Abdul Aziz, one of the many sons of

King Abdul Aziz, founder of Saudi Arabia. No wonder Hasnie found it difficult to refuse a request from such an august quarter. I came to know later that Prince Talal was a more modern prince than the typical Saudi royalty; he had married Mona, the daughter of Riad El-Solh, a leader of Lebanese independence and the first prime minister of modern Lebanon. His son, Prince Walid Bin Talal, has become famous as one of the world's richest men, active in charities and vocal about female rights. He is, however, both a Lebanese and a Saudi citizen,

When I was told that Mr. Hasnie had agreed to loan my services to SAMA, my initial reaction was far from positive. I was comfortable with my State Bank job; things were happening in Pakistan's economy and the input of economists was considered increasingly useful. More important, I was looking forward to getting married in the near future. My friends, Moin Baqai and Mahbubul Haq, had got married in the summer of 1960. The progress towards finding a life partner had been slow but not unpromising. Though I was not exactly excited about the prospect of an arranged marriage, I had agreed to my parents exploring the possibilities. Some of my friends suggested a match with a highly-qualified university teacher with good looks and an excellent family background. But the lady in question, even though she had studied abroad for several years, was reluctant to meet me, even for a cup of tea–such were the mores of the times. But certainly Saudi Arabia did not appear to be the place for a young Pakistani man to look for a wife.

Eventually, parental advice weighed in. My parents' view that they would be able to perform the Hajj, which otherwise might have been a financial strain on them, persuaded me to accept the offer, which in any case, required a commitment of only one year.

Thus began an assignment that took far more than one year, but in many ways turned out much more enriching than I could have imagined.

Chapter 9

Life and Times in Saudi Arabia 1961–1965

I arrived in Jeddah in early September 1961, after a long hot day's travel through a connection in Bahrain and a stop in Medina. I deeply regretted not having taken the more pleasant though somewhat more expensive route, and enjoyed a day in Beirut, then considered the Paris of the Middle East–my conservative financial habits have not always served me well. The Saudi Arabian airlines flight by a propeller plane from Bahrain through Medina was rather basic in amenities. By the end of the trip, I began to have some doubts whether life in Jeddah, the headquarters of SAMA throughout my work there, would be reasonably comfortable. I should not have worried.

I was met at the airport by Mohammed Said, a Palestinian, and Nabi Ahmed, a Pakistani, who, respectively as Secretary and Personal Assistant were in charge of Mr Anwar Ali's office. I was taken to the Kandra Hotel, very near the airport and very close to the Saudi Arabian Monetary Agency (SAMA)'s offices and was relieved to find that it was a spacious, elegant, and comfortable hotel that compared favourably with the best hotels in Karachi, Metropole, and Beach Luxury.

Saudi Arabia then was far from being the political and economic powerhouse it is today. But it was not a sleepy desert kingdom either. The sharp rise in government oil revenues, the foundation of their national wealth, from a paltry $10 million in 1946 to $330 million in 1960 had already transformed the economy and the society considerably. Of course, the earlier level and growth in oil revenues pale in comparison with the phenomenal increase since then of nearly a thousand fold in government oil revenues ($270 billion in 2008). Moreover, there is now large income from foreign assets held and investments in oil-based industries. But even so, Saudi Arabia was a relatively rich country with a population of 4-5 million and GNP per capita of around US$200 in the early 1960s, compared with Pakistan's figure of around $70 per capita.

Political Setting

Politically, the rule of the monarchy was nearly absolute and remains so to this day. But there were clear divisions among the royal family in the early 1960s. King Abdul Aziz, the founder of Saudi Arabia, had died in 1953 and was succeeded by Saud, the eldest of his large number of sons. King Saud was, however, a rather inept ruler with profligate habits and extravagant tastes. Despite rising oil revenues, the kingdom faced a financial crisis in 1958 which brought in IMF and its officials, Zaki Saad and Anwar Ali, to help implement a stabilization program. As a result of the crisis, King Saud was also persuaded to hand over the day-to-day control of government affairs to his brother, Prince Faisal, who became Prime Minister. Faisal, as Finance Minister, restored the financial health of the kingdom.

However, after a power struggle with the King, Faisal resigned in 1960, blaming Saud for undermining his financial reforms. But continued problems with governance and the beginning of a proxy war in Yemen with Egypt under President Nasser led to Faisal being brought back as Prime minister in 1962. He became king in 1964, when Saud was forced into exile by the royal family; Faisal remained Kinguntil he was assassinated in 1975.

King Faisal had great moral authority as well as courage and sagacity. He led an exemplary family life, insisted on an excellent education for his sons: several of them were educated in the US, including at Princeton and Georgetown, and have served in important public positions for decades. Faisal was also a social reformer. Despite opposition from religious leaders, he pushed on with his agenda for the education of girls and the start of television in 1965. A story has it that when the *ulema* (the religious leaders) complained to him about the female singers on the radio, he responded bluntly, saying that they should get used to female voices because soon they would be seeing their faces.

Faisal also was the first king to realize the need of inducting bright commoners as technocrats. It was not unusual for highly educated young men to be appointed as deputy ministers and then promoted as full ministers, if they proved capable. He was also a great believer in continuity. Two of his notable appointees, Sheikh Zaki Yamani and Sheikh Abul Khail, served respectively as oil and finance ministers for decades.

Faisal had the common touch as well. I could not quite get used to his riding with the driver in the front seat of an open Cadillac, both as prime minister and as king. On the whole, I also found Saudi society much more egalitarian in comparison with Pakistan. There was much less sense of class distinction, though income disparities were wide. The sense of self worth seemed to be strong, a product both of a nomadic society and equality before God preached by Islam.

People with the lowest income level in SAMA, the *Bawabs* (doormen), would not hesitate to greet me by name and shake hands, practices that would have been unimaginable back in the State Bank. I also felt that Arabs, a very proud people, were not as impressed with the foreigners, especially Westerners, as we Pakistanis were. Perhaps this was the consequence of the absence, by and large, of Western colonial rule, though Saudi Arabia was for a while a part of the Turkish Ottoman Empire.

I do not think any Saudi king in recent history, with the exception of the present King Abdullah, had the combination of moral authority and statesmanship which was needed to modernize Saudi society, to make it more participative, and to wean it from the grips of a very conservative and rigid religious hierarchy. Still, the overall pace of social change was slow and suffered further after Faisal's death and as a sharp rise in oil revenues increased the wealth of the country and both the wealth and the influence of the royal family and relieved domestic pressures. It is only since the rise of Osama Bin Laden and the subsequent dastardly attacks on the World Trade Center on 9/11/2001 by terrorist teams, including mostly Saudi nationals, that the dangers of political oppression and religious extremism have begun to be fully realized and tackled.

Certainly, during my time in Saudi Arabia, a lot of power rested with the religious establishment and police under the Bureau for Control of Vice and Promotion of Virtue. So-called *mottawwas,* largely uneducated, threw their weight about by overseeing that women in the holy mosques in Mecca and Medina were appropriately clad, shopkeepers left their businesses and headed to the mosques at prayer times etc. They were active in the evening in their attempts to snare young men returning home from parties where they might have imbibed liquor. Liquor was and is strictly forbidden in Saudi Arabia, though it has never kept the elites from enjoying it. But being found with liquor on your breath by a m*ottawwa* was enough for one to be thrown into jail indefinitely. A younger colleague at SAMA told me excitedly one morning that, the previous evening, he had narrowly escaped only by outgunning his powerful automobile over the religious police car.

Quality Of Life

In terms of physical comforts, life in Jeddah, a city of only 100,000 situated on the Red Sea, was quite pleasant. The big improvement over Pakistan was the widespread use of air-conditioning in homes, offices, and cars. The high-quality imported foodstuffs, including, meat from Australia, fruit from Lebanon and Palestine, dry milk from Holland, and Wall's ice cream from the UK, were sold in small but tidy supermarkets. Taxis were numerous and cost only a couple of Saudi riyals (50 US cents) for trips within the city.

I found that air-conditioning in both offices and homes definitely improved one's productivity and sense of well-being. When I left Pakistan, the State Bank's new fully air-conditioned building was still a few months away from completion and only the governor's office had the luxury of a room air-conditioning unit. SAMA's four- storied modest building did not have central air-conditioning, but had room units for all 100-120 employees. Of course, our residence in Karachi also did not have ACs, a great luxury at that time.

But there were downsides to living in Jeddah at that time. The isolation from the rest of the world was great for foreigners like me who did not speak Arabic. There were no local English language newspapers and foreign newspapers like the *New York Herald Tribune*, the London *Economist* and *Financial Times* took several days to arrive– there were no daily flights in and out of Jeddah to Cairo or Beirut. You needed a really powerful radio to catch BBC broadcasts. There were no libraries in town. Even SAMA had no books on economics and finance. It took me a year to build a modest collection, partly with the help of a gift of a couple of hundred books by the Economic Development Institute of the World Bank.

There were no avenues of entertainment, no movie houses and, of course, no television, VCRs, or DVD players. Occasional invitations to the ARAMCO (Arabian American Oil Company) compound and the Italian Club were the only opportunities to watch somewhat dated films.

Another peculiar feature of life in Saudi Arabia at that time was that the clocks were reset every day at sunset at 6 p.m., the exact time of *Maghrib* prayers. This was inconvenient but had its advantages. Since it was very hot in the daylight hours, it made sense to postpone most social activities till after sundown. Most invitations for receptions were for after *maghrib* and for dinner for after *isha* (late evening prayers, about an hour and a half after sunset). Thus, the prayer cycle was not only important but also well-integrated with social activity.

My social interaction initially was limited to a few officers in the Pakistan embassy, the National Bank of Pakistan (NBP) and economic officers in the US Embassy. This drought led me to look desperately for persons who, like me, would be interested in playing bridge. Fortunately, the manager of NBP, S. M. Shafi (replaced a few months later by Sheikh Inayat Ali) and his chief accountant, Inamul Haq, Anwar Khan, deputy head of the Pakistan Embassy, and Dr Banday, medical officer also at the Pakistan Embassy, Ahmed a business executive from India, all turned out to be avid bridge players. There was thus no difficulty in getting together a four-some and playing bridge a few times a week. This became a lifesaver for me, especially in my first year there, before my marriage. I have never spent so much time playing bridge, either before or after Jeddah. The bridge partners also became close friends.

Visit to Holy Places

Soon after arrival, I made the obligatory trips for Muslims to Mecca and Medina. It seemed a great privilege to be able to visit these holy places in one's youth. The annual pilgrimage to the Valley of Arafat, a short distance from Mecca, is a once-in-a-lifetime obligation for Muslims, provided they have the financial means and have fulfilled most of their worldly obligations, such as raising their children and taking care of their parents. When I was growing up on the Indian subcontinent, this caveat was taken literally. People went for Hajj when they were old and weak, not a good combination for what was a strenuous journey and demanding devotional requirements.

For me, performing *Umra*, a visit to the Kaaba in the Al- Haram Mosque in Mecca, dressed in *ahram*–two unstitched pieces of cloth for men–involved no physical hardship but was an uplifting experience. Mecca is only an hour's drive from Jeddah on what, even then, was an excellent divided highway. The actual ritual involves going around the Kaaba, a cube said to be a place of worship established by the Prophet Ibrahim (Abraham to Jews and Christian) and his son Ismail, seven times, kissing al-hajara al-aswad (the Black Stone), the cornerstone of the Kaaba, and then walking or running between the nearby hills of Safa and Marwa five times, to commemorate the search for water by Ibrahim's wife, Hajira. The tradition requires that afterwards one drinks *ab-e-zamzam*, the water from the spring that opened up with the kicking of the heels of baby Ismail, whom Hajira had left between the hills while searching for water. During my stay in Jeddah and afterwards, I performed Umra or just went to Mecca for prayers scores of times, but it is the excitement of the first visit that stays with you always.

A few weeks later, I went to Medina with and at the invitation of Sheikh Abdul Wahab, a principal officer of SAMA, who was soon afterwards promoted as General Manager. Wahab was a confidante of Anwar Ali and his interpreter for meetings with King Faisal and senior ministers. He was only a few years older than me but was married and had six daughters already. Wahab, a very devout Muslim, but with a great sense of humour and full of stories and jokes, was great company and was to become my closest friend in Saudi Arabia. The first trip to Medina, about 280 miles away, took five to six hours, with a stop on the way for a basic dinner of fried fish at a roadside stand, rather than at a restaurant. In numerous trips to Medina afterwards, the routine almost never changed: leaving in the late afternoon to avoid the heat, even though taxis or personal cars were all air-conditioned, stopping in the same place for exactly the same food–fish from Red Sea nearby–for dinner. There were no other options.

Even though the Kaaba is the holiest place for Muslims, my visit to the Masjid-e- Nabvi, also the final resting place of our prophet Muhammad (PBUH), was an even more stirring and emotional experience. Perhaps it was easier to relate to the Prophet as the messenger of God than to the abstract notion of an all-pervasive God, symbolized by a historic place of worship.

Getting Started

After staying a few days in the relatively expensive Kandra hotel, I moved to the second-best hotel in the city, called the Red Sea Palace, that was nicely located downtown, overlooking the beach, though it was a few miles away from the office. This hotel had a very reasonable rate of SR450 or $100 per month for long-term residents and a very good restaurant, overlooking the sea, where Middle Eastern and Continental food was served on the terrace in the evenings. For less than four dollars, you could have an elaborate five-course dinner. The living costs thus were not more than $ 400-450 dollars a month, while my monthly salary was around $ 1200, leaving a considerable margin of savings.

After a while, I realized that the elaborate meals were too fancy for my taste. I missed Pakistani food, especially simple *Dal Roti,* bread and lentils. So I set about finding a place of my own. I was lucky and found a brand new ground floor two bedroom apartment in a central location, just off Medina Road. What was particularly pleasant about the apartment was that it came with a large paved backyard with flowering bushes. So it did have a feel of a house. Finding second-hand furniture, crockery, cutlery and electrical appliances did not pose much of a problem either, because of the high rate of turnover of expatriates. I was also fortunate to find help of Pakistani origin, one of many illegal immigrants from Dera Ismail Khan or Dera Ghazi Khan districts, who had travelled by foot or by road through Balochistan to Iran and then managed to sneak into the Arabian Peninsula by ferry. My cook had started in Dubai in 1960 and used to tell me the hardship stories of his life there. He would shake his head and say there was absolutely nothing there and living in Saudi Arabia was a vast improvement. Little did he or I know of what the future would be like in Dubai just in a decade: oil was found in Dubai in early 1960s and the rest is history.

Work

My general responsibilities as economic adviser were to supervise the small but growing research department and to advise the governor on economic issues as the need arose. My specific task was to draft the first economic report of the central bank, there being no official annual economic surveys of the kingdom at that time. Working with Anwar Ali directly was a pleasure and a great learning experience. He was a very intelligent man with genial manners. Even more remarkable was his low-key, unhurried but purposeful style of management, perfectly suited for Saudi Arabia of that time, when personalities mattered much more than institutions. (See next chapter).

Anwar Ali was deeply involved with the financial affairs of the kingdom and was eagerly sought after by the local diplomatic community and international bankers (including David Rockefeller, head of Chase Manhattan Bank, and John M. Meyer, President and then Chairman of J. P. Morgan), who came regularly to town. Getting a chance to exchange views with him on domestic and international developments and his many visitors was both informative and fun.

Normally, the pace of work was leisurely. Nobody seemed in any great hurry, at least on analytical matters. There was no sharp deadline for the preparation and production of the First Annual Report that, somewhat unnecessarily, took eight to nine months. Coming from an active research department with a sizeable staff, this was a bit of let-down, though I was kept busy in the first few months, not only in the business of setting up house, but in the preparation of a paper for an international conference on trade arranged by the Pakistan Institute of Development Economics (PIDE) in late December 1961 in Karachi. Such was the somewhat glacial pace of life in Jeddah that, by October I was already looking forward to a week in bustling Karachi with family and friends.

Important Turning Point

Before the end of October, however, my life was to take a turn which eventually made living in Jeddah far more congenial and fulfilling and placed my career concerns at the back-burner, at least for a time. It was meeting my wife-to-be at lunch at Mr. And Mrs. Anwar Ali's large elegant home, a few days before my thirtieth birthday. Anwar Ali had asked me to join him for lunch with his family. Lunch was typically after 3 p.m. after the offices closed at 2.30 p.m. As we sat down to eat, a young woman came hurriedly down the stairs to join us at the dinning table and was introduced to me by Saeeda, Mrs. Anwar Ali, as her younger sister, Parveen. Right away, I was struck by her beauty, wonderful brown eyes, and very sophisticated gentle manner. I do not know whether it was love at first sight, but even at lunch, I knew that I would like to marry this girl–at that point I did not know anything about her, except perhaps that both her parents were not living. I did learn during lunch that Parveen had spent two years in Rome, studying art and living with her next older sister, Khalida, who was married to Nazir Ahmed, Pakistan's Agricultural Attaché, and was in Jeddah for a few months before returning to Pakistan.

For the careful, cautious man that I am, it was quite a leap, perhaps the biggest I have ever made, but one that I have never regretted. The process of actually getting married through a formal proposal, acceptance, decision on location of the marriage, etc was to take another fourteen months. But in the next few weeks, I visited Anwar Ali household unannounced a few times and was fortunate to find Parveen alone at least once or twice for a half an hour. But my mind was made up. So mustering up courage and making use of Anwar Ali's absence in Riyadh, I expressed my interest to Mrs Anwar Ali, but telling her that I would broach the matter with my parents in my upcoming visit to Karachi and would request them to make a formal proposal. I was quite happy not to get a negative response which, in Pakistani terms, is very much a sign of encouragement.

I spent a very pleasant week in Karachi in late December. My family was happy to see me looking so well: without realizing it I had gained 20 pounds, thanks to the Red Sea Hotel and my cook. The Trade Conference was most enjoyable. Among the many foreign economists, there were a number of Japanese economists, the famous British economist, Sir Roy Harrod of Oxford, and Jagdish Bhaghwati, the upcoming international trade economist. I had the pleasure of playing bridge with Sir Roy at my friend Henry Bruton's house. It was amusing to find this gray-haired distinguished man, a biographer of John Maynard Keynes, calling himself insane every time he made a slight mistake at the table. Bhagwati was a firebrand with a brilliant intellect: I had the misfortune of being on the losing side of an argument with him during the discussion of my paper.

A more pleasant surprise was Professor M. Rashid, my teacher and mentor, excitedly showing me one morning a recent copy of the *Times*, the London newspaper, that had in an op-ed column a favourable and detailed commentary on my long article on 'Pakistan's Balance of Payments' that had just been published in the *Pakistan*

Development Review. Clearly, the interest in Pakistan was strong in those days.

The highlight of my visit was securing my parents' consent that they would make the formal proposal of my marriage to Parveen when they came to perform Hajj in May. I was deeply grateful to them for always showing full confidence in me and supporting my critical decisions.

My trip to and back from Karachi this time involved stopovers in Beirut. This introduction to the most popular city in the Middle East left two contrasting impressions: on the one hand, there was the elegance of the Mediterranean setting, especially around the Corniche, a variety of top hotels, excellent food, shopping and entertainment; and on the other hand, was the sight of mile after mile of Palestinian refugee camps as one drove from the airport to the city centre. Already by 1961, these refugee camps, the result of the Palestinian exodus after the Arab-Israeli war in 1948, had existed for a dozen years. I could not help but wonder what the consequences of a generation growing up in refugee camps would be for the region and the country. But even a wild imagination could not have foreseen three generations of Palestinians being raised there. The results have been horrific for all Arabs and for the Middle East as a whole.

Hajj with Parents

I communicated my parents' agreement, in principle, to Mrs. Anwar Ali in regard to my proposed match. A clear romantic interest and declaration of my honourable intentions made life more bearable in Jeddah. Through my frequent visits to the Ali household between January and March, I got to know Parveen and felt very comfortable with both my choice and prospects. I was only to learn later that Parveen had not yet fallen victim to my charm and my eligible bachelorhood.

Parveen and Mrs. Anwar Ali had left Jeddah for Pakistan to attend their sister's marriage in late March. But I was a little taken aback when Parveen did not return with her sister. When my parents arrived for Hajj, they were a little apprehensive to sign off on a proposal, sight unseen, but went ahead. My mother's main concern was whether her future daughter- in-law was beautiful enough for her eldest son.

Meanwhile, the Anwar Alis showed the utmost consideration to my parents, as did Chaudhry Ali Akbar, the Pakistani ambassador in Saudi Arabia, whom I had got to know well.

To be able to take my parents for Hajj, Umra, and a visit to Medina was a source of great personal satisfaction to me. I hope it will atone for some of my sins.

The Hajj itself was a greatly inspiring and uplifting experience. To watch the sea of humanity in the valley of Arafat, men and women all dressed very simply, with no distinction of colour, nationality, rank, or wealth and all seeking a personal connection with God on this special day was very moving.

But there was a difference in creature comforts. Anwar Ali had, through Shaikh Abdul Wahab, arranged for our party, which included my parents as well as my mother's aunt, to occupy a tent next to his family in Arafat. The arrangement that cost me only SR100 or $22 per head was luxurious. First, very few people had tents in Arafat, most spent the day under the merciless sun. Second, our small tent had carpets and cushions and a separate privy. Third, we were served quite a fabulous lunch. My great-aunt was absolutely enchanted and showered me with her blessings.

The most restful part of the Hajj was sleeping under the stars in the desert in Modalfa on the way back. After a hot, tiring day, the cool breeze seemed a special gift. The Hajj ritual requires two nights stay in Mina, about half way between Arafat and Mecca, and stoning the Satans, the devils, three times. I had managed to rent two rooms for us so that we did not stay in tents. On our arrival in Mina, the day of Eidul Azha, the *ahrams* can be taken off and normal clothes worn. As all over the world, animals are sacrificed in memory of Abraham on one of the three days.

A memorable evening for my father and me was the dinner given in Mina by the Pakistani ambassador for heads of Muslim delegations. It was a very well-attended event. I specially remember the tall, charismatic, and engaging Sir Ahmadu Bello, the Premier of North Nigeria, the largest and predominantly Muslim province amongst the three that formed the of Federation of Nigeria, a country that had recently become independent. Nigeria was at the time considered one of the most promising countries on the African continent, with a highly-developed agricultural system, a strong civil service, and functioning public institutions. But this was before the coups, military rule, the Biafra civil war, and the discovery of its tremendous oil wealth that has not proven to be a blessing. Bello was killed, along with many other leaders, in the first military coup in 1966. Today, Nigeria remains mired in political, economic, and social problems, with a large part of its oil wealth pilfered and wasted and its considerable promise forgotten.

I cannot recall our Hajj without remembering the driver whom I had hired from outside SAMA to drive my official car for the period. He was a remarkable character. I was used to Pakistani drivers and expected him to help with the luggage, and show us some courtesy in opening doors, etc. When, early in our journey, he did not open the car door for my mother, even though he was standing very near, I complained to him. He quickly put me in my place, saying that she was my mother and if I wanted to have the door held open, I should do it myself. I did not bother him much after that.

Issuing of First Economic Report 1960-61: Saudi Economy Then and Now

The highlight of the summer was finalizing the *First Annual Report* of SAMA and getting it printed, not an easy task because printing facilities in Jeddah were rather primitive at the time. Fortunately, for the next three annual reports that I was involved in, the decision was made to get them printed in Beirut, providing me with a wonderful opportunity to spend several days there each year on expense account.

1961-65 were years of fairly steady growth and financial stability in Saudi Arabia, in contrast to the financial crisis that had gripped the country in the late 1950s That crisis had been caused by a levelling off of the oil revenues as well as uncontrolled government spending and borrowing. At one point, government debt exceeded annual government revenue. But the financial crisis and the stabilization efforts that it required were over by early 1960. Restored fiscal discipline, tight monetary policies, and resumption of strong growth of government oil revenues had resulted in restoration of the convertibility of the riyal, albeit at a new exchange rate of SR4.50 to the

US dollar. Under a royal decree, SAMA was enjoined to maintain a hundred per cent cover in gold and convertible currencies.

The government's oil revenues, the main driver of the economy, rose from a little over $300 million in 1960 to well over $ 500 million in 1964, enabling a sharp increase in government employment, and social and development spending. In these circumstances, the preparation of annual reports might seem to be routine matter. But the fact is that the basic statistics on the economy were missing. There were no estimates of national income or balance of payments. No tradition existed of publishing monetary data. SAMA started releasing fortnightly figures of its assets and liabilities only in 1960.

Why this was so can only be understood in the context of the monetary history of Saudi Arabia. Saudi Arabia was effectively on a Silver Standard till the early 1950s. The Saudi riyal was a coin with a silver content equal to its monetary value. Its value thus fluctuated greatly with the changes in the international price of silver and the large seasonal demand during that era. From 1952 onwards, the exchange rate of the riyal was kept fairly steady at SR3.75 per US$. But the sharp rise in the international price of silver in 1955 led to the riyal being increasingly replaced by paper money, pilgrim receipts issued for the first time in 1953 to facilitate transactions during the Hajj season. The first paper riyal was introduced in June 1961. The transition from a silver standard to a fully convertible currency thus took place in less than a decade–a remarkable pace of monetary evolution.

With all its limitations of data, the first *Annual Report* of SAMA was a path-breaking economic reporting event in the country. Still, I was conscious of its limitations. Induced by an coincidental invitation from the Middle East Regional Conference of the International Association of Research in Income and Wealth, I spent last part of the summer of 1962 estimating what I believe were the first national income estimates for Saudi Arabia. My estimate yielded a GNP of around $200 by the end of the 1950s, which probably grew by 50 per cent during the first half of the 1960s.

A couple of years later, I prepared the first balance of payments estimates which did indeed become the official estimates and were published in the last report (1964) that I did. Over time, I tried to give more coverage in our annual reports to social and economic development issues, though there were a couple of pages on economic development challenges and strategy even in the first report.

It is difficult to resist the temptation of seeing how far Saudi Arabia has come over the past half a century or so, mainly due to the enormous increase in oil wealth, but also because of political continuity, careful management of economic policies and development programmes, and substantial attention to human development. All this has happened, even though the take of the royal family directly from the Treasury and indirectly from business contracts has been sizeable indeed.

In 2008, Saudi Arabian GNP approached $500 billion and per capita income in current US dollars was over US$15,000. 2008 income was unusually high because of the high price of oil. Still, it stood in sharp contrast with a GNP of $900 million and per capita income of around $200 in 1959.

The country is still substantially dependent on oil income but is making large investments to diversify its industrial base. Proven oil reserves remain substantial. However, after quadrupling between 1960 and 1990 to over 250 billion barrels, they have not increased much for nearly two decades. Still, at the present rate of production of 10 million barrels a day, they should last seventy years, even if no new reserves are found. Meanwhile, investment income is growing steadily because the foreign assets held by the government of Saudi Arabia, the royal family, and Saudi citizens probably reaches several trillion dollars.

Unless there is a political upheaval, Saudi economy is likely to remain strong for decades and, if the political and social transitions are handled well, it should be possible to have a fairly liberal and modern society with full rights for women in a few decades.

The controlled nature of the society notwithstanding, the Saudi government has made tremendous investments in human capital, in education and health. In 1960, the total primary school enrollment was barely 100,000; now, it exceeds 2.5 million and the enrollment ratio is over 95 per cent. Dramatic changes have been made at all levels of education. What is even more impressive, gender disparities have been largely eliminated at all levels of education; the enrollment of girls is uniformly around 90 per cent of male enrollments. It is worth noting that in 1963 less than one girl in ten of primary school age was enrolled in school, and the total number of girls in primary schools was 12,000. At present, 1.2 million girls are attending primary school, a hundredfold increase, while the population has grown only six-fold.

Equally interesting, the number of total doctors in the kingdom in 1963 was only 400, one doctor per 10,000 persons. Their number is now 43,000, one doctor per 600 persons. In Pakistan, there is one doctor for about 1700 persons.

The huge Saudi investments in human capital can have a high pay-off, provided an adequate number of jobs can be created for young entrants to the labour force and their participation in the political process should increase steadily. Otherwise, the danger of a fundamentalist backlash will remain.

Much Needed Break from Jeddah

Towards the end of the summer of 1962, my personal affairs were looking up. Parveen had returned from Chittagong, under some pressure from her sister and brother-in-law to accept what they thought a good marriage proposal. I was not given a clear 'yes' for another month, but I sensed that things were moving in the right direction. The Anwar Alis had totally assimilated the Saudi style of very deliberate decision making. There never was any unnecessary hurry.

I thought it was time to take a break from Jeddah and to utilize the annual home leave travel paid to all foreign advisers. But instead of warm and humid Karachi, I headed to Europe. The first stop in the last weeks of August was in Istanbul to attend the National Income Conference to deliver my paper on 'Saudi Arabian National Income'. I stayed at the Hilton on the Bosphorus, a hotel which had opened just a few years earlier and had hosted the annual meetings of the IMF and the World Bank in 1956.

I found Istanbul an absolutely amazing city because of its setting across two continents, its long history going back to the Byzantine Empire, its covered bazaars and glorious monuments, including Topkapi Palace, the world-famous Blue Mosque, and St Sophia Cathedral. The food, especially the doner kebab, was exceptional. Most of all, the people were genuinely friendly to Pakistan and Pakistanis. Indeed, in my travels over half a century, I have found that Turkey was one of the only two countries where just being a Pakistani was enough to be given a special welcome–the other country being China.

I have been fortunate to be able to return to Istanbul many times and at least a few times with my family. It remains, in my view, one of the truly great cities of the world.

When I first visited it, Turkey was the most prosperous Muslim country and this showed in its high standard of living. It also had a strong currency, nine Turkish lira were equal to one US dollar. But the high rates of inflation in the subsequent decades were to push the exchange rate at one point to several million Turkish liras to a US dollar. These high rates of inflation have hurt Turkish growth and worsened its income distribution. Only in the last few years has the economy been stabilized, high growth restored, and inflation brought under control. To help assuage the psychological harm done by inflation and to facilitate accounting, a new Turkish lira was introduced in 2007, with an initial value equal to one US dollar. Now, Turkey is knocking at the door of the European Union, seeking membership, but facing prejudice, mainly because of its Muslim heritage. Several former communist countries in eastern and central Europe have had not much problem in becoming EU members, though they became applicants much after Turkey.

The National Income Conference was enjoyable, especially as my friends Moin Baqai and Donald Mead from Yale were also there. After graduate study, Don Mead had been recruited by the Yale Growth Center to write a book on Egypt and he was living there. He invited us both, Moin and I, to come and stay with him and his wife Yolanda in Cairo and we eagerly accepted.

Before going to Cairo, I went on to attend another international conference, the annual meeting of the International Economic Association (IEA) in Vienna, and then spent a week's' vacation in Europe, a sort of last bachelor hurrah. The IEA conference was largely attended and it was pleasant to have another professional interaction and intellectual stimulus after a year's stay in Jeddah.

This was my first visit to Vienna or indeed central Europe, so sightseeing in the beautiful ornate city and an afternoon sailing down the Danube, though in a highly crowded public ferry, carrying hundreds of IEA participants, were also new experiences. My friend T.

N. Srinivasan from Yale was there, as was Jagdish Bhagwati, now an authority on trade issues. My run-in with Bhagwati in Karachi had been sobering. Now, I saw him use his irreverent manner and sharp intellect on a much bigger target, Professor Arhtur Lewis (later Sir Arthur Lewis), a Caribbean economist. Lewis presented a paper with which Bhagwati had all kinds of problems. Later, in conversation with us, he hinted broadly that the era of old style, less rigorous economists had past. Lewis was to win the Nobel Prize in Economics in 1979. Bhagwati, now considered one of the most influential trade theorists of his generation, remains a strong candidate for the Nobel and could get one in the next few years, though some feel that his chances have diminished with his pupil a younger trade theorist, Paul Krugman, winning it in 2008. In any case, it has been thirty years since Lewis received the honour.

The Vienna conference was where I became acquainted with the distinguished Harvard economist, Hollis Chenery (1918-94), who was an Assistant Administrator of USAID at that time. Hollis was becoming wellknown for his work on patterns of development and the two-gap theory. He delivered an interesting paper at the conference but the numbers he used for Pakistan to illustrate his point did not seem quite right to me. When I pointed this out to him, he brushed it aside saying his numbers were handled by his assistants. I was surprised by his response. Later on, our paths crossed at the World Bank, where Hollis was Chief Economist and Vice President of Development Policy for more than a decade (1971-82). I had the occasion of working with him closely as well as travelling with him. I never quite got used to the brusque manner of this brilliant economist.

Next, I spent a few days in Switzerland, a day in Geneva and a few days at Wengen, my favourite Swiss resort in the Jungfrau Mountains. In Geneva, the highlight of the visit was discovering Imhof, the best jewellers in town, and then going there to buy a diamond engagement ring, the most expensive I could afford at the time. Diamond rings were a rarity at that time in Pakistan, as the upper middle class was just emerging.

I went on to London to see a few plays and to buy some painting supplies for Parveen, as she had complained about lack of such supplies in Jeddah. On the way back to Saudi Arabia, I spent a few days with Don Mead and his wife Yolanda, making my first visit to

Cairo, enjoying the visits to the Pyramids, Cairo museum, a few mosques, the souks, and a boat ride on the Nile. Moin had stayed with them a few days earlier. At breakfast one morning, Yolanda casually remarked to her husband: 'At least Parvez does not seem to be as shocked as Moin was to see me in shorts.' I guess that was so because I had lived in the US more recently.

Getting Married

Soon after getting back in mid-September, I finally got a 'yes' to my proposal. I was in seventh heaven, though the formal letter from Anwar Ali to my father took a few more weeks. My parents had a vague hope that the marriage could take place in Karachi, but it was obviously not convenient or practical for the Anwar Alis, Parveen's surrogate parents, who had been away from Pakistan for years. The compromise was that we would be married in Jeddah but would leave for Pakistan in a couple of days, where elaborate functions including *mehndi* and *valima* would be held. I guess it was Mrs Anwar Ali, a very religious and devout person, who was responsible for fixing marriage date for 27 Rajab 1382H, the night on which Prophet Muhammad (PBUH) is believed to have made a trip to the heavens. It happened to correspond to 24 December 1962.

Because of financial reasons, only my father could come to Jeddah. It must have been a little heart-wrenching for my mother to be absent from the *nikah* ceremony and festivities in Jeddah of her firstborn. But I guess she extracted her price and persuaded my father to finance her trip for her second Hajj a few months after we married.

My father came a few days earlier and Parveen's eldest brother, Rashid Waheed, and his wife, Bushra, also arrived from London, cutting short their holiday. My father appeared happy and enjoyed the dinners and a few bridge games at Anwar Ali's residence. In a very short time, he seemed to have struck a friendship with Mr Mohajir, who had retired after serving as the first head of the National Bank of Pakistan for many years and was at that time a banking adviser to SAMA.

Mohajir Sahib kindly offered to accompany my father and me on a short visit to Medina. The visit went well, but unfortunately, on our last day, we succumbed to the temptation of *laddoos* being sold by a Pakistani shopkeeper just outside the Masjid i Nabvi. The sweets were apparently tainted: we all developed food poisoning and the return trip by road was miserable. My father and I were in pretty bad shape by the time we arrived back in Jeddah. That was just two days before the wedding.

My friend Dr Banday, medical officer of the Pakistan Embassy, visited us and tried to restore us to health. But on the wedding day I was still wobbly on my feet, having lost more than a few pounds in a few days. Mercifully, the wedding did not involve a lot of fanfare. Like the Saudi society, the functions were segmented, a simple *nikah* ceremony in the morning, a lunch for men, only including my friends, colleagues, and the local elite, including the Governor of Jeddah; and an elaborate dinner and entertainment for ladies only, to which I was not invited. Only after all the other ladies had left was I asked to join Parveen and other family members before the *rukhsati*.

By and large, my wedding day was quite restful. There was no real *baraat* (the wedding party). A few of my Pakistani friends from the embassy and the National Bank of Pakistan came in the morning to escort my father and I to Anwar Ali's residence close by. A distinguished Saudi *qazi* performed the *nikah*. In a very traditional fashion, Parveen and I were in separate rooms and the marriage contract was negotiated through *vakils*, authorized representatives who vouched for the agreement between the bride and the groom. The only hitch came, I was told later, when Parveen started crying, in not an untypical Pakistani fashion, making the *qazi* wonder whether she was being forced into the marriage. Anyhow, the ceremony was soon over and, after refreshments, most of my friends left, planning to come back for the lunch later.

Mohajir Sahib and Sheikh Inayat Ali, Manager of National Bank stayed back and, along with Anwar Ali and my father, formed a bridge foursome. It was a good way to spend a few hours before lunch. I was implicitly declared redundant and after a while, went home to rest. At the gourmet lunch under a large canopy, I was still consulting Dr Banday on what I could safely eat.

The Karachi celebrations were more hectic, noisier, but more inclusive, with my large family: uncles, aunts, cousins, and Parveen's sister, Khalida's family, and her brother, Javed Ahmed. However, I missed my close friends, Moin and Mahbub, who were not in Karachi at the time. We stayed at my parents' home with only limited privacy. After we had arrived late in the night, there was my five-year-old cousin, Meenoo, banging on the door early in the morning, saying that she wanted to see the *dulhan* (bride). However, soon we were on our way to Swat for our honeymoon via Peshawar, where my uncle Ghulam Hasan was a senior officer at the Air Force Headquarters. He was kind enough to let us have his car for nearly a week, which made our travels even more enjoyable. Swat was glorious and peaceful, with wonderful views of mountains and rivers. The only hotel, run by the Wali of Swat (Swat was still a princely state), had few guests in the middle of the winter, but coming from Jeddah, we greatly appreciated the cool days, though the nights required burning of a bundle of wood daily to heat the large spacious room.

The year 1963 was a year of married bliss, starting with the honeymoon in Swat and ending with the birth of our daughter Samia on 26 December. As they say, your life is never the same after your children are born. Samia became not only the centre of our life in Jeddah but also of the Anwar Ali household. My parents were of course greatly excited on the birth of their first grandchild. We had to make a special trip to Karachi, with a lot of baby formula, within a few months to meet them. Samia's reign as the focal point of our family lasted quite a few years, that is, until our second daughter Samira was born in Lahore on 13 September 1968. But soon enough, they learnt to form a united front if necessary to confront excessive parental authority.

Before Samia was born, Parveen and I performed our Hajj together, with my mother joining us. This time, I did not have to make any arrangements, thanks to the courtesy of Governor Anwar Ali. In September, we headed to Europe for a second honeymoon. Even though Parveen was six months pregnant, she enjoyed the trip and was not too tired. We first went to Stuttgart, Germany, to pick up a Mercedez Benz that I had ordered and then travelled by car to Geneva, Switzerland. I was eager to take Parveen to Wengen, my favorite resort town.

Back in Geneva, we met up with my younger brother Sheri who was headed to the US for a Masters degree in civil engineering. It was great fun to travel together through France to Paris but had great difficulty with French pronunciation of names and places. Still by the time we reached Paris at least my brother was speaking Urdu with a distinct imitation French accent. In Paris we stayed in a cheap hotel very near Pigalle, so that Sheri could have at least a whiff of Paris night life.

From Paris, Sheri flew to New York and we headed to London. Since it was Parveen's first visit to London, Paris, and Geneva, I could show off my superior knowledge of sights and attractions. If she was impressed she did not tell me.

From London, we flew back to Beirut after spending nearly three weeks in Europe. But still, we were not ready to return to Jeddah and decided to extend our stay in Lebanon for a week, enjoying the comfortable hotels, the lively Beirut night life, and day trips to mountain resorts, Allay, Bahamdun, and Balbak, antiquities. Lebanon is one of the few countries in the world where you can go from the coast to the mountains in less than hour. This was long before Lebanon exploded into violence that started in 1975 with the civil war and deepened as a result of Israeli occupation of southern Lebanon in 1982. Except for a short period of respite in the early-2000s, with the reconstruction and restoration of democracy, Lebanon has never been the same–what a paradise lost!

Married life did improve our social life. I saw more of the upper class Jeddah Saudi business families than before, with their lavish beach houses on the Red Sea and there was more mingling with Pakistani families and diplomats. But the essentials did not change. Work for six days a week till early afternoon, late lunch, long siestas, and coming to life again with a cup of tea an hour before Maghrib. Bridge remained a major activity a few times a week, but strictly stag, the main players now included Anwar Ali, Mohajir, Inayat, Dr Banday, and myself. More often than not, the sitting was at the Anwar Ali residence. For Parveen, it sometimes meant long hours of waiting. But it was hard for her to complain. I was playing with my boss and her dear Bhaijan.

Initially, being in Jeddah suited us as a newly-married couple. In any other place, the pressure of work would have been more demanding, both physically and emotionally. Here, there was no peer pressure and not much supervision from the boss. The added comfort of being able to save a considerable part of our income remained an additional incentive.

Attempts to Return to Pakistan

Still, after awhile I did not find the work at SAMA sufficiently challenging. Moreover, I felt that I was missing the action in Pakistan, where, under Ayub Khan's leadership, things were happening and economists, especially those in the Planning Commission, were heavily involved.

Indeed, my first attempt to get back to Pakistan came during the first year in Jeddah. I saw an advertisement in *Dawn*, the Pakistani newspaper, by the Pakistan Federal Public Service Commission for the post of Chief of the International Trade section of the Planning Commission. This was as high a position as I could reasonably aspire to in planning at that time. Mahbub ul Haq was also a section Chief. So I was greatly interested. But public servants did require permission from their current employers for applying. I knew, however, that the State Bank would not forward my application because of institutional and personal rivalries. It was a bit sneaky but I got my current employer, SAMA, to forward my application, covering myself of any wrong-doing charge. I never heard from the Public Service Commission.

It was years later that I learnt that the Public Service Commission had taken the unusual step of selecting me without an interview. But when the Planning Commission requested my release from the State Bank, the Bank reacted very negatively, saying that I had not applied through the proper channels and so the question of my being released did not arise. It is interesting that none of my superiors at the Bank ever mentioned this to me. I am sure that if I had actually been offered the post, I would have gladly gone back–such was the lure of Pakistan planning at the time.

By the summer of 1964, I was nearing my three years in Jeddah and was getting really restless. We had saved enough money and Parveen was also getting bored with the quiet, restricted life. So I took the unusual step of writing to Governor Hasnie that I wanted to come back, provided my relative position in the hierarchy in the Research Department could be assured. Dr Meenai had become Economic Adviser and I wanted to be one of the two Deputies under him as a Director of Research. Again, this communication was not terribly well received. Evidently, the research department did not particularly want me back and Governor Hasnie did not want to overrule his Economic

Adviser. Instead, he told a delighted Anwar Ali at the Annual Meetings of the IMF and the World Bank in Tokyo in September that SAMA could keep me indefinitely. I felt a bit trapped. A couple of years later, when he was retiring from the State Bank, Governor Hasnie expressed his personal regret to me in not enabling me to come back and said it had been a mistake.

But out of the blue, a new opportunity arose. Mohammed Shoaib, who had returned to Pakistan as Finance Minister, after a stint at the World Bank Executive Board, on his trips to Pakistan often stopped in Jeddah, along with his wife, to perform Umra. On one such trip in late 1964, he told me that economic debates between East and West Pakistan were heating up and East Pakistanis resented the Central Government arguing the case for West Pakistan. There was need, therefore, to strengthen the economics capacity in the Planning and Development Department at Lahore. It was planned to create a position of Chief Economist, West Pakistan Government; such a position already existed in East Pakistan. He felt that I would be suitable for this position. Was I interested? I was elated. This was not the Planning Commission job that I had been interested in. But it was clearly a more senior and somewhat more independent position, with the potential for important sectoral and inter-sectoral and policy responsibilities. Though the scope of this new job was not clear or well-defined, I expressed immediate interest.

This started a process of negotiation which was to take several months to complete. Understandably, there was concern and resistance in some quarters to inducting a mere 33-year old, who had no experience of government, into the higher echelons of the provincial bureaucracy. West Pakistan was behind the curve in accepting the need for qualified economists. But finally my appointment was approved, though I did not join the West Pakistan Government till July 1965, after completing near four years in Jeddah.

Reflections on My Years in Saudi Arabia

Did I stay a bit too long in Saudi Arabia? From a strictly professional development view point, I certainly thought so at the time. But looking back, I recall my work and other experiences during the last two years in Jeddah that were quite enriching.

Oil and Multinationals

As I started working in 1964 on the first set of balance of payments estimates for the Kingdom, I realized the need for a better understanding of the oil sector accounts and developments. So a visit to Aramco in Dhahran was arranged for me and a senior colleague from the research department of SAMA accompanied me

After spending several days with the officials of the multinational oil company, I came to the conclusion that the level of oil output as well as the price of oil were fixed without taking into account the interests and/or the needs of the Saudi government. These corporate decisions were made mainly by the seven sisters, as the large international oil companies were then known, mainly in the context of the companies' global interests. Within Saudi Arabia, Aramco was largely an empire in itself.

Even though the government share in total revenues was gradually improving as a result of the tightening of the accounting practices by fresh agreements, the Saudi share in total oil exports was still less than 50 per cent in 1964. Till 1963, Aramco charged all its development costs as current expenses, rather than amortizing them over a period, thus reducing substantially their payments to the government.

The large investment income payments to Aramco also meant that the Gross National Product of Saudi Arabia was 25-30 per cent smaller than its Gross Domestic Product in the early 1960s (Hasan 1965).

Making a distinction between GDP and GNP levels and growth rates is crucial for countries who are either making large payments for interest and profits to outsiders or who are receiving large such payments and/or worker remittances. Even economists sometimes fail to make this distinction, thus distorting the conclusions. In Pakistan, for instance, it was not appreciated that the GNP growth rate in the 1990s was a full percentage point lower than the GDP growth rate because of the levelling off of worker remittances on the one hand and rising interest payments on external debt. Thus, the real economic situation was less favourable than if one looked at GDP numbers alone.

Yemen Civil War, Saudi Royal Family and Egypt

Probably one of the more serious threats to the Saudi Royal family came when civil war broke out in Northern Yemen in 1962 and President Nasser of Egypt intervened quickly to support the newly-declared Republic against the Royalists. Imam Ahmed, royal head of Yemen, died in September 1962 and was succeeded by his son, Imam Badr. Colonel Abdullah Sallal, other army officers and leaders of the Yemeni national movement, however, refused to accept Badr's accession to power and launched a coup. The coup leaders quickly succeeded in taking control of Saana, the capital, and declared a revolutionary republic. Imam Badr fled Sanaa, but moved to the north to rally his ancestral tribes in his efforts to retake the capital city.

Nasser saw this as a great opportunity to extend his influence in the Arabian Peninsula and possibly settle scores with the Saudi royal family, who, he felt, had undermined his Union with Syria, which had been dissolved a year earlier. More generally, Nasser resented the dominant influence of Saudi Arabia on Yemen. Furthermore, Nasser, with his strong anti-colonial views, also had his eyes on ridding South Yemen and its strategic port city of Aden of British forces. An Egyptian expeditionary force of around 5000 landed in Yemen in early October, hoping for a quick consolidation of Colonel Al-Sallal's power.

Nasser failed to understand that his troops in Yemen–at the gates of Saudi Arabia–would be perceived as a matter of life and death for the Al-Saud royal family. The Saudis gave their full financial support to Imam Badr and also persuaded thousands of Yemeni workers in the Kingdom to join forces for the Royalists' cause.

Over the next few years, Saudi Arabia spent tens of millions of dollars in supporting the Royalists and resisting Egyptian influence in Yemen. These large payments were made in cash and kept hush-hush. But sitting in the room next to Shaikh Abdul Wahab, who was actively involved in handling these payments, I was fully aware of substantial activity in this regard.

Eventually, the Royalist side did not prevail. But in the proxy war between Egypt and Saudi Arabia, Egypt was the clear loser. By the end of 1964, 50,000 Egyptian troops were bogged down in guerilla warfare and, even with extensive air power, could not subdue the royalists and tribesmen who had taken control of the mountains. The

Egyptian entanglement ended only when the excuse of the 1967 War with Israel made possible a face-saving exit.

But at one point in the civil war, in January 1964, Badr's forces laid siege to Saana, forcing the Egyptian air force to undertake a heavy airlift of food and fuel into the region. It was at this point that the Royal family organized a celebratory public rally of citizens on the outskirts of Jeddah, a rally that I was happy to attend. There were no elaborate arrangements or decorations, just a few thousand chairs decked out in the desert. But the sight of senior princes, including Fahd, Sultan, and Abdullah, dancing a traditional sword dance, alongside commoners of all ranks and status was impressive. One of the strengths of the royal family, at least at that time, was to be able to relate to and engage individuals even on the lowest rung of society.

The dastardly 9/11/2001 attack on the Trade Center twin towers led by Al-Qaeda operatives, most of them Saudi nationals, sent shock waves around the world. It surely was a wake- up call for the Royal family also. Even though Osama Bin Laden, a scion of one of the most important and rich business families in Saudi Arabia, was expelled from the Kingdom many years earlier, the support for Al-Qaeda apparently had developed deep roots in Saudi Arabia. The failure of the royal family to curb the tremendous power and extremist teachings of the Wahabi religious establishment, as well as the lack of progress towards a more participatory system of governance has certainly contributed to the rise and success of Al-Qaeda.

Whether a smooth transition to a more moderate religious stance and greater social and political freedom can be made is the big challenge for Saudi leadership. But the recent domestic and international initiatives taken by King Abdullah augur well for the future. The power of immense riches generated by the sharp rise in the price of oil should not be underestimated. The US government also seems to stand behind the Royal family and would like to see only gradual change. Finally, it must be stressed that, despite weaknesses in some policy areas, the governance style of Saudi Arabia, a concentration of power in senior princes and a heavy reliance on capable and committed technocrats, has worked well. There has been great continuity and substantial professional input. It is difficult to predict the future in light of the major challenges faced by not only Saudi Arabia but also the entire Middle-East region and the Islamic world. The odds may seem against orderly change, but one should not bet lightly against the Saudi royal family in light of their past record.

UNCTAD 1964

One of the senior technocrats that I got to know early was Abid Shaikh, older brother of Shaikh Abdul Wahab, who was Vice-Governor of SAMA when I joined. But in less than a year, Shaikh Abid was appointed as Minister of Commerce and moved to Riyadh, the seat of the Saudi government. So when he got an invitation to attend the first United Nations Conference on Trade and Development (UNCTAD) held in Geneva in March 1964, he asked my help in preparing for the conference and included me in the Saudi delegation. This is how I came to attend this rather historic conference and spend several weeks in Geneva, ensconced in the new Inter-Continental hotel, very near the UN headquarters in Europe.

UNCTAD was the brainchild of Raul Prebisch (1901–86), an Argentine economist who is known for his contribution to Structural Economics and the Prebisch-Singer hypothesis that international trade works to the disadvantage of primary-product-exporting countries and favours industrialized countries that export manufactured goods. As head of the Economic Commission for Latin America (ECLA) from 1948 to 1962, Prebisch led the research that argued that the secular deterioration in the terms of trade of primary producing countries was the result of an uneven distribution of benefits accruing from technical change between the two sets of countries, because of their uneven bargaining power. ECLA and Prebisch thus came to be identified with the structural economics that emphasized import substitution based on industrialization. This and the relatively depressed world commodity prices in the early-1960s were the background against which UNCTAD was organized and held. Prebisch was Secretary General of the Conference and did much of the spadework for it.

In preparing for the conference, my job was to understand and refine the oil-exporting countries' perspective on world trade and to reflect the Saudi viewpoint in the draft speech for the head of the delegation, Abid Shaikh. Through my work on the oil sector and my contacts with Aramco, noted earlier, I was already well aware of the disproportionate share of the power and profits that the multinationals enjoyed, compared to the host governments. However, it was almost a revelation to learn that 70-75 per cent of the final price of major petroleum products, notably gasoline, was government taxation in consuming countries. The average price of refined products sold by Saudi Arabia was only $2 per barrel, of which the government's take was perhaps 80-85 US cents a barrel or 2 cents per gallon. This contrasted with gasoline tax revenues in Western Europe at that time of 8-10 times as much per gallon.

I do not think that the above viewpoint that I dutifully reflected in the Saudi speech met with much sympathy, even among developing countries. All of the oil revenues of the rich Gulf States with relatively small populations were considered a windfall. Now, even though the Saudi take in the final sales price of products like gasoline has risen by almost hundredfold, one hears relatively less about the morality of the huge oil revenues of oil-exporting countries. Is that because Russia is a big oil exporter? Or is that oil countries have become relatively much more powerful and the dependent oil importers do not want to annoy them?

The plenary session of the conference lasted two weeks. The big draw was the presence and speech of Cuba's fiery leader, Che Guevera. The anti-colonial sentiment at the conference was strong.

What did the conference, which lasted till July, achieve? There were two main outcomes: the establishment of UNCTAD as a permanent institution within the UN system, with Prebicsh as its first Secretary General, and the formation of a group of 77 developing countries.

UNCTAD has been instrumental in improving the trading environment for developing counties in a number of ways, notably through the adoption of a Generalized System of Preferences (GSP) for developing countries in 1971 and many international commodity agreements. However, it has not contributed in any significant way to stepping up the rate of growth in developing countries: indeed, the gap between the richest and the poorest countries has grown.

Like many economists in the 1950s who were pessimistic about export development, UNCTAD did not focus on the potential of almost explosive growth in international trade in manufactured goods that has transformed many East Asian economies beyond belief in a generation or so. The countries that did well, including the relatively late-comer, China, were those that were able to organize their domestic industrial base in order to successfully exploit the opportunities offered by the growing markets for labour-intensive goods in the developed world.

Just as UNCTAD has been disappointing, the group of 77, which was formally formed in July1964 and now has 133 members, has been largely a talking shop. To an extent, the writing was on the wall. I had the privilege of attending the first ever informal meeting of this group in Geneva. The representatives from the newly-independent Algeria and Latin American countries were most prominent at this first G77 meeting. I was struck by the relative youth, confidence, and eloquence of many of these delegates. Some of these young men did not hesitate to state strong policy positions. From my background, I was more used to seasoned and older diplomats and bureaucrats representing Pakistan and showing extreme caution in taking policy stands without clearance from the home government. Incidentally, the Pakistan delegation was headed by Syed Amjad Ali, the veteran diplomat.

Looking back, it seems interesting that those countries that made strong and ideologically-driven speeches remain, by and large, mired in development difficulties. There was no visible presence of the Asians, who were to excel in coming decades. China was, of course, not a UN member at the time, the seat being occupied by Taiwan. Talk is important but action is even more so. I continue to believe that, while there are substantial inequities in the international economic system, most of the developing countries that have lagged behind are largely responsible for their own plight.

Working with the Research Department

I was not very successful in building up a strong research department. The preparation of the Annual Economic Report remained a one-man show. One reason was the limited number of qualified staff. But perhaps the more important reason was that, while the supply of bright young graduates from US universities was small, the demand for them was very strong. The best of them could expect to become a Director General in a Ministry or a General Manager in a public corporation in a couple of years. One young man that we were able to attract to SAMA was Fuad Bakheet, a very able and effective worker. But, within a year, he was tempted away to a newly-set-up petroleum entity. Frankly, the Research Department could not compete even with the other Departments in SAMA, because they were a good training ground for the fast-expanding commercial banking system. Ahmed Abdul Latif, a young entry level banking officer in my time was to rise to be head of a large commercial bank within a decade. Change came, but slowly. Now SAMA has a large research department with several Ph. Ds and produces a very comprehensive and analytical Annual Report that compares favourably with many central bank reports.

Some Joyful Memories

Professional involvements aside, there are some wonderful memories of my years in Jeddah: the leisure to enjoy new married life and fatherhood; the warmth of the Anwar Ali family–my new relatives; going for Hajj and helping not only my parents but my uncles and a few other relatives and friends to perform Umra and pilgrimage; travels to Beirut and other countries in the Middle East–made possible by annual report printing in Lebanon; and really celebrating and enjoying the months of Ramadan as never before.

Fasting from dawn to dusk in the holy month of Ramadan is obligatory for all healthy adults. Fasting is not easy. It requires great physical and moral discipline. However, fasting in Saudi Arabia was great fun because the whole society adopted a new regime for Ramadan and for many activities, day and night were turned upside down. The government office hours were shortened, the commercial, business, and social activity was shifted largely to after *Maghrib*, sunset, the time of breaking of the fast. Indeed, most of the private sector business was done after *Ishaa* prayers and midnight, i.e., 8-12 p.m. Saudi time.

The markets were bustling and cool at night. It was considered important for everyone to catch up with friends and family during Ramadan and thus, exchanging visits and social calling two or three hours after sunset, without notice, was considered quite normal. In Pakistan *Iftar*, breaking the fast, parties are the main form of social inter-action during Ramadan. In Saudi Arabia, the time of Iftar was more private and family-oriented. Dinner parties were held, but they were essentially late supper parties. The invitations would be for 10 p.m. and the meal was served well after midnight, the idea being to eat before the beginning of the next fast, a couple of hours later. People slept after *Fajr* prayers into late morning and then caught a couple of hours of sleep before *Maghrib*.

All this nocturnal activity was enjoyable. It also made fasting much easier and more practical. I understand that, even with creeping modernization, the Ramadan rituals have not changed much.

In the year before my marriage, my Pakistani friends and bridge partners had taken the celebration of Ramadan to another level, by combining the Pakistan and Saudi customs. We would gather for *Iftar,* break the fast, say *Maghrib* prayers, and sit down for five or six hours of bridge, then have a *Sehri* meal and catch a few hours of sleep before going to work. Then we would take a nap in the late afternoon, before breaking the fast and be ready for another night of cards. In the process, we definitely bent the spirit of Ramadan but it was the most entertaining month of fasting that I can remember.

Prince Muhammad Bin Faisal

Our last few months in Jeddah were notable for an opportunity to get to know a younger member of the Royal family, an unforgettable trip to Palestine's West Bank, and a totally unexpected high job offer from an unexpected quarter.

King Faisal's second son, Prince Muhammad, older brother of Princes Saud and Turki bin Faisal, graduated from the University of Southern California in 1964. His brother, Saud, a graduate of Princeton, was already an Adviser in the Oil Ministry. For some reason, Faisal wished Prince Mohammad to learn more about monetary affairs. So he turned to Anwar Ali who promptly put him under my tutelage during my last six months in Saudi Arabia. Prince Mohammad, then in his mid-20s, was a giant of man, both tall and big. But he had an engaging and courteous manner.

The most immediate effect of his working with me was that my office was totally refurbished: I was given brand new expensive office furniture and carpeting to match HRH's office right next door. I soon found that Prince Muhammad had little interest in monetary and economic matters. His passion was water desalinization. He had lived in California and was convinced that the answer to Saudi Arabia's water shortage was desalinization. He was actively working on a feasibility report of a combined water desalinization and electricity generation plant for Jeddah.

In a month or so, when the feasibility was finished, Prince Muhammad submitted the study to his father, King Faisal. Faisal was a stickler for procedure and especially because his son was involved, he set up a committee of experts to examine the feasibility. I was included in the Committee. We found the project viable and recommended it, but apparently the Arabic translation was not good; so when Faisal read it, he was not totally satisfied. So it needed further sorting out. But finally, the desalinization plant was approved and started operating in the late-1960s.

Prince Muhammad was in charge of the project and later served as Deputy Minister of Agriculture for some years. He later shifted his interest to Islamic finance. He founded *Daaral Mal al-Islami* Trust (DMI), which has become a large financial conglomerate– a Bahamas incorporated holding company–which has a portfolio of Islamic Banks in Bahrain, Niger, Egypt, and Pakistan. Some consider DMI as a pioneer in Islamic finance.

Prince Muhammad is less well known than his brothers, Prince Saud, the Foreign Minister of Saudi Arabia, and Prince Turki, former head of Saudi intelligence and former Saudi ambassador to the United States. He shuns publicity and avoids visiting the United States because DMI is a defendant in a consolidated trillion-dollar law suit brought by the families of those that died in the 11 September attack. According to the *New York Times* (8/9/2007), some see Muhammad as the public face of DMI, which has been accused of aiding terrorism; others view him as a founding father of Islamic finance. Unfortunately, the tendency after 9/11 has been to link all Islamic financiers to terrorism, regardless of evidence.

Whatever the assessment about his contributions to Islamic Finance, Prince Muhammad was both a visionary and a pioneer in water development in Saudi Arabia. Today, there are 35-40 water desalinization plants in Saudi Arabia that provide more than 70 per cent of the drinking water and produce large amounts of electricity. Globally, Saudi Arabia accounts for almost a quarter of the output of desalinization plants.

At Prince Muhammad's suggestion, Parveen and I were invited for dinner to his uncle Kamal Adham's house sometimes in April 1965. Kamal Adham was Muhammad's mother's brother and thus King Faisal's brother-in-law. He was then and remained for a long time the Head of Saudi intelligence. Parveen knew his wife well but this was the first time we were invited to any mixed party by someone with royal connections. The dinner was pleasant enough, out in the garden, with only a dozen or so guests. But I was a little taken aback when I saw six bottles of Black Label on the drinks table. Not only were we the only foreigners, but among the males, I was perhaps the only one not drinking. I felt almost apologetic.

In early June 1965, I made my final trip to Beirut in connection with the printing of the Annual Report. Normally, our eighteen-month-old daughter, Samia, would have accompanied us. But Parveen and I wanted to spend an extra week travelling to the West Bank by road. We left Samia in the care of Mrs Anwar Ali, but I do not think she suffered any ill effects. The distance from Beirut to Damascus by road is only 52 miles. But the drive though the mountains on a winding road through the beautiful and historic Bekaa valley took nearly three hours. We were accompanied by a senior member of the Research Department, Syed Abdul Hadi, who knew Damascus well and so could guide us through many magnificent sights during our two-day stay there.

Damascus, said to be the oldest continuously lived in city in the world, was under the domination of the Greeks, Romans and Byzantines, before it became the capital of the first Arab Caliphate under the Umayyads in 661. Many monuments from the earlier periods have survived, making the city a living museum stretching over a thousand years. Landmarks include the Ummayad Mosque, Damascus Citadel, old souks like Al-Hammidieyeh, St Paul's church, and Salahuddin's mausoleum.

From Damascus, we travelled directly to Jerusalem on the West Bank, then under the control of Jordan. The stay in Jerusalem was most memorable. The city was divided at that time, but all the important monuments were in East Jerusalem under Arab control. Though the old city has an area of less than one square kilometre, it has sites of great importance to the three great religions: the Temple Mount, the Wailing Wall, the Church of the Holy Sepulchre, the Dome of the Rock and the Al-Aqsa Mosque. The feeling of peace and serenity one felt in visiting these and the southern valley containing the most historic cities of Bethlehem and Hebron was unique in my experience.

We could not have foreseen that only two years later Israel would occupy all of the West Bank and then proceed to annex East Jerusalem, unify it unilaterally against UN resolutions, and declare it as its capital. The Israeli occupation of the West Bank has visited untold misery on the Arabs. Israel has used its military power to annex Arab lands, build extensive Jewish settlements, and is now in the process of building a wall between the West Bank and Israel, involving further encroachments on Palestinian territory. No wonder violence continues in the troubled land. Even if we could, we would not want to re-visit Jerusalem and the West Bank under these conditions. So we hang on to our precious memories of a time gone by, sadly overtaken by events that have brought nothing but further conflict to the Middle East.

Just a few weeks before I left for Pakistan in mid-July, Mr Saeed Adham, the Secretary General of the High Planning Council in Riyadh, came to see me and told me that their Chief Adviser, an American, was leaving and they would like to offer the job to me. I was both surprised and flattered. My work for SAMA had been largely in the background, because Governor Ali was such a central figure. I did not think that I had much visibility. But obviously, I had attracted some attention, because the job of Chief Adviser to the Planning Council was the most senior and best paid economic advisory job occupied by a foreigner. The offer could not have come without clearances at high levels of government. I did not give any serious thought to accepting the job because I was so very keen to get back to Pakistan. But I had the foresight of telling Mr Adham that I was going to a brand new job in government and that it might not work out for me. So if they were not able to fill the job they could ask me again in six months.

I did not return to Saudi Arabia when the Planning Board offer was repeated early in 1966, then or later, when I was offered the senior advisory position in SAMA on Anwar Ali's death towards the end of 1974. But I consider going to Saudi Arabia in the first place a fortunate life-turn for me.

Chapter 10

Remembering Anwar Ali: An Unsung Pakistani Hero

Few Pakistanis know or remember that the Saudi Arabian Central Bank, Saudi Arabian Monetary Agency (SAMA), now a major world financial entity, was headed by a distinguished Pakistani civil servant for more than sixteen years. Mr. Anwar Ali's tenure as the Governor of SAMA during 1958-74 endured through many changes in regime in Saudi Arabia.

He first went to Jeddah in 1958, on temporary loan from the IMF, where he was Director of the Middle East Department, when Saudi Arabia faced a financial crisis and Prince Faisal was Deputy Prime Minister and Finance Minister under King Saud bin Abdul Aziz. When King Saud had a falling out with Prince Faisal a couple of years later, Mr Anwar Ali continued as head of the central bank, with Prince Talal bin Abdul Aziz as finance minister. So great was Anwar Ali's reputation for integrity, independence, and good judgment that, when Faisal returned to power first as prime minister in 1962 and then as King in 1964, he did not even think of replacing the foreigner who headed their central bank. Indeed, the close relationship between King Faisal and Anwar Ali was to continue during the next dozen years till Anwar Ali's untimely death: he died of a heart attack suffered in Washington after the 1974 Annual Meetings of the IMF and the World Bank.

According to his wishes, Anwar Ali was buried in Madina in *Janaatul Baqiha,* Islam's historic cemetery from the time of the Prophet, after the funeral prayer in the *Masjid i Nabvi*. This was as high an honour as could be given to anyone in the rather austere Wahabi kingdom.

Anwar Ali played a central role in resolving not only the Saudi monetary crisis of 1958 but also the subsequent banking crises which arose out of the failure of Sherbatli, a large money lender, and Riyadh Banks in the early 1960s in what was then an almost totally unregulated commercial banking system. He was responsible for the first Banking Control Law in Saudi Arabia. It was under his stewardship that paper currency was introduced in Saudi Arabia. He provided the first underpinnings of economic analysis in the Kingdom through instituting a system of annual reports of the Saudi Arabian Monetary Agency. He enabled an enlightened response by Saudi Arabia to the 1973 oil crisis by assuring a recycling of petro-dollars as the deficits of energy-importing countries ballooned. Indeed, just weeks before his death, he provided a one billion US dollar loan to Japan and agreed to a purchase a similar amount of World Bank bonds. For this latter action, Mr McNamara, the then president of the World Bank felt particularly obliged because, rather than resisting the oil price increase, McNamara believed in finding ways to minimize the impact of the oil shock on the world economy.

What Made Anwar Ali So Effective and Acceptable in Saudi Arabia for So Long?

Who was this Pakistani who won and enjoyed the confidence of the top echelons of the royal family in Saudi Arabia for so long and who was allowed to run SAMA largely independent of the ministry of finance? Now, more than thirty years after his death, I would like to recall and record some personal recollections of this great and under-appreciated Pakistani. Mr. Anwar Ali should be remembered not only for his services to Saudi Arabia and the respect that he earned for his country, but also for his contribution to early economic decision-making and budget-preparation in Pakistan as a close associate and friend of the first two finance ministers of Pakistan, Ghulam Mohammad and Mohammed Ali.

Anwar Ali was clearly a very able finance official and was quick to learn the ropes of running a central bank. At the beginning, the support provided by Zaki Saad, a former Governor of the Central Bank of Egypt, who was serving as an Executive Director at the IMF, representing Middle Eastern countries, helped Anwar Ali to gain the confidence of the royal family. But ultimately, it was his personal qualities, his unshakeable integrity, his utmost sincerity in looking after Saudi Arabian interests, his low-key approach and simple unostentatious lifestyle, his deep religious faith, his great patience with the slow but steady pace of policy change in the Kingdom that won him support not only from the royal family, but senior cabinet members, businessmen, bankers, and, last but not least, from his staff.

His personal integrity was evident from the fact that he did not seek or enjoy great financial rewards. His emoluments remained basically pegged to his IMF salary with normal additional perks of housing, car etc. He did not seek any land or property or special privileges in Saudi Arabia and it was only after his death in office that his widow was gifted the residence that he had lived in. Mrs. Saeeda Anwar Ali was to continue to live in Saudi Arabia in that house till her death in July 2002.

Anwar Ali's reputation for incorruptibility was established early. It is said that Sheikh Salim Bin Mahfooz, the founder and head of by far the largest commercial bank in Saudi Arabia, came to call on Anwar Ali on his first Eid in Jeddah. As a token of his regard and as an Eid present, he brought several sets of diamond jewelry for Mrs Anwar Ali. These gifts were politely refused. In the small upper circles of Saudi society, the story spread rather quickly. Nobody again tried to buy influence with Anwar Ali.

From his early days, Anwar Ali worried about the soundness of the banking system. He recruited a retired Dutch central banker, Dr Reppellius, to draft the law. After going through several drafts, it was submitted to the cabinet in 1963, which referred it to a cabinet sub-committee headed by Shaikh Zaki Yamani, a lawyer and Minister of Petroleum. There it languished for a couple of years, to be passed in 1966. The delay could have been due to the slow bureaucracy. Possibly, powerful private banking interests, especially the large National Commercial Bank which controlled well over half of the total deposits in the country, resisted any control by the central bank. But it so happened that a fresh run on a bank prompted concern in the cabinet and Anwar Ali was able to point out that much needed legislation had been pending approval for some time. The bill was approved without any change in the next few days. That was quintessential Anwar Ali, doing his homework and biding his time patiently.

Though he was a central bank governor in a foreign land, Anwar Ali fiercely guarded the independence of the Saudi Arabian Monetary Agency. He and he alone was responsible for managing the sizeable foreign exchange reserves. No wonder that while I was in Jeddah, there were frequent visits by important investment bankers, the most prominent of them being David Rockefeller, President of Chase Manhattan Bank and John M. Meyer, head of Morgan Guarantee Company. Because of Faisal's complete trust in Anwar Ali, this independence of the Saudi Arabian Monetary Agency did not pose a problem.

However, when Faisal became first regent and then King in 1964, his uncle, Prince Mossad bin Abdur Rahman was appointed as the Minister of Finance. Prince Mossad, an honest but very hands-on cabinet minister, was rather aghast that the Saudi Arabian Monetary Agency enjoyed so much freedom. He wanted to know about the placement of sizeable foreign exchange reserves with various financial institutions abroad, a request from the Minister of Finance, which I do not think was at all unreasonable. However, Anwar Ali refused, saying that he would be happy to provide the information, but would then leave. It was a courageous act, though perhaps it carried the notion of central bank independence, especially in a monarchy, too far.

In any case, in the showdown, Anwar Ali won because of King Faisal's support. I am sure Shaikh Abul Khail, the young, well-educated Deputy Minister of Finance (who soon after became the Minister of Finance and served in that capacity for nearly two decades) with whom Anwar Ali had an excellent working relationship, played an important role in easing the tensions between the Minister and the SAMA governor. The relationship between SAMA and the Saudi Finance Ministry was to change somewhat after Anwar Ali's death. Still, in the tradition set by Anwar Ali, SAMA still retains a large measure of independence.

Anwar Ali was also a good judge of people. I recall that during my years in Jeddah, Agha Hasan Abidi, who was to later attain both fame and notoriety as founder and head of BCCI (Bank of Credit and Commerce International), was a frequent visitor to Saudi Arabia and a regular caller on Anwar Ali. Abidi had become the head of the United Bank in Pakistan, a new and progressive large commercial bank, financed by the Saigol family. Abidi was imaginative, bold, but not totally scrupulous in pursuit of his business goals. He tried to cultivate Anwar Ali with his great charm and perhaps with hints of incentives. All I remember is that after one of Abidi's frequent visits, Anwar Ali said that the idea of a United Bank branch in Saudi Arabia was not a bad one, but that Abidi was not a good man. Abidi never got his permission.

In due course, Anwar Ali helped the National Bank of Pakistan (NBP) to enter into a joint venture with a local businessman and this bank, called Al Jazeira Bank, has flourished. In its earlier years, it drew heavily on the management and staff resources of NBP.

Anwar Ali was also able to use his position to provide senior officials of the Pakistan Government, such as his friend Mohammad Shoaib, Minister of Finance, easy access to upper Saudi circles. He was the best ambassador that Pakistan could have had; his strength was that, while promoting Pakistani interests, he never compromised Saudi interests.

The personal qualities that endeared him to many who came into contact with him, especially his staff, were his low-key, self-effacing style, his genuine humility, and his concern for people. He rarely lost his temper and always held out his hand to support those that needed it. Behind all this was a certain disdain about accumulating wealth. I was surprised to discover that, despite a steady rise in savings overtime, he gave no thought to multiplying his assets by investing his cash, which remained in a non-interest bearing bank account. This was despite the fact that he could have had access to the best investment advice as a result of his frequent interaction with world-class bankers.

Despite his long service in Saudi Arabia (1958-74), Anwar Ali never once thought of changing his Pakistani nationality. After the sharp increase in the oil price in December 1973, the position of the Governor of SAMA became extremely important internationally and had great visibility as the foreign exchange reserves of Saudi Arabia soared. Saudi Arabia named Anwar Ali to serve on the group of Deputies to World Finance Ministers, dealing with the aftermath of the oil shock. He served with distinction and became good friends with the US representative, Paul Volker, who, at that time, was the under-secretary of the US treasury. A *Fortune* magazine article of April 1974 singled out Anwar Ali as one of the large money managers in the

Middle East, with a full page photograph of him with the caption: 'A Banker with over $20 billion'. A *Newsweek* article on 1 July 1974, with the title, 'Where Will the Arabs Stash Their Cash' also carried Anwar Ali's picture prominently and talked of the role of the Pakistani-born head of the Saudi Arabian Monetary Agency.

There was a downside to this: with their new-found wealth, a number of Saudis did not feel comfortable with the rein of their foreign exchange reserves being in the hands of a foreigner, however trusted. I am sure King Faisal felt some of these pressures. His response was to send an emissary, Ali Raza, the head of a very prominent Saudi business family of Jeddah, to ask Anwar Ali in the summer of 1974 to consider accepting Saudi nationality to curb any undercurrents of negative sentiment. But Anwar Ali did not relent. Anyway, the issue became moot with his death a few months later. Would Anwar Ali have lasted in his job had he lived is difficult to speculate. But the assassination of King Faisal in March 1975 might have brought fresh pressures on Anwar Ali to accept a change in nationality.

During his tenure, Anwar Ali made a special effort to train young Saudis. Two young Saudis, Shaikh Ahmed Abdul Latif and Fuad Bakheet especially deserve mention. Sheikh Latif became the head of the Riyadh Bank and Fuad Bakheet became head of an important state industrial organization. But Anwar Ali's special confidante, friend, and troubleshooter was Sheikh Abdul Wahab, who became General Manager of SAMA in a few years. Abdul Wahab also served as his personal interpreter, especially in high level meetings with the King and other high officials who did not know English.

Some of Anwar Ali's appointments were not well received. After the promotion of his first Deputy Governor, Abid Shaikh, to the post of Commerce Minister, a strong- minded individual and a strong disciplinarian, Sheikh Junaid Ba Junaid was brought in to replace him. Junaid was not especially popular among the staff for his vigilance and strict discipline but he was just the man Anwar Ali needed to balance his own soft image.

The wide use of paper money and regular currency notes in Saudi Arabia emerged only in the early 1960s. Along with the Minister of Finance, Anwar Ali's signatures were on bank notes. This brought him to public notice. A couple of times in Jeddah, unexpected guests from Pakistan found their way to his home just by showing the currency note and pointing to his signature.

However, the wide respect and recognition that Anwar Ali commanded and the affection he evoked became fully apparent only at his death. His funeral service in the Islamic Centre in Washington was widely attended, including by his close friends, Zaki Saad, Mohammad Shoaib, Mueen Qureshi, Azizali Mohammad, John Gunther, Irving Friedman and other IMF colleagues, and many admirers, including Mahbubul Haq, The funeral arrangements were co-ordinated and greatly facilitated by Iqbal Riza, Deputy chief of the Pakistan Embassy in Washington and a close personal friend of ours.

While waiting for the funeral service, Paul Volker, then Under Secretary of the Treasury who represented the US government, recalled that, since he was planning to leave shortly for the private sector, he had jokingly asked Mr Ali just a few days earlier about the New York banks that were on his negative list so that he (Volker) could avoid them.

Anwar Ali's body was flown to Saudi Arabia where he received a really fond farewell. I with my wife Parveen and two daughters (Samia and Samira) accompanied Mrs Anwar Ali (Parveen's sister) and her two children, Pasha and Aiysha, in taking the body to Jeddah. As we landed, I was truly amazed to find thousands of people receiving the plane and being allowed inside the airport on the tarmac to pay their respects. The Saudi government arranged two planes the next day for the hundreds who wanted to attend the burial in Medina.

At the personal level, I recall a most touching incident when we were returning by road from Medina. At one of the frequent check posts where documents are examined, an ordinary soldier, on examining our passports and discovering from my Saudi visa that we were related to Anwar Ali, actually condoled about his death with me. I was truly surprised that a common soldier knew about the foreigner who headed their central bank and about his sudden death. I never imagined that awareness of Anwar Ali's presence and standing in Saudi Arabia had reached so far with the common man.

On the more formal side, when Shaikh Abul Khail, Minister of Finance, came to call on the family for condolences, he said Anwar Ali had been one of the leaders of Saudi Arabia. This tribute to a foreigner in a country where the royal family was the only real source of power came as a bit of a pleasant surprise to us. But I am sure it was genuine and heartfelt. I recall another notable gesture from Mr. Meyer, a former chairman of Morgan Guarantee Trust Company, who was the principal liaison between Morgan and Governor Ali in the early 1970s. As Mr. Meyer came to condole with Mrs. Ali in Jeddah, he made it a point to say that, on that trip he was not conducting any business, but only paying homage to his friend and condoling with the family; he was returning to Beirut, only to come back the next day to meet the acting governor of SAMA. What a charming gesture from a rather elderly but very rich New York banker!

In the international media, among other papers, the London *Times* carried an obituary of Mr Anwar Ali on 6 November 1974 and a week or so later the *Washington Post* published an op-ed piece by Ted Schulz, a beautiful remembrance, titled 'Loss of Anwar Ali'. Unfortunately, the Pakistan press took only limited notice of his passing away. This was probably for several reasons: Firstly, in the true spirit of a public servant that he was, Anwar Ali never really advertised his presence in Saudi Arabia to the media. Second, he had been away from the country for two decades. Finally, it was the time of Zulfiqar Ali Bhutto and Bhutto's Finance Minister, Dr Mubashir Hasan, probably knew little about what Anwar Ali had achieved in Saudi Arabia.

During President Ayub Khan's time (1958-69), however, Anwar Ali was in close touch with the senior economic managers, most notably Ministers of Finance Mohammad Shoaib and N. M. Uquaili, finance secretaries, M. M. Ahmad, Ghulam Ishaque Khan, and A. G. N. Kazi, and Governor, State Bank of Pakistan, S. A. Hasnie. They were all his good friends and sought his advice on matters of Pakistan's exchange rate more than once. They also tried to entice him back to Pakistan, as Secretary Planning in 1962, and Minister of Finance for West Pakistan in 1965.

This last offer was considered seriously enough by Anwar Ali to go and see the Nawab of Kalabagh, the Governor of West Pakistan. On reflection, he decided against it, because he rightly realized that a provincial finance minister had only limited real authority and, in any case, his experience and expertise were less relevant for a provincial post. The job that he would have accepted in the mid- or late-1960s was the Governorship of the State Bank of Pakistan, but Hasnie appointed to the post in 1960, given a two-year extension in 1965, and was succeeded in 1967 by Mr M. Raschid, the first Bengali to hold the post. However, throughout the 1960s, Anwar Ali was on the radar of the rulers in Pakistan and was indeed awarded the Sitara-i-Pakistan in 1964. As it was, he was fortunate enough to hold the position of the central bank Governor at a time when Saudi Arabia emerged as a financial power on the world stage. In the final year of his life, he was a much-sought-after financier.

This was in a sharp contrast to his rather humble beginnings and modest early ambitions. Anwar Ali was born in February 1913 to parents from a rural background. He did his MA Economics from Islamia College, Lahore, in 1934. Probably because of his limited means and family background, he did not seek entry to the prestigious Indian Civil Service and joined the Subordinate Accounts Service instead. However, in a short while, he had so impressed his superiors that he was quickly promoted first to the post of superintendent and then inducted into the accounts service in the early 1940s. His first big promotion came mainly because of the brilliance of his work: his youth and limited experience were considered a handicap in a seniority-prone system. A story is told of a Hindu officer who took the position that, unless Anwar Ali was promoted, he would not recommend anyone else for promotion. This did the trick.

By the time of partition, Anwar Ali was an under-secretary of finance in Delhi and came to the notice of Chaudhry Mohammad Ali, who became the Secretary General of the new Pakistan government in August 1947 and the Minister of Finance in 1951. This propelled Anwar Ali's career forward. In 1950, he negotiated the acceptance of the Pakistan rupee parity with the US dollar, an issue that had become contentious after September 1949, when Pakistan refused to follow UK and India–very unwisely in my personal opinion–in devaluing their currencies in relation to the dollar. After serving briefly as private secretary to Ghulam Mohammad the newly-appointed Governor General in 1951, he was selected for the most coveted position of Joint Secretary Budget in 1952. Thus, in less than a dozen years as an officer, he had outpaced his contemporaries in Pakistan's top civil service

(CSP) and befriended the Governor General and the minister of finance, both of whom came to trust him greatly.

However, his extreme hard work and quick rise brought intense personal pressures, as well as occasioning heart-burn among some colleagues and rival. Anwar Ali began to suffer from occasional but very serious migraine headaches. It is ironic that it was the migraine that led him to the IMF in Washington DC. But for Anwar Ali's health concerns, Ghulam Mohammad and Mohammad Ali would not have let their trusted lieutenant leave Pakistan. I suppose it was a matter of Anwar Ali's (and Saudi Arabia's) luck, that Zaki Saad, the Egyptian Executive Director of the IMF for Middle Eastern Countries, was charged with finding a suitable Pakistani for the staff post of Director of the Middle Eastern Department, which covered Pakistan as well. Ghulam Mohammad and Mohammad Ali had no hesitation in recommending Anwar Ali, so that he could have a break for a couple of years. So he left Pakistan in September 1954, never really to return. But he brought a great honour to his country, through long and distinguished service in Saudi Arabia.

In the decades since Anwar Ali's death, many Pakistanis have made outstanding contributions in the international arena and distinguished themselves by holding very high positions in the World Bank, the UN, and international banking, and have earned fame and fortune. But few can claim the kind of influence that Anwar Ali exercised in a very important Muslim country for such a long time. For that, he deserves his nation's thanks and remembrance.

Chapter 11

Heyday of Planning in Pakistan 1965-1970

The five years that I spent with the West Pakistan Planning and Development (P&D) department were among the most satisfying in my career and among the happiest in our family life, especially with the arrival of our second daughter, Samira.

This was the heyday of planning in Pakistan. The planners had been delegated tremendous authority by President Ayub Khan from 1960 onwards and they had a substantial role in determining development priorities and economic policies. However, the planning function became even more important in the second half of the 1960s, as resources for the public sector development programme shrank and the almost unlimited supply of food grains under US Law PL 480, which had generated large counterpart rupee funds, almost disappeared. As US foreign assistance declined and defence spending rose sharply after the 1965 war with India, the management of public sector resources became critical. Provincial planning covered most of the key economic sectors of the economy: railways and roads, water and power, food and agriculture, rural and urban development, and education and health. This degree of provincial autonomy was the consequence of parity with East Pakistan, which had wanted as much freedom from central government control as possible. Indeed, at that time, nearly 80 per cent of the public sector development programme (PSDP) was under provincial purview.

For a central bank economist like myself, who had been largely concerned with macroeconomic issues and policies, there were great opportunities for learning on the job about the real sectors, sector planning, the workings of the government, including inter-governmental relations. But because the economics capacity in

Planning and Development, indeed in the entire provincial government, was quite limited, I also found fairly quickly that it was possible to make a substantial policy impact just by raising some basic economic questions about intra-sector and inter-sector priorities, opportunity costs, and economic rates of returns on projects. As I learnt more about how the government worked, it also became possible to involve myself increasingly with the issues of institutional capability in the public sector and the relative roles of the private and public sectors.

B. A. Kureshi, a very senior civil servant and a man of great integrity, charm, and independence of mind, was my boss and Chairman of Planning and Development for four out of five years. Without his unstinted support, trust, and great delegation of authority to me, my effectiveness would have been seriously impaired. The fact that he reported directly to the Governor of West Pakistan meant that the chain of command was short and there was considerable room for exercising discretion. Since there was no Chief Minister of the province, the Head of Planning and Development had a dominant role in development policy formulation, foreign aid co-ordination, sector and project priorities, and a range of policy and implementation issues. The several ministers in charge of individual departments had considerable administrative powers, but less of a policy role and relatively little involvement in development allocations.

In formulating development budgets and sector policies, the provincial planning department was largely autonomous. Close co-ordination with the Planning Commission (PC) at the centre was, nonetheless, quite important. PC set the overall economic goals. It had to clear all large development projects through the central development working party for ultimate approval by the Executive Committee of the National Economic Council (ECNEC). Foreign aid levels and priorities were also determined ultimately by the Planning Commission. It was thus most fortunate that my main counterparts at the Planning Commission in Islamabad, Mahbub ul Haq, Sartaj Aziz, and Moinuddin Baqai were close personal friends and shared the same broad development philosophy. Equally important, I got critical and wholehearted support, whenever needed, from the top layers of the Planning Commission, Deputy Chairman, M. M. Ahmed, and Secretary Planning, Qamrul Islam.

Living in Lahore more than a dozen years after leaving college was glorious for me and Parveen, who had also attended college there. There were so many friends from college days for both of us to catch up with. And, of course, dozens of close relatives. For Parveen, it was especially comforting to be near her ancestral home in Gujranwala and several siblings in the area. We became members of the Gymkhana club and started playing golf. To top it all, the living conditions were good. Thanks to several used air conditioners we had imported from Saudi Arabia, the summers were tolerable. Living next to the Canal Bank in spacious accommodations, first in Shah Jamal and then in Danepur Lane in a brand new government residence, was a special privilege

Not Particularly Auspicious Beginnings

The 1965 India-Pakistan War

By the time we occupied our government-requisitioned house in Shah Jamal and our shipment arrived in late-August, tensions between Pakistan and India were rising. After Pakistan's commandos had not succeeded in inciting rebellion in Kashmir, Pakistan's military units had got into action and made gains in advancing towards Akhnor, with the objective of cutting Indian supply lines and road access to Kashmir. There was jubilation in Lahore on the taking of Jorrian in Indian-held Kashmir towards the end of August. Pakistan had made the assumption that its actions in the disputed territory of Kashmir would not involve any response by India across the international border, only miles from Lahore. This simplistic premise proved wrong. In order to relieve pressure on its troops in Kashmir, Indian troops directly launched an attack on three fronts across the border near Lahore, directly threatening the city on 6 September. The full-scale 1965 war between India and Pakistan had started.

However, in the early days of the war there was euphoria, especially as the Pakistan air force in several successful strikes in Indian Punjab was able to destroy a significant part of the Indian airpower. Even as Indian air raids began and a total blackout was ordered in Lahore, the Lahori spirits remained high. Indeed, one day when there was a dogfight between Indian and Pakistani planes right over Lahore during broad daylight, thousands thronged the streets to witness the event, oblivious to the dangers of flying shrapnel. My wife was not to be left behind: she stayed in our backyard, enjoying the ‘show’ while I, after a few minutes, prudently took shelter inside. Later we learnt that a large fragment of a rocket shell had fallen only a few hundred yards from our house.

Still, in the first few days of the conflict, there were distinct worries in knowledgeable circles about the possibility of Indian forces breaking through Pakistan’s defences and approaching Lahore, a development that would have caused widespread panic and fleeing from residential areas, such as the one into which we had moved. This translated into a great personal concern. I headed every day to office, about four miles further away from the border, taking our car, and leaving my wife and young child back, without any means of communication or transport. Only at my urgent request was the installation of an official telephone at our residence expedited, a week into the war.

The complete blackouts in Lahore were an important feature of our life for the duration of war. We were encouraged, as an air defence measure, to have a trench dug up in the back lawn. The trench was used only once by us during an air raid siren, but we had to come out quickly as we had serious allergic attacks, attributed by our domestic help to the fact that Shah Jamal had been a graveyard a long time ago. I also remember us going shopping during the war, for furniture and sundry items, such as a garden hose, and being welcomed with open arms by shopkeepers who had practically no other customers.

Fortunately for Pakistan and for Lahore, the armed forces fought with great bravery and determination and blunted the Indian attack on the Lahore front and action moved to the Sialkot front where the famous tank battle near Chowinda took place. For extreme valour in face of grave danger, Major Raja Aziz Bhatti, a former Government College student, who died defending the Burki bridge, was given the nation’s highest honour, the Nishan-e- Haider.

The war ended in stalemate after nineteen days, through a UN-sponsored ceasefire. At the time of the ceasefire, Pakistani troops were greatly overextended. Still, some in the intelligentsia talked of a second round, because the first round was not decisive. Regardless of the military outcome, the war was to have disastrous longer-term consequences, not only for the integrity of the country, but also for its economic and social development.

I did learn one lesson from the conflict: one should be prepared for surprises and expect the unexpected. In careful career planning for a return to Pakistan, the possibility of a military conflagration had never entered my mind.

Struggle with the Bureaucracy

The war with India ended but my struggle with the bureaucracy was just beginning. On arrival in Lahore, I discovered that my boss, S. I. Haque, head of Planning and Development for a number of years and a very senior former ICS officer, who had fully supported my appointment as Chief Economist, had no clear plans for my deployment. While I was given the treatment of a principal officer, there was no definition of my functions. I soon realized that Haque faced two problems in giving me direct control over the five or six planning sections dealing with general economic issues: agriculture, water and power, industry, education, and transport. Firstly, there were three senior officers in their 50s' already in place supervising the work: two senior Provincial Civil Service (PCS) officers and a senior engineer OSD (officer on special duty), who had been Secretary of the Public Works Department. They were of his age group and he had built a comfortable relationship with them. The second more serious problem was that the young CSP officers, in their late 20s, with roughly five years' service, who were heads of some of these sections, did not want to be supervised by a mere senior officer of the State Bank of Pakistan on deputation.

Mr. Haque was keen to give me some direct line responsibility. He had been impressed with a note that I had prepared, at his request, on the consequences of the war with India on Pakistan's planning; indeed, I learnt later that he had shown my note to some of the young CSP deputy secretaries, including Humayun Faiz Rasul, to convince them of my abilities. But the issue remained unresolved. My main interventions during those first months were through the Provincial Development Working Party (PDWP) of which I had become a member. PDWP not only had the responsibility for reviewing of development projects but also became a forum for major adjustments that had become necessary in the recently approved Third Five Year Plan (1965-70)

S. I. Haque was transferred in December 1965. Despite my frustration, we parted on good terms. We were happy to host a farewell dinner for him and Mrs Haque and they were kind enough to invite Parveen and myself to the wedding of their daughter later that month.

Haque was succeeded by A. G. N. Kazi, who had recently returned from Washington, after serving for a few years in Pakistan's embassy as the economic minister. Kazi was a very different personality from Haque. Haque was an easy, outgoing, gregarious individual who relied largely on common sense, while Kazi, a mathematician by training, was a quiet and taciturn man with a very sharp intellect and a strong belief in rigorous analysis–most of which he did on his own. Kazi's job in West Pakistan planning was just the beginning of his rise to top economic positions in the government. In the next three decades, Kazi was to be a dominant figure in economic policymaking. Indeed, with the possible exception of Ghulam Ishaque Khan (GIK), no bureaucrat has dominated economic policymaking in Pakistan so much and for so long as Kazi.

It was, therefore, a privilege to get to know him well. Even though our direct association lasted only a few months, I learnt a great deal about Kazi's sharp analytical abilities, his methodical but cautious approach to policymaking, and, yes, his deference to higher authority and his reluctance to fight for his views beyond a point. Kazi was appointed as Chairman, WAPDA in May 1966 to replace GIK, who became Federal Finance Secretary to replace M. M. Ahmed, who succeeded Said Hasan as Deputy Chairman of the Planning Commission, a pattern of appointments, rewarding merit and integrity that was a hallmark of the Ayub era.

But Kazi was truly surprised at his being given the Chairmanship of WAPDA, the most important executive job in development. He told me that it would have made more sense to make him Finance Secretary because of his strong background in finance. He mused, however, that the Nawab of Kalabagh, the Governor of West Pakistan, probably desired a very honest man in the WAPDA job.

Even though I worked with Kazi for just a few months, we formed an excellent relationship. His support for P&D as Chairman WAPDA was invaluable. His show of confidence in me more than once at PDWP meetings was very heartening because he, along with a select few, was considered a pillar of the establishment. Later, as

Secretary General Finance under Bhutto, Kazi tried very hard to get me back to Pakistan but I did not quite fit the mould of an Economic Adviser that the Finance Minister, Dr Mubashir Hasan, was looking for. Anyway, it has been a great privilege to know Kazi well. Very few civil servants have served Pakistan with such integrity and distinction.

During his brief period in planning, Kazi tried to deal with my problem of job definition but in his own systematic way. He gave me important assignments with very short deadlines to test my abilities. At the same time, he tried to understand the causes of resistance to my being given line authority over section chiefs. At the end of a few months, he was very satisfied with my work and was convinced that I needed the status of additional secretary to be effective. But he felt that one problem was that I had not come through a competitive process which required Public Service Commission approval. I readily agreed to seek the job if it was advertised and he immediately recommended the case for clearance to the Ministry of Finance, asking that the job should be advertised and given additional secretary's pay, in addition to senior administrative grade. Technically and bureaucratically, it was the correct decision, but in the normal course of things, fully regularizing the appointment would have taken at least two years, as it actually did.

Turning the Corner

Fortunately, two developments brought matters to a head. The news of my problems with the bureaucracy had reached Finance Minister Shoaib, possibly through Kazi. He met me at a seminar in Lahore in early 1966 and told me that he had heard I was having problems and asked why I had not contacted him. The idea of using his influence had simply not occurred to me, even though he was a prime mover in getting me the job. In any case, he asked me to see him in a few weeks when he next visited Lahore and stayed at the Government House. Meanwhile, to my pleasant surprise, the Saudi Arabian Planning Board renewed their offer of the post of Chief Adviser. I did not have any real desire to return to Saudi Arabia. But the offer provided leverage. I saw Shoaib a few weeks later and he at once called Mr A. H. Qureshi, Chief Secretary, head of establishment and civil service in the province, to make sure that I did not leave.

When I met Qureshi, he asked me only two questions: why I needed secretarial status and whether any extra pay was involved, requiring the Finance Department's approval. I told him about my problems with the CSP officers, but also explained that I was receiving my State Bank pay plus a deputation allowance and did not require extra emoluments. Also that I had agreed with Kazi to apply for the permanent job of Chief Economist through the Public Service Commission and only then I would expect the extra pay given to technical officers serving as secretaries. But even with all that regularization, my emoluments would not change significantly.

The Chief Secretary was satisfied and called in the concerned deputy secretary, establishment, also a CSP officer, and told him to draft a note for the Governor's approval to grant me *ex-officio* status as a secretary in order to improve my effectiveness. This must have provoked the young deputy secretary because he could not resist pointing out that, if such an approval was given, I would outrank the CSP officers of my age group. Such were the mores of the time; no one could easily take precedence over the CSP: a highly merit-based service, with many outstanding individuals, that had become a source of entitlement, a virtual *jagir*. The chief secretary quickly shut up his aide by saying that the idea was to retain this particular officer.

A few days later, in early May 1966, the necessary notification was issued. Shoaib may have helped by putting a word in on my behalf with Governor Kalabagh, with whom he was on very good terms. I do not know. But I did hear that when the Governor asked the Chief Secretary the reason for this rather unusual recommendation (other secretaries from technical departments or provincial civil service were fifteen to twenty years older than me), the reply that the necessity was created by resistance from CSP officers won the day.

The announcement that I had effectively become one of the two deputies in the powerful Planning &Development department came as somewhat of a shock both in the department and the general secretariat. The word must have leaked out that Shoaib had intervened. I was amused to learn from my younger cousin, Saghir Assad Hasan, a fresh CSP officer at that time, that the widespread rumour in the West Pakistan Secretariat was that I must be an Urdu-speaking Muhajir, because both Shoaib and Qureshi were originally from India. The notion was that such an 'outrageous' exception could be explained only on grounds of favouritism and parochialism.

Service Rigidities

The point of all this is that bureaucratic structures were rigid; the CSP had arrogated itself to be in a class by itself. There were senior individuals within the service who were truly outstanding, competent, honest, and progressive persons like M. M. Ahmed, Qamarul Islam, Ghulam Ishaque, A. G. N. Kazi, B. A. Kureshi, and Vasim Jafarey. But, by and large, the strict divisions among services minimized competition, dampened incentives, and adversely affected the morale of the other civil service cadres.

The services structure was to be given two serious jolts in the next few years. The first was by the military regime of Yahya Khan, who dismissed 303 senior officers, including many stalwarts from the CSP, in December 1969 on grounds of corruption and inefficiency. The second came in August 1973, when Z. A. Bhutto abolished the CSP, restructured civil services, unified pay and grade systems, and allowed lateral entry to civil services. The excellent ideas underlying civil service reforms were, however, debased by the use of lateral entry as a political tool to reward loyal supporters and sympathizers and the impact of a basically well-conceived civil service reform was greatly diluted.

P&D: A Magnet for Talent

Personally, I found that, once the shock wore off and my status was clear, there was absolutely no problem in working in a very collaborative way with CSP officers of all ranks. This was important because they dominated the economic and development positions in the government. I was generally impressed by their esprit de corps, bold outlook, quicker decision-making abilities, pragmatism, and common-sensical approach.

Young Turks

It was a pleasant surprise that some of the bright, relatively young CSP officers, including Javed Talat, Sarshar Ahmed Khan, Mohammad Azhar, Mohammad Ahmed, and Khalid Jawaid opted and sometimes even sought to work with me, as heads of planning sections. (Javed Talat and Khalid Jawaid were later to serve as Finance Secretaries at the centre. Sarshar Khan came to the World Bank in the mid-1970s and Mohammad Ahmed went to the Asian Development

Bank around the same time).They, along with experienced professional economists like D. M. Qureshi and top civil engineers, Mohammed Aslam and Mazhar Ali, who headed the more technical sections, constituted a formidable support team. Without their help and hard work, West Pakistan Planning would not have been the success that I believe it was in the second half of the 1960s.

I was also fortunate in my colleagues on the development side. Mian Shafi, a gentle and kindly man with a great sense of humour, who had been the senior-most officer in P&D for some time, died suddenly in London in December 1966 of complications arising out of surgery. He was succeeded as secretary development by Mohammad Yusuf, who served for nearly two years before he was replaced by A. R. Siddiqui. Both Yusuf and Siddiqui were both highly regarded CSP officers with strong reputations for integrity. They both became good friends. I found working with them a great pleasure: there was rarely any serious conflict, and, with a boss like B. A. Kureshi, who delegated a great deal of responsibility to his deputies, the working environment was harmonious as well as stimulating.

An upcoming star in the department was Shahid Javed Burki. Burki, also a CSP officer, had spent a couple of years at Oxford as a Rhodes Scholar, before returning home to the interesting position of Director, Rural Works Programme, in West Pakistan. With these impressive credentials, he joined P&D in 1967 as Deputy Secretary, Foreign Aid Co-ordination, a highly coveted position among younger CSP officers, succeeding Akhtar Hasan Khan. Burki was also notable for being the only serving government official to contribute fairly regularly to the op-ed pages of the daily *Pakistan Times*.

Though Burki did not work directly with me, we got to know each other quite well. Even at that time, he had a deep interest in analytical matters. Our friendship grew further when he joined the World Bank first as a consultant in 1971 and then as regular staff member in Mahbub ul Haq' s Policy Planning Department in April 1974. Over the last several decades, he and his wife, Jahan Ara, have become among the closest friends that Parveen and I have. It has been a great joy to have a close intellectual companion like Javed, though we have not always agreed on issues or approaches to analysis. Regardless, it has been heartwarming to witness Javed's rise to high positions in both the World Bank and Pakistan and to see him continue his vigorous intellectual activity well past his formal retirement from the Bank a few years ago.

I recall being asked by some of these younger officers why I had not tried to seek employment at the World Bank. My response was that planning in Pakistan was the place to be under Ayub. In turn, I was impressed that Burki, Khalid Jawaid, Javed Talat, and Sarshar Ahmed Khan spurned appointments as district deputy commissioners, a most prestigious job to which their seniority would have entitled them. Indeed, at one point, Burki told me that he had turned down an offer to become the Deputy Commissioner of the large Sialkot district and that even wild horses could not drag him there.

It is thus interesting that many CSP officers, then only in their late 20s or early 30s, had the foresight that important and interesting positions in the future would be in the policy field, especially in economics and finance, and not in the high administrative jobs normally associated with their service. With this in view, many recognized the need for higher studies abroad and, fortunately for me, the P&D was considered an important stop on the way to higher things. Burki, Khalid Jawaid, and Siddiqui spent time in graduate study at Harvard. Later, Akhtar Hasan Khan, Sarshar Ahmed Khan, Mohammad Arif, and Ishrat Hussain were to obtain Ph. D.s in economics from American universities. This search for higher learning was to serve their careers and the country well.

The heavy weights

Among the more senior and prominent bureaucratic figures in West Pakistan, apart from Haque, GIK, Kazi, and Kureshi, were Mukhtar Masud, who succeeded Vasim Jafarey as Finance Secretary in August 1965; Manzoor Elahi, Secretary Education; Syed Munir Hussain, Secretary, Industries; and A. K. M.. Mazari, Chairman, West Pakistan Industrial Development Corporation (WPIDC). All of these were CSP officers–the latter two were considered particularly powerful, as they reportedly were close to Governor Kalabagh. Mukhtar Masood, a very bright and very hardworking individual, was another important personality. Unfortunately, he could occasionally be a little insensitive. I was hurt when I saw him a couple of times in private meetings, putting down B. A. Kureshi, much his senior, though perhaps no longer as dynamic. In contrast, I was impressed by Manzoor Elahi for his most courteous behaviour towards Vice-Chancellors of universities who sometimes accompanied him to the PWDP meetings. Munir Hussain and Mazari were screened out of service at the end of 1969 on charges of suspected corruption. Munir died a few years later, a broken man: a sad and early end for a most charming and pleasant individual. Among other CSP officers with whom I worked closely were the senior deputies in Finance, Asif Rahim and Akhlaque Hussain, fortunately my friends from Government College days.

Some Key Stalwarts

Though the CSP officers dominated the bureaucracy, they were other towering government figures in Lahore and West Pakistan with whom I had close interaction and who all made or were to make very significant contributions to Pakistan's development.

SYED SALAR KIRMANI

Syed Salar Kirmani (1921-1998), a brilliant engineer, a remarkably effective manager, and an extremely modest individual was, for most of the 1960s, the Head of Indus Basin Works (IBS), undertaken as a part of the Water Treaty with India. I am sure his integrity and ability contributed to keeping the cost of these huge works low. Kirmani's involvement with the water dispute with India went back to the mid-1950s, when he became, at the age of 33, a key technical adviser to the Pakistan Water delegation to the World Bank, headed by G. Mueenuddin. When he was appointed to head the implementation of IBS, he superseded a large number of chief engineers, no doubt causing resentment. But his low-key personality, diplomatic skills, and patient manner soon won him the respect and co-operation of his erstwhile senior colleagues.

When I got to know him in Lahore, the Mangla Dam and many other Indus Basin Works were nearing completion. He had a private plane at his disposal to visit sites all over West Pakistan. He invited me a few times to join him on these visits. I have a regret that I did not avail of his offer. Kirmani reported to the Chairman, WAPDA, and his two bosses, GIK and Kazi, were extremely fond of him.

Kirmani accepted a staff engineer's position at the World Bank in early 1969. I was surprised for two reasons: first, the job appeared below his status and experience, and second, the Government had agreed to let go of such an outstanding individual. I asked Kazi at a dinner at our residence about it. He said that Kirmani was an absolutely honest man who could have made a crore of rupees (then a vast sum) in his job and it was time to let him save some money.

Kirmani's rise in the World Bank was rapid. He became a division chief, in charge of the Mekong Delta, then a Deputy Director in the Special Projects Department and was promoted to Director, Projects, in East Africa in 1972. We became close colleagues in the newly-created East Asia region in 1974, when he was transferred there and I was promoted as chief economist. But our friendship had ripened even earlier through an exchange of family visits and our regular Sunday bridge games which included Mahbub ul Haq, Shahid Hussain, Azam Alizai, and, later on, Sultan Khan, Brigadier F. R. Khan and Najmuddin Sheikh.

It is a great pity that Kirmani was not persuaded by the government to return to Pakistan as Chairman WAPDA, though he did advise the government on water matters on a number of occasions. I am sure he would have preserved the integrity of the office in the tradition of its first few chairmen and possibly averted the steep decline of an important public institution. In his case, I think Pakistan's loss far outweighed the international gain.

A well-known story about Kirmani shows how his work was his passion and his concentration on the problem in hand was total. Once, the Pakistan Water Delegation was travelling by train from Lahore to Karachi before leaving for the US. The twenty-four hour journey provided plenty of time for discussions which were held in G. Mueenuddin's coupe. Kirmani's berth was in an adjoiningrailcar. At some point, Kirmani needed to get some papers from his compartment to show at the meeting. After he got the papers, he started reading them on the way back. He was so absorbed in their content that, instead of opening the door to the next railcar, he opened the door to the outside and fell off the fast-moving train. After some time, his companions got alarmed, had the train stopped and a search started for him. He was found a little while later, dazed but unhurt, having fallen on a very soft embankment. What good luck for him and Pakistan!

AHMED HASAN

Another irrigation engineer who stood out for his great integrity, low-key personality, and quiet efficiency was Ahmed Hasan, Secretary of the Irrigation Department. The only criticism of him we planners had was the fact that, as an old canal waters hand, he had not totally reconciled to the tremendous potential of groundwater development. As discussed later, he was right about the problems with the public sector tube well development programme, but he was slow to recognize the transformation in water supplies and management that the rapid private tube wells development was bringing about. Ahmed Hasan's important contributions also include the development of the Lahore University of Engineering and Technology (UET) into a first class institution. He became Vice- Chancellor of the University after his retirement in the late 1960s and remained its head for several years.

Ahmed Hasan's tradition of professional excellence and integrity has been carried further by his sons notably, Dr Parvez Hassan and Dr Tariq Hassan, two of the most prominent lawyers in Pakistan and upholders of important public causes. They are also personal friends. Also, Dr Parvez Hassan and I have been perpetually confused with each other over decades because of our names and titles, even though he is a lawyer, younger, and more handsome, while I am an economist who has lived abroad for long. Their sister, Parveen Khan, was a classmate of my wife and a very close friend in Lahore College for Women in the late 1950s, and this friendship has endured.

DR. Z. A. HASHMI

Another impressive figure was Dr Hashmi, Vice- Chancellor of the University of Agriculture, Faisalabad (then Lyallpur)(1961-69). Dr Hashmi was a noted agricultural scientist and educationist. Under his guidance, agricultural education and research flourished greatly. When, in late 1969, President Robert McNamara, President of the World Bank, made his first visit to Pakistan, Dr Hashmi showed him around the Agriculture University, McNamara was most impressed by his knowledge, enthusiasm, and personality and, later in the day, called him a live wire.

I was first introduced to Dr Hashmi by my first cousin, N. D. Yusuf, an agricultural research scientist, who was Dean of Agriculture at Lyallpur. Later, I became involved in a planning capacity with the large development scheme proposed by the university. The scheme was opposed by a key member of the Planning Commission staff, an opposition which Dr Hashmi believed was personal, because he was not an *Arayan* (agriculturalist) by background and did not belong to the agricultural *Baradari* (tribe). I was able to smooth some of the differences and the scheme, basically well prepared, was approved by the economic committee of the cabinet in due course. Dr Hashmi was later to serve with great distinction as Federal Secretary Education and other high positions in the 1970 and the 1980s.

MALIK KHUDA BAKHSH BUCHA

Malik Khuda Bakhsh Bucha (1905-2002), a successful bureaucrat turned an even more effective politician, was a powerful presence in West Pakistan for all the five years that I served there. Indeed, his active work on behalf of Pakistani agriculture continued till the mid-1990s.

When I arrived in Lahore, Bucha, a PCS officer of my father's generation, had an office just up the corridor from the one I was given, and was soon retiring as Secretary Agriculture after a long and distinguished service. He must have made a great impression on both President Ayub and Governor Kalabagh in his efforts to promote agriculture, because the day after he retired, he was appointed as Minister of Agriculture for West Pakistan.

Bucha played a key role in helping spread the green revolution in Pakistan and worked in close association with Norman Borlaug, the Nobel Peace Laureate. Speaking years later about the green revolution, Borlaug said, 'The things that changed India and Pakistan were the determination of four people', and he cites Indira Gandhi and her agriculture minister, C. Subramanian, for India, and Ayub Khan and Bucha for Pakistan. He also said that they changed the world. (Borlaug papers accessed on the internet)

I was relatively innocent in regard to the political realities of the place. Nor did I try to cultivate the various ministers because of my temperament. Once my problems with the bureaucracy were sorted out, I was content to do my job, without worrying too much about political sensitivities: such was the autonomy afforded to planners. I do not think I would have lasted very long under the political regimes that followed Ayub's.

Frankly, at that time I also did not realize how influential Bucha was. The interesting thing is that when I found my feet in planning and began exercising some authority, especially through PDWP, Malik Sahib was one of the first ones to notice. Briefed by his officials, he would call occasionally to compliment me on my handling of a particular issue or problem. Sometimes, he would make suggestions but in a very informal way. He had been a bureaucrat and obviously knew not to tackle professionals head on. It is amazing that he almost never used official channels or his position to influence planning decisions.

The only time he seemed unhappy with me was when we formulated the Food Self- Sufficiency Programme. He actually complained to Governor Musa about my taking decisions about agriculture without firsthand knowledge (see discussion below). But I think it was more a disappointment that I did not consult him informally before finalizing this important programme rather than any specifics that he did not like. I should have known better.

Though they were not much involved in planning work, two other young ministers were also a notable presence. Mohammad Khan Junejo (1932-93), young and even younger looking and always dressed in trendy clothes, was the minister of Communications and Railways. Muhammad Yasin Khan Wattoo (1929-2002), a politician from Sahiwal, was minister of local government and then later Minister of Law and Education. Both of them were to remain prominent political figures throughout their life.

Junejo was from Sanghar, one of the poorest districts in Sindh, but from a very prominent family. After the partyless elections in 1985, he was handpicked by President General Ziaul Haq to be the Prime Minister. He did not turn out to be very pliant. He persuaded Ziaul Haq to lift martial law. Reportedly, he agreed to sign the Geneva Accords on Afghanistan even before the withdrawal of Soviet troops from there, against Zia's wishes. He set an example by using the small Suzuki car for official purposes–not easy for a very tall man–and asking senior military officials to do the same. He courageously ordered an enquiry into the terrible explosions at the Army Ordinance Camp at Ojhri, that caused widespread damage and a large number of fatalities through missiles and rockets flying and exploding over a radius of several kilometres. As the report on the incident was nearing completion for presentation to the Parliament, Zia dismissed Junejo's government on grounds of incompetence.

Junejo should be given credit his special interest in poverty alleviation expenditures He was responsible for some upturn in education expenditures, after their lag in the earlier years under Zia.

Yaseen Watoo served as finance minister under Junejo.

Thus, even under Ayub's military rule, there was some attention given to providing potentially important political figures valuable experience at a high level in administration that was to come in handy in future decades.

Governance, Growth, and Equity

Looking back, one must agree that West Pakistan, as a province, was just too big and too centralized a unit for effective governance. The one unit (1955-70) was an artificial construct which did not deliver on its promise of administrative decentralization and local participation through district and divisional councils. It alienated the smaller provinces, as its capital, Lahore, was Punjab-centric, and access to it from faraway places in Sindh, Balochistan, and the Frontier province became far more difficult.

High Growth and Its Sources

Paradoxically, however, the economic figures tell a somewhat different story. The average growth rate of GDP in West Pakistan (now Pakistan) was 6.8 per cent per annum during the 1960s: the highest it has ever been for a ten-year period in Pakistan's sixty-year history. Similarly, the agricultural growth rate was at its peak of 5.1 per cent per annum, a considerable achievement for a whole decade.

The acceleration of growth in the first half of the 1960s was the result of a considerable inflow of foreign aid, a near trebling of fixed investment over 1960-65, the liberalization of economic policies, the reduction of direct economic controls, and a substantial strengthening of incentives for the private sector.

The remarkable thing is that the high overall growth was sustained–indeed, the agricultural growth accelerated significantly during the second half of the 1960s–even though the decline in foreign aid and the rise in defence spending brought investment growth to a virtual halt. The real fixed investment level in 1969-70, in both the public and the private sectors was below the peak of 1964-65 and of course the investment rate, as a percentage of GDP, dropped sharply.

What made this sustained high growth possible? In agriculture, it was the quick and effective spread of the green revolution. More generally, it was the flexible policy response to a changing resource position, delineation of clear priorities, speedy decision making, excellent co-ordination between the federal and provincial governments, and great delegation of authority down the line. The Third Plan (1965-70) was outdated within months of its finalization, but effective planning processes ensured that necessary economic and policy adjustments were made quickly.

But above all, it was the human element that ensured success. Highly skilled and talented individuals were in charge of policy making, under the broad direction of Ayub Khan, and equally able bureaucrats and managers made possible effective and speedy implementation of decisions. It was thus a privilege and very enjoyable for me to be a part of this historic period of fairly good economic management and rapid economic growth.

Paradox of Public Discontent

The irony is that this sustained high growth did not prevent the country from exploding in violence in early 1969 and ultimately forcing the resignation of Ayub Khan. Ayub's downfall and Yahya Khan's takeover under martial law in March 1969 set in motion forces that were ultimately to lead to the dismemberment of the country and the separation of East Pakistan.

The widespread unhappiness of the public with Ayub's regime had its roots partly in the unequal sharing of the benefits of growth. The share of wages and salaries in net output of large-scale manufacturing fell from 35 per cent in 1958 to 30 per cent in 1970, suggesting a rise in the share of profits and growing inequality. In the rural areas, the benefits of high growth accrued mainly to the middle farmers. Small farmers were not well placed to obtain high-yielding seed varieties, fertilizers, or to sink tube-wells. Also, all the gains in production were in the irrigated areas; the rain-fed areas suffered a definite decline in per capita production (Hasan, 1998).

Disposable income was also reduced because of additional taxation imposed after 1965 to finance additional military spending. Throughout the 1960s, Pakistan continued to cover its current expenditure from current revenues, actually generating an annual public savings equal to 2 per cent of GDP. The borrowing to cover current spending, i.e., negative government savings, was to develop in the 1970s and has remained an unfortunate feature of our public finances for most of the years since.

My reading of the evidence is that, though urban factory real wages did not increase over 1958-68, the incidence of poverty did decline in the Ayub era, due to strong agricultural and overall growth. I, therefore, believe that non-economic factors were dominant in Ayub's downfall. The real causes of disaffection were the political repression, especially under the rule of very authoritarian Nawab of KalaBagh, Malik Ameer Mohammad Khan, the Governor of West Pakistan (1960-66). Increasing controls on the press bred strong resentment among the intelligentsia. This resentment was compounded when the public relations campaign, devised by Altaf Gauhar, a principal adviser to Ayub, to highlight the achievements of the regime through a grand celebration of 'The Decade of Development 1958-68', badly backfired, especially in urban areas. The benefits of development were being touted at a time when non-agricultural growth was slowing down, taxation was rising, and the dramatic increases in wheat and rice production under the Green Revolution had not yet materialized.

Nawab Kalabagh

The tenure of the Nawab of Kalabagh's (1910-67) as Governor did not serve Ayub well. Kalabagh was an honest man and a strong administrator, but his rule was harsh and invoked fear. I never had the occasion of meeting him personally, but I vividly recall attending a social gathering at which he was the most prominent guest. The occasion was the wedding of Mr S. M. Ikram's daughter, Shahida, to Jawaid Azfar in late 1965. The Ikrams had invited hundreds of guests for high tea on the lawns of their spacious house in GOR: we were included because of Parveen's relationship with them. Kalabagh's entrance caused a stir. As he walked, tall, unbending, and without a smile, across the length of the lawn, everyone stood up and became very quiet and remained so till he was seated a few minutes later. The crowd largely consisted of senior bureaucrats. Still, I was quite surprised at the deference, bordering almost on slavishness, being shown to him. It was certainly not out of affection.

Discussions with Hanif Ramay

I must confess that the political failures did not register on me so strongly at the time. I was a great believer that Ayub's economic strategy, if continued, could lead to sustained growth and prosperity. Indeed, I found myself arguing strongly along these lines with my friend, Hanif Ramay (1930-2005), in the summer of 1966, when he was joining Zulfiqar Ali Bhutto, as a founding member, to launch the Pakistan People's Party (PPP).

Hanif believed that only socialism and Islam could deliver social justice because the power and asset structures were heavily biased in favour of the rich. Finally, we could not agree. Technocrats like myself were not fully aware of the political storm brewing, not only in West Pakistan but also in the then East Pakistan. One assumed, may be somewhat naively, that Ayub's era and his economic policies could continue.

In retrospect, Hanif Ramay was half right and I was half wrong. The PPP, with its slogan of *Roti, Kapra, Makan* (food, clothing, and shelter), did a great deal to give a voice and dignity to the poor, and it remains a major political force in the country. Its distribution policies were important. But its deep distrust of the private sector, its ill-advised nationalization of the education system, and its disregard of macro-economic stability in the 1970s hurt growth and generated inflationary pressures, undermining the earlier gains in real wages. On the other hand, long experience has taught us that high growth alone is not enough to make a major dent in poverty, especially rural poverty, in a setting where land holdings are very inequitable. It is ironic that the economic and social issues in Pakistan that Hanif and I debated four decades ago are still very much alive today.

Though the 'trickle down' effect does not work fully and a direct attack on poverty is essential, the crucial role of sustained high growth for a rapid improvement in living standards across the board remains a necessary, if not a sufficient, condition for shared prosperity. Economic success stories in East Asia amply demonstrate this.

Planning Successes and Failures

There is little doubt in my mind that public resource utilization became more effective and public policies more supportive of the private sector in West Pakistan during 1965-70, especially in view of the urgency of bringing about large increases in food grains production over a relatively short period. Development expenditure was restructured and substantial consolidation of projects involved important decisions and, in some cases, reversal of earlier strategies.

Managing the development budget of West Pakistan within the framework of a shrinking resource envelope is a story which may have relevance for present-day Pakistan, when, after a period of massive growth in public expenditures, the country faces a serious resource crunch.

Water Availability, Public and Private Tube wells

Water is Pakistan's most precious natural resource and the extended irrigation network provides the foundation of the country's agriculture and economy. The canal system was started by the British in the nineteenth century. It was, however, a rather basic run-of-the-river system and was generally designed to command as much land as possible, particularly crown waste(land), so that maximum returns would be obtained from sale of land and from subsequent taxation. (World Bank 1969, Volume II, pp 69-73)

By the 1950s, seepage of water from the canals was causing water-logging and salinity. At the same time, the rise in the water table increased the possibilities of exploiting growing reservoirs of water. A high-powered US panel, under the leadership of an eminent scientist, Roger Reveille (1909-91), visited Pakistan to examine these problems. The Reveille panel recommended a large programme of some 20,000 large public tube wells to be developed by WAPDA over a decade. The first such project, called SCARP 1 (Salinity Control and Reclamation Project), covering a large area, was completed in 1965.

This model was uncritically accepted, ignoring the substantial private tube well development that had started taking place from the early 1960s. Unfortunately, the World Bank also endorsed this approach on the basis of a $7 million study undertaken by many teams of international consultants to prepare a twenty-five year programme for water, power, and agriculture for West Pakistan. The recommendation was to increase the number of public tube wells from 2000 in 1965 to 20,000 in 1975 and further, to nearly 35,000 in 1985. At the same time, the number of private tube wells was projected to decline from 32,000 to in 1965 to 25,000 in 1985, after an initial jump to 52,000 by 1975, the argument being that public tube well development was more economical in the longer run. In step with the World Bank, the Third Plan finalized in June 1965 provided for 10,000 tube wells over the next five years.

The World Bank Study Group, headed by Peter Lieftinck, Executive Director, and including several highly-regarded staff members (notably Willi Wapenhans, Robert Sadove, Heinz Vergin, and Christopher Willoughby), who were to occupy very senior positions at the Bank in the coming years, failed to appreciate the change in the ground realities, the far less comfortable public resource position, the serious constraints on the electrification of public tube wells on the one hand, and the substantial acceleration of private tube well development on the other This, despite the fact that I and others, including Mubashar Lall Khan, pointed out these problems with the consultant reports, when detailed discussions were held between the Study Group and the Government in November 1966.

Looking at their report recently, I was amused to see that the World Bank's 1968 report (Volume I, Table 7.4) actually recommended a public expenditure programme for West Pakistan water, power, and agriculture (excluding Indus Basin Works) for the Third Plan period (1965-70) of Rs. 8900 million (in 1964-65 prices), an increase in real terms of nearly threefold over the previous five years. Such was the confidence in public sector solutions and unrealism about resource availability. It is interesting to note that actual total development expenditure in current prices during 1965-70 was only Rs10,300 million (Planning Commission, May 1970, p.99), less in real terms than what was proposed just for the water, power, and agriculture sector by the World Bank.

I had begun to focus on the SCARP programme early, much before our discussion with the World Bank, because of the obvious resource constraint. But in the course of my work, I learnt other things that convinced me that the programme did not deserve high priority. For instance, I discovered that electrification of public tube wells was a major constraint on the programme. While 1000 wells were drilled in 1965-66, only about 140 were electrified and brought into operation (World Bank 1968 p.85). Equally important, I was told that, in some cases, the period from start to finish could take eight years, making public tube wells a very long gestation-period project. Meanwhile, private tube well development was flourishing, even though very few electric connections were given by WAPDA. The agriculturists turned to diesel-run tube wells, which had a high economic return, but somewhat lower financial return because of the taxation on petroleum products.

My reservations about the programme were confirmed when I had a conversation with A. G. N. Kazi in the spring of 1966, before he moved to WAPDA. Kazi had been invited to the opening ceremony of a part of the Khairpur SCARP. When he returned, I asked him about his impressions. He said that the tube wells were ready but there were as yet no watercourses to take the water to the farmers' lands. He also told me that there were no ground rules for operating the tube wells. As of then, a chowkidar (caretaker) had a hut near the tube wells and when landowners needed the water, they came to ask him to start the pump.

Armed with this knowledge, acquired entirely on the job, I felt justified in postponing indefinitely any new public tube well schemes that were presented to planning by WAPDA. This immediately affected projects for Shorkot-Kamalia, Panjnad-Abbasia, and Rohri-North, altogether over 3600 tube wells, covering a total area of 1.8 million acres. Surprisingly, such a major decision about a highly visible public programme did not evoke much response. Also, new public tube well projects stopped being proposed. It could be partly because Kazi, who had taken over the Chairmanship of WAPDA, was also not convinced of the economic rationale and told his Chief Engineers not to push for them.

At the time, I felt good about taking such a bold but correct decision, basically on my own initiative. But in retrospect, I do not feel so self-satisfied. Yes, we stopped new schemes from going forward. But we did not focus on the large SCARP projects (apart from SCARP 1) that had already been approved and would have added nearly 7000 public tube wells over time. If I had had more experience of government and more detailed knowledge about the programme, I would have pressed for major restructuring and downsizing. As it was, the total number of public tube wells completed exceeded 10,000. Their running costs were very high and their economic benefits turned out to be much below expectations. Starting with the late 1970s, it took the Government of Pakistan, with the help of the World Bank, two decades to wind down the programme.

It is noteworthy that groundwater availability at the farm gate increased from 4.2 million acre feet (MAF) in 1960-61 to 41.0 MAF in 1990-91, but 75 percent of this increase (or 32 maf) was provided by private tube wells. Despite huge public expense and subsidies, public tube wells added only 9 MAF to irrigation water availability. In contrast, private tube wells have never received technical support and advice from the public sector.

There is obviously another lesson here, because even with an addition of a large storage dam in the future, net additions to irrigation water supply will be limited–groundwater development has reached its limits. Optimal use of existing water resources remains thus one of Pakistan's biggest future economic challenges.

Public Sector Industrial Projects

The other major area where public sector commitments could be cut back safely was the large public sector industrial projects sponsored by the West Pakistan Industrial Development Corporation (WPIDC). Most of these projects were not of a strategic nature and could be easily developed by the private sector. The exception was the proposal for the Kalabagh Steel Mill based on German technology, which could use low-grade domestic iron ore. The project was large but not well-prepared and thus was turned back. Unfortunately, WPIDC never resubmitted the project. In retrospect, more analysis and preparatory work would have been justified. When the decision was taken later by the Federal Government to set up a steel mill in Karachi, based on Russian machinery and finance, I do not think any alternatives were examined. This was a pity, because Karachi Steel Mill has not been an economic proposition and its continued large-scale operations have been justified mainly because of the very large sunk costs.

When it became known that many WPIDC projects were not being approved, its powerful ChairmanMazari decided to visit me in my office–a rare and surprising honour. But instead of arguing for his projects, he said he wanted to meet the pundits who were holding him back. I was surprised that he thought it was something personal that could be sorted out through more friendly relations.

Project Choice, Economic Returns, and Opportunity Cost

There was not much economic or financial analysis of the projects that were presented to the PDWP in the mid-1960s. Admittedly, the economic rate of return cannot be calculated for a number of social and development projects, typically those in sectors such as education, health, and agriculture research. But project choice in many other sectors, such as infrastructure projects, can be greatly improved though proper economic and financial analysis.

Our task in planning was to try to fill the gaps in analysis, understand the least-cost alternatives, and place the projects in the context of sector and intra sector choices, keeping in mind the fundamental economic notion of opportunity cost. From the point of the department and agency, the projects were largely justified on felt need.

Getting to Know Ghulam Ishaque Khan

My first chance to use economics in a PWDP meeting came a few days after I arrived in Lahore. S. I. Haque, Chairman of PDWP, had scheduled a meeting to consider WAPDA projects at 7.30 a.m, the time office started. He was a little late and I found myself sitting across the table from Ghulam Ishaque Khan (GIK), Chairman of WAPDA. I had heard a great deal about GIK but had not had the privilege of meeting this already famous civil servant. So I introduced myself. While we were waiting for Mr. Haque, GIK casually remarked that there was really nothing to discuss about the power projects on the agenda. Power demand had been estimated and the proposed projects were needed to meet the anticipated demand. New though I was, I could not let that one go. I said quite respectfully that I was an economist and to me the demand was always related to the price. Were the WAPDA electricity tariffs adequate? Was there a positive financial rate of return? GIK was a little taken aback but assured me that tariffs covered costs–which they did in the good old days.

This exchange apart, I was impressed by GIK. He had a forceful personality. I had not expected a chairman of WAPDA to be present himself to defend his projects. I was to learn later that he drove to work in his old personal car. His ability, discipline, and integrity were to carry him far.

I had another encounter with GIK a few months later. One morning, I was told to go almost immediately to a meeting in the WAPDA House, because my boss, Haque, was not available to attend. There were no papers and no context was provided–not unusual. When I arrived at WAPDA House, I found a large meeting already in progress, with a number of senior World Bank and central government officials present, and the Chairman WAPDA presiding. It turned out to be a quarterly meeting of the Indus Basin Board, which supervised all projects and studies related to the Indus Basin Works, including Tarbela. I was there representing the Head of P&D, who was a member of this Board.

During the long meeting, there was a broad-ranging discussion of water development and agriculture. I got the distinct impression that GIK had convinced donors, especially the World Bank, that water was the single most important constraint on agriculture and, therefore, deserved the highest priority. This was the argument that ultimately persuaded donors to finance Tarbela Dam and GIK and Kirmani deserve full credit for this. Thus, in the meeting, there was not much discussion of other agricultural inputs and this bothered me and so I asked whether water was considered the only constraint to agricultural growth. GIK was clearly unhappy with the question, but the World Bank representatives assured me that due attention was being given to other farm inputs.

Large investments in water in the 1960s and 1970s were to sustain Pakistan's agriculture for decades. However, this preoccupation with investment in water resources had its costs. The sharp increase in fertilizer use was a necessary component of the spread of dwarf varieties of wheat and rice. But domestic fertilizer production was neglected: only one large fertilizer factory came into operation during 1965-70. Consequently, Pakistan became heavily dependent on fertilizer imports. But that was not GIK's fault. He was responsible only for water and power.

Having ensured large additions to power supply, GIK also worried about steady and sustained demand for power. He was the force behind the proposal to undertake the first railway electrification, on the Lahore-Khanewal line. The UK government had offered a tied credit, but at zero interest rate. Even allowing for the concessional loan, the project did not appear to promise a high return because of the tied nature of the aid. I mentioned this to Kazi and it was good of him to ask GIK for a meeting with us. I made my case but I do not think that my objections were answered adequately. After GIK left, Kazi agreed that the case for electrification had not been made convincingly but felt that maybe it was just the presentation. He decided that the project should go-ahead, saying that after all, the future Finance Secretary was supporting it. This was quintessential Kazi, deferring to the chain of command.

GIK was a classic civil servant. He focused chiefly on his mandate. I had the chance to observe this personally. In May 1966, he was transferred to Rawalpindi as central finance secretary designate, a couple of months before actually taking over. I happened to be in Rawalpindi in connection with meetings with the Planning Commission which also had its offices in Secretariat II. So I decided to call on GIK. I found him in a large but non-air-conditioned office, working away by himself, in sweltering heat, to prepare for the new job. He already had an aggressive stance towards his new job. I remember his telling me that his new ministry had neither economics nor finance but only accounting. His frame of mind had changed in weeks and he was to prove to be a very effective and strong Finance Secretary.

Limitations of Project Analysis

Though there is much to be said about the need for careful analysis of economic, financial, and environmental impact of individual projects, I learnt early that sector strategies and priorities must provide the broad framework of planning decisions on individual projects. My work at the World Bank as a Chief Economist in the coming years was to further strengthen this belief and policy bias.

There are several conceptual problems with project analysis. First, all the benefits and the costs of a project cannot be easily quantified: there are always intangibles on the plus as well as the minus side. Second, individual projects cannot tell us about the opportunities foregone, other alternative investments that might offer a better return. Third, the economic rate of return calculations must always make assumptions about the future prices of inputs and outputs and these assumptions can be, and indeed often are, wrong.

Large and often unexpected changes in prices of key commodities such as petroleum, food grains, and fertilizers illustrate the last point. When the multi-purpose Tarbela Dam was started in the late 1960s, its economic rate of return did not appear to be all that high. But the sharp rise in oil prices soon transformed the expected value of its power benefits beyond imagination. Had today's energy prices been anticipated, much more attention would have been given to hydro-electric power as well as to oil and gas development in Pakistan. World food and fertilizer prices have also gone through cycles over the decades and long-term projections have sometimes been quite wrong. In the light of these uncertainties, project analysis has to be accompanied by an overall economic vision, including such dimensions as employment creation, poverty reduction, energy independence, and food security.

Sector Planning

The one sector in which we were able to break new ground in sector planning was transport. In two other areas, notably water and agriculture, we were able, starting with extensive World Bank analysis mentioned earlier, to tailor sector programmes to new resource and institutional realities, focusing principally on the medium term. I believe one of the major achievements of P&D during this period was the formulation and overseeing of reasonably successful execution of the 1967 Food-Self Sufficiency Programme. Before turning to this serious part of our work, I would like to recall some of the many cases where simple probing questions during the PWDP meeting enabled us to decide on projects.

The autonomous Agricultural Development Corporation, headed by a retired Major-General, had responsibilities for fertilizer distribution, special area development, and small dams. Numerous small dam schemes were under execution and many new ones were being proposed. I thought small dams were a good idea but could not get any handle on their benefits in relation to costs. In frustration, I requested the Chief Engineer, head of the Small Dams Organization, who was presenting the proposal for a dozen new dams, whether he could at least prioritize them so that we could approve a couple. His answer, probably bred out of the political pressures he faced, both astounded and educated me. He simply said, that as far he was concerned, all had the same priority, because he did not own land under any of them. That ended our support of the programme. The elite capture of a good idea had totally escaped me.

On another occasion, the industry department presented a proposal for creating a school for textile design. The only problem was that they thought they could take matriculates with ten-years schooling and turn them into fashion designers with a few years' training, essentially under bureaucrats. Probably someone was retiring and thought a new job would be nice.

The agriculture department excitedly proposed cheese making in the public sector, using the argument that imported cheese prices were extremely high and they could produce the commodity at a much lower cost. But they had no idea of how much cheese, under strict import restrictions at that time, was actually sold at that high price. The thought that, if large quantities were offered for sale, the prices would have to come down had not occurred to them.

Food Self-sufficiency Programme

In 1966, Pakistan faced a very difficult food grains position. The wheat crop was poor (just 4.3 million tons), and sizeable wheat imports from the US on concessionary terms, under the US Law PL 480, that had become an important feature of external assistance and a source of budgetary support, became uncertain.

Wheat imports into Pakistan, a surplus wheat region under the British, had started in the mid-950s as the terms of trade turned against agriculture and wheat prices were kept low through compulsory procurement in the interests of urban areas. By 1960, wheat imports were already above a million tons annually. Meanwhile, the US commodity surpluses, accumulated under its agricultural support programmes, had grown even larger. As a part of a broad programme of external assistance to Pakistan, President Kennedy signed in October 1961 a multi-year PL 480 agreement, assuring wheat and edible oil supplies till the middle of 1965. Even though, with greater policy support, agricultural growth was strong during 1960-65, dependence on wheat imports remained high during this period.

However, US-Pakistan relations deteriorated in 1965 and became even more strained after the Indo-Pakistan War. An aggressive President Johnson used supplies under PL 480 as leverage and tried to keep Pakistan on a short leash. Following one agreement for four years' supply, four agreements were needed in 1966 to ensure a single year's import requirement. This caused deep concern in Ayub's administration. Though US officials tried to link the need for short-term agreements to a changed stock position in the US, Ayub fully understood that political realities had changed. He called a meeting of the National Economic Council in late 1966 and directed immediate preparation of a programme that would achieve food self-sufficiency over the next three years. It was the only time I heard Ayub Khan resorting to strong language: using the vernacular, he characterized the US administration as *harami* (bastards).

Though the directive was to increase food grains production in both East and West Pakistan, the programme focus was on wheat production in West Pakistan. Fortunately for us, the widespread availability of dwarf varieties of wheat and rice was just around the corner. Norman Borlaug had already arranged to send 250 tons of seed from Mexico to Pakistan in the middle of 1965. There were shipping delays, but finally, there was a problem with the cheque for US$100,000 issued by Pakistan. A Mexican bank refused payment, because the cheque contained three misspelled words. Norman Borlaug sent an urgent telegram to Malik Khuda Bakhsh Bucha, the agriculture minister in Lahore. This was the time when war with India had started. According to Borlaug, Bucha replied, 'I am sorry to hear that you are having trouble with my cheque, but I have got troubles too. Bombs are falling on my front lawn. Be patient, the money is in the bank.' (Borlaug Papers accessed on the Internet) Anyhow, the first plantings of the 'miracle' seeds had been done in the 1966 *rabi* crop.

As I sat down in early 1967 to prepare a draft of the programme for accelerated food grains production over the next three years, the contours of policy were already clear and indeed had been emerging for some time: acquiring of sufficient quantities and rapid spread of dwarf seed varieties, ensuring adequate availability and distribution of fertilizers, ensuring funds for fertilizer subsidy that was already in place, supplemental efforts to expand water availability in the short-run, and, last but not least, an increase in the wheat support price.

It took only a few days to write up the programme, work out reasonable quantitative targets, and identify timely policy measures and a timeline in respect of procurement of seeds and fertilizers, privatization of fertilizer trade, and stimulation of private tube well development. My boss, B. A. Kureshi, was happy with the draft and, on behalf of the Governor, circulated it to the concerned provincial ministers, secretaries, and heads of agencies and then scheduled a meeting.

Meanwhile, something rather interesting happened. Since the central government was obviously involved in some key aspects of the programme, such as provision of foreign exchange for seed and fertilizer imports, and to an extent in fixing the support price of wheat, Kureshi sent the draft for informal review and comments to his friend and civil service batch mate M. H. Sufi, the Federal Secretary for Food and Agriculture. As we learnt later, Sufi read it, liked it, and, without consulting us, decided to circulate it at the next cabinet meeting, along with his Ministry's Summary. So, by the time we heard about it, the central cabinet had given at least tacit approval to our recommendations, even before senior persons in the province had had a chance to discuss it formally. This was of a course a help to the P&D. The interesting points to note, however, are the close co-operation between the centre and province, the speed of decision making, and the essential professionalism overriding any minor political or personal considerations.

In the subsequent provincial minister level review, the only objection that was raised was by Kazi, Chairman WAPDA, saying that water sector allocations had not been given priority and, after all, water was a critical input. To this our response was that public sector water projects, such as public tube wells, had a long gestation period and it was not reasonable to expect that water availability from this source could be significantly augmented over the relative short planning horizon of three years. Instead, the power distribution allocations for WAPDA were being increased, so that WAPDA could orient its power distribution programme towards agricultural consumers: a target of 5000 electric connections per annum for private tube wells had been set. The planning viewpoint was accepted and the accelerated pace of electric connections was a major factor in the Third Plan target of 40,000 private tube wells being exceeded.

Later, a final meeting to review the programme was held with Governor Muhammad Musa, a former head of the army, who had taken over from Kalabagh in September1966. M. M. Ahmed, Deputy Chairman, also came especially from Islamabad. As noted earlier, at that meeting Bucha did question my judgment about not having included some important agriculture schemes and also said, 'Parvez has never stepped on an agricultural field and yet is making all these decisions about agriculture.' Clearly, he wanted to use the food programme to further expand the share of agriculture sector allocations. Governor Musa, in right military fashion, ordered that Bucha's suggested schemes be included. I will never forget the speed and the finesse with which M. M. Ahmed came to my rescue. He told the Governor that some schemes may not have been included because they were either not ready or not yet approved. He suggested that we make a block provision of Rs200 million for them and then adjust the expanded total expenditure by a similar amount, showing a shortfall in implementation. This was readily accepted. What sleight of hand! No new schemes ever showed up and I remain grateful to MM up to this day for saving me from a reprimand!

Battle for Privatization of Fertilizer Distribution

The privatization of fertilizer distribution was a critical element in the success of the green revolution in Pakistan. I had become aware of the problems with fertilizer distribution fairly early on in my days in planning. There was widespread dissatisfaction with the virtual monopoly held by the Agricultural Development Corporation (ADC). When I mentioned this to the Chairman ADC, he assured me that they had an outlet, storage, and an employee in every village. These were early days and I was still on a learning curve. Slowly, I became aware of the counter-argument. 'Yes, ADC has an outlet in every village, but their staff has no interest in selling fertilizer. They are paid employees, who often lock up the shop and roam about and are hard to get hold of.' This seemed convincing, but initially, little interest was shown by the private sector in fertilizer trade.

Some time later, the large Esso (now Engro) urea fertilizer factory came into production and they started their lobbying efforts to be allowed to market at least their own fertilizer. But they demanded a very high margin of Rs2-3 per bag, which was then sold at Rs17.50; it was understood that the price would remain controlled. The margin allowed to ADC was only Rs0.5 per bag. So there was an impasse. But in late-1966, Pakistan National Oil, launched by a well-known entrepreneur, Abdul Jalil, became interested in fertilizer distribution, proposing a more reasonable margin.

So, by the time of the formulating of the food-self-sufficiency programme, there was an increasing confidence that private trade could be involved in fertilizers and the programme placed necessary emphasis on it. Major General (retd.) Haq Nawaz, head of ADC, got wind of this and tried what I thought was a high-handed tactic. Unknown to us, he approached Uquaili, the then federal finance minister, and asked him to intervene on behalf of the public sector.

Some time in March 1967, I was summoned on a Sunday afternoon to the government resthouse where Uquaili was staying during one of his visits to Lahore. I arrived there and found that Kureshi had not been invited, but Haq Nawaz was there. I had worked closely with Uquaili at the State Bank, but I did not find him to be too friendly in that meeting.

Anyhow, there was a detailed discussion about fertilizer distribution and Uquaili, despite my arguments, concluded that there was no particular need for the private sector, but if they were willing to come in, they could be allowed a margin of Rs 0.75 per bag; a non-starter.

It may have been the spirit of the times or possibly the independence of youth, but I was not particularly troubled by the meeting. I did not think that the matter was under the purview of the central finance minister and when I reported this to Kureshi next morning, he endorsed my view.

The major problem of an appropriate margin for the private-sector distribution remained. PNO seemed agreeable to Rs1.40–1.50 per bag, which would mean an increase in the final price of 7-8 per cent, but also much better service and availability. Esso remained adamant at Rs2 -2.5 per bag, citing the necessary extension costs.

Time was, however, of the essence. As the discussions with the private sector dragged on, there was the worry that the expanded distribution network would not be in place for the next wheat-sowing season in November-December and the large imports of urea, already arranged, could remain unutilized. Fortunately, in a meeting of the fertilizer prices and subsidy committee that I chaired in April 1967 (in Kureshi's absence, as he had gone to attend the Pakistan Aid Consortium meeting in Paris), it was noted that the development budget allocation for fertilizer subsidy for 1966-67 would remain under-utilized due to lower international prices of urea. This gave us a handle, and with enthusiastic support from my friend, Akhlaque Hussain of Finance, we decided to involve at least PNO in the fertilizer distribution on more or less their terms.

This was perhaps one of the most sensitive, but also a very satisfying decision in which I was involved during my time in Lahore. It was undoubtedly a somewhat risky decision. We did not want to exchange ADC's monopoly on distribution with that of PNO. Luckily, Esso's bluff was called and once they were told that government agreement with PNO had been reached, they agreed to come in on the same terms.

Overall Success

With a focused programme of public policy and support, the green revolution spread quickly in West Pakistan. (Hasan, 1976) During the period 1965-70, wheat and rice output increased by nearly 75 per cent; fertilizer use increased nearly fivefold; the number of private tube wells doubled; and the new seeds covered nearly 75 per cent of the irrigated areas under wheat and rice.

The rise in wheat production from 4.3 million tons in 1967 to 6.5 million tons in 1968, the first year of the green revolution, was truly dramatic. In retrospect, the wheat support price of Rs 17 was perhaps too generous; it ensured returns of 4:1 on fertilizer applications. But the country became nearly self-sufficient in wheat, almost unexpectedly, and confidence became boundless.

The hubris that self-sufficiency had arrived was reflected in a speech I gave at a seminar in Karachi in late March 1968 titled 'Looking Beyond Self-Sufficiency: Long-term Problems of Agricultural Growth'. (Hasan, 1968) Sadly, wheat self-sufficiency remains in some doubt forty years after the green revolution; edible oil imports continue to grow rapidly; and imports of pulses have become sizeable. Meanwhile, there has been little progress in diversification towards higher value crops and the potential of agricultural exports remains largely unexploited.

I also recall that, with the bumper crop, there was more than a little nervousness about effective handling of additional supplies. As the marketed surplus of wheat rose from 400,000 tons to 1.2 million tons (interestingly, less than one-third of the increase in output) and government procurement jumped more than threefold to 800,000 tons, the storage and credit facilities became a constraint. Still, with quick policy response, provincial credit limits were increased and a way was found to construct additional storage, partly under the rural works programme.

Altogether, it was a heady time. Norman Borlaug, who was to receive the Nobel Peace Prize in 1970, came calling at least twice a year to exchange views and discuss problems. At one time, in 1969, he wanted our help to counter rumours that the Mexi-Pak seed had degenerated. He said that the problem was caused by mixing of seeds; in terms of plant pathology, the seeds just could not deteriorate in a couple of years.

Transport Sector Planning

After water, power, and agriculture, the transport sector was the most important sector in the public development budget. The Pakistan railways were facing a slow decline and financial problems. Road transport was flourishing, though ostensibly there was strict licensing of private transporters. There were no inter-modal studies and no sector planning.

Starting in early 1967, with the help of a young transport economist, Robert Burns, made available to us under the Harvard advisory service, we started giving more systematic attention to transport planning issues. In this, I got full support not only from my boss B. A. Kureshi, but even more importantly, from his elder brother N. A. Kureshi, who happened to be the Chairman of the Pakistan Railways Board. NA, a genial man, but a sharp and highly experienced railway engineer by background, appreciated our efforts to introduce economics into transport planning, even though railway allocations were being greatly squeezed.

A Transport Planning Cell (TPC) was set up under Burns, financial assistance obtained from US AID, with the help of Ernie Stern, Deputy Director of the US AID Mission, temporarily stationed in Lahore, and actual release of funds obtained with some difficulty from the Islamabad Ministry of Finance, under strict expenditure control of GIK and his powerful joint secretary budget, Nasim Ahmed Khan.

The TPC undertook the very first survey of road transport in West Pakistan which yielded some surprising results. But the process itself was interesting. In order to determine the sample size etc., the list of transporters was obtained from the Board of Revenue that controlled the permits; interviewees were selected and letters sent out to them. For weeks, there were practically no responses, as either the addresses were bogus or the owners of buses and trucks did not want to be bothered. So a direct approach was adopted. Interviewing teams, armed with the questionnaires, were sent to major bus and truck stops all over the province and they interviewed drivers on the spot and quite adequate sample sizes were collected.

A few weeks later, when the survey results were being tabulated sometime in the fall of 1968, I was at a party given by Wil Bussink, the head of the Harvard Advisory Group Team. There, an excited Bob Burns told me that the survey part relating to operating costs showed that the payments to police were the single largest element of recurrent expenditures, outweighing fuel costs. I was surprised and concerned. I had not been aware that payments to the police were on the questionnaire. I did not feel comfortable that a survey undertaken under the broad direction of US-trained economists and funded by US AID should be seen as maligning the police by foreign forces, though the corruption in the police was very well known. I asked the specific numbers relating to payments to police to be taken out of the final results. I am not sure that it was the right decision. I should have been less risk-averse. But if I recall correctly, it was not a personal worry, rather a concern that an unnecessary controversy would detract from the credibility of the important surveys.

The transport survey yielded two major conclusions. First, the medium-haul cargo and medium-distance passenger railway traffic was fast losing competitiveness to road traffic. The other conclusion was that, in economic terms, the most efficient truck and bus operations were those of the single bus and truck operators. In mid-1969, the latter finding helped the government under Governor and Deputy Martial Law Administrator, Air Marshal Nur Khan, to substantially liberalize road transport licensing, with the help of Shahid Javed Burki, who for a while, acted as one of his aides in the Government House.

The structural problems of the railways were not addressed in time, partly because of political changes and the breakup of the one unit in mid-1970. But also, tough political choices were involved in scaling down and restructuring railways: long-term difficult decisions that all regimes have tended to postpone.

I recall that, as a result of our work, many totally uneconomic railway lines/train services were identified. The Railway Board agreed with two of the most obvious ones as candidates for elimination. But our recommendations were turned down by the Economic Committee of the Cabinet.

It is interesting to note that over the forty years 1967–2007, railways goods traffic (ton kilometers actually declined by more than 10 per cent though its passenger traffic (passenger miles) has grown moderately by an average of a little more than 2 per cent per annum. But clearly the share of road transport has increased enormously especially in cargo traffic. Thes explosive growth in bus and truck operations has not been matched by the necessary investment in road infrastructure. As a result, according to a World Bank estimate, the poor performance of the transport sector causes a loss of 4-6 per cent of GDP every year (World Bank, 2008, Pakistan Transport Sector).

Relations with and the Role of the World Bank

The World Bank presence in Pakistan was especially formidable in the 1960s. Apart from its extended economic and sector analyses, its sizeable project financing, its leadership role in the large Indus Basin Works, and its Chairmanship of the Pakistan Aid Consortium were the source of major Bank influence. The Asian Development Bank, which now has an equally large programme in Pakistan, did not exist then.

The economic work of the World Bank was generally of a high quality, in part because its economic missions were often led by the top economist in the South Asia Department; such was the attraction of working on Pakistan in those days. Indeed, the World Bank held Pakistan as an example to Indian officials. The quality of sector work was more mixed, because, as noted above, its sector analysis was not sufficiently integrated with the changing macroeconomic situation.

But I felt then, and feel even more forcefully now, after having served a quarter century at the World Bank, that the World Bank has sadly neglected domestic capacity-building in developing countries and its large technical assistance studies, tagged on to its lending, have largely benefited foreign consultants and rarely proved effective. From my West Pakistan days, I will cite only a few examples.

The large programme of consultant studies related to the long-term programme of water, power, and irrigation, mentioned earlier, cost US$7 million or nearly $50 million in today's prices. But no effort was made to institutionalize the effort. I wonder if, nearly half a century later, copies of the original reports are available, so that they could serve as a frame of reference. Of course, the Pakistani government must share the blame for this.

A different case was the attempt by the World Bank to impose an unnecessary and expensive transport study on Pakistan, soon after we had organized our transport planning work. In early 1968, the World Bank provided a large loan to the Pakistan Western Railways. During negotiations in Washington D.C., the Bank team 'persuaded' Pakistan's representatives to include a transport study for West Pakistan as a part of the project. Nobody bothered to inform us in West Pakistan planning about this covenant.

When I learnt about this during a visit to Washington to attend a transport seminar at the invitation of the World Bank, I demurred. Tense discussions followed. I told the Bank officials that the Central Government had no authority to agree to such a study, without consulting the provincial government. In any case, the study was unnecessary because of our ongoing work. At one point, there was even a veiled threat to suspend disbursements. But I held my ground. In the end, the head of the transport division, an Englishman, said that the covenant would be deemed to have been met if we agreed to hire one railway consultant, who also happened to be from England. To settle the matter, I agreed. So the Bank bureaucracy could also be petty and neo-colonial.

What really surprised me was that the large number of foreign consultants financed through World Bank projects were, in many cases, regarded as World Bank consultants and, thus, administrative secretaries and heads of departments deferred to them unduly, without realizing that these consultants were government-paid advisers.

The lesson is obvious: without domestic capacity and strong leadership within the government, a lot of technical assistance, sometimes even paid for by the borrowing government, can be wasted or even prove counter-productive.

Missing the Mark

All was not well with planning in Pakistan during the 1960s. Poverty reduction and income distribution concerns did not receive much attention and, perhaps even more consequential for the long run, human development was seriously neglected. How did this come about?

At the level of development philosophy, there was strong faith in trickle down effects of economic growth. This was not quite as absurd as it may seem. Very high growth rates of per capita income of say 6-8 per cent per annum, if sustained, can double per capita incomes in a decade and improve average living standards five-fold in a generation. This fundamentally transforms the employment situation, leading to rise in real wages and a sharp reduction in the level of poverty. This is what happened in much of East Asia, especially China. Even though income disparities have worsened in China and elsewhere in East Asia, hundreds of millions have been lifted out of poverty.

In Pakistan, growth rates of per capita have never reached even 4 per cent per annum for a full decade. Political instability, high population growth, low levels of education and skills, low rate of savings, lack of outward-oriented strategies have all contributed to our seriously lagging behind the Asian tigers. (The results would have been even worse without the very large inflows of external assistance and, more recently, foreign private investment.) At the same time, the distribution of growth benefits has been skewed, because of elite power structures, very uneven distribution of agricultural land, and the pathetic state of public services, which hurts the poor the most.

The planners as well as the intelligentsia have not been oblivious to the problems of wider sharing of growth benefits. As early as 1965, when the Third Plan was being finalized, an attempt was made by younger economists in the Planning Commission, notably Mahbubul Haq, Sartaj Aziz, and Moinuddin Baqai, who drafted a chapter on distribution issues, including the need for further land reform. This chapter had to be dropped from the Plan due to the objections from the West Pakistan Government, led by Kalabagh. President Ayub was also probably not keen on reopening the issue of land reforms, because his earlier reform efforts had met with only limited success.

A pro-poor strategy might have prevented Ayub's sudden downfall and extreme unpopularity. However, as the Bhutto era in the 1970s was to show, mere adoption of a strategy does not guarantee its success.

'Food, clothing, and shelter' for the poor was the key slogan of the founders of the PPP and it was this platform which brought Bhutto to power in 1971. Large parts of Bhutto's economic and social programme–land reform, labour policy, educational reform, sharp expansion in public development spending, credit policies for small farmers and businessmen–were aimed at improving the lot of the poor. While Bhutto certainly succeeded in imparting a greater sense of dignity and self-respect to the common man by challenging the authority of the powerful constituencies that had developed under Ayub, he was less successful in actually improving the economic position of the poor and increasing their access to social services (Hasan 1998).

Neglect of Basic Education

The essential failure of land reforms under Ayub and later, under Bhutto, demonstrated that the powerful elite structures are difficult to dismantle, if the political control continues to rest with the same elites. But in other areas, especially access to education and quality of public education, much more could have been done, even with the given political constraints, if the design of policies had been sound and the declared goals had been taken seriously. The failure to provide basic education over decades has been catastrophic and the country is now paying a heavy price for its neglect of education and skill development, not only in terms of widespread poverty, but also loss of international competitiveness.

Interestingly, the momentum of primary education expansion was quite strong in the 1950s and the first half of the 1960s. Gross enrolments expanded by about 10 per cent per annum and, even though the population was growing rapidly, the rate of enrolment improved from a low of 20 per cent in 1950 to 36 per cent in1965. But the gross enrolment growth slowed down to 5 per cent per annum during 1965-70, and improved only modestly to 40 per cent1970.

This was a far cry from the ambitious targets of primary school enrolment of 56 per cent for 1965 and 70 per cent set in the Second and Third Plans respectively. One problem was that both the population and population growth had been seriously underestimated. Thus, the magnitude of the challenge was not known. Still, the education expenditure was increasing as percentage of GDP during 1960-65. However, in the second half of the 1960s, the rise in defence spending directly squeezed education expenditures. Furthermore, the cut in education spending compared to planned levels was applied disproportionately to primary education. Female education suffered the most, because of the low priority given to it by the leadership and because of the social attitudes that did not favour educating women. Sadly, the Fourth Plan, finalized in 1970, failed to mention female enrolment at the primary level even as an issue.

Still, in hindsight, those of us in the planning field could and should have done more to protect the longer term investment in human capital. Unfortunately, the record of the regimes that followed in the 1970s and 1980s was even more dismal.

Meetings of the National Economic Council

Professional achievements and shortcomings aside, my job afforded me an opportunity to attend all the meetings of the National Economic Council (NEC) and several meetings of its Executive Committee (ECNEC) between mid-1966 and mid-1970. NEC, the highest economic policy-making body, was headed by the President and met at least twice a year. West Pakistan was represented by its Governor, assisted by Chairman P&D, and the Chief Economist. ECNEC, chaired by the Finance Minister and the heads of P&D or their representatives from both East and West Wing attended. These meetings were interesting, not only for the issues that were discussed, but also because they revealed glimpses of the personalities and style of the top leadership.

Even though Ayub had been politically weakened by the 1965 war and the Tashkent agreement with India in early 1966, he remained strongly focused on economic development, showed strong leadership in furthering the green revolution, and continued to empower the planners. He was both a careful listener and a quick decision-maker. This was particularly true before his serious heart attack in early 1968. But even before his health deteriorated, Ayub's frustration with adverse public opinion and the inadequate impact of some of his policies was growing. I recall two instances in this regard.

FOREIGN AID DEPENDENCE

Ayub had become very sensitive to criticism by Chaudhry Mohammad Ali, a former finance and prime minister, that the government was relying excessively on foreign assistance, including borrowing. Mohammed Ali was certainly right, as far as West Pakistan was concerned. Also, the Revised Second Plan and the Perspective Plan (1965-85) were at fault, because they totally ignored the issue of future debt service, by making no distinction between gross and net external assistance. But the short-term maximizing-aid-assisted-growth model had been successfully sold to Ayub by the Harvard Advisers and very effectively marketed by the Planning Commission management.

The criticism of excessive aid dependence began to bite, especially after the political shift in the attitude of the US after 1965. So Ayub told Finance Minister Uquaili at an NEC meeting in late-1966 to strongly attack and counter Mohammad Ali on this issue, especially because the latter had credibility amongst the public on financial matters. Uquaili had to agree to this, though he held Ali in high regard and had served under him in PICIC. Eventually, Uquaili could come up with only a rhetorical statement in the press, asking whether Chaudhry Mohammed Ali had never taken a house building loan.

REGIONAL INCOME DISPARITY BETWEEN EAST AND WEST PAKISTAN

Another occasion on which I found Ayub quite agitated was at an NEC meeting held at Dhaka, probably in late-1967, where the issue of growing income disparities between East and West Pakistan was discussed.

In all sincerity, and at the urging of the Bengali economists, Ayub had agreed to add an important clause to the 1962 Constitution, which provided that the total resources of Pakistan would be used to reduce regional disparities between East and West Pakistan in the shortest time possible. He really had been convinced that, with increasing public sector allocations for development in East Pakistan, the substantial regional disparities could be reduced.

Sadly, this was a totally unrealistic goal. The much higher level of investment in West Pakistan at the end of the 1950s (11.5 per cent of regional product) than in East Pakistan (6 per cent of regional product) should have alerted the policy-makers about the difficulties of simply matching East Pakistan's growth with West Pakistan's, much less exceeding it. But there was great confidence at the time in the effectiveness of public sector investments.

Planning and development efforts were geared to a sharp rise in the public investment rate in East Pakistan. These efforts succeeded. Between 1960-61 and 1967-68, public sector development spending in East Pakistan expanded by nearly 150 per cent in real terms, whereas in West Pakistan, the corresponding increase was less than 40 per cent. By the mid-1960s, the development expenditure in East Pakistan exceeded that of West Pakistan (excluding the Indus Basin Replacement Works) (Planning Commission, 1970)

Though the rate of growth accelerated in East Pakistan in the 1960s, it was still substantially below that of West Pakistan. Consequently, the regional disparity,[13] defined as the percentage by which West Pakistan per capita GDP exceeded East Pakistan per capita GDP, grew from 32 per cent in 1959-60 to 54 per cent in 1966-67 and was to further increase to 62 per cent by 1969-70. This was a source of acute political embarrassment for Ayub, especially because, under the Constitution, an annual report on the progress on disparity reduction had to be submitted to the parliament. It was the draft of the 1966-67 report, which showed a further increase in disparity in absolute rupee terms, that Ayub found very upsetting.

The breakthrough in West Pakistan's agriculture, starting in the early 1960s and in contrast, the secular weakness of raw jute, East Pakistan's principal export, were a part of the explanation of the

[13]. This formulation was preferred by East Pakistan Economists' panel on Fourth Plan. See Report of East Pakistan panel of Economists, Planning Commission 1970. West Pakistan Panel used a different formulation showing disparity in terms of how much East Pakistan per capita income fell short of West Pakistan's. The latter obviously showed lower relative numbers, 24 per cent for 1959-60, 31.2 in 1964-65 and 38 per cent in 1969-70.

difference in economic performance. But the inherent intractability of the regional disparity problem, hinging on differences inherited at the time of the partition, the much greater dynamism of the (migrant) private sector in West Pakistan, and the less favourable agricultural factor endowment in East Pakistan, was not well appreciated at the time. It is doubtful that the growth rates between East and West Pakistan would have begun to converge quickly, even if Bangladesh had not become independent in late-1971.

However, nobody at the time was willing to concede that the goal of elimination of regional income disparity between East and West Pakistan was essentially unachievable, especially in a timeframe of fifteen to twenty years.

The NEC had rightly focused on the wide disparity in the rate of private investment as a fundamental cause of lower overall growth rate in East Pakistan. By the mid-1960s, the rate of public investment in East Pakistan had risen to about 8 per cent of regional product, higher than the rate of public investment in West Pakistan. But because the private investment level in East Pakistan was only a third of West Pakistan's, the overall investment rate remained much higher in West Pakistan, even in the second half of the 1960s. Purely indigenous Bengali private sector was slow to develop and there was resentment towards non-Bengali entrepreneurs. The Government subsequently set up a committee of the parliament to look into the causes of the lagging private sector in East Pakistan and to make recommendations for remedying the situation (see discussion below).

The aforementioned NEC meeting was also memorable for the rather contentious debate between Mahbubul Haq, the then Chief Economist of the Planning Commission, and Altaf Gauhar, Information Secretary, and a principal adviser to Ayub, on how to handle the press release. As some of us sat around on the terrace immediately after the meeting, Mahbub vigorously argued for not fudging the fact of the increase in disparity, while Altaf Gauhar said that it was enough to say that the rate of growth of disparity had declined. Mahbub stuck to his ground and both formulations were included in the press release.

Chapter 12

The Crumbling of Ayub's Regime and General Yahiya's Takeover

The winter of 1968–69 started with wide publicity of ten years' of Ayub's rule, 'The Decade of Development 1958–68'. However, by winter's end, Ayub, under great public pressure and unable to develop a political consensus around a plan for transition to civilian rule, was forced to hand over power to the head of the Army, General Yahya Khan, who imposed martial law on 25 March 1969.

Even though there had been rumblings of discontent, Ayub's fall was quite sudden and unexpected.

We planners, somewhat oblivious to changing political realities, were busy working on the Fourth Plan (1970-75), which was to start in mid-1970. West Pakistan realized that the mounting pressure from East Pakistan for larger transfer of resources would mean a continued constrained public sector development programme. But careful expenditure control had consolidated spending and created room for new initiatives. Also, the success of the food self-sufficiency programme and our transport planning efforts had increased our confidence. Personally, my position was well-established and I felt productive. I had finally obtained the clearance of the public service commission as Chief Economist and had also been appointed as Member of the Planning and Development Board while maintaining the status of Secretary. My boss, B. A. Kureshi, was spending more time in supervising the final stages of extensive renovation of Lahore Museum, a labour of love for him, delegating quite a bit of responsibility to me.

The recognition of my work also came in subtle ways. Towards the end of October 1968, there was a meeting of the NEC, which discussed the Outline of the Fourth Plan. As could be expected, the East Pakistan government was clamouring for much larger resources and was very critical of the Planning Commission. Through Governor General Musa, we presented a more balanced and conciliatory approach, highlighting the overall constraints on the country, especially West Pakistan. A few days later on 4 November, I was at the ground-breaking ceremony of Tarbela Dam, at which President Ayub presided: indeed, it was the last public function where I saw him at close quarters. The number of guests did not much exceed a hundred and I was among the couple of dozen or so that had been invited to travel from Lahore by a special train. The ceremony was relaxed and enjoyable. Peter Cargill was there, representing the World Bank, and of course Kazi, GIK, and M. M. Ahmed, Kirmani, and many others. I did not know MM too well at that time. So I was a little surprised when he walked over to me at tea and said he wanted to thank me. I enquired quite genuinely what he was thanking me for. He said deadpan: 'For your governor's speech'. MM was a very gracious man, but he was also a very sharp civil servant who kept track of who was doing what.

A week later, Robert McNamara, President of the World Bank, made his first visit to Pakistan and was in Lahore for the day on 12 November, visiting SCARP 1 and the Lyallpur Agriculture University. In the evening, there was a meeting at the Governor House, followed by dinner, to which spouses were also invited. On our side, only four persons joined Governor Musa in the meeting: Kureshi; Asif Rahim, Secretary to the Governor; Secretary, Agriculture; and myself.

It was exciting to be face to face with the famous Mr McNamara, who had, as US Secretary of Defence, presided, not very successfully, over the Vietnam War for seven years and then was gently moved to the World Bank by President Johnson in April 1968. But in a short period of six months as President, he had created a stir at the World Bank. His commitment to helping developing countries appeared strong and already, in his first speech at the Annual Meetings of the IMF and the World Bank, he had outlined a bold five-year lending programme, proposing a doubling of Bank lending.

He seemed impressed with what he had seen in Pakistan and his questions focused on agriculture and education, especially female education. All went well till he enquired about the growing student protests, which had been triggered by a small incident a few days earlier. Governor Musa casually dismissed the question, saying that students were being misled by some political leaders. But he did not stop there and told McNamara that they had arrested Z. A. Bhutto that very day and, with a smirk, concluded that, in jail, Bhutto must be regretting his actions. I thought it was a rather embarrassing note on which to end the meeting. As we came out to go to dinner in the next building, West Pakistan Home Secretary, Masood Nabi Noor, was waiting to brief the Governor on the latest on Bhutto.

Protests in East Pakistan

Even more serious trouble had been brewing in East Pakistan, where the popular Awami League leader, Sheikh Mujibur Rahman, had been arrested, along with many others, in June 1968 under what is called the Agartala Conspiracy Case. There was great disillusionment in East Pakistan after the 1965 war, because the Bengalis felt they had been left defenceless. Mujib formulated his Six-Point Programme in 1966, asking for virtual autonomy for East Pakistan in all matters except defence and foreign affairs. Since Mujib was thinking of virtual independence, the Agartala trial was meant to clip his wings, though the result was the exact opposite. The trial collapsed in early 1969, when a crowd chased Supreme Court Justice S. A. Rehman (a Punjabi), heading the conspiracy tribunal, out of his residential quarters in Dhaka and forced him to fly back to West Pakistan.

National Assembly Committee on East Pakistan Private Sector

I happened to be in Dhaka, along with GIK, on that fateful day when Justice Rehman had to flee for his safety. That was also the day when our endeavour at finalizing the National Assembly Report on East Pakistan's Private Sector came to a sad end.

As mentioned earlier, a National Assembly Committee was appointed some time in late-1967, as concern mounted about the growing income disparity between East and West Pakistan. This committee was to focus on the causes of lagging private sector in East Pakistan and to make recommendations to stimulate private investment. Prominent businessmen, who were members of the Assembly, were on the committee, and Rafique Saigol, a noted West

Pakistan industrialist, was the Chairman. The Saigols owned the new and progressive United Bank, which was managed by Agha Hasan Abidi, an up and coming banker. Abidi was the first among commercial bankers to hire a high-level economist, Dr Akhlaqur Rahman, as an Economic Adviser. Dr Rahman was a very well-trained economist, with a Ph.D. from MIT, but had a strong Bengali nationalist viewpoint.

Reportedly, Rafique Saigol offered, and the committee agreed, to have a draft report prepared by the United Bank. The task fell to Akhlaqur Rahman. I never saw that draft but it was said that it was quite incendiary, because it blamed East Pakistan's economic problems largely on the exploitation by West Pakistan and the large resource transfers from East to West Pakistan. (This was largely in line with his findings in his Ph.D. dissertation.) Apparently, Rafique Saigol did not review the draft carefully and circulated it, without any changes, to the committee members. This caused a furor, not only among some members of the assembly, but more importantly, in Government circles in Islamabad, already facing a worsening political situation in East Pakistan. Ayub was furious; the Committee was reconstituted, with official representatives of the Central and West Pakistan governments presumably added to it to provide different perspectives to the legislators. It was thus that Ghulqam Ishaque Khan and I, as government representatives of the Central and West Pakistan governments respectively were thrown together in a hopeless task, which was to turn into a drama, where GIK had the principal lead, and I was in a modest supporting role.

The first meetings of the reconstituted committee took place in Karachi in the summer of 1968. GIK was on the warpath, wanting to demolish the notion of resource transfers from East Pakistan. I was more circumspect in my comments, having struggled with the complex issue for a number of years. In private, GIK asked me to toughen up and go on the attack, and, against my better judgment, I did. After a heated general debate, the Committee rightly decided to first focus on the recommendations, leaving the more controversial write-up for later. Surprisingly, after a couple of days of meetings, an agreement on a long list of recommendations was reached by consensus. I still recall one recommendation: that 1 per cent equity contribution (Rs100,000 out of a total cost of Rs.1 crore) would be deemed enough, if a jute mill was being set up by a Bengali. This showed how far the committee was willing to go to help the indigenous entrepreneurs of East Pakistan.

I was delighted that the key part of recommendations had been agreed to and suggested to GIK that we should avoid unnecessary confrontation on the main text. GIK strongly disagreed and said that the record had to be set straight. The round of meetings thus continued into the winter, as drafting proceeded slowly. Finally, we were near the end and a final meeting was scheduled for January 1969 in Dhaka.

GIK asked me to join him at Dhaka, three days before the meeting, so that we could iron out any unacceptable language in the final draft. We worked long hours for two days at the rest house where GIK was staying. I have never quite seen such devotion to duty, such untiring energy, bordering on ferocity, and such attention to detail. But I am afraid GIK, at least on this matter, could not see the forest for the trees.

The next day, we went to the scheduled meeting. We waited for quite a while for the representative of the East Pakistan government on the Committee, the head of planning and development. Finally, his deputy, the Chief Economist of the East Pakistan government arrived and informed the committee that the instructions of his government were to totally disassociate itself from the entire report. After saying, this he folded his papers and left the meeting. This was a huge rebuke to the Committee, the National Assembly, and the Federal Government.

GIK was dumbfounded at this defiance of central authority. I am afraid he had not given enough attention to the political situation and the gathering storm in East Pakistan. I felt very sorry for this truly eminent Pakistani, who had been humbled due to one of his few instances of poor judgment. I tried to console him as best as I could and persuaded him to come and have dinner at the Shadman Hotel where I was staying, so that he would not have to eat alone at the rest house.

Curfew Imposed in Lahore

Just a week or so after I returned from Dhaka, on 26 January 1968, mobs of up to 50,000 persons rampaged through the streets of Lahore, burning cars, battling police, and attacking government buildings in anti-government protests. Initially, a twenty-four hour curfew had to be imposed. Soon, the unrest spread throughout the country and slogans of 'Ayub the dog' (*Ayub Kuta Hai Hai*) were heard everywhere.

I hate to confess that my first reaction to the curfew was that of relief. During my several days' absence in Dhaka, a lot of work had piled up that I had brought home. The news of at least one full day's break appeared welcome. Now this narrow focus on work amidst growing turmoil seems surreal. As the curfew was extended, I did have to worry about the World Bank Economic mission headed by Manfred Blobel, Chief Economist of the South Asia Department, which was visiting Lahore and was holed up at the new InterContinental hotel. I did manage to get a pass and visited them, trying to appear reassuring.

A week or so later, the situation had still not returned to normal. Kureshi and I had to fly to Islamabad for a day. Since there was a possibility of protests on the main roads, we asked the driver to take the back streets. But suddenly, we found ourselves mobbed by a score or so of street urchins, barely 12-14 years old, chanting 'Ayub *Kutta Hai Hai*'. They surrounded the government car and started shaking it. We asked the driver to stay put, and, after a while, they got tired and moved away. Even though the boys were young, the experience was unnerving. We were glad they had not started stoning the car.

In the next six to eight weeks, President Ayub tried to salvage the situation, by releasing both Mujibur Rahman and Z. A. Bhutto from jail, and calling a round-table conference of all political leaders. He agreed to step down at the end of his term in a year and hold new elections; but a consensus could not be reached among politicians, Mujibur Rahman was especially defiant. This encouraged General Yahya to take over.

The falling back into martial law was greatly upsetting for most citizens, but the public fury against Ayub Khan appeared to drown out all other sentiments. Some journalist friends at the time felt strongly that Ayub should be tried and hanged. My feeling that, looking back in future years, the Ayub period would be viewed much more positively, evoked little sympathy.

Having seen the turmoil surrounding Mujib's trial in Dhaka just a couple of months earlier, I feared that violence may erupt in East

Pakistan with the imposition of martial lLaw. I mentioned this worry to my friend, Vasim Jafarey, another outstanding civil servant, who had taken over as Chairman of the Planning and Development Board: B. A. Kureshi had been moved to the position of Chief Secretary for a few months. Jafarey had served in East Pakistan and felt that there would be no commotion. He turned out to be right. But while I was wrong then, this was to be the last time East Pakistan was to accept a military action without resistance.

Yahya's Rule

General Yahya Khan's rule was to end ignobly in December 1971. His attempts to resolve the economic and political problems of East Pakistan, first on the basis of 'one person, one vote', and free elections, and subsequently, through the use of military force, ended in a disastrous defeat at the hands of India in the 1971 war, and the emergence of East Pakistan as the independent nation of Bangladesh. I was to observe this tragedy unfold mostly from a distance, as I had moved to Washington D.C. in mid-1970. But even in the first year of Yahya's rule, there were portents of serious trouble ahead.

Yahya is given credit for fair elections that were held in December 1970 on the basis of one person one vote. But I believe it was not a step towards genuine induction of democracy but a calculated gamble that the political forces that would come to power would be seriously divided, enabling the army to continue to play a central role in governance. The regime made the key assumption that the vote in East Pakistan would be split between Mujib's Awami League and Maulana A. H. K. Bhashani's National Awami Party, and, in West Pakistan, Bhutto's People's Party would win less than half the seats. I personally heard this logic being propounded during meetings of the NEC more than once by General Sher Ali, Information Minister, and tacitly agreed to by his senior colleagues and President Yahya, that it would take several elections before strong parties emerged. The implicit idea was that there would be room for the armed forces to maneuvre the political processes.

The Army's Game Plan

Reflecting this 'strategic thinking', the decisions to break up West Pakistan as one unit as of 30 June 1970, remove the parity in seats between East and West Pakistan (re-introduce the principle of one person one vote), hold free elections within a year, and allow the new National Assembly to decide on the new constitution by a simple majority vote, were announced at the end of November 1969.This latter decision was playing with fire. As I have said earlier, West Pakistan was too large an administrative unit for governance. But it made no sense to restore the old provinces, without first sorting out the problems with East Pakistan. If, as it turned out, that the separation of East Pakistan was inevitable, the debate on the new constitution of Pakistan could have seriously considered a larger number of provinces of more equal size in population. As it is, we are left with a Federation in which the dominance of the single largest province, Punjab, with nearly 60 per cent of country's population, remains a source of ethnic rivalries and perpetual tension with the smaller provinces. But the restoration of the original provinces was a popular move among smaller units and seemed to serve both the short- and long-term interests of the military.

Personally, I was rather shaken that the scope and challenge of my job would be greatly reduced. I could not have imagined that I was to be the first but also the last Chief Economist of the Government of West Pakistan. But quite honestly, more than any career worry, what concerned me was that, a relatively effective planning apparatus for West Pakistan as a whole, would be dismantled and the responsibilities for development as well as strategic thinking would be fragmented among provinces, central ministries, and the Planning Commission and lose focus, at least in the short term. Even today, the co-ordination of planning and development efforts at the federal level remains less effective than in most provincial planning and development departments, though of course the latter now have much narrower mandates.

A Detour to Germany

I was upset enough to try to get away from Pakistan for a week or so. An invitation from the West German government to make a personal tour of the Federal Republic had remained pending for some time. I hastily requested the German Embassy to organize the tour, even though it was a frozen winter in Europe and it was the month of Ramadan.

The trip was enjoyable, relaxing, and very educational. From a professional point of view, I gained a fuller appreciation of how decentralized the government structures were in West Germany and how much real power the then eleven States (the Lander) exercised and how well the system worked. It was thus comforting to learn that the break-up of West Pakistan need not necessarily result in major dislocations. It is interesting to note, however, that after the initial occupation of Germany following the Second World War, the states had been reorganized so as to prevent any single state from dominating the country in the future, as Prussia had done in the past. But this was not the case in Pakistan.

The tour also enabled me to visit the less-developed regions of West Germany. Rising from the ashes of the war, the German economic progress during the 1950s and 1960s was termed an economic miracle. It was thus instructive to learn about and visit backward and poor areas in this highly prosperous economy. I got the opportunity to travel by road from Munich to the Czechoslovakian border, some 100 miles away, on one of the first autobahns constructed under Hitler in the 1930s, visiting small-scale industrial enterprises assisted by the state.

The tours for officials from other countries were organized on an individual basis and were tailored to the interests of the visitor. The basic purpose was propaganda against the communist East Germany. The tours, therefore, started in West Berlin, and included a day's visit to East Berlin. The other feature was different personal guides, from a cross-section of German society, in the various cities visited.

In my case, in West Berlin, it was a distinguished-looking, middle-aged lady, who was a Professor at a University, who knew a fair amount about Islam and could not resist commenting that my visit fell in the month of Ramadan and was ending just before Eidul Fitr in late December. She could not accompany me to East Berlin, because West Germans were not so permitted. Instead, she arranged for a young American student to drive me across the Berlin Wall.

The propaganda visit to East Berlin, my first to a communist country, had the desired effect. The city appeared grim, gray, and dull, in sharp contrast to West Berlin, though I had noticed even in the short visit there the rather elderly profile of the population.

My only other visit to East Berlin was in September 1988, when the annual meetings of the IMF and the World Bank were held in West Berlin, amazingly just over a year before the Berlin Wall fell and the process of unification of Germany began. When Parveen and I took a sightseeing trip to East Berlin, arranged by the conference, we saw a very different side of the city: the splendid seventeenth century Charlottenburg Palace and Park and the fabulous Pergamon Museum. Pergamon, which includes major collections of Islamic and ancient Near-East art, is a world-class museum. The Ishtar gate of Babylon (600BC), brought from what is now Iraq, is a sight to behold. The Islamic Collection became especially memorable for us, as Parveen, in hurrying through the exhibits fell, injured her foot and had to return to the US early, with a cast on one leg.

In the large and modern city of Frankfurt, my guide was a young German student who showed me around very elegant German tea houses and talked about youth culture in Germany, still not quite as uninhibited, as he described it, as the American culture in the post-Viet Nam era.

My visit to Munich was the most memorable part of my tour, both because of the beauty of the city and its sights, and the unconventional German who was my host there. The gentleman, a proud Bavarian in his mid-50s, was an official of the Bavarian Ministry of Finance. He told me that he, as a young boy, had seen Hitler many times, visiting his older brother and circle of friends. He also said that the most notable thing about Hitler was his magnetic and piercing eyes. I must have looked a little skeptical, because he went on to say that, in the early 1920s, Hitler was just another Bavarian politician. The facts confirm that before the Munich putsch in November 1923, Hitler was a relatively unknown politician and the Nazi party was small. Even though Hitler's rebellion against the weak Weimar Republic failed and Hitler was tried and jailed, he gained a national reputation. According to estimates, Nazi party membership grew from 6,000 to 55,000 as a result of the1923 crises.

My host was either lucky or clairvoyant, because he had managed to leave Germany before the start of the Second World War II in September 1939 and spent all the war years in the relative safety of Shanghai in China. In showing me around, he took me to one of the most elegant tea houses in Munich that had been frequented by Hitler and which had survived the war unscathed. While there, he recalled an occasion in 1933 when he was having tea there with his mother. Hitler had just become German Chancellor and, while visiting Munich he made an impromptu stop at the tea house, accompanied by several guards. According to my guide, every one, except his mother, stood up and shouted 'Heil Hitler': his mother–probably another independent character–remarked that she was told not to rise for anyone except royalty. Apparently Hitler noticed and was not pleased, so mother and son paid their bill and made a hasty retreat.

Economic Decision Making during 1969-1970

Initially, under Yahya, there was a lot of concern with and attention given to economic and social aspects of public dissatisfaction, education, prices, wages, and jobs. It was felt that the alleviation of public concerns would also help to improve the image of the martial law regime. For instance, early on, a Price Committee was set up, under the chairmanship of the Chief Economist of the Planning Commission, to examine how and whether some critical consumer prices could be reduced. This committee, of which Chief Economists of East and West Pakistan were also members, worked for a couple of months and highlighted the factors in price formations, including macroeconomic, tax, trade, and foreign exchange policy. It concluded that reduction of key prices would involve reduction of excise duties, liberalization of trade policy, lowering of import tariffs, and larger allocation of foreign exchange for consumer goods imports. Few of its recommendations were accepted by the NEC, because of the obvious costs in terms of revenue and foreign exchange. Even though Nawab Muzzafar Ali Qizilbash had become finance minister, GIK was still the powerful secretary finance.

Air Marshal Nur Khan

The one person who seriously tried to influence the direction of social and economic policies and shake up the status quo in the first year of martial law was Air Marshal Nur Khan, first as Deputy Martial Law Administrator and then as Governor of West Pakistan. Nur Khan was the head of the Pakistan Air Force, a 1965 War hero, and originally, one of the three Deputy Martial Law Administrators, along with Admiral Ahsan, head of the Navy, and General Abdul Hameed, Army Deputy to Yahya. Admiral Ahsan was in charge of finance, and

Air Marshal Nur Khan was in charge of labour and education. Nur Khan was able to push through fairly substantial labour policy reforms, including greater freedom for trade unions, the introduction of minimum wages, and the setting up of a government welfare fund. Some viewed Nur Khan's proposed policies as an effort to widen his political base. Others within the military junta and establishment objected to them on grounds of their fiscal consequences. In any event, divisions at the top led to the resignations of Ahsan and Nur Khan as Deputy Martial Law Administrators and their appointment as Governors of East and West Pakistan respectively.

Nur Khan was Governor of West Pakistan for only five months, from the beginning of September 1969 to 1 February 1970. He succeeded and was succeeded by General Attiqur Rahman (1918-96), a direct and upright soldier, and an unpretentious leader. In the last eighteen months of one unit, a period of turbulence and uncertainty, West Pakistan had three Governors, all from the military, but with very different styles of governance. But it is fair to say that Nur Khan, though he had the shortest tenure, tried the most to make a difference.

When Nur Khan came in as Governor, he appeared to be a man in a hurry. He focused on issues of public enterprises, agriculture, and transport. He enlisted the services of several whiz kids, headed by Ahsan Rashid, with backgrounds in accounting and finance, who, though very bright, were inexperienced in matters of government. He did, however, have one of the ablest establishment figures, Vasim Jafarey, work with him to coordinate policies. Jafarey, in turn, quickly recruited some able young civil servants notably Shahid Javed Burki, to help moderate the influence of the whiz kids. That unlike many other military leaders Nur Khan reached out to younger and able professionals is very much to his credit. Anisur Rahman, a Bengali economist who was a professor at Quaid-e-Azam University, recalls in his memoirs being asked by Nur Khan, as Deputy Martial Law Administrator, to help restructure the education system.

Personally, I also found myself involved with more meetings with Nur Khan than with others Governors. In some of these meetings, he showed his impatience, because he felt constrained by the government in Islamabad. The army leadership was perhaps suspicious of Nur Khan's ambitions, as he had been a very effective head of the air force and had very competently managed the new national airline, the PIA. Yahya Khan was also preoccupied with issues in East Pakistan and Bengali Nationalism and did not want Nur Khan to stir things up in West Pakistan.

Nur Khan was frank enough to discuss the possibility of the separation of East Pakistan a full two years before it happened. At one meeting, he turned to me and asked what I thought would be the economic consequences of East Pakistan going its own way. I had given the matter some thought on my own in the context of the extreme dependence of West Pakistan on external resources, partly at the cost of East Pakistan, So I had a spontaneous response that the adjustment would not be too difficult, provided we made a major devaluation to improve the balance of payments and cut defence spending in half. I do not know what Nur Khan thought of my answer. But looking back half a century later, it is clear that the critical issues of excessive external dependence and high military spending have been at the root of Pakistan's inability to move along the path of strong sustained growth and social progress.

Important political decisions announced in Pakistan at the end of November 1969 put economic decision-making on the back burner. With the resignation of Nur Khan as Governor at the end of February 1970, there was no strong leadership for economic policy or bureaucratic change.

Still even during his short tenure, Nur Khan was able to make a strong impact on some policies. He correctly resisted the advice from planners, including M. M. Ahmed, Vasim Jafarey, and myself, to reduce the wheat support price from Rs 17 for 1969 crop to Rs 15 for the 1970 crop. We planners were overly exuberant about the prospects of wheat production; fertilizer prices were rising and incentives for the farmers would have been seriously weakened. Nur Khan also substantially liberalized transport policy, increasing competition and allowing small bus and truck owners to operate more freely.

Wrangling over the Fourth Plan

Fairly early on in 1970, policy focus shifted to the finalization of the Fourth Plan, which became a proxy for the fight between East and West Pakistan. The draft of the plan, presented to NEC in February, came under strong fire from East Pakistan, which demanded a strong tilt in net resource transfers to East Pakistan, in order to begin to narrow the large gap between regional per capita incomes between the two wings. Bengalis further argued that, since the private sector in East Pakistan could not be expected to grow fast; it was the public sector development programme that needed to provide a determined big push for growth. West Pakistan pointed out that that the consequences of accepting the East Pakistan position would result in a very sharp drop in the absolute level of resource inflows into West Pakistan and a drop in its investment and GDP growth rate.

Faced with serious wrangling between East and West Pakistan, especially on the size of their respective public sector development programmes, President Yahya turned for advice to a panel of economists, which was set up with a half a dozen economists from each wing. Because of my official position and knowledge of economic and planning issues facing West Pakistan, I became the de facto leader of the West Pakistan group.

I do not think the panel was of any particular help in resolving the deadlock on the allocation of resources. But it brought out the deep divisions among economists and intellectuals on the two sides. After considerable discussion and debate, the panel split straight along regional lines and West and East Pakistan economists decided to write separate reports, both well-written and well-argued and making for interesting reading even now (Planning Commission 1970).

The East Pakistan Panel, focusing on the growing disparities in income between East and West Pakistan, hammered on the issue of large historical resource transfers from East Pakistan to West Pakistan and the extreme uneven distribution of foreign aid (see Box on Resource Transfers). They demanded that the Plan size, i.e., the total development resources, including the private and public sector, be apportioned at least on the basis of population (56:46) between East and West Pakistan. This might not seem an unreasonable objective at first sight, because the reduction in regional disparities had been written into the 1962 Constitution, but income disparity continued to grow during the 1960s. However, as mentioned earlier, reduction of disparity was a totally unrealistic goal, though no one was willing to voice this publicly because of issues of regional harmony.

The hypothesis in the East Pakistan report, that GDP growth could rise from 4.1 per cent per annum in the 1960s to 7.8 per cent per annum during 1970-75, by more than doubling real investment, with the bulk of the increase in the public sector, ignored other constraints on real growth, i.e., factor endowment, slow-moving agriculture, and a very hesitant private sector.

In the previous four decades, the average growth rate of GDP in Bangladesh has been only 4 per cent per annum. Though Pakistan's economic performance over this period has been marred by political turmoil and financial problems and its population growth rate has been higher, its per capita income growth has substantially exceeded that of Bangladesh. According to purchasing power parity estimates of the World Bank, Pakistan's per capita income at $ 2068 in 2005 was slightly more than double of Bangladesh's: in 1969-70 the per capita income in West Pakistan was only 60 per cent higher than that in East Pakistan. The growth in disparities, despite Bangladesh's independence and full control of resources, shows the intractability of the problem.

The regional growth and financing framework suggested by the East Pakistan Panel was not only unrealistic for East Pakistan but totally disregarded the fact that economic adjustments required in West Pakistan were nearly impossible. The two key recommendations by Bengali colleagues were, first, that West Pakistan's growth rate be targeted at 5.4 per cent per annum (as compared to the actual 6.8 per cent in the 1960s), and second, that net inflows into West Pakistan be only 8.7 per cent of total net inflows into Pakistan, the remaining over 91 per cent to be directed to East Pakistan (during 1965-70 the net inflows were in favour of West Pakistan by 2:1).

Hedged in by the declared national objectives of reducing disparity by accelerating the growth in East Pakistan clearly ahead of West Pakistan, the West Pakistan panel was essentially on the defensive. It argued for a 5.7 per cent annual growth target for the West and 6.5 per cent for East Pakistan. It was prepared to accept a division of net inflows in favour of East Pakistan of nearly 2:1, a total reverse of the position in the Third Plan. It also argued for the need for at least maintaining the investment rate in West Pakistan at the 1969-70 level, to help reduce large intra-regional disparities within West Pakistan.

But quite obviously, even this pace of deceleration of growth rate and reduction in the real net inflows into West Pakistan was not acceptable to the other side, who, as noted above, argued for totally implausible growth targets and net foreign inflows for East Pakistan.

Why did such an able and sophisticated group of Bengali economists, effectively led by Nurul Islam and including several other strong academics, Anisur Rahaman, Akhlaqur Rahamn, and Rahman Subhan, take such hard positions? One simple answer is that the political dye had been cast. Mujibur Rahman's Six Points, which meant total economic sovereignty for East Pakistan, and were only a small step away from complete independence (Nurul Islam 2003), had captured the imagination of the Bengali intelligentsia. Already in April 1970, highly-placed Bengalis in the Pakistan Government were willing to take instructions from Mujib's associates. (See Conversation with M. Raschid.) According to his own account, Nurul Islam was already helping in the elaboration of the Six Points by late-spring 1969 and was to play a major role with Kamal Hussain in developing Mujib's election manifesto.

At another level, Bengalis did not believe that a major switch in allocation of resources in favour of East Pakistan was politically possible in a united Pakistan. When I pointed out that that West Pakistani economists were accepting a dramatic switch in sharing of net foreign resources in favour of East Pakistan, Anisur Rahman shook his head and said that it would not happen, and added for good measure, that West Pakistanis would rather hand over real political power to the Chinese than give it to the Bengalis. He hinted at the almost racist attitudes in the West that he had witnessed as a professor in Islamabad.

The strong stand taken by East Pakistan should have served as serious warning to the central government on the extreme political difficulties ahead. But the military leadership charged ahead with the plans for elections in December, without realizing the overwhelming support that Mujibur Rahman was gathering and his seriousness about his Six Points. There was a spectacular failure of intelligence and a total lack of possible options in dealing with Mujib, if he were to gain a clear majority. The hastily-crafted military response in March 1971 was to lead to a violent separation and great humiliation for Pakistan.

Even an ordinary citizen like me could see the political storms brewing, even as the electioneering campaign began in the spring of 1970 and political parties went into high gear. Bhutto's PPP was clearly gathering strength in West Pakistan. At one stage, I sought out my close friend Hanif Ramay, a founder member and active leader of the PPP, and shared my impressions about political developments in East Pakistan and Mujib's growing popularity. I mentioned to him that the military regime could not be dislodged, unless Mujib and Bhutto came to some understanding about the country's future. In retrospect, it was a naive thought. But at least, Hanif told me that Bhutto had tried to talk to Mujib, but the latter was not interested in any serious discussions.

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REVISITING THE RESOURCE TRANSFERS ISSUES BETWEEN WEST AND EAST PAKISTAN

A dispassionate assessment of the resource transfer issue was increasingly difficult in the politically charged and increasingly emotional climate after the 1965 war with India which left East Pakistan without adequate defence. There was a straight split along regional lines among the economists on the Fourth Plan Panel, appointed at the directive of the National Economic Council to help resolve the deadlock on the issue of allocation of resources to reduce regional disparities. It reflected the polarization of views in the society as a whole.

There was a considerable truth to the Bengali economists' arguments about the factors in resource flows between the two wings, the overvaluation of the rupee, larger foreign aid flows to West Pakistan, excessive notional allocation of defence expenditure liability to East Pakistan, which had historically benefited West Pakistan. However, there were special factors at work also.

Larger foreign aid inflows into West Pakistan were, in part, due to special inflows due to replacements under the Indus Basin Treaty, which transferred the rights to waters from the eastern rivers in Pakistan to India. The growth momentum and a better investment climate in West Pakistan also contributed to larger aid flows. But political feelings, more than conceptual differences, were responsible for two separate reports by East and West Wing economists and this coloured their respective analyses, one magnifying the problem, the other downplaying it too much.

East Pakistan economists' estimates in 1970 which implied that East Pakistan had suffered a relative loss of resources of anywhere from 5 to 10 per cent of GDP annually over 1950–70 was a gross exaggeration. On the other hand, the panel of West Pakistan economists' assertion that, by 1969–70, the adjusted regional balance of payments deficits as a percentage of regional GDP were converging in the two wings was also a clear over-statement (Planning Commission, Government of Pakistan, 1970).

Intellectually and morally, this issue continued to bother me long after Bangladesh emerged as an independent state in December 1971, especially because I had effectively led the West Pakistan panel and, as the Chief Economist of the West Pakistan Government, had also taken a partisan stance on a rather critical national issue.

I was able to revisit the earlier debate on resource transfers in the late-1990s, after retiring from the World Bank, when I worked on a history of economic policies in Pakistan (Hasan, 1998). My conclusion from reworked estimates was that there was indeed a transfer of resources from East to West Pakistan in the 1950s of the order of about 1 per cent of GDP of East Pakistan annually. In addition, West Pakistan received over 80 percent of foreign aid and loans in that decade. This inflow of resources enabled West Pakistan to expand its investment rate very sharply from 4.5 percent of GDP in 1949–50 to 12.5 per cent of GDP in 1959–60, in contrast with an increase in the investment rate in East Pakistan from less than 2 per cent to 6.6 per cent over the period.

However, according to my estimates, there was no transfer of real resources from East to West Pakistan after 1960. But the disparity in the level of foreign aid flows remained, at least partly because of the greater momentum of economic growth and dynamism of the private sector in West Pakistan. For the 1960s as a whole, the net foreign inflows, as indicated by current account balance of payments deficits, remained much larger for West Pakistan than East Pakistan. However, by 1969–70 the gap between adjusted current account balance of payments deficits of East Pakistan and West Pakistan had narrowed. While East Pakistan ran a deficit equal to less than 3 per cent of its

GDP, West Pakistan ran a deficit of nearly 5 per cent of GDP (Hasan 1998).

The basis of East Pakistan's grievances in the historical context of two decades was real, though a transformation in relative allocation of external resources did appear to be on its way towards the end of the 1960s.

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CONVERSATIONS WITH M. RASCHID
GOVERNOR, STATE BANK OF PAKISTAN

M. Raschid, a distinguished commercial banker, was named as the first Bengali governor of the State Bank of Pakistan in July 1967. I first met him in the summer of 1968, when both our families were guests at the summer retreat of our friends, Akhtar Ahsan and Sarwat Sultana, in Murree. Through subsequent meetings, some also in Murree, we became good friends. He often invited me for lunch when he visited Lahore on official visits. It was initially through me that he became aware of Mohammad Yaqub's considerable potential. Yaqub, who had returned from Princeton with a Ph. D. in 1967 was not particularly happy in the Research department of the State Bank of Pakistan. I saw this as an opportunity to bring him to the newly-created position of Joint Chief Economist in West Pakistan Government. Governor Raschid at that time did not know Yaqub personally. But when he heard of this job offer to Yaqub, he decided to act. He contacted me and said he valued my opinion and thus was not going to release Yaqub. Instead, he asked him to work directly with the Governor's office.

A year or so later, when the Fourth Plan Panel of Economists was being set up, I proposed that Yaqub be a member from the West Pakistan side, because there were not many outstanding academic economists in the universities at that time. Governor Raschid, however, intervened and persuaded Yaqub to regret. I naturally complained to Raschid about this development. I must say he was totally honest and frank with me and said that he could not go against the wishes of the 'new' (Bengali) establishment. Mujib's economists were already pulling strings at high levels in April 1970.

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Irrigation Water and Abiana (Water rates)

As the end of one unit neared, some of us worried that the induction of the political processes and fragmentation of authority to many provinces would deepen the resource mobilization issues. One particular concern was with the level of water rates, which covered only a fraction of the operating costs of the irrigation system. With the large increases in the supply of irrigation water from storage and public tube wells that had either taken place or were underway, the revenue deficit of the irrigation department and WAPDA was projected to increase sharply.

I think it was A.G.N. Kazi, still Chairman WAPDA, who came up with the idea of a water-rates committee to institutionalize an automatic rate increase of 8-10 per cent per annum, to keep up with inflation and gradually cover operating expenses. Kureshi, Mazhar Ali, head of the water and power section in P&D, and I enthusiastically embraced the idea. A high-powered committee, headed by Akhtar Hussain, an old ICS officer and the first Governor of West Pakistan, and including Chief Engineers in the irrigation department, agriculture experts from all over West Pakistan, was set up. Kazi, Kureshi, and I were also members, and Mazhar was Member/Secretary.

The water-rates committee turned out to be a futile exercise; there was no agreement on any increase in water rates. It, however, provided a great political education for me and was a source of a sardonic comment from Kureshi that I cherish up to this day. After a series of long meetings, it was clear that several members had landholdings, often granted by government, and were in no mood to accept a general or automatic increase in water rates. I made a last-ditch effort to remove the lower differential rate for the wheat *rabi* crop. At this, the venerable chairman told us in right earnest that there was no profit in wheat, to which I responded that the nation had made a grave mistake in embarking on Tarbela, if irrigation water for *rabi* crops was not very valuable. At this awkward juncture, Kureshi stepped in and, assuming a very serious manner, said 'Yes, we cannot obviously agree to any water rate increase but I propose that we should get Parvez some land.' This is one of the best compliments I have ever received.

Chapter 13

An Unexpected Offer from the World Bank and Goodbye to Lahore

Because of my unease both with the political prospects facing the country and the administrative break-up of the one unit, my last few months in Pakistan were not a particularly happy period. The wrangling with fellow Bengali economists and seeing West Pakistan P&D literally wither away took an emotional toll. Fortuitously, I had accepted a World Bank offer for an interesting three-year assignment, starting in early July 1970. The worry about longer-term developments in Pakistan was thus mixed with the excitement of a new job and a move to Washington D.C. My family was particularly looking forward to their first visit to the US. Soon, winding up the residence in Lahore became a major preoccupation.

The way the World Bank assignment came about is an interesting story in itself and confirms my view that random occurrences or fate greatly influence our destiny. I left Lahore on the last day of one unit, 30 June 1970. In view of the turmoil the country witnessed during the next couple of years, some friends later thought I had made a sagacious and brilliantly calculated move. The truth was that the move was almost entirely circumstantial.

By the summer of 1969, though well settled in my job, I felt the need to recharge my intellectual batteries and update my knowledge of developments in the economics profession. I was thus interested in a year's sabbatical at a US University or a research institute, starting in the fall of 1970. My first preference was to be a senior fellow at the Economic Development Institute (EDI) at the World Bank (now called World Bank Institute). My friend, Mahbubul Haq, had held such a position for a year and found it very useful. I carefully prepared a resume, including the rather impressive-sounding citation for a high level decoration (Sitara-e- Khidmat) that I had been awarded by the Government of Pakistan that summer. I sent a copy to my friend, Hans Adler, who had after serving as a Harvard transport adviser at the Planning Commission, returned to World Bank, and was an assistant director of EDI. I also gave a copy to my friend, Gus Papanek, who was head of the Harvard Development Advisory Service, with which we had close professional ties.

I heard back from Adler that the slots at EDI for the next year were already committed by the Director, Krishnamurty. But Papanek was more successful. He spoke on my behalf to Professor Arthur Lewis at Princeton. Lewis was a well-established international figure and a great authority on development economics and was to win the Nobel Prize in Economics in 1979. I felt honoured, therefore, to get an offer from him in December 1969 to become a Research Associate for a year at Princeton at $1500 per month–at least an associate professor's salary.

I am under no illusion that it was Pakistan's reputation for economic performance and the key regard in which Pakistan planners were held at that time that enabled Lewis to offer me a position without any hesitation or any enquiry about my proposed study or research. Anyway, I was delighted and felt set for Princeton. The only possible hurdle could be the leave of absence from the government. So I asked my friend Vasim Jafarey to put in a word to the head of administration, Chief Secretary Afzal Agha, who informally agreed to my request.

However, just a few weeks later, I got a call from David Gordon, who was the World Bank representative in Islamabad, saying that he wanted to come and see me. I was truly surprised when Gordon told me that there was interest from the Bank in hiring me and they wanted to interview me in Washington. My first reaction was that I was not interested. I felt that a country economist's job that the Bank was likely to offer would not be nearly as exciting as the planning job in Pakistan. But Gordon assured me that whatever the Bank offered would be worth my while. So I agreed to go for interviews in Washington. But I did mention that I had an offer from Princeton in which I was very interested.

It was years later when I saw my own file in the World Bank that I understood how the process had been set in motion. It was of course McNamara who was interested in not only greatly expanding the Bank staff, but also in diversifying it even more, by attracting talent from developing countries. In my case, what happened was that Adler had sent my resume to the personnel department, saying that I had expressed interest in a short-term position, but I that could be a good addition if I could be attracted to a regular position. The personnel department sought additional comments from senior staff working on Pakistan, including Willie Wapenhans. These comments were very favourable and so the resume was circulated further around the Bank. So, unbeknown to me there were specific job openings for which I was being considered.

What could have been the biggest hurdle in my accepting a World Bank assignment was overcome in an unbelievably smooth fashion. The World Bank did not want to waste their money unnecessarily on my travel expenses. So, through Osman Ali, Pakistan's Executive Director at the time, they asked in early January for the Government of Pakistan's assurance that I would be released if offered a job. The Cabinet Secretary in Islamabad, M. H. Sufi, on a visit to Lahore, took up the matter with Chief Secretary Afzal Agha. Reportedly, Afzal Agha shrugged his shoulders and said he thought I wanted to go to Princeton but it was okay by him if I decided to go to the World Bank. When Sufi informed me of this, he was really surprised and a little confused to learn that I was not sure that I wanted to go to the World Bank. Anyhow, he sent the clearance to the World Bank. This was very fortunate, because a few months later when I actually got the offer, the clearance from the incoming new provincial administration of Punjab might not have been given.

I visited the Bank in mid-March 1969 and was interviewed by at least half a dozen senior staff members. The interviews went well and I was told that both the Latin American and the East Asia Departments were interested in offering me a position in their front offices as a senior economist. The job, clearly a supervisory position, went beyond my expectations. Apart from being an economic adviser to the department, it would involve leading large economic missions to various countries.

I was attracted to Latin America (the romance of faraway places and entirely different cultures) till I consulted my friend, Bob Sadove, a rank insider, who was then Director Special Projects in the Bank. I had gotten to know Sadove when he was deputy head of the Indus Basin Water and Power study. I told him my options. He said Princeton seemed attractive but, within the Bank, the East Asia offer was clearly superior. I would not have to learn a new language, the clients were more World-Bank friendly and, last but not least, it would enable me to visit Pakistan on travel to and from East Asia. Frankly, I had not thought of these aspects of the job and was very grateful to Sadove for very perceptive advice.

So I told my recruiter that I was interested in the East Asia offer but could not make a final commitment without consulting my wife. While the job was very attractive, it would involve long absences of a month or more, a few times a year. I thought it would be hard on the family, with two young daughters. From that point of view, Princeton seemed more practical.

I flew back and was going directly to Islamabad for the investiture ceremony at the President House. The flight from Karachi stopped in Lahore, where Parveen joined me to go the ceremony. I excitedly told her about the World Bank job and what it involved. I was rather surprised that she rather enthusiastically suggested that I accept the offer. Apparently, she had done her own research in my absence. She told me about the big problem of storing our stuff if we went to Princeton for a year. As for managing the children, she had learnt that on a Bank assignment, you were entitled to take domestic help with you and she would find a maid to go with us.

As I received my Sitara –i- Khidmat decoration on Pakistan Day, 23 March 1970, a high point of my career in West Pakistan government, my goodbye to Lahore had begun. The only thing that was not so pleasant about the investiture ceremony was the alcohol on President Yahya’s breath in mid-afternoon as he put the ribbon around my neck.

Reflections on an Era Long Gone

When we were vacating our house on Danepur Lane in GOR 1, I felt some sadness and a foreboding that it might not be easy to come back to Pakistan. When I mentioned this to my wife, she made light of it, saying she was greatly excited at the prospect of going to America. My fear of not returning to public service in Pakistan turned out to be true, though the onus was not entirely on me.

I have had a fulfilling and a satisfying career at the World Bank, which enabled me to be very closely involved in some of the most successful stories in economic development in the 1970s and the 1980s, as well as in the great economic transformation in Eastern Europe and the former Soviet Union in the 1990s. However, nothing can quite match the excitement of working in your own country, especially if the going is good.

When I was leaving for interviews at the World Bank, I asked Manfred Blobel, a German who was Chief Economist of the South Asia department of the World Bank and was leading an economic mission to Pakistan, what kind of job I should be interested in. I still recall what he said, 'Parvez, whatever they offer you, it could not match the insider's seat that you have got here. The view from the World Bank is always a view from the outside.' There was a great deal of truth in what Blobel said.

I have tried in my retirement to make amends through pro bono public service, as head of the 'Debt Reduction and Management Committee' during 2000–2001 and other extensive work on the Pakistan economy through a book, several reports, and articles. However, policy advice given is not always taken and, in any case, successful policy making, implementation of decisions, and building up of institutions are all part of a whole that can best be done only as a public servant.

It is, therefore, with nostalgia that I look back on my period of public service in Pakistan. I have already dwelt at some length on the policy decisions and actions that provided me the greatest personal satisfaction and were, I believe, by and large, the correct choices. Paradoxical though it may seem, despite the dismantlement of West Pakistan P&D, I believe my biggest contribution was to introduce systematic use of economics in planning and development at the provincial level.

Institution-Building

As the chief economist of West Pakistan, I had some initial difficulty in carving out a clear role in planning. It was thus heartening to learn that, when the set up for the new provinces was being decided, there was no question that the Chief Economist's position would be an important pillar of planning and development in all four provinces.

Equally important was the stimulus our P&D department provided for interest, training, and study in economics. Younger CSP officers were clearly motivated. Among the permanent economic staff, Bashir Ahmed and Nisar Ahmed did graduate work abroad and became strong professionals. The economist that I feel that I helped to train the most was Fazlulah Quershi. Fazlulah, a fresh graduate, was recruited to his first job in the P&D. I assigned him to work directly with me as officer, co-ordinating the preparation of the annual development programme, because I felt this would the quickest way to expose him to the whole range of economic and planning issues. Fazlulah was an eager and quick learner and advanced steadily in his career, finally serving as Secretary, Planning, in the Federal Government.

Professional and Personal Inter-Face

Professional achievements aside, it was the various personal aspects of living in Lahore that were so enriching; becoming an insider and a part of the establishment, deepening old friendships and developing new ones, fulfilling important family obligations, contributing to Lahore's cultural life through very frequent lectures at educational and training institutions.

Lahore enabled me to renew college friendships with Hanif Ramay, a publisher turned journalist and politician, and Iftikhar Rasul Malli, a senior police officer.

The closest bonds were formed with fellow planners and economists. Moin Baqai, Joint Chief Economist of the Planning Commission, was also an old college friend and a State Bank colleague. Mahbubul Haq was also a friend from Karachi days and had served briefly at the State Bank. And it was through Mahbub that I was introduced to Sartaj Aziz and Jameel Nishtar at lunch at the new Inter-Continental Hotel in Karachi, some time in October 1964, before the

Planning Commission moved to Islamabad. But it was only during 1965-70 that Mahbub, Moin, Sartaj, and I became not only very good friends, but also close collaborators at work, an experience that was unique and most enjoyable.

MAHBUBUL HAQ

Mahbub was away to the EDI in Washington DC for a year of study during 1965-66, but soon after his return, he became the Chief Economist of the Planning Commission in 1967 at the age of 33, just ten years after joining it. Mahbub, a very strong intellectual and an original thinker, was later to make his mark on the world stage for major contributions to the concept of fair development through his pioneering reports on human development at the UNDP. But his irreverence–indeed, defiance–of authority and disregard of normal official norms was what made him first famous for his 'twenty-two families' speech.

I went to Islamabad several times a month for meetings. Often, after work, Mahbub invited me and other friends for lunch at his large house in Harley Street in Rawalpindi and then we played bridge for a while, before I returned to Lahore in the evening. It was really a glorious mix of work and pleasure.

During one of these visits, Mahbub told me about his speech in Karachi the previous day, about the dominant control of modern financial and industrial assets by twenty–later modified to twenty-two–families. The speech, based on work done by his wife Khadija Haq (Bani) at the Pakistan Institute of Development Economics, created a sensation in the country and abroad. It was both a courageous and a political act. As we sat discussing it, Bani expressed her unhappiness, as she feared it might invite unwarranted attacks on Mahbub from the elite. My reaction was negative for another reason. I felt that the industrial and financial sector in Pakistan was still small and industrial profits, though concentrated, were barely 5 per cent of GDP and that proper taxation and expenditure policies should be able to moderate the income inequalities that were still in very early stages of widening.

I still believe that the speech did a great deal of harm to the cause of private-sector development in Pakistan. The large-scale nationalization of industry, banks, and insurance companies in the early 1970s drew its intellectual support from Haq's statement and it took nearly two decades for the tide to turn again in favour of the private sector. The speech had two other–perhaps unintended–possible effects. It may have hardened the position of East Pakistani politicians and economists, who were arguing for greater resource transfers to the East wing because the development pattern in West Pakistan was perceived as benefiting only a few. In West Pakistan, it probably added to the political difficulties of reducing large tax exemptions and subsidies received by the big landlords (Hasan 1968).

The distribution issues that were emerging in the late 1960s, both in the urban and rural areas, were real. But in some sense, the issue of concentration of control of assets in the modern sector was the least important. In many countries–Japan, Korea, and Indonesia, for example–a high degree of industrial concentration has not prevented rapid and efficient industrial growth. The problem in Pakistan was that industry was inward-looking and heavily protected; a large part of the blame for this must rest with government policies. Haq himself later conceded that 'the inefficiency of the private sector is nothing but a reflection of the irrational policies of governments. It is governments which distort the pricing system, which set up the wrong exchange rates, which do not give free play to free competition and as such within that framework whether it is the private or public sector (that owns assets) becomes an entirely academic debate.'[14] Exchange rate and trade and fiscal policies could and should have moderated unearned economic rents and emphasized national savings. More importantly, they should have promoted export led labour-intensive industrial growth, which would have created a greater number of jobs and contributed to an expansion of real wages. Had the social issues of land, ownership and tenure, primary education, and support for small industry and small farmers been dealt with adequately in the Ayub era, the capitalistic model of development might not have been discredited quite so easily.

In retrospect, Mahbub was perhaps trying to raise a much broader point about the pattern of development in Pakistan–the elite control of society. He sensed, though he did not quite articulate it thus, that Pakistan's feudal structure, together with its emerging industrial elite and powerful military and civilian bureaucracies, would lead to an

[14] Mahbubul Haq , Employment and Structural Change in Pakistan's Economy, in Haq and Baqai,eds, Employment and Distribution

unequal society, which would not be stable and would not ensure sustainable growth. In this, he has been proven right, indeed prophetic.

Our friendship with Mahbub and Bani deepened, as we both left for jobs in the World Bank and then lived near each other for more than a dozen years, before he returned to Pakistan in 1982 as Deputy Chairman of the Planning Commission. During most of this time, Mahbub was Director of Policy Planning and I was Chief Economist for the East Asia region. Our respective jobs brought us together professionally, though our focus was different. While I headed economic missions to up and coming East Asian countries and was involved with some of the most successful cases of economic development in modern history, Mahbub had a global reach. He greatly influenced the World Bank's social policies under McNamara. At the same time, he worked for a better international economic order, through forums like the North–South Round-Table, forming important alliances with distinguished development economists from around the world. His courage never wavered. Fairly early on, in the Bank he made a public speech for an orderly cancellation of the foreign debt of developing countries–heresy at a financial intermediation institution that the World Bank is. Only Mahbub could get away with it and get promoted in the process. His premature death in 1998 was a great loss for Pakistan and international development, as well as a deep personal loss for me.

MOIN BAQAI

My very close friend, Moin Baqai, had died much earlier in 1989, even before reaching the age of 60. Like many hard-working, senior, and devoted officials in Pakistan, he had not taken sufficient care of his health and a stroke in 1985 and a heart attack a few years later claimed the life of this low-key Pakistani, who served with distinction as Secretary Planning and Economic Adviser to the Pakistan government, but never compromised his integrity. He was a deeply religious person but he hated religiosity and intolerance and never paraded his piety. He was deeply disturbed during his last years, when outward symbols of Islamization, Hadood ordinance, lashings, sanctimonious observance of Ramadan, and sectarian divisions gained strength, while the core values of a Muslim society–tolerance, honesty, fear of God, equity, and social justice–were slipping away.

SARTAJ AZIZ

It has been my good fortune that my friendship with Sartaj Aziz, the other member of our planning/bridge foursome, has endured and deepened over nearly a half century. Sartaj Aziz is an extraordinary individual, who has contributed to Pakistan in countless ways and continues to be a force of nature in terms of his energy and enthusiasm. This bureaucrat-turned-economist-turned-politician-turned educa-tionist, has served with distinction in high national and international positions without compromising his integrity and principles, though I do wish that he had been more assertive as finance minister. While he shares with our generation the deep sense of frustration about Pakistan's many missed opportunities and numerous few follies, his optimism and faith in the country remain unbounded.

From those early days of our association in the second half of the 1960s, I have a few recollections which show Sartaj's love for the country, his judgment about people, and his tireless efforts towards completing even those tasks which showed no great promise.

Sartaj, as head of the International Economics section of the Planning Commission, had attracted the attention of Earnest Stern, then Deputy Director of US Aid in Pakistan. After Stern returned to the US, he was asked to become the Chief of Staff of the Pearson Commission on International Development set up by McNamara, President of the World Bank in August 1968; L. B. Pearson was a former Canadian prime minister and a Nobel Peace Prize winner. Stern asked Sartaj to join the international staff team of a dozen persons, quite an honour and a great opportunity to learn about development. The Pearson Commission completed its report in September 1969. Before Sartaj left Washington, he was offered a good job at the World Bank, but he turned it down, even though Pakistan was heading towards serious trouble. So when I asked him why he had not taken this opportunity to sit out the storm, he simply said: 'When your house is burning, you cannot stay away; maybe you can save a chair or two.'

In the summer of 1968 both Sartaj and I were invited to attend the Annual Conference of the Harvard Advisory Service that was held in Sorrento, Italy. It was a most pleasant conference which was attended by many Harvard luminaries, including Hollis Chenrey, later Chief Economist World Bank. Gus Papanek, head of the Harvard Advisory Service, Wally Falcon, and Carl Gotch, who were heavily involved in Pakistan, were also there. On a day off, there was an excursion to the beautiful island of Capri. Sartaj and I spent hours chatting on the boat trip to and from the island. At one point, he said that our friend, Mahbub, could be the finance minister of Pakistan in ten years, if he played his political cards right. (Actually, it took Mahbub 17 years to become finance minister) I also saw a bright future for Mahbub. However, I argued with Sartaj that professional economists should stick to technical positions and that a Deputy Chairman Planning Commission or Finance Secretary could be even more effective than the Finance Minister; at that time, GIK as Finance Secretary, reigned supreme, while Uquaili as Finance Minister, had much less impact. To this, Sartaj replied that, at heart, Mahbub was a politician. He was right. Mahbub was a gifted economist, but he greatly enjoyed politics, as his subsequent career was to show. At that time, we did not speculate about Sartaj's own future. He too became finance minister twice and has become a well respected politician.

Sartaj never loses his enthusiasm about a task. In the summer of 1970, I went to Islamabad to say my goodbyes. Mahbub had already left for Washington and Sartaj was left with the difficult task of finalizing the Fourth Plan document amidst great political uncertainty. He was undaunted and deep in work. Indeed, he tried to mobilize my help for redrafting a chapter; I politely declined.

Through Mahbub and Sartaj, I also had the opportunity of getting to know and becoming friends with another outstanding Pakistani, Jameel Nishtar (1932-87). Jameel, son of one of the stalwarts of Pakistan movement Sardar Abdur Rab Nishtar, was a man of great integrity, tremendous vitality, and genuine love for the country. He was a modernizer and an innovator, who did his best to leave a mark on the banking institutions he headed, the National Bank of Pakistan and the Agricultural Development Bank of Pakistan. It is a great pity that his life was cut short by a fatal heart attack, before his full potential could be realized. I remember Jameel, above all as a man of great principles. When I first met him in Karachi in late 1963, he was a senior colleague and admirer of Agha Hasan Abidi, the head of the new and very progressive United Bank. However, he did not hesitate to resign when he felt that his ethics might be compromised. Reminded that he still had a housing loan outstanding to the United Bank, he preferred to sell his beautiful house at Margalla Road in Islamabad at a fire sale price, rather than remain under obligation to Abidi.

Other friendships

Outside work-related friendships, our bond with Sarwat Sultana and her husband, Akhtar Ahsan, was to become very important. We had first met them when they came to Jeddah and stayed at the Anwar Alis. Sarwat, a sister of Syed Amjad Ali and Syed Babar Ali, presided with grace, taste and unbounded hospitality over their grand residence, 'Ashiana', on the Canal Bank. For a while, we lived at Danepur lane, just across the Canal from her residence, and our daughters enjoyed playing in the beautifully-maintained garden and the vast lawn at Ashiana. We were also frequent guests at their Murree retreat and, during these enjoyable breaks from the Lahore summer, got to know the Governor of the State Bank of Pakistan, M. Raschid, and Brigadier F. R. Khan, the initial architect of Ayub's public relations policy, and his wonderful family. Akhtar Ahsan's sudden and untimely death in Washington in 1979 was to bring us even closer to Sarwat and her only son, Ali Ahsan, who has very successfully managed and expanded his father's textile mills.

It was initially through Sarwat that we first met her younger brother, Babar Ali, and his wife, Parveen. Babar, as the head of Packages Ltd, a company founded in 1956 by the Ali Group, as a joint venture with a Swedish Group, was already well known in the 1960s, for his belief in professional management of business, unlike most Pakistani entrepreneurs. Though the Babar Alis were not close friends while we were in Lahore, it has been a privilege to get to know them intimately over the past several decades. I recall Babar enthusiastically giving my daughter Samia and me a tour of the nascent LUMS in 1988 in rented premises, when the enrolment was only 40. LUMS has expanded much beyond being a business school, and now has an enrolment of 3500, a great campus, and is widely recognized as a centre of academic excellence in Asia.

Babar Ali's vision as well his as persistent endeavours lie at the heart of LUMS' singular success. However, Babar's contributions have extended far beyond business and education: he has been a patron of the arts, an international adviser on environment and the private sector. But what I admire most about him and his wife is their low-key life-style. They have lived in the same elegant but unpretentious residence for nearly fifty years and have never flaunted their wealth. Other big businessmen, especially in Lahore, can learn a thing or two about avoiding ostentatious living and conspicuous consumption from the Babar Alis.

Among other friendships that developed and were to grow over time was our getting to know and enjoy the company of Akram Zaki and his late first wife, Vijay. Zaki, a foreign-service officer, served as the Deputy Director of the Civil Service Academy in Lahore during our time there. Later, he served in the Embassy in Washington DC and was the life of the parties with his wit, humour, poetry, and story-telling. Our paths continued to cross in Manila, Beijing, and Islamabad, as he rose steadily in Pakistan's foreign service, serving finally as Secretary General of the Foreign Ministry. Over the years, we have also begun to appreciate his poetry, which shows a depth and sadness which his outgoing and lively personality belies.

Family Matters

Living in Pakistan provided Parveen and me many opportunities to give all kinds of moral support and 'sage advice' to our younger siblings. Nothing was quite as important and exciting as arranging marriages and organizing them, combining duty, pleasure, and headaches all at once.

Parveen and I both come from large families. I was the eldest of nine children and Parveen the third youngest of ten children. When we returned to Pakistan, seven of my surviving siblings were unmarried and approaching marriageable age. Parveen had four unmarried brothers at the time. Between the two of us, we were heavily involved in arranging most of the marriages of eight of our siblings over the next five years. Four of these weddings actually took place at our residence, as my responsibilities had grown after my father's death in September 1968.

Lecturing

I lectured fairly regularly at local colleges, including my alma mater, Government College Lahore, at the Civil Service Academy, the National Institute of Public Administration, and occasionally, at the Administrative Staff College and Defence College. These invitations to speak made it possible to interact with a broad spectrum of students, young civil service trainees, and mid-level government officials, and hopefully, passing on some knowledge of economics. Though I have occasionally lectured at these institutions and academic conferences during my visits to Pakistan, I have missed the feel of a regular contact with such a diverse audience.

A few anecdotes from such involvement remain imbedded in my memory. During a dinner at the Civil Service Academy probably in 1969, I found myself sitting next to a bright CSP trainee from East Pakistan. He was from the Sylhet District in what is now Bangladesh. As I had met several of the trainees earlier in the evening, I remarked to him that quite a few of his colleagues were from that single district alone. He was pleased to hear that and said that the number was four. But a moment later, he added that actually the number was five, if you included the trainee whose grandfather came from Bihar Province in India. I am sure this provincialism is not peculiar to Bengalis but it was a bit of a shock. Sadly, in Pakistan also, to this day, the descendants of *mohajirs* (immigrants) from Indian Urdu-speaking provinces are not always regarded as the sons of the soil, even though their parents were born in Pakistan.

In the summer of 1970, Bhutto fever was already gripping the masses, especially students. I was invited to speak at a local college. During the discussions, there was a general expression of discontent with the existing economic policies and strong support for nationalization of industries, banking, and insurance. But when I asked a student what particular industries should be nationalized, he had no answer, except to say those industries that our politicians wanted nationalized. I am afraid an emotional approach to issues, without much emphasis on logic or evidence, remains our national weakness.

About the same time, at another event, a Punjab University Debate, I also found strong support for socialization of assets among the majority of students. Unfortunately, the audience had a clear bias against the proposition of the debate: 'In the opinion of this house, the salvation of the Pakistan economy lies in the private sector'. There were three judges, including Syed Amjad Ali, and myself. The student who, in my opinion, spoke the best on the whole and deserved the first prize was one of few who spoke in favour of the motion. Syed Amjad Ali told me that he might have agreed with me but, because of his being on the panel of judges, a vote for the private sector would unnecessarily inflame the already partisan crowd. So we gave the first prize to the best speaker in favour of the public sector. But the fact that we had to worry about intolerance on an academic campus still rankles with me.

Some Final Thoughts

The Ayub–Yahya Khan era was deeply flawed in some respects. Freedom of the press was unnecessarily limited and opportunities of retaining public goodwill were lost. The disastrous war with India was the result of a great and most unwise miscalculation. The handling of relations with East Pakistan, its ultimate separation, and Pakistan's defeat by India, were the worst possible scenarios imaginable.

But it was also a period of generally good economic governance, great delegation of authority downwards, speedy and effective decision making, co-ordinated economic policies, and building of national institutions. The empowerment of planners was truly amazing and the results justified the confidence placed in them by Ayub. All this made the country a showcase of development and Pakistanis very proud–alas, only for a few fleeting years.–In the four decades since, we have witnessed a very serious decline in our institutions and, as a result, a much weakened capacity for policy analysis, speedy and co-ordinated decision making and effective implementation of policies. Far from being in the frontline of developing countries in terms of economic and social development, we are in real danger of losing our place in the second tier. Two generations of Pakistanis have consequently suffered from a lack of adequate provision of education, and employment opportunities.

Pakistan's favourable image at the end of the 1960s may have been overblown, but now we have a worse world-standing than that we deserve, given the country's progress against many odds and the quality and the potential of its people.

Strong and enlightened political leadership and better governance remain important pre-conditions for ensuring sustained high growth and narrowing the gap in social development. Our longer term economic problems cannot be solved without some fundamental shifts, greater equity in public services and public policies, much higher private savings, and public resource mobilization, a clear focus on productivity growth through investment in human capital and innovation, and, last but not least, a culture that rewards hard work, savings, and merit, and punishes wrong doing.

Chapter 14

Remebering Early Washington Years and Breakup of Pakistan

We arrived in Washington in early July 1970, the end of a journey from which, I was to learn slowly, there was no going back.

Just before we left Pakistan, my youngest sister, Mahjabeen, was married to Alauddin, a younger brother of one of my dearest friends, Moinuddin Baqai. My youngest brother, Owais, was at the Kakul Academy as an army cadet. The next younger brother, Behram, was married and had a good job with the Investment Corporation of Pakistan. Nausherwan, a civil engineer trained in the US, was doing well with a private consultancy and, along with Behram, continued to look after our mother in our family home. My family duties, which had weighed heavily on me since my father's death in September 1968, were thus almost done, most siblings and all my sisters married and well settled. It was a source of great satisfaction.

Though I felt some regret at leaving Pakistan, I did not feel guilty, because the job that I had been recruited for–Chief Economist and Head of the Planning Wing for the Government of West Pakistan–had disappeared with the breakup of one unit into the four original provinces: Punjab, Sindh, NWFP, and Balochistan. Indeed, my final duty on 30 June 1970, the last day of one unit, was to assist the West Pakistan Governor, General Atiq ur Rahman, in presenting the budget for the four provinces to the press: the country being under martial law, there were no Assemblies. As the press conference came to a close, General Atiq, who was taking over the Governorship of the Punjab and was clearly not happy to see me go, asked me what I was going to do at the World Bank. When I excitedly told him that I would lead some of the Bank's economic work on East Asia, I do not think that he was particularly impressed. Though he was a kind and decent man, he could not resist saying with a half smile that Pakistan's ship was not sinking. Indeed it was not, but it was clearly heading into stormy waters.

The joy of my wife, Parveen, at the thought of moving to the US, was boundless, especially as we had managed to persuade a distant relative, a widowed lady, to go with us to help with the housework and our two young daughters, Samia and Samira. In the exuberance of starting a new life and upgrading our furnishings, we sold a lot of our china, carpets, cutlery, and furniture, realizing too late that they had to be replaced at three times the prices in Washington.

My worst mistake was to sell some gold that I had held in trust at the prevailing market price of Rs100 a tola (about US$50 per ounce), just to avoid the bother of getting a safe deposit box. My belief in gold as a store of value was unfortunately never very strong. As the US severed the dollar link with the gold price of $35 per ounce in 1971, the gold price jumped several-fold and has risen almost steadily since, and now, in mid 2010, is hovering around $1200 per ounce. In my case, just within two years, I had to buy a quantity of gold back at three times the price at which I had sold it. Ever since then, my wife has had little confidence in my investment savvy.

Several impressions remain with me about our first few months in Washington.

Our life was comfortable and pleasant: having a whole weekend for family and friends seemed such a luxury, the many chores that come as a house owner lay in the future. My wife was delighted to have her husband all to herself, away from hordes of relatives, as her satirical poetry depicted a few years later. It was also very fortunate that several good friends and colleagues from the Pakistan government were already at the World Bank. Mahbubul Haq, Syed Salar Kirmani, Bashir Ahmed, Wasay Moini, Shahid Hussain, and their families were our immediate social circle, especially as we lived within five minutes of each other. Our children became friends and regular bridge games on weekends became routine. In those early days, the Pakistani custom of calling on each other without notice was still very much in vogue–it would be extremely rare now.

Moeen Qureshi and Azizali Mohammad had already been at the IMF for several years, though Moeen had moved to a senior position in the World Bank in 1970. Mohammad Shoaib, a former finance minister in Pakistan, was a Vice- President, the senior-most Pakistani among the World Bank staff. Osman Ali, a senior civil servant and later Governor of the State Bank of Pakistan, was on the Executive Board of the Bank, representing Pakistan and many Middle Eastern countries, including, notably, Saudi Arabia. He was replaced by M. M. Ahmed, another very senior bureaucrat, in 1972.

Several other distinguished Pakistanis were to join the World Bank and IMF during the 1970s: Khurshid Ahmed, Azam Alizai, Mohammed Yaqub, Shahid Javed Burki, and Ishrat Hussain among others, By the mid-1970s, Pakistanis in the World Bank occupied more than half a dozen positions among senior staff of less than 100 in the World Bank. They far outnumbered any member developing country, including India, which had no notable presence in senior positions at that time. All these individuals, able and independent-minded, had earned their promotions on merit in tough competitive situations–their country was in no position to influence personnel choices. Still, that did not keep some in the Bank goodnaturedly calling us the Pakistani Mafia. The Pakistani presence at the World Bank reached its peak with Moeen Qureshi becoming Senior Vice President in charge of operations in 1987 and remained formidable till the mid-1990s.

Why was so much Pakistani talent attracted to the World Bank and why did it remain there so long? I do not think that the main reason was the financial attractiveness of employment or the exciting and challenging jobs that some of the Pakistanis held. It was political instability, the lack of clear economic direction, as well as a more entrenched bureaucracy at home that made return for many difficult. It is interesting that India has fared much better in this regard and has been able to provide more opportunities for highly-qualified professionals, even though their bureaucratic structures are, if anything, even more rigid.

Having so many like-minded friends, with similar backgrounds in nearby work- and leisure-situations was, of course, a source of great comfort. But apart from that, Pakistan was a much respected name in Washington, especially within the World Bank. Though the clouds were gathering, the country was still regarded as a development model. So just being a former senior planning official from Pakistan immediately won you notice. Pakistan's contrast with India, which was still mired in the 'Hindu' growth rate of 3-3.5 per cent per annum was vivid. Indeed, my senior colleague in the Department, Gil Martin, an American, who had just returned after being head of the World Bank Resident Mission in Delhi for a number of years, asked me one day in all earnestness what was so special about Pakistan's planning. He said the then head of the Asia department, Peter Cargill–a towering presence in the Bank–on arrival in Delhi from Islamabad, frequently hectored him right from the airport about things not moving in India, while Pakistan was marching ahead. I muttered something about strong leadership, internal cohesion of planning and development processes, and the speed of decision-making that were indeed exceptional under President Ayub.

Senior professionals at the Bank and the Fund were also, by default, the main Pakistani elite in town. There was hardly any presence of scores of very successful physicians, businessmen, and other professional Pakistani-Americans that dominate the Pakistan community social scene today. This added to one's sense of privilege. The Pakistani embassy obviously kept track of Pakistanis at international institutions. I was very pleasantly surprised that we were invited for dinner by Ambassador Agha Hilaly and his wife Mussarat, even before we were able to formally call on them. Agha Hilaly was a very senior and able diplomat and his elegant wife was full of charm and good humour. It was a privilege to get to know them well.

In some contrast to sense of general well being of life in Washington, the first few months of work at the World Bank were anticlimactic. The main work, reading and commenting on economic and other reports, seemed too leisurely after the hectic life of a busy planner in Lahore. I was to be introduced, only a few months later, to the really exciting work of organizing and leading major economic missions to East Asian countries and giving economic advice to senior officials and cabinet ministers. But initially, I began to have misgivings. After a full day of reading reports, I told my wife that the best I could aspire to in the Bank was to become an area department director, akin to something like the present regional vice-president. However, even these high positions involved much less decision making than I had enjoyed in my job in West Pakistan. But that was then. Things were to change in Pakistan and the Bank was to become progressively more important in the next few decades.

In November 1970, I co-managed a large mission to Malaysia and spent some time in supervising the small mission that was visiting New Zealand. Quite surprisingly, New Zealand was still borrowing from the World Bank. In February1971, I was asked to lead the first of my many missions to the Philippines over the next three years. Visiting diverse countries at various stages of development and analysing the central economic issues became exhilarating work. My career progressed. The heading of important missions to Malaysia, and Korea in 1972 and 1973 respectively broadened my experience considerably and enhanced my reputation within the Bank. This led to my being selected for the highly coveted position of Chief Economist for the East Asia region in the summer of 1974, a job that I held for a decade. East Asia had already emerged as the most dynamic region among developing countries. The Bank's role in Korea, Indonesia, the Philippines, and Malaysia was expanding and was further enhanced as the People's Republic of China took its rightful place as a member of the World Bank in 1980, displacing Taiwan, several years after China was seated at the United Nations in late 1971.

Debacle in Pakistan

Until my rather quick promotion in the Bank, I had not given up on the idea of returning to Pakistan as soon as a suitable opportunity arose. This despite the catastrophic and heartrending circumstances in which the separation of East Pakistan and the military defeat of Pakistan at the hands of India took place in December 1971. The emergence of an independent Bangladesh was probably the inevitable culmination of the gradual rise of Bengali nationalism, but it was a severe blow to the idea of Pakistan and a terrible failure of the military leadership. The circumstances of the separation brought a great deal of shame on Pakistan, though the average Pakistani, probably to this day, does not know about the war atrocities museum in Dhaka.

Those of us in Washington, though far away, felt deeply the sting of unravelling of events and the worsening political situation, starting with Mujibur Rahman's Awami League's almost total victory in East Pakistan in the elections of December 1970. The scale of Mujib's victory surprised everyone and threw the army leadership's political calculations into disarray. Zulfiqar Ali Bhutto's Peoples Party's success in West Pakistan, though less dramatic, was a clear signal for social change. Many, including senior World Bank officials dealing with Pakistan, led by Peter Cargill, felt that Mujib and Bhutto would never agree to a political settlement. But I was naïve enough to believe that, with strong democratic backing in their respective provinces, the two leaders would provide a safe and smooth passage from military rule.

It was a vain hope. But looking back at the history of the Indian subcontinent in the 1970s, I sometimes wonder what would have happened if its strongly elected leaders, including Indira Gandhi, who won a decisive victory in the Indian elections in March 1971, had co-operated in solving the political problems between East and West Pakistan. Unfortunately, the deep animosity between India and Pakistan has often prevented its leaders from taking a long-term view focusing on the economic welfare of their large number of poor and recognizing the costs of confrontation. It may be pure coincidence that Indira Gandhi, Mujibur Rahman, and Z. A. Bhutto all met violent deaths within a few years of their glorious political victories. Will countries in the subcontinent come together as the new and virulent threats of extremism and of terrorism face most immediately Pakistan, but potentially both India and Bangladesh, is yet to be seen. Could 2010 be a turning point or another lost opportunity? Certainly, the military leadership of Pakistan, Bhutto, and Mujib bear all responsibility for the separation of East Pakistan taking place in the most violent way possible.

President General Yahya Khan's state of denial of the looming crisis after Mujib's dramatic victory was quite appalling. January and February 1971 were spent in a lot of political dithering, while both Mujib and Bhutto hardened their political stands (Hasan Zaheer, 1994).[15] It is my belief that, by early March, the decision to resort to military action in East Pakistan had been taken, though some senior military leaders, such as Admiral Ahsan and General Yaqub Khan, the men on the spot in East Pakistan, had argued strongly against it and resigned in quick succession in early March.

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[15] For a detailed analysis of political developments and negotiations, see Hasan Zaheer, The Separation of East Pakistan, Oxford university Press Karachi, 1994,pp 130-159

Like many Pakistanis abroad, I was greatly perturbed by reported drift and uncertainty in the homeland. I used the occasion of a mission to the Philippines in February 1971 to make a few days' stopover in Karachi. This visit provided me with glimpses of Yahya's leadership and lack of realism about the army's future view of East Pakistan.

While I was staying at my mother's house, just off Drigh Road (now Sharae Faisal), a couple of good friends, Asghar Ali Hakim Jan and M. R. Khan (Rashid), dropped in to see me. Rashid, an old colleague and friend from my State Bank of Pakistan days, had access to knowledge about the army high command, as his younger brother, General Rahim Khan, was a part of the small inner circle around Yahya. Rashid asked me about my perspective from Washington about developments in Pakistan. When I expressed my deep worries, he told me that he shared my concerns. But he added that when some of these concerns were presented to President Yahya Khan, one got the reassuring answer that, 'Everything is going according to the Plan.'

I was even more taken aback when my brother-in-law, Alauddin Baqai, enthusiastically told me that he and his wife, my sister Mahjabeen (Munna), already a few months pregnant, were headed to Chittagong in East Pakistan because new business opportunities had opened for West Pakistanis there and the government was providing a lot of incentives. This seemed quite insane to me, but I did not have the courage to say so. In the light of the terrible developments that were to put a permanent shadow on their life, I wish I had argued forcefully for Munna's staying with our mother, at least for the duration of her pregnancy.

Events in East Pakistan moved at great speed after the postponement on 28 February of the first session of the new National Assembly that had been called for 3 March; no new date was announced. As had been predicted by Admiral S. M. Ahsan (1921-89) and General Sahibzada Yaqub Khan (1920-), 'all hell was let loose in Dhaka after the radio announcement. There were processions, strikes and riots. The Awami League became the de-facto government.' (Hasan Zaheer, p. 148, 1994.) There was a lot of violence against West Pakistanis.

Faced with the deteriorating situation, a new date for the Assembly session was set for early April and intensive new round of negotiations began between Yahya and Mujib. But the appointment of hard-line generals and the movement of large numbers of troops to East Pakistan strongly suggest that military action had not been ruled out, though it was precipitated by the Awami League's inflexibility on its Six Points and virtual cessation from the Federation in early March. Mujibur Rahman's arriving in the Governor House Dhaka to see President Yahya Khan during negotiations, flying just the Bangladesh flag, must have been hard to swallow for a military dictator.

Military action came on March 25; Mujib and a number of Awami League leaders were arrested, many were killed, others fled to India or the countryside, and so began a period of essentially strict military rule and strong military action, especially against the Mukti Bahini, the freedom force of Bengalis that came into being in April, with Indian support. On 14 April, a Bangladesh Government in exile was established in Calcutta. By the middle of April, India was training refugees to become guerrilla fighters in East Pakistan. By the end of April, India was planning to infiltrate the first 2000 of these guerillas into East Pakistan. Several million refugees crossed over into India and reportedly there were large scale atrocities against the civilian population in the name of restoring law and order.

Even though one saw it coming, the scale and the scope of military action horrified many of us in Washington. Having personal knowledge of the deep resentment building up in East Pakistan over the years, and Mujib's wide popularity, not only among general public, but also amongst the intelligentsia, I did not think that the military action had any chance of succeeding. The resignations of senior military figures, Admiral Ahsan and General Yaqub earlier, were also clear warnings ignored by Yahya. Unfortunately, much of the Pakistan public as well as the governing elite were either ignorant of the facts or were in denial, partly because Bhutto was seen as supporting Yahya's position. To my dismay, many compatriots from West Pakistan living in Washington also did not feel particularly uncomfortable with the use of force and believed it would work to 'pacify' East Pakistan, as it had many times before.

On the morning that we heard of the military action and tragic happenings in Dhaka the night before, my wife and I felt miserable. To assuage our guilt and show our angst, we right away visited our friend Bani, Mahbubul Haq's wife, who is a Bengali. Mahbub was out of the country and we felt that we must share our horror with someone so directly affected by events. Little did we know that our close family members living in East Pakistan were in great personal danger at exactly the same time. It took the army a few days, till probably early April, to regain control of major cities other than Dhaka. In the interim, there was a spree of violence against West Pakistanis.

Parveen's eldest brother, Rashid Waheed, had been living in the port city of Chittagong for nearly two decades, first for many years as the local head of a international shipping firm. Later, he had started his own inland shipping business. He and his wife Bushra had built a modern house there in 1962, though their three children were sent off for schooling to West Pakistan as they grew older. They enjoyed a good standard of living and an active social life, centred on the exclusive Chittagong Club. Most of their friends were West Pakistani businessmen or multinational company executives. Probably, it did not occur to most of them that theirs' was viewed by Bengalis as a colonial lifestyle. There were only a few Bengali members of the Chittagong Club. This lifestyle came crashing down in the wake of military action and the ultimate emergence of Bangladesh as an independent nation nine months later.

Waheed was to lose his business and home in the political upheaval. But perhaps the most traumatic event of his life was spending several days in hiding from the murderous gangs of enraged Awami Leaguers who went on rampage, killing any West Pakistani that they could find. There was a hiatus of several days between the military action in Dhaka and the army taking full control of the major cities. It was in this period that a large number of West Pakistanis were hunted down mercilessly and survived only with the help of friendly Bengalis who came to their aid. Waheed was hidden away in his own house by one of the loyal Bengali servants who managed to provide him occasional meals. This experience seemed to break him; though he and his wife very successfully raised three children, his business never recovered and probably the glory of their Chittagong days haunted him till his death in 2002.

My sister, Mahjabeen (Munna), and her husband, Alauddin Baqai, also had a narrow escape in Chittagong during the same period.

They were in a hotel and had to remain hidden in a small closet to escape capture. They were rescued when the army moved in. In their case, the long-term injury was to the child Munna was carrying; Eddie was born prematurely and apparently suffered some brain damage as a result of lack of oxygen supply to the fetus and though he is physically fully functional, the mild retardation has kept him from enjoying a normal life.

Parveen's younger brother, Parwaiz Shaikh, married to my younger sister, Yasmin, was the manager of a tea garden estate in the Sylhet district, enjoying a somewhat isolated but privileged life. Their departure from East Pakistan was less traumatic and Parwaiz was young enough to chalk out a new career for himself. But it was a hard blow, nonetheless, and the transition to a new career in the US was difficult and painful.

The trial and tribulations that close family members had to face and the lasting impact on their lives of the separation of East Pakistan were to become known to us only gradually as communications were not what they are today.

However, the sharp decline in Pakistan's standing in Washington, in the world media, and–more personally, for West Pakistani professionals like me–in the World Bank and the IMF was immediate. Senior Bengali officers defected from our embassy. Pakistan's name was in the mud and West Pakistanis were implicitly blamed for their government's actions.

The senior management of the Bank and President McNamara as well as South Asia management, led by Peter Cargill clearly–and rightly–sympathized with the Bengalis and provided them easy access and patient hearing. Many East Pakistanis, including my friends Nurul Islam and Abdul Muhith–former Economic Counsellor in our Embassy–protested outside the Annual Bank Fund meetings in Washington in September 1971. (Muhith is now in his second stint as Finance Minister of Bangladesh.) All this was a matter of embarrassment as well as shame and represented an unbelievably swift change compared to just a year earlier, when one felt so welcome in Washington and at the World Bank.

In the summer of 1971, excerpts from the private diary of Manfred Blobel, a senior World Bank official, appeared on the front pages of the *New York Times*. Blobel, the chief economist of the South Asia department, headed an economic mission to East Pakistan in May 1971 at the request of the Government of Pakistan, which was keen to show the international audience that things were returning to normal. But since they were not, the World Bank report did not serve the government's purpose. While the official report was not so blunt, Blobel's so-called private diary painted a devastating picture of the situation in East Pakistan. Blobel, a German, noted that some scenes reminded him of his bombed-out country after the end of the Second World War. My guess is that Blobel was personally asked by Cargill and McNamara to report candidly on his findings to them and that leaks to press were authorized by McNamara himself, because internal discipline within the Bank was quite strong.

It is also interesting that McNamara's activism in support of East Pakistan stood in contrast to a rather supportive stand taken by US President Richard Nixon and his Republican administration. Pakistan and Yahya Khan had been directly involved with the US in developing a back channel for contacts with the Chinese since late-1970. By April 1971, the preparations for Kissinger's top-secret visit to Beijing through Pakistan, in early July 1971, had already been initiated (Kissinger, 1969, chapters XIX and XX). This cosy relationship between Nixon and Yahya Khan possibly contributed to Yahya's opting for the unwise military repression in East Pakistan which was in full swing by the summer. Yahya also counted on Chinese support in case of a direct Indian attack on Pakistan.

Nixon's tilt towards Pakistan and his later efforts to persuade Indira, during meetings at the White House in November, to prevent India's direct military intervention in East Pakistan, were not to bear fruit. The size of the Mukti Bahini had grown to 40,000 by October. By the end of that month, small contingents of the Indian army had moved into East Pakistan.

Yahya's blunder was to try to solve a political problem with a force of 40,000, later increased to 70,000, for a region of 75 million persons, who had voted decisively for their leader, Mujib. His political concessions were too little and came too late. The die for Bangladesh's independence had been cast by the outcome of the elections and the military leadership's earlier decision that constitutional changes could be made by majority vote. However, Indira Gandhi's relentless determination to make full use of the opportunity thus offered to possibly dismantle Pakistan, drawing on the strength of the Friendship Treaty signed with the Soviet Union in August 1971, was ultimately responsible for the way in which the tragedy unfolded. Prolonged violence took and shattered many lives. Pakistan was humiliated and 90, 000 of its military and other personnel were made prisoners of war. And in the end, the process of the dissolution of East Pakistan did not advance either Indian national interest or particularly weaken Pakistan; nor did it improve the prospects for peace and prosperity in the subcontinent.

For most of the past four decades, relations between India and Bangladesh have been strained. Indeed, the welcome given to Indian troops turned sour within months of Bangladesh's independence. Pakistan's humiliation provided the fodder for continued suspicion of its big neighbour and became the excuse for huge defence outlays and a doubling of the strength of the armed forces since 1970. Strained relations between India and Pakistan remain a major drag on economic co-operation between the two countries and have made poverty reduction efforts in both countries more difficult. The Kashmir issue remains unresolved; it feeds jihadist and extremist sentiments in Pakistan and forces India to maintain a force of several hundred thousand troops in the state, at huge expense, causing deep resentment among the Kashmiris.

As mentioned earlier, not only Yahya Khan but also the three popularly-elected leaders of the subcontinent–Indira Gandhi, Mujibur Rehman, Zulfiqar Ali Bhutto–must be blamed for lacking a co-operative vision that could have transformed all their countries and laid a firmer basis for peace and prosperity. Kissinger apportions a lot of blame to Mrs. Indira Gandhi. He 'remains convinced…that Mrs Gandhi was not motivated primarily by the conditions in East Pakistan; many solutions to its inevitable autonomy existed… Rather, encouraged by the isolation of Pakistan, the diplomatic and military support of the Soviet Union, the domestic strains in China, and divisions in the United States, the Indian Prime Minister decided in the spring or summer of 1971 to use the opportunity to settle accounts with Pakistan once and for all and assert India's pre-eminence on the subcontinent. Her delay until November was to allow military training and preparations to be completed and wait until winter snows in the

Himalayas complicated Chinese access. After that decision, every concession by Pakistan was used as a starting point for a new demand, escalating the requirements and shortening the time response to the point that a showdown was inevitable' (Kissinger, 1969 p.914).

East Pakistan fell to the Indian army on 16 December 1970. Many of us saw the approaching end with great sadness mixed with shame. The official line remained that it was India's doing. I had been working on completing an economic report on the Philippines, but found it increasingly difficult to concentrate on work. I and Shahid Javed Burki, who was a member of my team as a consultant, spent hours bemoaning the fall of our country from grace in a few short years.

As it happened, a few weeks earlier, I had agreed to speak on Pakistan's economic and political situation at a Princeton University economics seminar in mid-December. Now, somewhat unexpectedly, Bangladesh was a new nation, just a few days before I was supposed to speak. My host, Professor Shane Hunt, a colleague and friend from my Yale days, called to say that he would understand if I decided to cancel. Difficult though it was, I was not inclined to cower down. So I kept the engagement. The seminar room was overflowing and, perhaps not surprisingly, the audience was not hostile, as it probably would have been if India had not intervened on Bangladesh's behalf.

In my talk, I dealt with the causes of disaffection in East Pakistan. My main point was that the major source of resentment was not the growing economic disparity between the two regions but rather the unequal sharing of political power between the two wings, especially as military rule had been in effect for more than a dozen years and East Pakistan had little representation and, thus, no identification with the Pakistan army. Yes, there had been some resource transfer from East Pakistan to West Pakistan in the early years, but that was no longer the case in the 1960s. The disparity in foreign aid flows was also being reduced. There was indeed the prospect that resources might flow from the West to the East wing in the 1970s. But all this had become irrelevant. The Bengali trust in the Islamabad government after the 1965 War with India had virtually disappeared and Mujib's clarion call of Six Points, ensuring virtual autonomy for East Pakistan, had captured the imagination of the public and the December 1970 elections had sealed the fate of Pakistan as a single country. The sad thing was that the breakup happened in the worst possible fashion and involved so much violence.

A few weeks after the separation of East Pakistan, I was visited at the World Bank by a Political Counsellor from our embassy. He told me that he was talking to senior Pakistanis in the Bank, in order to get some input into possible Pakistan responses to the military defeat at the hands of India and to the separation of East Pakistan. I told him bluntly that we must not continue our policy of confrontation with India; rather, we should focus on economic development, and that possibly, with rapid economic growth and with a stronger economy, we could pressure India on the Kashmir issue more effectively in 20-25 years. He may have got similar responses from some other Pakistanis as well, because I heard later that he reported to the Ambassador that some at the Bank were out of touch with reality and were indeed talking nonsense.

In a sense, he was right–our views went against the grain of leadership response. The confrontation with India on Kashmir has continued in the nearly four decades since and has blocked progress on all economic issues that could have led to more trade, travel, and regional integration. Pakistan's military strength and spending was increased sharply in the 1970s and the 1980s, with inevitable consequences for spending for economic and social development. In the 1990s, the large and unsustainable public and external debt buildup slowed both economic growth and defence expenditures.

One is tempted to speculate on what might have happened if defence spending which, at its peak in the late-1980s, reached 7 per cent of GDP, had been half the level, and that these resources had been allocated to social and economic development and potential economic gains from regional co-operation had been optimized. It is not frivolous to suggest that Pakistan's economic growth rate over the long period of 1970-2010 could have been at least 2 percentage points higher than it actually was–that is, 6-6.5 per cent per annum, rather than 4-4.5 per cent per annum. This would have meant an economic size double of what we have, higher education levels, lower poverty incidence, and less social tensions, including less extremism. It is also interesting to note that, with an economic size twice the present level, the actual defence spending would not be any lower, even if the percentage of GDP allocated to it was half the present level. If one adds to the mix, the assumption of greater trade and economic co-operation between India and Pakistan over the past four decades, one can argue that the whole history of the subcontinent could have been a happier one.

Chapter 15

The World Bank Years
1970-1996

When I came to the World Bank, I never thought of it as a final career move. As discussed later (Chapter 23), I was quite keen to return to Pakistan in the Z. A. Bhutto era. Later on also, either in the 1980s or the 1990s, I would have seriously considered an offer for public service in a suitable position. But the opportunity never arose and my direct involvement with the government was limited to periodic short-term advisory missions and informal discussions with senior policy makers. However, after retirement, I was to spend considerable time on analysing Pakistan's economy in various capacities, including a two-year assignment as the head of the Debt Reduction and Management Committee under President Pervez Musharraf. Meanwhile, family considerations for staying on in the United States became more pressing over time, as my daughters went to college in there, social life in Washington became more pleasant as the city grew more cosmopolitan and the number of highly-educated and successful Pakistanis in the area grew, and, last but not least, the prospect of a handsome World Bank pension increased with each passing year.

It was my good fortune that my work at the Bank involved me in some of the most important economic development stories of our time: the rise of East Asia, the entry of China in the global economy, and the economic turmoil and reforms in Eastern Europe, Russia, and Central Asia after the collapse of the Soviet Union and communism in the early 1990s. I worked on East Asia for a long period, most of it as Chief Economist for the region (1974-84). In the subsequent eight years, I held positions at various times as Chief Economist for the Middle East and North Africa, Europe, and Central Asia, and did a stint as Director, Operations Policy, for the Bank as a whole. Finally, I headed the first Bank Regional Mission in Central Asia, headquartered in Tashkent (1992-1996). The wide exposure to and working on rapidly growing, reforming, and transition economies was a learning experience and a challenge, both for the institution and for me personally.

Robert Strange McNamara

Working in the World Bank was particularly exhilarating in the McNamara years (1968-81). Robert S. McNamara (1916-2009) changed the Bank fundamentally, by rapidly expanding the staff, the scale and scope of its operations, providing a clear focus on poverty reduction, and by resisting, by the sheer force of his personality, any undue political pressures from the major shareholders of the World Bank, especially the United States.

McNamara passed away recently at the age of 93. Unfortunately, most of the obituaries were not positive because, in the minds of his countrymen and the western world, he was clearly identified with the US misadventure in the Vietnam War, of which he was considered one of the chief architects. Consequently, there was little mention of his work at the World Bank and his commitment to the world's poor. At the Bank, he may have been seeking redemption for his role in the Vietnam War, which had caused a lot of anguish and misery. But in the process, he did make the World Bank a more effective instrument of international development and poverty-reduction.

Some Personal Reflections about this Complex Leader

I did not work directly with McNamara but I did have plenty of opportunities to see him at close quarters during small meetings on country strategies, some social occasions, and, of course, frequently at the Executive Board meetings that he chaired. McNamara was clearly a driven man, with a strong sense of purpose and an agenda that he pursued relentlessly. At the Bank, he closely identified the volume of lending and broadening the geographical and sectoral scope of operations as the principal barometer of success. His concern for poverty reduction was genuine and his efforts to increase the Bank's role in agriculture, rural development, education, and population substantially shifted the pattern of lending.

Unfortunately, the staff came to perceive larger lending as a sure footing for career advancement and, therefore, the quality and impact of operations sometimes suffered. I recall a loan officer working on the Philippines telling me, some time in the late-1970s, that the Bank had approved another loan for the Development Bank of the Philippines, while there had not yet been any disbursement on an identical previous loan. This was not a solitary example in the Bank.

Even towards the end of his tenure, McNamara was still pushing hard for larger lending. In his speech to the last Annual Meeting of the World Bank that he addressed in September 1980, he argued for a further big push in lending. I happened to be acting Vice-President in the summer of 1980, when he called a meeting of the President's Council and shared with his principal officers the draft of this last Annual Meeting Speech to the Board of Governors. He gave us a couple days to comment. I liked the speech but expressed the view in a one-page memorandum that the emphasis on the volume of lending should be tempered with concern with the quality and effectiveness of lending. My boss, Shahid Hussain, Vice President, told me later that McNamara had liked my comments. But I did not find any revision in the final version of the speech.

McNamara was not always comfortable in social gatherings because he was not good at small talk. It is the practice in the Bank that, after completion of ten years of service, you are invited to a reception with the President, where there is also a hand-shaking and picture-taking ceremony. I attended such a gathering in early 1981. The gathering of 20 to 25 Bank staff members were a mixed group, consisting of professionals, secretaries, and other support staff. Many of them had little detailed knowledge of the Bank's operations and the financial and economic issues that the Bank was helping to address in developing countries. Yet McNamara, probably not recognizing his audience, concentrated his remarks, with a long barrage of figures, on the balance of payments' deficits of developing countries that were indeed suffering, because of a sharp rise in the international oil price in 1980. These remarks fell rather flat, even on some who were familiar with the figures. There was not much personal sentiment expressed to thank and cheer up the ten-year anniversary stalwarts.

I recall another occasion, where I also found McNamara missing a connection with the audience. Korea faced serious financial difficulties in the late-1970s and the World Bank extended large and timely assistance (See Chapter 18). In order to express special thanks to the Bank, the Deputy Prime Minister of Korea, on a visit to Washington, invited Mr. and Mrs. McNamara and a few of us working closely on Korea, with our spouses, to a small, informal dinner and some Korean entertainment. There were no more than a score of persons present. Korea, despite its short-term difficulties, was an economic star and an emerging industrial state. I do not know what impelled McNamara to talk in his remarks about the basket cases in development. McNamara spoke of the resistance in some western countries to foreign aid and said that many favoured 'triage', saving only those that could be saved. Addressing the audience of Koreans, he actually said that they want you to be thrown overboard. This was both funny and sad. I do not know what the Koreans thought of the speech.

McNamara's Successors

McNamara was followed by three one-term Presidents: Tom Clausen (1923-), Barber Connable (1922-2003), and Lewis Preston (1923-1995), none of whom left a major mark on the Bank. Clausen, a former and subsequent head of the Bank of America, did help to improve the financial position of the Bank, which had been eroded by high inflation, but his term suffered from a lack of support from the US administration, which, under President Reagan, had become suspicious of foreign aid and regarded it as welfare support. The focus on poverty suffered during Clausen's time. Connable, a long-time former US Congressman from upstate New York, possessed considerable political skills and helped to repair the Bank's relations with the US Congress and helped mobilize funds for IDA, the soft-term assistance arm of the Bank. He also restored the focus on poverty. But he had no managerial experience and his major reorganization of the Bank in 1987 to downsize the Bank, while saving costs, caused a lot of disruption as well as a significant demoralization of the staff. Preston could not complete his term because of ill-health. His main achievement was the facilitating the entry of the former Soviet Union republics as members of the Bank Group and further streamlining the administrative structures of a once again rapidly growing Bank.

It would be fair to say, however, that in large measure, the Bank, with its emphasis on the volume of lending, poverty reduction, and quick response to the evolving needs of developing countries under external shocks (such as the oil price increases in the 1970s and 1980s), remained, in large measure, McNamara's Bank, well beyond his tenure, in part because his two handpicked deputies, Earnest Stern and Moeen Qureshi, remained in place for many years.

The Bank changed considerably in the ten years (1995-2005) that James Wolfensohn was President. (My own overlap with Wolfensohn lasted less than a year; I saw him at close quarters only for a few days when he visited Uzbekistan in October 1995.) Wolfensohn focused the spotlight back on the World Bank's true purpose–fighting global poverty–but also greatly broadened the agenda and broke ground in several major new areas, including corruption, debt relief, disabilities, the environment, and gender. One criticism of his tenure is that he broadened the Bank mandate too much and tried too hard to accommodate dissenting voices outside, thus reducing the ability of the Bank to respond quickly and effectively. Because the development dialogue was extended to include civil society, indigenous peoples, faith-based groups, and other non-government stakeholders, the criteria for lending became long and complex.

Bank Record 1970-95

There was a real sense of dynamism in the institution when I joined in mid-1970. Between FY68 and FY70, IBRD and IDA lending had more than doubled to US$2,200 million and regular staff had expanded by nearly 60 per cent to around 1200. This staggering growth was accompanied by a very conscious effort to diversify nationality distribution, away from the existing concentration of US and western European nationals, to make the Bank truly international in its management and professional expertise. It was this latter push by McNamara that brought me and many others to the Bank, especially in the early 1970s. The induction of a large number of highly qualified staff from developing countries also created a constituency for the Bank in the third-world member countries, by giving them more of a sense of belonging to the institution.

A decade or so later, when McNamara left the Bank in 1981, lending had grown to over $12 billion and the staff had increased to over 2500. By 1996, IBRD and IDA commitments had risen to over $25 billion and a staff of well over 6,000. The effective entry of China in 1980, of Central and Eastern Europe countries in the mid- to late-1980s, and the republics of the former Soviet Union in the early-1990s have made the membership almost universal. The membership of formerly centrally-planned economies brought with it the fresh challenge of developing assistance strategies to help transition to market-based economies.

The remarkable expansion of Bank lending and its analytical work, unfortunately, did not have a uniformly high positive impact on growth and poverty around the world. The record in Africa was especially disappointing, as poverty in the region deepened. But even in other regions such as South Asia, the core concerns of poverty alleviation and human resource development in borrowing members remained. By the mid-1990s, when the World Bank group was nearing its half-century mark, there were widespread protests, both against the World Bank and the IMF, especially by leftist elements, who argued that these institutions had become tools of neo-colonialism, were pushing the so-called Washington Consensus on free market forces too uncritically, and the slogan that 'Fifty Years were Enough' was being heard.

The East Asian Miracle

While the Bank Group's record elsewhere was mixed, its work in East Asia continued to be viewed very positively till the 1980s, when the economic situation in the Philippines began to unravel. However, the entry of China in 1980 gave a fresh boost to the Bank's activity in this geographical area and it remained an interesting place to work in.

Even though I spent more than half of my years in the Bank working on East Asia, initially we were not quite aware that a miracle was happening there. In the early 1970s, the countries that were to become known as the Asian tigers–Japan, Singapore, Taiwan, Hong Kong, Korea, Malaysia, Thailand, and Indonesia–and whose economic success was to be dubbed as the East Asia Miracle, had not yet caught the world's full attention, of course with the big exception of Japan (World Bank 1993). China's legendary success was also well in the future and could not even be imagined then.

The unbelievably high rates of growth in Japan were the only big economic story at that time. After speedy rebuilding of the industrial capacity lost during the Second World War, Japan had made large investments in heavy industry and infrastructure, and, by the early 1950s, was surpassing any growth records set anywhere in the past.

Between 1953 and 1965, the Japanese economy grew at over 9 per cent per annum. Its growth rate accelerated further to nearly 10 per cent per annum over 1965-73. As the Japanese economy became the second largest economy in the world, second only to the US, there was a tendency to project the continuation of its high growth over the next several decades and even to speculate that the twenty-first century might belong to Japan. Hermann Kahn's book, *Emerging Japanese Super-State: Challenge and Response*, published in the early 1970s, concluded that Japan's per capita income might exceed that of the US by 1990 and that, by 2000, Japan could become the largest economy in the world.

These futuristic expectations have not materialized. Japanese growth rate slowed down to around 4 per cent in the period after 1973, due to the international oil price increases and structural economic problems; it slumped further to 1.5 per cent per annum during the 1990s, and the rate has not recovered much in the last decade. While Japan remains a very high income country, it lags behind US (about 15 per cent) in income per capita in purchasing power parity terms. Indeed, a couple of other Asian tigers–Hong Kong and Singapore–now have higher per capita income than Japan and are in the same league as the US. In term of economic size, the US economy is about three times larger than that of Japan, which has recently been overtaken by China as the second largest world economy.

Regardless, Japan had already emerged as a major aid donor in the 1970s and has been way ahead of other industrialized countries in its aid commitments to less developed countries over the past several decades. The interesting thing is that Japan was a large recipient of World Bank loans in the 1950s and early1960s and Bank's last loan was made as late as the mid-1960s. The World Bank Annual Report for 1966 indicates that Japan, with $650 million outstanding to IBRD, was the second-largest borrower of the Bank, second only to India. So, in its own time, Japan's transformation in less than two decades from a large Bank borrower to a significant donor, with its huge balance of payments surpluses, dwarfed all other chronicles in international development, including the rise of Western Germany.

The World Bank never lent to Hong Kong, which was a British colony till 1997, when sovereignty passed to China after the 99 years' lease expired. Singapore had received Bank assistance in the 1960s, but did not need it any more after the early 1970s. Taiwan, then the

Republic of China (ROC), remained an active borrower from the Bank for a long period and this relationship would have gone on but for the People's Republic China being accepted at the United Nations as the rightful representative of the Chinese people in October 1971 and occupying China's seat at the Security Council that had been held by the ROC.

From then on, Bank lending to the ROC (Taiwan) was no longer possible. However, the ROC continued to represent China at the Boards of the World Bank and IMF till 1980, when mainland China finally decided to join these institutions and assumed its rightful place.

Over 1970-80, the Bank's lending operations and analytical work in East Asia were concentrated in Indonesia, Korea, the Philippines, Thailand, and Malaysia. I became involved in the Philippines, Malaysia, and Korea quite early in my years at the Bank and was given the opportunity of heading large economic missions to these countries in fairly quick succession. Over 1971-74, I made at least a dozen trips to these three countries. After I became Chief Economist for the region in 1974, I spent considerable time, in addition, on Indonesia and Thailand, and finally, I got heavily involved in the first two years after China's entry into the Bank, mainly through leading a large and high-powered economic mission to China in 1980.

All these experiences were quite different. While most of the countries of East Asia have been very successful in making economic and social advances, their political conditions, culture, and ethnic mix have been quite varied. In economic performance, the most vivid contrast was between Korea and the Philippines. Korea became a development star and the Philippines a clear economic laggard. These two countries were also, along with China, Malaysia, and Uzbekistan, the ones that I was most directly involved with in my career at the Bank. My varied experiences in many different but interesting economic, social , and political situations are discussed in some detail in the subsequent seven chapters: I hope they will provide a flavour and some insights into , my development experiences in the World Bank from both a personal and a professional angle.

In the remaining part of this chapter, I will focus on my general impressions about life, the work environment, and the development philosophies at the World Bank during my more than a quarter century there, and also reflect on the many development lessons that I learnt from different country experiences.

Work Environment, Analytical Work and Role of Economists

The work environment at the Bank was exceptionally good, especially in the 1970s and early 1980s. The institution was growing fast, the career opportunities were excellent, developing-country officials with experience in their respective governments were looked upon favourably, there were relatively few budget constraints, at least initially, and, as mentioned before, there were hardly any overt political pressures.

The World Bank is unique among aid donors in that it has a strong capability and gives a fair degree of autonomy to its staff in its analytical work on country economy and strategy. It is this even more than the volume of its lending that has earned it respect in the world community. It is this that attracted that attracted me the Bank and made me stay there so long.

The latitude given to economists in analysis of country situations had a long history in the Bank. Almost from the beginning it was decided that economic and sector analysis would provide the basis of economic advice to countries, strategic thinking about country assistance and Bank lending operations. Over time, this analytical function became stronger as aid co-ordination groups were set up under the chairmanship of the World Bank, starting with the aid Consortia for India and Pakistan towards the end of the 1950s. The rapid growth in quick disbursing policy lending under the rubric of structural adjustment lending in the 1980 gave a further push to economic work, though it made it subject to stricter internal reviews.

The advice given to government by mission heads was not screened. In this respect, the Bank staff enjoys more individual freedom than their colleagues in the IMF, especially when they the latter work in the context of developing an IMF programme.

More generally also, I found the Bank not so hierarchical. In professional discussions, rank did not matter much. Younger individuals were quite free to speak up and challenge established views or policy positions. This was reinforced by the fact that seniority was not the major criterion for promotion to higher positions. I found many examples where an erstwhile exceptionally talented subordinate could become the boss of his superior in a matter of years. With my Pakistani background, initially I found this quite unsettling, though I personally benefited from this lack of emphasis on seniority.

The generally high quality of staff as well as many of the members of the executive board made the Bank a stimulating place. Many countries sent their younger best and brightest to serve as their representatives on the Board and then moved them on to higher positions. Many returned to their countries as finance ministers and, in the case of a few Latin American countries, executive directors ended up by becoming Presidents of their countries.

As the Bank grew in size, the collegiate style, made possible by the relatively small size of departments, came under pressure, but there was a major delegation of authority to the regional offices for quality control, especially with regard to economic and sector work in 1972. As regional Chief Economist, I was essentially my own boss though, as a member of the regional management team, I reported to the regional Vice President. I was fortunate that the regional vice presidents I worked for, Bernie Bell, Shahid Hussain, Willi Wapenhns, and Wilfried Thalwitz, were all very able and generally very supportive. My relationship with Willi (Bill) Wapenhans was particularly close and his strong support for my views on policy matters was exceptional. There was also an opportunity to interact often with the Senior Vice President operations, first Earnie Stern (1978-87) and then Moeen Qureshi (1987-91). Stern and Quereshi were both towering figures in the Bank, with widely divergent managerial styles but entirely devoted to the Bank and extremely effective. It was helpful that I knew them as friends from their (and mine) pre-World Bank days and thus had throughout the opportunity of informal discussions with them through occasional lunches, bypassing the bureaucracy.

Liaison with Development Policy Staff

Another pleasant part of the job of a regional chief economist was to be a liaison with the Development Policy Staff of the World Bank that was headed by World Bank's chief economist. I worked with four Bank Chief Economists during my tenure, Hollis Chenery (1970-84), Anne Kreuger (1982- 86), Stanley Fischer (1986-91), and Larry Summers (1991-93). They were all strong economists with high reputations. Chenery went back to his academic position at Harvard after serving the Bank. Stanley Fischer and Anne Kreguer subsequently served as First Deputy Managing Director of the IMF. Larry Summers, considered a boy prodigy for having been appointed Professor at Harvard at the age of 28, was only 37 when he joined the World Bank in 1991. After leaving the Bank, he served as Under-Secretary and later Secretary US Treasury under President Clinton and became Harvard University's first Jewish President in 2001, but had to resign his position in 2006 amidst growing controversy about his actions and remarks.

Summers had probably the strongest intellect of all the senior officials of the Bank that I had the occasion to work with. His style was, however, very provocative. He would take a good argument but stretch it to its limits, not conceding much to the opposing viewpoint. But he was generally very pleasant and friendly. I remember once at a monthly routine lunch of the chief economists, we were discussing the range of views on free trade among economists. The brash young man that he was, Larry expressed the opinion that any economist above 50 was against free trade, while any economist below 50 was pro-free trade. I took exception to this statement, saying that I was above 50 but was in favour of free trade. At this, Larry made a hasty retreat for once.

But at another occasion, an inter-disciplinary seminar at the Bank on population control and the role of women's education in fertility control, Summers surprised many of us by taking a very strong position that all contraception control efforts were a waste of money: the costs of preventing a birth through direct family planning programmes were just too high. He argued that all the resources for bringing down the rate of population growth should be devoted to female education. This riled many others involved in family planning programmes. But Summers was unyielding to the point that a doctor was provoked to say that he and his wife had more than 40 years' education between them, but this would not prevent them in having a child without contraception.

Summer's famous memo at the World Bank in December 1991 that stated that "the economic logic behind dumping a load of toxic waste in the lowest wage country is impeccable and we should face up to that . . . I've always thought that under-populated countries in Africa are vastly under-polluted.' I believe the memo was unfairly leaked but this was just a precursor of his remarks at Harvard about women's capabilities that got him into serious trouble.

In sharp contrast to Summers, his predecessor at the Bank, Stanley Fischer, was a very careful man who worked in a very low key but effective way to increase the Bank's outreach. He persuaded the Bank and the regional offices to regularly release to the public the Country Briefs that contained a wealth of information. He also instituted an Annual Bank Conference on Development Economics that have come to be known as ABCDE. When the Bank's membership of former socialist countries began to grow, Fischer decided to set up a central unit in his Vice- Presidency, dealing with transition economies, but was polite enough to tell me that the intention was no way to limit economic work in the regional office dealing with East Europe and the former Soviet Union (FSU) that I was involved in.

There was one occasion, however, when I thought that Stanley was being extra cautious. Turkey had a quite successful economic adjustment programme in the 1980s but inflation had persisted at a high annual level of around 20 per annum in the late-1980s. In my discussions with the Turkish government, we had not been able to persuade Turgut Ozal's government to slacken the strong growth drive somewhat and give higher priority to bringing inflation down to a single digit level. When Fischer was making his first official visit to Turkey, I requested him to reinforce our worries about continued high inflation that was particularly hurting the middle classes, Somewhat to my surprise, I could not ,however, convince Fischer to take up the matter with the Prime Minister of Turkey. Indeed, I found him, a very strong macroeconomist, rather relaxed about the high rate of inflation in Turkey. Maybe he did not wish to touch a sensitive issue with the high officials on his first visit. But I was disappointed.

Anne Kreuger, another highly reputed international trade and development economist, pushed rather hard–and in my opinion excessively–for greater reliance on market forces in her tenure at the Bank. This was in line with the shifting views about the effectiveness of state interventions in the Reagan era. She seriously erred, however, in believing that the deep debt crisis that faced developing countries in the early 1980s would resolve itself. This influenced Ernie Stern's thinking also and, as a result, the Bank, both as a spokesman for developing countries as well in its policy analysis, faltered.

Debt Crisis and High Real Interest Rates

I was one of the few voices in the Bank that expressed a deep worry about the persistent debt problem in the mid-1980s. The impact of the 1973 oil shock on oil-importing countries was greatly diluted by large commercial bank lending to these countries at what turned out to be highly negative real interest rates: this was the result of the acceleration of international inflation while nominal interest did not rise because of high international liquidity and the expansionary policies of central banks in western countries. The developments following the 1979–81 oil shock were strikingly different. Real interest rates rose very sharply to record levels and greatly reinforced the terms of trade loss from the oil price increase, because the levels of debt in oil in importing countries were already high.

The Bank's economic analysis and country projections, under Stern and Kreuger's leadership, made the assumption that the real interest rates, if not negative, would quickly return to their normal low level, thus alleviating the debt burden. But the real interest rates that reached a peak of over 16 per cent per annum during 1981–82, in sharp contrast to being negative by over 7 per cent per annum in 1978–79, showed no real sign of decline in 1983–84 (Hasan, 1991). I, therefore, felt that because of substantial uncertainty, greater caution was required at the country level and much stronger efforts for debt reduction and restructuring at the international level. As a minimum, greater thought should have been given to risk management. But I did not have a Bank-wide policy position at that time and thus could not exert much influence.

The closest I came to raising the issue at a high level was at Ernie Stern's annual senior operation managers' retreat in the spring of 1984, a very good forum for exchange of views. Paul Volcker, then Chairman of the US Federal Reserve, was a guest speaker at this meeting. Volcker himself was a prime mover of high interest rates: he had raised the Federal funds rate, which averaged 11 per cent in 1979, to the peak of 21 per cent in June 1981 and was widely criticized for dampening economic activity and causing financial distress by seriously upsetting the high inflationary expectations that had bred speculative behaviour. However, the Federal Reserve actions had brought inflation down to less than 4 per cent already by 1983. Still, the Federal Funds rate in April 1980 was still 10 per cent in April 1984. During Volcker's remaining tenure till early 1986, the federal funds rate remained high, at around 8 per cent, well above the inflation rate of 3 per cent in 1985.

I outlined my concern about the persistence of high real interest rates to the managers' meeting, saying that the Bank was in my opinion assuming too sharp a drop in the next few years and, therefore, debt burdens would not come down. I also asked Volker's opinion about the likely future course of real interest rates. In his response, Volker was, for obvious reasons somewhat non- committal because of his critical policy role, but did not question the view that the real interest rates might stay at a high level for a time, while saying that historically real interest rates had been about 2 per cent per annum.

I was happy that at least I had raised the issue in fairly clear cut terms with Stern who was effectively running the Bank at the time. But I received a private rebuke from Ernie about my strong position just after the session with Volcker. Ernie said that I might not agree with him but Anne Kreuguer did. That was a rare moment of glory for me– Ernie citing someone else in support of his argument.

The experience with very high real interest and their persistence for a long period in financial crisis-ridden countries also made me a fiscal conservative and one strongly in favour of inflation control. Growing up in the Keynesian tradition, one had faith in inflationary financing of development but wide international experience has taught us that macroeconomic stability is important for growth as well as equity. Once confidence in a currency is blown away, it is very difficult to restore it. IMF is not always right, but more often than its critics give it credit for.

Lessons of Experience

My thinking about development evolved a great deal in other ways also during my years at the World Bank, though I must hasten to add that my experience in West Pakistan as a planning official, dealing with all major sectors of the economy that provided me with insights into the real economy and government policy making, prepared me well for learning from my wide exposure to country situations at the World Bank.

My experience in East Asia quickly transformed my views about the role of foreign trade in development. During the 1950s and early 1960s, there was a lot of pessimism about export growth in economic literature, based on the experience of the 1930s, when protectionist tendencies had resulted in a large fall in the volume of international trade. The works of Hans Singer and Raul Prebisch had encouraged the notion that the developing countries were at a disadvantage in exchanging their primary products for manufactures. Their theories gave a strong push to import substitution as a path to rapid industrial growth in Latin America and elsewhere. It was hard not be influenced by these ideas.

On the Indian subcontinent, export pessimism was rampant. The export growth target in both the First (1955-60) and the Second (1960-65) Pakistan Plans was only 3 per cent per annum in nominal terms.

That manufactured exports from Korea, Hong Kong, Taiwan, and Singapore had been rising by more than 25 to 30 per cent per annum during the 1960s was a bit of a revelation. Stimulated by the liberalization of trade, reduction of tariffs, and technological changes, reducing transport costs and improving information flows, since the 1960s, world trade has continued to grow at a much faster pace than world output. The leading edge of this expansion has been the growth in world manufactured goods exports. The explosive growth in manufactured goods trade has been both accompanied and stimulated by quite significant changes in its structure, from finished goods to intermediate products or components. As discussed later; Pakistan largely missed the opportunities available.

Through my work on East Asia, I also realized that it was not just the liberalization of trade that opened up the opportunities for developing country exports but there was also a shifting dynamic comparative advantage especially in labor- intensive manufactured goods at work. This enabled newly industrializing countries to capture share from the share of developed countries. The share of USA, Japan and EU15 in world manufactured came down from 75.8 per cent in 1980 to 63.8 in 2000 and even with the enlarge EU this share had fallen to 60 per cent in 2008.

These dramatic shifts in shares have been accompanied by major changes in composition of exports from developed countries away from textiles, clothing and other labor intensive goods. For instance, EU, US and Japan accounted for over two-thirds of world's textile and clothing exports even as late as 1980. By 2000 this share had dropped to a little over 35 per cent and has remained at this level despite the much enlarge EU. Within the developing countries, share of Korea, Hong Kong, Taiwan, in world textile and clothing exports has been declining and much of the growth captured by China, and to a lesser extent by India Vietnam, and Turkey.

I was drawn to the idea of shifting comparative advantage even among developing countries fairly early in the 1970s when I noticed that the in real wages in the dominant manufactured exporters from developing countries at the time, Korea, Taiwan , Hong Kong and Singapore—the gang of four—were rising very rapidly. Thus I felt that these countries would lose competitive edge in very labor intensive exports such as textiles, clothing, toys etc manufactured goods exports leaving room for a new set of exporters. This was well before China entered the world markets in a big away, a development that could not have been foreseen a few decades ago..

Armed with this insight I tried but without much success in the 1970s as well as in 1980s to persuade Pakistan policy makers to give very high priority to development of manufactured exports. I have written extensively on why Pakistan missed important opportunities and why it is still not too late to change course.

It is not necessary here to repeat the discussion. However, a few facts invite attention. Pakistan's share in world manufactured exports in 2008 was only 0.14 per cent not much different than in 1970 or 1980. Meanwhile, the manufactured exports from sixteen major developing countries/entities rose nearly 30 times and their market share expanded from 8 per cent to 32 per cent over 1980-2006. (IPP, 2008, 2010) It is not only China, but also Mexico, Malaysia, Thailand, India, Indonesia, Turkey and more recently Vietnam that have expanded their market share several fold. It is the relative performance of Pakistan that has been truly abysmal.

Export growth has, however, not been a panacea. The Philippines has been quite successful in expanding exports but has failed to achieve sustained growth (See Chapter 16). Still, there is hardly any case of rapid economic advance during the last half century that has not relied on exports as an engine of growth.

The list of economically successful countries is small. A recent World Bank study called the Growth Report (World Bank 2008), lists only eight countries (excluding the very small countries like Oman and Botswana and city-states like Hong Kong and Singapore) that have attained fast sustained growth. On the other hand, the list of economic laggards and failures is both long and depressing. In Africa, Ethiopia, Nigeria, Kenya, and, to an extent, Algeria have been development disasters. In East Asia, the Philippines has steadily lost ground to all its neighbours. In South Asia, sustained significant long-term growth in Pakistan and Bangladesh has yet to find traction. In Latin America, Argentina and, recently, Brazil and Mexico, have also not shown strong long-term growth.

Economists, policy makers, and international finance institutions, especially the World Bank, have continued to struggle with defining the ingredients of success or the sources of failure for decades.

The Role of the State

In the 1960s and early 1970s, there was great faith in the role of the state in development. But with the large oil shocks that hit the oil-importing countries very hard, there were setbacks to development. The faith in state solutions waned and the belief in market forces and competitive pressures gathered momentum. Under Ronald Reagan and Margaret Thatcher, two of the most influential politicians of the 1980s, a diminution of the regulatory state and the partial dismantling of the public sector through privatization became the conventional wisdom. But, as Ravi Kanbur notes, the mainstream economics went 'from a situation where the state could do no wrong to one where the state could no right…The pendulum swung too far the other way. That it began to swing the other way was due to experience. That it swung too far the other way was due to ideology.'[16] In the wake of the 2008 world economic and financial crisis, there is a resurgence of views that the state must play a vital role in regulating the private sector and avoiding the excesses of capitalism.

[16] Ravi Kanbur, *The Development of Development Thinking*, Cornell University, Ithaca New York 2005p.13 as quoted in Shahid Yusuf (2008)

Philosophically, I have generally remained on the middle ground. During my years in West Pakistan, I felt the need to cut back on state presence in public tube wells and new industrial enterprises and helped to privatize fertilizer distribution. But I have also learnt how critical the role of the state was in the most successful cases of economic development in East Asia. The state should not distort market prices and it should not stand in the way of private sector development, which must be responsible for providing the large bulk of goods and services in the economy. However, the state can provide a long-term vision and strategic directions to the economy; it must provide macroeconomic stability, essential for confidence in the currency and for attracting investment, both domestic and foreign, for the effective delivery of basic economic services, such as education and health, infrastructure, and a framework for proper functioning of the market economy and its regulation by providing what have been called institutes of restraint. Last but not least, state policies must promote poverty reduction and tax and expenditure policies that, at the very least, contain income disparities, if not attempt some modest redistribution of income and wealth. Even in the US, there is great disillusionment with the fact that growth over the last few decades has not benefited a large majority of the population. Unbridled capitalism no longer has very wide support, even in the most developed countries.

However, the state can play an important role only if the governance is good, public institutions are strong, and corruption is limited. The monumental collapse of communism in Russia and elsewhere is a sharp reminder of what the excesses of a state-controlled economic system can do. On the other hand, China has managed to find and keep to a middle way to expand the economy, with increasing reliance on market forces, while retaining strong political control. It is the quality of governance which is often the key to success. Even in the so-called mixed economies, in the final analysis, it is poor governance that has been at the root of most economic failures. But good governance is not easy to achieve, much less to ordain.

In order to achieve good governance, a country has to have reasonable political stability, a political leadership and elites who respect the rule of law, a bureaucracy and public bodies that are honest and efficient, political will to mobilize enough resources for running an effective government, and the right balance between national security and development needs. Pakistan has not performed well on these governance criteria and, therefore, it has not been able to match the record of the high-performing Asian economies, despite its considerable potential and large inflow of resources from abroad. Broadly speaking, it is poor governance that is mainly responsible for the plight of the poor and the continued high incidence of poverty.

I would like to draw attention to three other points that seem relevant for development policy and economic management.

My work at the Bank affirmed my belief that agriculture, which provides the livelihood of a large number of people, cannot be neglected. East Asian countries are known mostly for their outstanding performance in manufactured exports. It is not common knowledge, however, that agricultural growth rates in these countries ranged mostly from 4 to 5 per cent per annum during 1960-80. This contributed to poverty reduction and food security in a major way. The World Bank lending for irrigation played a major part in increasing rice production in the region and in making Indonesia and the Philippines self-sufficient in rice.

Another major lesson I learnt from my Bank experience was that foreign assistance and advice cannot be the drivers of high growth. Having spent many years in the business of providing financial and analytical help to nearly a score of countries, I have to admit that foreign aid is important but secondary. The countries that benefitted most from World Bank advice and assistance, in my experience, were those that knew where they wanted to go and were willing to make tough choices to achieve their goals. I would put China, Korea, Turkey, Poland, Indonesia, and Malaysia in this category. At the other extreme, Pakistan has received vast sums of foreign funds, but has yet to find a strong and viable path to growth.

Finally, there are no cases of development where economic progress has proceeded smoothly. Economic crises occur regularly, either because of an overheating of the economy or due to large external shocks, like energy price increases. For instance, it is not even fully realized that nearly one-third of Pakistan's GDP growth during the four years, 2005-08, of 6.4 per cent per annum was wiped out by terms of trade losses, leaving a national income growth of only a little over 4 per cent per annum. The deep macroeconomic problems

Pakistan is facing at present are, in considerable part, the result of neglect of timely adjustment to negative external shocks. (See discussion below in Chapter 26)

Successful countries are able to quickly recognize changed economic circumstances and show flexibility; but poor performing countries postpone adjustment, often at a great ultimate cost. An excuse for delay is the hope that a negative external shock will not last, though there is a tendency to treat a positive external shock like an improvement in the terms of trade as permanent.

The lesson of history is that a crisis should be allowed to go to waste and should be considered as an opportunity to tackle deep-seated problems. Better planning processes and close economic co-ordination cannot substitute for economic will but can certainly improve the chances of more rational decision making.

World Travels

My general narrative about Bank years would not be complete without brief mention of the opportunities it opened up for me and to an extent for my family to see more of the world and possibly with a closer look than would have been possible either as a tourist or Pakistan government official.

In East Asia one saw cities like Jakarta, Seoul, Bangkok, Manila, and Singapore become even larger and more sophisticated with some of most elegant hotels in the world. Kuala Lumpur, the capital of Malaysia and a relatively small town in the early 1970s changed beyond recognition with its modern towers. I enjoyed the luxury of Mandarin and Peninsular hotels in Hong Kong. I wonder if Peninsular has still the practice of sending a separate Rolls Royce for each arriving guest. Its so-called verandah for high tea was hard to beat for its world class service.

But one also saw poverty and shanty towns especially in Manila and Jakarta as well as in the country side especially in Indonesia and the Philippines. But to casual observer rural poverty appeared to more widespread in China in 1980 than in South East Asia.

Among the world great cities that I have visited, I will single out Sydney, Rio de Janero, San Francisco, Cape Town, Istanbul, Cairo, Damascus as well the European cities of London, Paris, Rome, Prague, Budapest and St Petersburg.

I was also fortunate that I got the chance to visit several former republics of the Soviet Union and China on official missions several times. It was not the same thing as being a tourist. The underdevelopment of the modern sectors in China in the early 1980s and the chaos in Russia 1992-94 are things that would not be easy to forget.

Home leave every two years allowed my family to travel, mostly in summers, to Europe and Saudi Arabia on the way to and back from Pakistan. Our extended stopovers in Spain, Switzerland, Italy and Turkey and France were all quite memorable. On one final home leave before my daughters' entitlement ran out, they persuaded me in 1988 to take them on a personal trip to China. Our visits to Switzerland were perhaps the most frequent because they enabled us to recover from the heat in Pakistan. I remember one visit to Pakistan when we timed our departure to coincide with the beginning of Ramadan just because family and social visits become less convenient in the holy month of fasting. We left Karachi and headed straight for Switzerland arriving late in the evening at my favorite resort Wengen in the Jungfrau mountains. Next morning we ordered an elaborate breakfast for all four of us. The waiter who brought it asked me if my name was Hasan and when I said yes, he complainingly commented" Don't you know that Ramadan has started". The waiter was Moroccan. I tried to explain to him that we were in travel status but he was not convinced that this was a good excuse for not fasting.

Spouse point trips (for each 300 hundred nights that a staff member spent away from the headquarters, the spouse was entitled to accompany staff member on one trip on Bank's expense) enabled my wife to accompany me on business trips several times as I probably logged over 2000 points over the years. Parveen 's first points trip was to East Asia especially, Thailand, Philippines and Malaysia in 1977. She went to Brazil with me in 1983 when I was asked by our Latin America Office to advice the government there on the Korean export experience. In 1984 she joined me in my farewell visit to China and in 1985 to annual meetings of the Bank and the Fund in Berlin.

The spouse points travel could cause complications. There was one famous story that a wife in the absence of his husband on business called the personnel to enquire about the status of her points, probably looking eagerly to a trip in the near future. But the lady at the Bank was puzzled. She told the wife but you are on a spouse trip right now.

Chapter 16

Philippines: The Laggard in East Asia

Introduction

In the mid-1960s, the Philippines had a per capita income higher than most Asian developing countries, with the exception of Singapore, Hong Kong, and Malaysia. According to the estimates of the World Bank at the time, the per capita income of the Philippines was ahead of South Korea and Thailand, and very substantially ahead of China, India, Indonesia, and Pakistan (World Bank 1966). Now, four decades or so later, Korea has a per head income level on a purchasing power parity basis seven times that of the Philippines, and both Thailand and China have incomes more than 50 per cent higher. Indonesia has almost caught up and India and Pakistan, though not stellar performers in terms of long-term growth, have substantially narrowed the gap with the Philippines.

The Philippines had a robust growth rate in the 1960s and 1970s, with per capita income increasing by 3 per cent per annum. But per capita income declined by over15 per cent in the 1980s and recovered only partly in the 1990s, because of the 1997 Asian crisis. Per capita income growth of over 3 per cent per annum has been strong in the period 2000-07, but economic expansion has been largely demand-driven, fuelled by rising worker remittances. The investment rate has actually declined to a low of 15 per cent of GDP and reduced investment levels will constrain long-term growth.

Because of the economic ups and downs, there has apparently been little improvement in the average living standards since 1980. According to latest figures by the World Bank Atlas, per capita GNP in US dollars, adjusted for inflation, showed only a slight increase between 1980 and 2008. It is not surprising, therefore, that poverty incidence remains high and has not declined over the last twenty-five years;

personal income and regional disparities remain large, and are a source of continued strife in many parts of the country. The Philippines can be considered a case of failed development, especially considering its abundant natural resources, large and industrious labour force, and its close ties with the US, that have been a source of considerable political and economic support over long periods.

The Philippines was the first country of my heavy involvement as I joined as an Economic Adviser to the East Asia and Pacific area Department of the World Bank in 1970. I led several economic missions to the country in the early 1970s and then visited it regularly over the next decade in a supervisory capacity. I had a close association with the economic team, led by Caesar Virata, first as Finance Minister (1970–86), and then as Prime Minister as well (1981-86).

My last visit to the Philippines, on Bank's behalf, was in 1983, when the Marcos regime was unravelling and the country was soon to plunge into chaos. As mentioned above, the 1980s were to prove to be a period of regression for the country, though the seeds of trouble had been sown in the late 1970s.

This chapter recalls my personal memories as well the economic and political developments in the Philippines in the 1970s and early-1980s, and only briefly touches on growth and equity performance since then. The optimism generated about the country in the 1970s in the international community, especially in the World Bank, proved to be misplaced. Given this context, an attempt is made to reflect on the longer-term impact of the Marcos regime on the country's development and broader factors that are responsible for Philippines falling so far behind its neighbours.

Philippines Consultative Group 1970

The Philippines Consultative Aid Group (CG) had been established, under the chairmanship of the World Bank, in the fall of 1970. Its establishment had been triggered by the serious foreign exchange difficulties being faced by the Philippines as a result of large relatively short-term commercial borrowing in the late-1960s. Recourse to IMF assistance had become necessary, though both the Fund and the Bank were relatively relaxed about the long-term implications of the external debt burden.

Ray Goodman, Director of the East Asia Department, was keen to have a substantive early meeting of the CG in April 1971, but felt that a quick update of a one-year old Bank report was necessary. He, therefore, asked me to lead a small mission (three or four persons) and, by Bank standards, of a short duration of ten days, starting in early February. I was asked, somewhat apologetically, whether I could produce a report by the end of March. I was very excited about the leadership of my first economic mission and the deadline did not seem to pose any obstacle, used as I was to working with very tight deadlines in my service with the Pakistan Government.

When I arrived in Manila in early 1971, Ray Goodman was winding up his visit and introduced me to all the key economic ministers and the Executive Secretary, Alex Melchor, who essentially served as chief of staff to President Marcos. Caesar Virata, a highly-respected academic and Dean of the Business School of the University of Philippines, had been appointed finance secretary (minister) just few months earlier, but was clearly the leader of the economic team, which included highly capable technocrats, including Paterno as industry secretary, Bong Tanco, as agricultural secretary, and Gerald Sicat as economic secretary and head of planning. Another member of the economic team, Sidito Mapa, head of President's Economic Staff, had only recently moved to Washington as an Executive Director, representing South-East Asian countries at the World Bank's Board.

Political Backdrop

Though we did not fully realize at the time, there was an important political backdrop to this. Marcos, a charismatic leader who had been involved in the resistance against the Japanese occupation during the Second World War, had been re-elected to the second and final four-year presidential term in 1969. In light of the subsequent developments, it is obvious that the induction of capable, honest, and relatively independent-minded professionals with some real powers into the cabinet was a carefully-crafted attempt by Marcos, not only to deal with the financial crises in 1969, but also to improve the image of his regime and the Philippines inside and outside the country, and to set the stage for extension of his rule. He could not have appointed a more credible economic leader than Caesar Virata who, with his ability, low-key but effective management style, and a reputation for incorruptibility, commanded widespread respect at home and abroad.

Virata's role was crucial in the 1970s in improving economic management, deepening development efforts, and winning the confidence and support of the international economic community, especially the World Bank. Why Virata stuck with Marcos so long after the latter's obsession with political power, greed and crony capitalism had become abundantly clear is a mystery. In any case, Marcos' designs were only to unfurl slowly over the next few years.

Personal Memories of the First Visit

Starting with my visit in February 1971, I made half a dozen visits to the Philippines over the next two years or so, devoting about half of my professional time to it. This enabled me to get to know the principal policy makers and business leaders well, to travel extensively within the country, and to learn more systematically about the economy and the society. However, some of the memories of my first mission seem still fresh.

I recall arriving in Manila in the middle of the night and being escorted by central bank officials to the Savoy Hotel on Roxas Boulevard, overlooking the beach. At that time, the Hilton and Savoy were the only luxury hotels in Manila proper, though there was an Inter-Continental hotel in the suburb of Makati. As I was told, the Savoy was more comfortable, with a less crowded approach than the downtown Hilton, and had more spacious accommodation. As a head of mission, the travel office had booked me a suite. As I was shown to the suite, I was truly taken aback at its size and opulence. It had at least 900 sq. ft of space, one and a half bath, a very comfortable living room, a huge super king size bed, and a large balcony with a view of the sea. My surprise must have shown, because my escorting official somewhat anxiously asked me if everything was all right with the accommodations. I quickly reassured him.

For the next day or so, I wrestled with a moral dilemma. I was not used to this kind of luxury: even the best official rest houses in Pakistan were modest by comparison, at least at that time (the Sindh house in Islamabad was a later addition). I certainly did not need so much space. The cost was also high: US$76 per night, the equivalent of nearly $400 in 2009 prices. I had not brought enough money and credit card use was as yet not widespread. I, therefore, asked to be shown a smaller and cheaper suite, but they had none that had a separate room for mission meetings. After some mental struggle, I swallowed my modesty, decided to keep the large suite, and wired the bank for more money.

I rationalized the decision by looking ahead to larger missions that I was likely to lead, that would justify a large living room. So I curbed my frugal instincts. It was to turn out to be a very comfortable decision. My total stay at the Savoy during 1971–73 was to exceed three months; the longest single stay of over a month was in October 1971, when I led a large comprehensive mission, just before McNamara's first visit to the Philippines. Naturally, the hotel staff got to know me well and provided exceptional service. No hotel ever has felt so much like home. The sharp comedown in service standards was quite noticeable as I returned home to the US, making a rest stop in Honolulu, San Francisco, or Los Angeles.

Many things appeared striking about Manila: its large, bustling population, well educated people with good knowledge of English, colourful Jeepnies as the major mode of transport for both low and middle classes, its exclusive, gated communities, and the very widespread carrying of arms by ordinary citizens. The highly-decorated Jeepnies, somewhat like trucks and buses in Pakistan, were originally the product of surplus jeeps left over from the war, which had been converted into mini-vans. The extent of personal small arms being carried registered on me when, on one of my first visits to the Congress, I saw huge piles of weapons in the hallway, where they had to be deposited before entry.

The exclusive, gated communities for the well-to-do were both a protection from thefts and robberies as well as a status symbol. Indeed, the most striking thing about the Philippines was wide disparities in income and wealth. So called oligarchs dominated the business and industrial scene. In this respect, the Philippines was more like a Latin American than an Asian country. The wealth of the business and commercial sector was especially visible in financial district buildings in Makati. No major country in Asia, including Singapore, Malaysia, and Hong Kong at that time, had anything quite like that.

Work wise, the informality of the place was a bit of a shock. I found, within a few days, that cabinet ministers expected to be addressed by their first names and indeed did not mind having business meeting at breakfast, well before sunrise, and coming, if convenient to them, to the hotel for meetings with World Bank or IMF missions. The tone was set by Virata, who had a very relaxed style of operating and did not worry too much about protocol. This style won him many friends in the international community, connections that he used well to advance his country's development goals. In my many years of close and very warm relations in Korea, I rarely enjoyed privileges such as these.

Virata's informality led to my being woken up, on a subsequent visit, one late afternoon in my hotel room, by none other than the charming Joy Virata, Caesar's wife and an accomplished actress, whom I had got to know well. Joy enquired whether her husband was with me. I had arrived earlier that morning by a non-stop twelve-hour Philippines Airlines flight from Honolulu and had gone directly to bed. As I groggily responded to the phone call, Joy explained that she was in the hotel lobby, where her husband had told her to meet him. But there was no sign of him and then she saw the welcome board, which had my name on it among fresh arrivals. So she assumed he was with me. As I gathered my wits, I told Joy that an IMF mission was also in town, also staying at the same hotel, and gave her the name of the mission chief. Sure enough, she found him there, running a little late.

I recall a very pleasant Sunday outing on the first mission, arranged by Gerry Sicat, the minister of planning, on a large navy boat. The lunch and the cruise in the Manila Bay were most enjoyable. Gerry Sicat, an accomplished economist and a trade specialist, was pushing very strongly for import liberalization and, with Virata's help, eventually made considerable headway in changing trade policies. After he left the government in the early 1980s, he was to come to the World Bank and serve for nearly a decade.

After a few hours of discussion about Philippines' economic policies, Sicat had apparently had enough. Almost nonchalantly, he told me that we would have many occasions to discuss policy. But since I was a former Pakistani planner, what he really wanted to learn from me was how Pakistan had succeeded in getting so much foreign assistance. It was a point well taken. Under President Ayub's leadership and the effective work of the Planning Commission, Pakistan had indeed become a model of development and almost a darling of donors. This was a real agenda item for Marcos and his economic team and, as discussed below, they greatly succeeded in this with the World Bank's help.

Report Findings and Processing

Even though our report was meant to be mainly an updating exercise, I quickly realized that the Philippines faced a much more serious external debt problem than the previous Fund and Bank analyses had highlighted. It was correct that the country's debt payments were bunched together over the next few years, but arranging finance for these payments was likely to translate the hump in debt service into a longer term debt problem, because the Philippines was not in a position to generate current account surpluses to retire the debt. I was genuinely surprised that the IMF officials, even more than the Bank staff, had been rather cavalier in their treatment of this issue.

The debt problem thus became a central focus of our short report and we began the process of bringing around the IMF Asia Department management to our point of view. The report, completed within three weeks, was to help my career in the Bank greatly. It established my credentials as an effective mission leader and strong policy analyst. I was thus afforded opportunities to lead important missions not only to the Philippines but also to Malaysia and Korea in relatively quick succession. These fortunate openings and my being able to throw somewhat different perspectives on these country situations were the key to my being selected, in 1974, as Chief Economist for East Asia, the most dynamic economic region in the world, just a few years after I joined the Bank.

More importantly, for the Philippines, the report started the process of exploration of a case for concessional lending under the soft-terms arm of the World Bank group, IDA. The first IDA loan to the Philippines was made in the mid-1970s: over the next two decades, the total IDA lending amounted to a significant proportion of total Bank group lending to the Philippines.

It is interesting to note that in the early-1970s, every economic report was personally cleared by Burke Knapp, the head of the operational complex and McNamara's deputy. Apparently, he read at least the Executive Summary. In clearing the Philippines report, he asked that, in all references to the Philippines' need for concessional assistance, the word 'more' should be added. He obviously did not want to commit to allocation of IDA resources without a full Bank review. Still, it felt good to have written an economic report portions of which were read by the top management and returned with comments within a couple of days. These were some of the joys of working in a relatively small organization, with a short chain of command and a collegial atmosphere. Just a year or so later, with the growing size of the Bank and the creation of Regional Vice Presidents, the clearance of all economic and sector reports came to rest with the Chief Economist of the Region, on behalf of the Vice President.

A real treat was the trip to Paris in April to attend the Philippines Consultative Group Meeting, chaired very competently by Ray Goodman on behalf of the World Bank. I made a speech on the economic situation and the two-day meeting ended on a very positive note of support for the Philippines. Over the next two decades or so, I attended at least a dozen Consultative Group meetings on the Philippines, Korea, Egypt, Morocco, and the Central Asian countries, mostly in Paris, but once or twice in Tokyo.

The Paris meetings were a joy because it was expense account living at its best. Hotels like George V, Crillion, Palazza Athenee` were not yet out of bounds for Bank staff. Later on, Royal Monceau and Prince De Gaulle were almost equally elegant. Ray Goodman, however, preferred to stay in the boutique hotel Lancaster at Rue De Berri, just off the Champs Elysees, which, he told us, was patronized among others by Elizabeth Taylor. Social functions were often held at exclusive Paris restaurants, such as Les Ambassadeurs, Le Doyen, Maxim. It was a great introduction to the haute cuisine of Paris.

Even for routine meals, restaurants were selected with care with the help of the Bank assistant in charge of handling of CG meetings. The first few CG meetings with Goodman were particularly delightful, partly because of their novelty and partly because Ray loved Paris and made sure that the small Bank delegation stayed together for informal meals and, indeed, used them as working lunches and dinners for getting to know both the particular country situation and the staff well. The weekends were also not wasted: because there was access to a chauffeur-driven car, suburbs like Versailles, Chantilly, and Fontein Bleu could be visited. On more than one occasion, my family could join me in Paris at CG meetings on the way to home-leave in summer, making the enjoyment complete.

Developments during 1971-72

I remained heavily involved with work on the Philippines after the CG meeting till December 1972. During this period, tumultuous changes took place, which were to cast a long shadow on the country's political and economic history. The opposition won a surprise victory in the off-year senate elections in early November 1971; there was an armed attack on a political rally in the summer of 1972; Marcos suspended the writ of habeas corpus, and, in September 1972, declared martial law. Over this period, I had the opportunity of having two long meetings with Marcos over lunch and also had the opportunity of observing him at close quarters on the occasion of a picnic that he had arranged for the Board of governors of the ADB at his beach house. In retrospect, I am convinced that Marcos' imposition of martial law had long been planned and carefully orchestrated to prolong his power.

In October 1971, I was in the Philippines for a full month, leading a large comprehensive mission that was to give attention to growth as well as equity and employment issues.[17] Through my previous visits, I had got to know the President's chief of staff, Alex Melchor, well. Melchor, an ebullient man, a strong administrator with a keen intellect, was to become a long-time friend. Towards the end of mission on a weekend, Melchor called me and invited me to lunch with the President the next day, which was a Sunday. He explained that the First Lady was away and the President had some free time. He also suggested that I have a look before lunch at Marcos' recently published book, *Today's Revolution: Democracy.*

I could, however, guess the motive behind the surprising invitation, which, I am sure, was Melchor's idea. Robert McNamara was due to make his first visit as Bank President to the Philippines just a week or so later. McNamara was increasingly voicing concern about

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[17] I was fortunate to be able to persuade S. J. Burki and David Turnham to join me. David Turnham had recently joined the World Bank from OECD where he had completed an important study on Employment challenges in developing Countries. Burki with a strong background in rural development in Pakistan and China was then at Harvard as a Research associate. I requested him to assist us on income distribution issues and social aspects of agriculture. Prof. Hogan an industrial economist from Australia had also joined us. Hayley Goris the country economist was also an important member of the mission.

equity in development and there was a worry that he might comment adversely on the situation in the Philippines. Since the economic mission was focusing on social issues, it was correctly assumed that its preliminary report would be an input in McNamara's briefing.

The lunch was a memorable one. There were only three of us, President Marcos, Melchor, and myself. The setting, Imelda Marcos's room, was a most romantic one. Among others, there were dozens of Marcos's photographs, inscribed to Imelda with poetic expressions–apparently gifts on Imelda's birthdays. When the president walked in, I was truly surprised at how small he was. But he had a strong presence, an electric energy, and the gift of eloquence that made a strong impression on me. Over lunch, he talked in most convincing terms about his career and his deep commitment to the uplifting of his people. But what I recall most vividly was the conversation about Pakistan. Marcos knew that I was a Pakistani, so he asked me about the political situation in East Pakistan which was deteriorating–in less than two months, the Indian army, in support of the Mukti Bahini, Bengali freedom fighters, was to defeat the Pakistan army and the independent nation of Bangladesh was to come into being. I talked about the deep alienation in East Pakistan because of the long army rule, especially because the army was largely Punjabi and also recruited its men mainly from a few select districts. At this, Marcos said that in the Philippines, the situation was the same: army recruitment was mainly from his native area of Cagayan. But after this, Marcos asked me a question which I thought was really strange. He enquired whether Yahya Khan was a soldier. I was nonplussed, but said, 'Mr President, of course he is a soldier, it is an army rule.' It was only months later, when Marcos imposed martial law as a civilian president in September 1972, that the import of Marcos's question was clear to me. Obviously, already in October 1971, just two years before his term was coming to an end, Marcos was seriously thinking about imposing martial law as a civilian head of state. The question to me was probably an involuntary slip.

I saw Marcos again at close quarters in the spring of 1972 at his beach house, when he was proudly telling the ADB Governors, who enquired about his waterskiing skills, that he had taken up the sport after he was fifty to keep up with his children. He was fifty-five at the time. I was most impressed. Another memory from that picnic is the presence of a few handsome Englishmen in their twenties who were being given special attention by the Marcos family. They turned out to be Marcos' private bankers from Rothschilds in London.

My only official discussions with President Marcos came just weeks before he imposed martial law. In the late summer of 1972, the Philippines suffered terrible floods and there was great sympathy for the country. I was asked to head a small mission to make an assessment of the damage and to explore the possibilities of World Bank support. Two colleagues, Maurice Dickinson, a British highway engineer, and Nate Koffsky, a very experienced US agricultural economist, accompanied me. This operational mission provided me interesting insights into the ways in which governments pressure Bank lending as well as the Bank technical staff's ability to influence the direction of investments.

We requested a government helicopter and travelled for several hours, flying over main roads, suspected of flood damage. I was most impressed when Dickinson, based on his observations of the speed of vehicles, came to the conclusion that the damage to the roads was not serious. Dickinson, however, told me that the President and his Highways Secretary were likely to press for Bank support for a ring road around Manila, unrelated though it was to the floods and apparently a low economic return project.

Nate Koffsky, focusing on agriculture, concluded that it was not so much the damage by the floods but rather poor maintenance over a long period that had made a large part of the irrigation system dysfunctional and, therefore, felt that what was needed was a long-term programme of irrigation rehabilitation.

When we were invited to lunch with Marcos at Malacanayang (the presidential palace), towards the end of our visit, sure enough, the Secretary Highways was present, in addition to Melchor and Virata. We were pressed hard on the Ring Road, but held our ground, simply saying that we would examine the project most carefully, in light of the President's arguments. But we did say that we were willing to support a large programme of irrigation rehabilitation.

I knew we had Virata's support for key development priorities. Perhaps not surprisingly, a proposal for the Tarlac Irrigation Project was handed to Koffsky just before he left and this was just the beginning of the large irrigation rehabilitation support that the Bank was to provide over the next two decades.

There was a side-show to the lunch that I have not forgotten. When we arrived at the Palace, there was a fair amount commotion in the reception hall and we were greatly delayed for our lunch meeting. It turned out that a ship from the People's Republic of China had brought rice as a goodwill gesture towards the flood victims. Marcos had given time to the ship's captain to thank him. But I guess, since the Philippines had no diplomatic ties with People's Republic, they had given an appointment time to the Taiwan representative for immediately afterwards. When the two China representatives found themselves in the same ante room, the mainland China ship captain baulked and staged a walkout. I am not sure how the matter was resolved but I admired the captain's courage, that he was able to take such a strong diplomatic stance all on his own.

The point of these stories is that yes, Marcos was concerned with the welfare of his people and the gap between the rich and the poor. The technocratic management was not merely a show but he, at the same time, had a clear agenda for the expansion of his own wealth to match that of the oligarchs and for the extension of his political power. In the beginning, he did listen a good deal to Virata and his associates, despite occasional admonition from his wife.

Just before McNamara arrived in November 1971, Marcos had suffered a major political setback as his party lost badly in the off-year senate elections. According to Goodman, at a lunch for McNamara by the President, Mrs. Marcos, pointing to the economic team, told her husband that those ministers were responsible for his political loss because of their conservative financial policies. Still, the technocrats held their sway for a while. But after a number of years of his staying in power, first through martial law and then constitutional manipulation, Marcos' priorities shifted increasingly to self interest. US Ambassador, David Newsome, is quoted to have written that, 'until the onset of martial law, Marcos's greed had not seemed exceptional … But beginning in the mid-1970s, it grew to breath-taking proportions.'[18] The mega projects, such as the Westinghouse nuclear power plant,

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[18] H. W. Brand, Bound to the Empire: United States and the Philippines (Oxford University Press 1992) quoted in Kapur ,Lewis and Webb, the World Bank, Its First Half Century, Brooking institution Press, 1997 (Volume 1)

were greatly criticized for their high costs and suspected large kick backs.

It was during the flood reconnaissance mission that I had the privilege of calling on Senator Benigno Aquino Jr. World Bank officials were not discouraged from meeting opposition politicians. I had made it a point during my visits to call on a few government and opposition senators, including the well-known Senator Roxas. But as yet, I had not yet met Senator Aquino, who represented the major political challenge to Marcos and was generally favoured to win the next presidential election in 1973.

Aquino was also a charismatic figure. What impressed me most was his grasp of development issues. He had visited Korea and was very taken with the export-led growth model for expanding employment opportunities and reduction of poverty. I was probably one of the last foreigners to see him in the Philippines. Within weeks, Aquino would be imprisoned with the imposition of martial law. He was later exiled to Japan and then allowed to return but was shot dead on arrival in August 1983, as a part of conspiracy that has been linked to high military officials. His wife inherited his political mantle and served as president for two terms after Marcos' ouster in 1986. The history of Philippines might have been quite different if, in normal political progression, Aquino had been allowed to succeed Marcos in 1973. Now, Aquino's son has just been elected as president. One hopes that he can finally turn around the country and the economy.

The World Bank and the Philippines under Marcos

Marcos and his economic team succeeded–probably beyond their expectations–in wooing the Bank and turning it into a major supporter. In the Country Program Paper (CPP) for the Philippines, prepared in the summer of 1972, Bank staff noted, 'to President Marcos's credit…, he has retained his team of technocrats, despite his political preoccupations.'[19] According to the minutes of the review meeting of the CPP by McNamara and the senior management, 'No more of the criticism of earlier years (politics, corruption, and inequality), but a rather general feeling that we should increase our

[19] Ibid p.303

lending program. And a flabbergasted Area department trying to defend the cautious position taken in the CPP! The order of the day is to work within the system. (Politics were not worse than Thailand but more publicized.)… [We] should aim to lend on average $120 million a year in FYs 74-78, 50 per cent more than proposed.'

Notwithstanding the imposition of martial law a couple of months later, the Bank's attitude towards the Philippines became even more positive. What impressed the Bank 'was that long postponed tax measures, land reform, and other important and potentially far-reaching reforms were approved, respected technocrats were empowered, the investment climate improved, and the economy boomed. …[T]he regional staff felt that people were prepared to give President Marcos an opportunity and that, however much one regrets the demise of representative government…there can no doubt that the Philippines now has a strong government that is giving a firm sense of purpose and direction to development… [The] Philippines is now in a better position to tackle its deep-seated economic and social problems.'[20] McNamara endorsed this hopeful attitude expressed in the 1973 CPP and, in a Special Program review meeting a year later, said that he ' wanted to press ahead while the going was good.'

Subsequently, the Bank and IDA lending accelerated sharply. Whereas lending for the whole of the 1960s was $234 million, during the five years FYs1974-78 alone, it approached $1.2 billion, almost double the enlarged level agreed at the 1972 CPP Review meeting. During the next five years, FYs 78-83, lending reached a new peak of $2 billion, though it dropped off in the last three troubled years of the Marcos regime. The urgency of lending increased, partly because the Philippines, like many other oil-importing countries, was hit hard by the oil crisis of 1980, which necessitated frequent recourse to the IMF and two Structural Adjustment Loans by the World Bank in 1980-82.

Though the disbursement grew gradually, the World Bank became a major source of funding. By December 1979, the Bank's outstanding loans and credits totalled $731 million and its share in total public and medium-term debt ($5.1 billion) was nearly 15 per cent (WB 1980). The positive image generated by the confidence demonstrated and active lending by multilateral institutions as well as bilateral donors

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[20] Ibid p.304 extensively quoting World Bank CPP; Philippines 1973 December 4

in the Philippines made it possible for the Marcos regime to go on a borrowing spree, by postponing or neglecting the structural adjustments needed even more urgently due to the major oil shocks. At the end of 1986, total public and publicly-guaranteed debt had grown to $19.3 billion from a modest $ 1.0 billion at the end of 1974 (WB, 1976 and 1994). In addition, there was a long-term private debt, short-term debt, and obligations to IMF of $ 9 billion. The total external debt burden thus exceeded 350 per cent of exports of goods and services. The bulk of the rise in the debt burden took place over 1980-86, when the Marcos regime had begun to unravel and corruption levels and crony capitalism touched new heights.

This large overhang of debt from the Marcos period was to result in minimal net inflows to the Philippines over the next several years, even though official creditors further expanded their assistance substantially to support the incoming Aquino regime. Outstanding official loans increased sharply from $ 8.5 billion to 18.6 billion over 1986-92 But this increase was partly offset by the net retirement of loans to private creditors and reduction in short-term debt. The net transfers to the Philippines, i.e., net flows minus interest payments, became substantially negative. According to a Country Assistance Strategy (CAS) assessment report by the OED (Operations Evaluation Department WB 1999), the total net transfers from the Philippines to the World Bank alone were $ 2.7 billion over 1986-97.

Thus, in terms of resource transfers, foreign funds played little or no role in supplementing domestic savings in the period after the mid-1980s. This shows the limitation of borrowing on market or near-market terms for a country's external finances: in a few years' time, debt repayments overtake disbursements and, unless the borrowed monies have been used wisely and strengthened the debt repaying capacity, the country will face a foreign exchange crisis.

In retrospect, the sharp further expansion in Bank lending after FY 1978 seems surprising because troubling signs regarding the Marcos regime were emerging. At a broader level, the dangers of a communist insurgency and continued violence in Mindanao mustered political support from the western countries, especially the US. At the staff level, the excellent co-operation with the economic team and confidence in Virata's integrity almost blurred the import of stories of Marcos's excesses. Virata's international reputation as an extremely able finance minister and development leader had continued to grow. He was elected to the prestigious position of Chairman of the Development Committee in 1976, a joint ministerial body that was set up in 1974 to facilitate inter-government consensus on development issues. Most important, the Philippines economy performed well through most of the 1970s, the policy reforms appeared to be working, and the Bank's policy dialogue with the economic team also remained very active in this period.

World Bank support did play a major role in raising the very low level of public investment in the Philippines and more attention being given to the infrastructure, especially in rural areas, and to agriculture. In the 1960s, public investment had averaged only 2 per cent of GDP and less than 10 per cent of total investment. This partly reflected the presence of the private sector in power and telephones but, more fundamentally, it was due to a neglect of rural development and agricultural investments. By the late-1970s, public investment had risen to 4 per cent of GDP and constituted over 20 per cent of total investment

During the 1970s, the World Bank financed nearly two dozen projects in agriculture and made a special attempt to improve irrigation, reach the small farmers, and achieve area development in rural areas. Though one-third of these projects were judged to be unsatisfactory overall by the OED (WB 1999), the World Bank was successful in contributing significantly to expansion in food grains output, so vital for the rural poor. The first poverty report on the Philippines was undertaken in 1980 (and has been followed by three poverty reports in 1988, 1995, and 1997).

Despite the close relationship, the World Bank officials involved with the Philippines, of whom I was one, consistently missed troubling signs for a fairly long period, such as increasing corruption, growing monopolies benefitting Marcos's cronies, and did not take sufficient note of the worsening public opinion about the Philippines both inside and outside the country.

The IMF and World Bank Annual Meetings were held in Manila in 1976. In order to prepare adequately for the meeting, indeed, with the intention of putting on a grand show, the Philippines government, supported with public funds through the Development Bank of the

Philippines, constructed several large luxury hotels and spectacularly renovated the old and historic Manila Hotel. This was, by and large, wasteful expenditure and later added to DBP's rising non-performing loan portfolio.

I recall the luxury of the renovated Manila Hotel when I stayed there for the first time in the spring of 1977 with my wife, who accompanied me on this one trip to East Asia. The formal dining room, the size of a ballroom, had very high ceilings and was most tastefully decorated, including many large specially designed chandeliers. My wife had just arrived from Malaysia, a country with a much higher income per capita. As we strolled out to the sea terrace and the large square outside after dinner, I pointed out this fact to Parveen. She was truly surprised, having yet taken in only the grandeur of the Manila hotel and comparing it to the elegant but much more practical Hilton hotel in Kuala Lumpur.

For my wife, the visit to the Philippines was the highlight of our trip together to East Asia, which also included Thailand, Malaysia, and Hong Kong, such was the hospitality and friendship shown, among others, by Caesar Virata, Alex Melchor, and Sidito Mapa, who was back from Washington D.C. and was heading the Development Bank of the Philippines. Melchor and Mapa, with their spouses, invited us for a most memorable weekend on an island resort, that involved trips by a small plane and a small boat–modes of transport that normally terrify my wife. But these occasions were not merely social because they afforded an opportunity to exchange views on policies with the then establishment in the Philippines, with the satisfaction on both sides that policies were working.

Starting in 1979, the second oil shock very sharply widened the current account deficit and again necessitated special balance of payments assistance from the IMF and the World Bank. The World Bank made two quick disbursing Structural Adjustment Loans (totalling $500 million) in 1980 and 1982. The focus of these loans was to support further industrial and trade policy reforms. However, trade liberalization and an export-oriented strategy supported by the SALs and general World Bank support for the Marcos regime began to be vehemently criticized by some in the early-1980s.[21]

There was nothing fundamentally wrong with the emphasis on labour-intensive manufactured exports as an engine of growth and the focus on improved productivity in the manufacturing sector, and the opening up of industry to greater external competition. Many East Asian countries have successfully followed this path to rapid growth. After a hiatus during the early-1980s, exports from the Philippines did expand very significantly, as manufactured exports increased nearly twenty-fold to $40 billion over 1980-2006, and the share of the Philippines in world manufactured exports expanded from 0.19 percent to 0.49 percent (Hasan 2007). But for this expansion in manufactured goods exports, the long-term economic performance would have been even more dismal.

Still, in my opinion, the World Bank made two major mistakes in the early 1980s in their relationship with the Philippines. On the technical side, in the hubris of working successfully with the technocrats, it ignored the structural rigidities and lopsided ownership and control of assets of the Philippines' economy and thus greatly overestimated the response and pay-off to reforms. The excessive optimism of macroeconomic projections in the first SAL operation in 1980 is illustrated by the assumptions that merchandise exports would treble in nominal terms over 1979-85 (nearly doubling in real terms in six years), and that the marginal saving rate would increase to 35 per cent during1980-85. This was to enable an increase in investment and lead to a GDP and agricultural growth rate of 6.2 and 5 per cent per annum respectively, on the assumption of some improvement in the efficiency of resource utilization. The lack of realism in export projections led to the endorsement of the sustainability of a large current account balance of payments, averaging $2.5 billion annually during 1980-85 or over 6 per cent of GDP. This encouraged huge external borrowing, which, in the absence of assumed export growth materializing, led to the Philippines becoming a heavily indebted country by the mid-1980s.

[21] See Robin Broad and John Cavanagh, *Unequal Alliance, The World Bank, IMF, and the Philippines 1990*, Walden F. Bello, E. Elinson, *Development Debacle in the Philippines*, 1982,and Walden F. Bello, *Anti- Development State: The Political Economy of Permanent Crisis in Philippines*

In actual fact, merchandise exports rose only modestly in nominal terms over 1979-85 and actually stagnated in real terms. Several factors probably contributed to this outcome: an international recession, the entry of China in the world markets, the worsening political situation, loss of competitiveness due to corruption, and the slowing down of the pace of reform. The two Bank structural adjustment loans aimed at improving an industrial policy framework and productivity were judged by the OED as unsatisfactory in outcome.

Critics of the Bank and the IMF have blamed them for too hasty a pace of import liberalization that resulted in sharp reduction in tariffs on a number of goods, including luxury goods, which adversely affected domestic industrial output, while encouraging the consumption of the rich.[22] In retrospect, the pace of import liberalization was excessive, considering the poor export performance in the first half of the 1980s and increasing corruption. The result was, as noted above, an explosive growth in the external debt burden.

At the political level, the Bank ignored the growing discontent in the Philippines with the Marcos regime for far too long and ignored growing civil society protests. Even in the US, the NGOs and intellectual opposition to Marcos was gathering momentum even before the assassination of Aquino in August 1983. The publication of *Development Debacle in the Philippines*[23] was just one symptom of the dissatisfaction with the Bank.

It is interesting that the Philippines division offices in the World Bank, the 1818 H Street Building offices, were frequently raided, sometimes over the weekend, to get hold of material that might embarrass the Bank. It is hard to believe, but there was at that time no security in the Bank buildings. Almost anyone could walk into the Bank building without identification, at least on working days. It was only when enquiries confirmed large scale pilferage of official papers on the Philippines that strict security controls and an ID system was introduced for all Bank buildings.

Though I personally did not spend much time on the Philippines in the early 1980s as I was busy on China–the new entrant

[22] Broad (1990)
[23] Bello (1982)

to the Bank–Indonesia and Korea, I was a part of the regional management team for East Asia that continued to view Philippines through rose-coloured glasses. We did not take the growing criticism of the Marcos regime too seriously, partly because it was rather one-sided, but also because our trust in Virata and his team remained strong. Equally importantly, the World Bank's dilemma was that, with the doubling of oil prices between 1978 and 1980, the withholding of support would have deepened the Philippines' economic crisis. The IMF and the Bank were willing to provide quick disbursing assistance on strong conditionality of reforms, though, as mentioned above, this approach did not quite work.

Still, in hindsight, the warning signals should have been given more attention. During a visit to the Philippines, most probably in early 1982, I met Benito Legarda, who was and had been Deputy Governor of the Central Bank of the Philippines for a long time. Benito, a strong, outgoing, and outspoken personality, was a good friend of many years. But I found him particularly agitated at this time. He told me that the Marcos family had now a direct cut in many imports, including meat. A few months later in the fall of 1982, Shahid Hussain, and I went on a trip to Malaysia and Korea, stopping on the way back for a day in Hong Kong, especially to meet the press, including the editorial boards of the *Asian Wall Street Journal* and the *Far Eastern Review*. I vividly recall the strong tongue-lashing we got from Mr Davies, the editor of the *Far Eastern Review* for the almost blind World Bank support of the Philippines, despite Marcos' misdeeds. It was quite a bit of a shock.

The poor performance of some Philippines projects approved over the 1970s should also have raised red signals. While the performance of most projects approved in the infrastructure sectors such as transport, electric power, urban development, and water supply was satisfactory, many projects in the population, agriculture, and finance sectors approved in the 1970s performed poorly: one-third of all agricultural projects, two population projects, and all three large industrial finance projects were later evaluated as unsatisfactory by OED.[24]

Had the Bank been less upbeat and more cautious about the Philippines, especially after the Marcos's intentions to hold on to

[24] World Bank (1999)

power through any means had become clear after the mid-1970s, further restrained foreign inflows and greater vigilance of the use of resources could have moderated the rise in debt and indirectly perhaps limited the plundering of the Treasury. According to Transparency International, Marcos was the second most corrupt head of government ever, after Suharto.[25]

Marcos's Legacy

The Philippine economy suffered a great decline after Aquino's assassination in August 1983. The wave of anti-Marcos demonstrations in the country that followed scared off tourists. The political troubles also hindered the entry of foreign investments, and foreign banks stopped granting loans to the Philippine government.[26] In these circumstances, the efforts of the IMF and the World Bank to stabilize the economy and restore growth did not succeed.

More than two decades after Marcos' fall, it is difficult to pin a large part of the responsibility for Philippines' lagging very substantially behind its neighbours on his administration. Indeed, at least some in the country still look back nostalgically at the Marcos rule as a period of strong and effective government. Governance since Marcos has remained problematical and is not free from the influence of powerful families, and economic growth has not been consistently pro-poor.

Still, Marcos' legacy has cast a long shadow on the development of the Philippines. First, as mentioned above, the overhang of debt from the mid-1980s and the large debt service payments meant substantial negative transfers (gross disbursements minus interest and repayments) for more than a decade. This was despite large gross external inflows, especially during the Aquino administration. For instance, the World Bank made fresh commitments of $ 4.5 billion to the Philippines during 1987-97; but, as noted earlier, the net resource transfers out of the country to the Bank were negative to the tune of

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[25] 'World's Most Corrupt leaders'. Infoplease.com.

[26] See Salonga, Jovito (2001). *Presidential Plunder: The Quest for Marcos Ill-gotten Wealth*. Regina Pub. Co., Manila, Bonner, Raymond (1987). *Waltzing with a Dictator: The Marcoses and the Making of American Policy*. Times Books, New York, Aquino, Belinda, editor (1982). *Cronies and Enemies: the Current Philippine Scene*. University of Hawaii, Library of Congress: Country Studies: Philippines. *The Inheritance from Marcos*.

\$2.7 billion during 1986-97.[27] Second, and more importantly, the *élite* capture of economic rents that deepened during the Marcos regime has remained in place and is a source of major inefficiencies in the economy, distortion of resource use, and a disincentive for new investment. According to a recent World Bank working paper, 'the politically-connected corporate conglomerates–protected by favorable rules and regulations–enjoy barriers to entry and oligopolistic market power, and sell at a high price the products (agricultural commodities, transport services, electricity, cement, etc.) that are critical inputs for both upstream and downstream sectors. Also, they pay higher wages– relative to other Asian countries–to the salaried insiders, thus securing national labour peace" with their rents'.[28] This reduces the return to capital for the capital-intensive private investment, especially because critical public infrastructure investment is inadequate.

Lessons from the Philippines Experience

The Philippines' economic record over the past half-century has been marked by fairly wide swings in the rate of growth, financial stability, and the distribution of growth benefits, somewhat akin to Pakistan. By and large, the periods of high growth have not proved to be sustainable and have been followed by slowdowns or even declines in outputs. Though the growth performance since 2000 has been relatively strong, there are serious questions about whether it can last, because of the extraordinary dependence of the economy on consumer-based expansion, supported by a strong and steady increase in worker remittances. The investment rate (ratio of fixed investment to GDP) has been declining, in part because the inadequate government revenue base seriously limits public investment and partly, as noted above, because of disincentives for new private investment. The current international financial crisis and the sharp slowdown in the world economy will inevitably compound difficulties for the Philippines, as for most developing and developed countries. The Philippines might be more vulnerable, however, because of its high dependence on worker remittances and already high rates of unemployment and poverty.

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[27] However, if interest payments are ignored, the net inflows from the Bank were moderately positive and debt outstanding to Bank Group increased modestly to \$ 4.4 billion at the end of 1997the increase reflecting mainly the revaluation of currencies lent.

[28] Bocchi, Alessandro Magnoli, 'Rising Growth, Declining Investment, The Puzzle of the Philippines', World Bank Policy Research Working Paper, January 2008.

The Philippines' extremely disappointing long-term economic performance is particularly surprising because of its historical high levels of human development, a factor that is increasingly emphasized in sustainable growth and improved equity. Already by1965, Philippines had attained relatively high levels of educational attainment. The primary enrolment ratio was over 100 per cent and the ratios of secondary and tertiary enrolments compared favourably with Malaysia and Thailand. By 1980, adult literacy rates exceeded 85 per cent.

Some of the lessons from the Philippines' experience are quite obvious and well-recognized in economic literature. Political stability and strong political leadership are critical for rapid development. But what motivates the leadership is equally important. If the objectives of economic and social development are or become secondary to other goals, such as developing a personality cult, holding on to power, siphoning off national wealth, or projecting grandeur through wasteful projects, the results can be disastrous. The contrast between President Marcos and President Park Chung He of Korea is striking. Park was honest and did not have much of a personal agenda. Even though Park's successor, President Chun, was accused of corruption, personal or political corruption in Korea never approached anything like the level in the Philippines.

Rent-seeking, limited new entry in business, and oligopolistic behaviour can raise the cost of doing business and reduce the returns to investment, thus dampening the growth rate of output. The incremental capital: output ratios, a short-hand for efficiency of resource, have been consistently high in the Philippines for long periods, averaging over 4.5, compared to 2.5 to 3 in the high-performing developing economies in the early stages of development.

Big business in itself need not be a problem, as the example of the Chaebols in Korea has shown. Indeed, the economies of scale are often quite important in the process of growth. What destroys efficiency is the lack of competition and monopolies.

The Philippines experience also suggests that it is not easy to get out of the debt trap, once the burden of external debt service has become high in relation to exports of goods and services. Debt service obligations pile up fairly quickly on borrowing on near-market terms, such as those that apply to non-concessional lending by the World

Bank. If foreign borrowing does not expand debt-repaying capacity through earning or saving foreign exchange at an appropriate pace in relation to the rise in debt service payments, problems are sure to arise. The World Bank and IMF are also sometimes at fault in making excessively optimistic assumptions about supply response to improved policies and reform measures. This certainly was the case in the World Bank projections about export expansion from the Philippines in the first half of the 1980s.

Reduction in the incidence of poverty can prove to be intractable, if overall growth is slow, if assets and power structures are deeply skewed, rural and urban and inter-regional disparities are large, if employment growth is not rapid, and real wages do not rise, and if the revenue base of the government is not strong enough to support a reasonable level of income transfers to the very poor. In most of these respects, the Philippines has faced greater challenges than its neighbours. In Korea, for instance, the initial income distribution was much more favourable, economic growth was rapid, and employment and real wage growth were exceptionally high. Other countries, notably Malaysia, Thailand, and even Indonesia, have also been more successful in reducing poverty incidence, because their per capita growth rates were much higher and their rates of growth of population lower. A somewhat surprising aspect of the Philippine poverty picture, however, is that the very large worker remittances, close to 11-12 per cent of GDP in recent years, have not had more of an impact on poverty reduction.

Finally, the World Bank, though it has been involved with economic development in the Philippines for over sixty years now, does not look back enough to monitor long-term growth and poverty trends. It often focuses too much on the short and medium term and thus does not use its position and influence to more forcefully address the deep structural issues constraining growth and poverty reduction. Perhaps it has to remain upbeat to keep the dialogue with governments going. Still, it is a pity that the deeply disappointing performance of the Philippines over the last quarter of a century or so is not sufficiently reflected in its economic work and thus does not always impart a sense of urgency to fundamental, long-standing issues.[29]

[29] See World Bank, 'Philippines: Invigorating Growth, Enhancing its Impact',. March 2007, Philippines Poverty Assessment, Volume 1, Main Report, 2001 May 2001.

Chapter 17

Economic and Social Transformation in Malaysia 1970 - 2000

In 1970, Malaysia was a troubled country. Malays, who constituted about half of the Malaysian population of 12 million, had political control and special language protections, but were economically backward, compared to both the Chinese and the Indians who were, respectively, one-third and ten per cent of the population. Respectable growth of the economy in the 196os had not made a significant contribution to improving the economic status of the Malays. In 1970, the average per capita household income of the Chinese was twice that of Malay households, with Indian households being closer to Chinese than to Malays. The incidence of poverty in Malaysia was the highest among Malays (nearly two-thirds), compared to 39 per cent among Indians and 26 per cent among Chinese. This was largely because Malays were concentrated in rural areas, where the incidence of poverty was twice as high as in urban areas. Even more disturbing was the fact that individual Malays and public trust agencies owned a little over two per cent of the share capital of limited companies. Foreigners dominated the modern sector and owned 63 per cent of the assets of limited companies, with 34 per cent belonging to non-Malay nationals (World Bank, 1980).

At the same time, urban unemployment, education, and language (preferences for Malays) were becoming looming issues for non-Malays, who began 'to question the extent to which their interests were being guarded in the new Malaysia' (ADBI Discussion Paper 2008). The social and racial inequities and tensions ultimately erupted in unprecedented bloody communal riots in 1969 that left hundreds dead. I recall reading in the London *Economist* at that time that, till these riots happened, people had forgotten that running amuk (amok) was a Malay phrase.

When I started to lead the World Bank's economic work on Malaysia in 1971, the government dominated by Malay political leaders in the coalition had just made major constitutional amendments which made it a seditious offence to discuss seriously the constitutional provisions for language, citizenship, special positions of Malays, and the status of the sultans (Malay hereditary rulers) In the economic area, there was a clear shift in emphasis from planning and policy making based on purely economic considerations, to a more balanced approach, in which affirmative action policies, concerning poverty, income distribution, and ethnicity, were also given due consideration. This policy shift was formalized in the New Economic Policy (NEP) and incorporated in the Second Five Year Plan (1971-76).

My involvement with Malaysia thus came at a critical time and was to continue for more than a decade, and also led to a book titled, *Malaysia: Growth and Equity in a Multiracial Society*, written with two of my colleagues, Willem Bussink, and Kevin Young, published for the World Bank in 1980 by the Johns Hopkins Press. As discussed in more detail below, I believe in the early and mid-1970s, I was able to make two main contributions to the Bank's relationship with Malaysia. First, to an extent, I was able to allay fears in the Bank, other international community, and non-Malays, that the New Economic Policy would be necessarily disruptive and, not only hinder growth and optimal use of national resources, but could also exacerbate racial tensions. Second, I was able to persuade the top Malaysian policy makers that the Malaysian economy in the 1960s was growing well below its potential and that embarking on a much bolder but feasible growth path would minimize the possible tradeoffs between growth and equity.

There is no doubt that the NEP was an extremely bold endeavour. Its overriding aim was to promote national unity by pursuing two objectives: the eradication of poverty and the restructuring of society so as to eliminate the identification of race with economic function over a twenty-year period (1971-90). The government's target was to reduce the incidence of poverty from 49 per cent of households in 1970 to 17 per cent by 1990–against the background of an expected rate of population growth of over 3 per cent per annum. The incidence of rural poverty was to be reduced from nearly 60 per cent to 23 per cent, while the urban poverty rate was to be brought down from 21 per cent to 9 per cent. Deep restructuring of the ethnic distribution of employment was also envisaged. The Malay share in the secondary sector (manufacturing, mining, construction, utilities, and transport) was targeted to rise from 31 per cent to 52 per cent over 1970-90, while the Chinese share was to decline from nearly 60 per cent to 38 per cent, with not much change in the structure of Indian employment, which was roughly proportionate to their share in population in all sectors. This massive restructuring was conceptually possible, because the employment in the agricultural sector that employed two-thirds of the Malay labour force was not expected to grow much over time (World Bank, 1980).

Finally, ambitious long-term targets for Malay ownership in the corporate sector and Malays enrolled in institutions of higher learning were set. But most of these targets for Malays were to be achieved through a redistribution of growth, with no employment or ownership group suffering actual decline. However, the government defined Malay ownership in the corporate sector to include state holdings as a proxy holding for Malays, and thus the ethnicity balance was to be achieved more by state involvement rather than by creating Malay millionaires overnight.

Still, the target of raising Malay ownership of corporate assets from two per cent to 30 per cent over two decades did initially raise serious alarm in the Chinese community. We encouraged the government to highlight the fact that the Chinese share would also grow because of a projected substantial decline in the very high initial share of foreign ownership. The latter did not imply any hostile attitude towards foreign private investment, but simply reflected the fact that a large part of foreign ownership was in rubber and palm oil estates, which were not growing because the land was reserved for small farmers. The quotas for higher education did hurt the Chinese, many of whom had to seek opportunities for education for their children abroad in the 1970s and 1980s.

I must confess that I was far more upbeat about the New Economic Policy than most of my colleagues in the Bank. This won me many Malay friends, but convincing even team members of economic missions was not always easy. While Bank economists and managers in general welcomed and strongly supported the goal of speedy reduction in poverty, many had serious reservations about the government's goals of major restructuring of employment and ownership of assets in the modern sector. Though, at the time, there was great faith in public-sector solutions, there were fears that the Malay government was, on behalf of Malays, venturing too far into productive sectors that rightfully belong to the private sector.

I recall that, at one senior management meeting, Peter Cargill, a former British ICS officer, who had good personal knowledge of Malaysia, observed rather provocatively that the Malay were quite happy in their Kampongs in rural areas and why was the government trying to eliminate the identification of race with economic function. To this my reply was that the Bank was not in the business of happiness but rather development. I am happy to note that, notwithstanding these reservations, the Bank remained quite heavily engaged in both dialogue and lending in Malaysia through the 1980s.

My greatest satisfaction came in wielding enough influence on key policy makers to adopt bolder fiscal and external borrowing policies and thus accelerating public development spending and the overall growth rate of the economy. When I first visited Malaysia, I was both surprised and impressed with how strong its financial position was. Exports based on natural resources–rubber and palm oil–were strong, and manufactured goods export development was being emphasized. The external debt was small and foreign reserves were large. The budget mobilized huge revenues, including from the pension system. Public servants were well-paid and competent and there seemed to be little corruption. In these circumstances, I felt that the country could follow more expansionary policies and could indeed borrow more abroad to accelerate development spending.

But Malaysians are financially very conservative by nature. I was very fortunate, however, to form early friendships with some of the key figures of the Malaysian establishment. Gaining their trust was a central part of what I believe was my success in encouraging the Government on to a more expansionary path. On my very first visit, I formed a good relationship with Tun (at that time Tan Sri) Ismail Mohammad Ali (1918–1998), who was Governor of the Central Bank of Malaysia for eighteen years, from 1962-80. By 1971, he was the senior-most Malaysian civil servant and very well-connected politically: his younger sister was married to the future prime minister, Mahathir Mohammad

(1981–2003). His advice mattered a great deal. He was much older than me, but I found him very receptive to new ideas and his support was invaluable. Even before retirement from the central bank, he became a powerful chairman (1978–1996) of PNB (*Pemodalan National Berhad)*, which is Malaysia's biggest fund management company and provides investment opportunities in state-held entities for *Bumiputra* (indigenous Malay). During my many visits, it was always a pleasure to meet him. I remember that he made it a point to host a large dinner for Parveen and myself, when she accompanied me to Malaysia in 1977. After dinner, Parveen told me that she was a little surprised that those present were paying me deep personal compliments (surely, because she was there), while she thought that I was just doing a job for the Bank.

Raja Tun Mohar (1922–2003), Senior Economic Adviser to several prime ministers, and Chairman of Malaysian Airline Systems (1973-1991) was another exemplary civil servant, who was a major presence behind the scenes. I was pleased that I had fairly regular access to him.

Tan Sri Thong Yaw Hong, a low key but very effective civil servant, was Director General of the Economic Planning Unit (EPU), directly under the Prime Minister, for most of the 1970s. Later, he was Secretary General of Finance for several years. He was another important friend who took the Bank work seriously. As long as he was directly in charge of Plan formulation, our official economic dialogue always started with him. Thong is still active in giving economic advice to the government

Ungku Abdul Aziz (1922–), Vice Chancellor of the University of Malaya (1968–88) was a tall, charismatic figure who was unabashedly unapologetic about affirmative action for the Malay. He read the draft of our book on Malaysia with great interest and even though he must have found some analysis too cautionary–to be expected from all World Bank documents–he eagerly urged us to get it translated and issued in *Bahasa Malysia*. Indeed, he volunteered to arrange for the translation and supervise it. The translation was published in 1983 or 1984 and was required reading in some economic courses at the university for several years. I was greatly touched by this show of confidence in our work by the Vice Chancellor.

Among younger, very capable officials that I got to know well were C. Robbles and Sulaiman, deputies in the EPU, Ramesh Chander, chief statistician, Rama Iyer, and Rustam Hadi, who became the first head of the national oil company. Robles and Ramesh Chander came to the Bank in the late-1970s and remained there till retirement.

Another young Malay whom I first met in probably 1973 was Zain Azraai, who was principal private secretary to the Second Malaysian Prime Minister, Tun Abdul Razak (1970–76). Zain was then a rising star in the Foreign Office. He was appointed Malaysia's ambassador to the United States just a few years later and remained in Washington till 1984. He also became an Executive Director at the World Bank Board. He and his wife, Dawn, a South African national, became good friends. Later, Zain was Secretary General Finance in Kuala Lumpur. I last saw Zain in Tashkent, where he had come on a visit at the invitation of the Malaysian Ambassador, who had been his younger colleague in Washington. I was sad to see such a vibrant and articulate person somewhat heartbroken. He told me that Dawn and he were divorced and Dawn had gone back to South Africa after apartheid ended; one of his two daughters had also moved to South Africa. I was grieved to learn just a few years later that he had passed away.

Two young Malay politicians, Musa Hitam and Tengku Razaleigh Hamza, also deserve special mention because both were very bright and ambitious and, though not yet forty, held top executive position already in the mid-1970s. Musa Hitam (1934–), a politician and member of UMNO (United Malay National Organization), was the Chairman of the Federal Land Development Authority (FELDA). Established in 1956, FELDA is a government agency in charge of resettling the rural poor on newly developed lands. It focuses on developing small farms, growing cash crops. The land was generally reserved for ethnic Malay because they accounted for the preponderant number of the rural poor. FELDA is now the world's largest plantation operator, with 0.8 million acres under its supervision. I got to know Musa Hitam because the World Bank was heavily involved in funding the programme which was, at the time, seen as an important instrument of poverty reduction. Later, Hitam became Education Minister and Deputy Prime Minister (1981-86) under Prime Minister Mahathir Mohammad (1981-2003), but then left the party and the government in 1987 after developing a rift with Mahathir.

Tengku Razaleigh Hamza (1937–) became Finance Minister in 1976 under Prime Minister Hussein Onn (1976-81) and remained in the same position till 1987, when he challenged Mahathir for leadership of UMNO, but was unsuccessful. He left the party, only to rejoin it in 2004. Razaleigh was a strong Finance Minister and pushed government programmes under NEP vigorously. These programmes got a further boost under Mahathir's early years as PM. Consequently, macroeconomic discipline became relaxed and, uncharacteristically, Malaysia ran large fiscal and current account balance of payments deficits in the early 1980s; and we at the Bank became concerned. When I posed this concern to Razaleigh–I think it was in 1983–he told me deadpan, 'But Mr. Hasan, we have been following your advice.' It was, of course, tongue in cheek. But my advice had come full circle. However, Malaysia did move in the next two years to reduce macro-economic imbalances. Actually, Razaleigh was a very pleasant man and my relations with him remained good throughout my days on Malaysia. In the later years, I was sorry to see that he had not been able to fulfil his ambition to rise to the position of prime minister. But Mahathir was a very strong leader: many tried to dislodge him, but did not succeed.

But for these important economic policy makers and many others like them, both politicians and civil servants, who were both capable and honest, Malaysia would not have been able to undertake, by and large successfully, the large public sector role in social engineering and economic transformation of its society. It is not often appreciated how big a challenge this small country faced in managing a huge public sector, and how effective its governments were in delivering solid results without any catastrophic failures.

In over two decades of Mahathir's rule (1981-2003), state interventions in the Malaysian economy became even stronger. The aspirations were reflected in the National Development Policy (1991-2000), and Vision 2020, formulated in 1990. While pushing the NEP agenda, Mahathir also aimed at accelerating growth, by making Malaysia into a high-tech manufacturing, financial, and telecommunications hub. Very large investments in infrastructure had the objective of improving private investment and industrial projects, notably Perwaja Steel and the Proton car, aimed at deepening of the manufacturing sector. While the latter projects were not successful and had to rescued by the private sector, the large investments in the

North-South Highway, the multimedia Corridor, and the large Kuala Lumpur Airport have sustained high growth and have helped to accelerate growth.

Mahathir was suspicious of western intentions and advice. He strongly believed that industrial deepening was essential to reduce dependence on the west. During the 1997 Asian financial crisis, he defied IMF advice and imposed capital controls, a economic policy step that earned him many supporters.

My last visit to Malaysia was in 1983. By all accounts, the country, and especially Kuala Lumpur, had changed beyond belief. The high growth and emphasis on equity has enabled Malaysia to virtually eliminate poverty, reduce the gap between Malays and Chinese, promote greater harmony in the society, and improve the sense of national identity. Social indicators, such as literacy levels and infant mortality rates, have been pushed close to par with developed countries. Though the New Economic Policy was not perfect and has now been largely abandoned, it has succeeded in its basic objectives of reducing poverty, restructuring the economy, and increasing a sense of national unity.

Some stylized facts tell the story of Malaysian success.

During the last half century, Malaysia has been one of the eight countries of any size[30] that have achieved high sustained growth for a long period (World Bank 2008). With an average per capita income growth rate of 4 per cent per annum, Malaysia has witnessed an increase in its average living standard of 600 per cent since 1960. In 2008, Malaysia's per capita income in purchasing power terms, translated into current international dollars, was $13,740. While less than half the level of Korea's ($28,120), Malaysian per head income level was substantially higher than China's ($6,000) and very much higher than India's ($ 2,960) and Pakistan's ($ 2,700).

No doubt, the Malaysian growth rate has been lower than that of China and Korea. However, Malaysia represents a success story of a different sort, in which tremendous social change and reduction in poverty have been brought about in a peaceful fashion in a multi-racial society, where there were huge imbalances in income and wealth a few

[30] City states notably Singapore, Hong Kong, and very small countries like Oman, Malta, and Botswana are excluded from the comparison.

decades ago, and where racial tension almost tore apart the country in 1969. While GDP, investment, and export growth have all been very impressive, Malaysia's most significant achievement has been the creation of a more equitable multiracial social order.

The incidence of poverty had been reduced to 5 per cent by 2000, with rural poverty dropping to 10 per cent and urban poverty to 2 per cent (Abhayaratne, 2005).

Furthermore, the overall income inequality as well as inter-ethnic and rural-urban inequality also declined between 1970 and 1990, though since 1990, income inequality, especially intra-ethnic inequality among Malays, has started to rise (Roslan 1995).

There was a vast restructuring of control of assets over 1974-93. The share of foreign controlled companies fell from 49 per cent to 11 per cent. The Chinese share has dropped from 27 per cent to 14 per cent, while the Bumiputra share has gone up to 6 per cent. The Government and related institutions control more than 50 per cent, while unit trusts and mutual funds shares sold to Malays, account for another 10 per cent (Dwight Perkins 1998).

No doubt, the state became excessively involved in business enterprises under Mahathir's push for speedy industrialization and there were several projects with poor economic return. However, it has since moved to privatize loss-making state enterprises, while retaining control of strategic investments.

What made Malaysia's strategy for growth and social transformation so successful? Some features were common to other success stories in East Asia: a clear vision, enlightened leadership, a strong state with good governance, and robust export orientation. But some special factors deserve mention in the case of Malaysia. First, the state was strong because of the political coalition of three major parties, representing three major ethnic groups, UMNO, MCA (Malaysian Chinese Association), and MIC (Malaysian Indian Congress). This coalition has held and thus a broad national consensus forged by political means always seemed to exist. Second, Malaysia's remarkable progress was facilitated greatly by its initially strong natural resource endowment, a comfortable fiscal and foreign exchange position, as well as a paid and effective civil service. While there have been scandals and the use of political power for economic gain and influence has been increasing, the level of corruption has been relatively low. According to Transparency International's Corruption Perception Index (CPI), Malaysia score deteriorated from 5.3 in 1995 to 4.5 in 2009, but it still compared favourably with most developing countries, including, China (3.6), India (3.4), Thailand (3.4), the Philippines (2.4), Pakistan (2.4), and Bangladesh (2.4). Finally, even though state interventions were large, the Malaysian economy remained an open economy with a liberal framework that did not stand in the way of the private sector. The attitude towards new foreign investment remained friendly.

We visited a small Siemens factory, producing electronics in the Free Trade Zone, off the coast of Penang in December 1971. It was staffed mainly by young female labour. The German manager told me that the Malay girls from rural areas had, after six months' training, more or less the same productivity as girls in Germany. From that small start, Malaysia has now a formidable electronics industry that exported US$75 billion worth of goods in 2008. This stands in great contrast to Pakistan, which totally missed out on the electronics export possibilities.

Malaysia has probably exceeded its own expectations. But the signs were there in the early-1970s–strong political leadership, a robust economy, and a well-functioning government. I recall sharing my enthusiasm on Malaysia with Hollis Chenery, Chief Economist of the Bank, and requested him to initiate an intensive economic research programme on the country. He agreed to treat Malaysia as a country of concentration in the Development Policy Staff (DPS) which he headed. He asked Montek Singh Ahluwalia, then a highly regarded head of the Income Distribution Division, and now a powerful Deputy Chairman of the Planning Commission in India, to head a mission to Malaysia to develop a suitable research programme. Montek was also highly impressed by his visit and, on his return from Kuala Lumpur, told me half jokingly 'Parvez, maybe in a generation, not only westerners but also Malaysians, will look at the sub-continent with disdain.'. India is well on its way to remedy the situation, but Pakistan still lags behind.

Chapter 18

Korean Development: The Early Years 1970- 84

Korea's sustained economic growth over the last half century has been truly phenomenal. No doubt, China has made dramatic economic strides during the last three decades, especially considering its economic size. Still, China's per capita income in 2009 was, in purchasing power parity terms, less than one-quarter that of Korea's level. China's per capita income would have to grow at a steady rate of 8 per cent per annum for nearly two decades–not an easy task–before it can match today's average income in Korea.

Korea is also one of the relatively few developing countries (including Singapore, Hong Kong, China, Malaysia, Thailand, Turkey, and, more recently, India, and Vietnam) that have convincingly narrowed the gap between them and the rich countries over the last three or four decades. In purchasing power parity terms, Korea's income in 2008 was at $28,000, 40 per cent of the level of the average income in the US.

My own involvement with Korea, on behalf of the World Bank, started in the summer of 1973 and was to continue and deepen for more than a decade. I headed two major economic missions to Korea in 1973 and 1976, and remained one of the principal Bank interlocutors with Korean economic policy makers till 1984. I was also the main spokesman for the Bank on the Korean economy at the Annual Consultative Donor Group meetings in Paris. Internally, within the World Bank, I was able to play a significant role in the Bank's expansion and restructuring of its lending programme in that country, because of my very upbeat assessment of Korean economic prospects.

In personal terms, my association with Korea was probably deeper and longer lasting than with any other country, except my homeland, Pakistan. It provided me a window on Korean economy, society, its remarkable bureaucracy, and the upcoming *Chaebols* (conglomerates) in what was perhaps one of the most important decades of Korean development. Through things big and small, my understanding of–as well as admiration for–for the Korean economic model grew during that period and my strong confidence in Korea's future never wavered, notwithstanding the financial crises of the mid-1970s and the early-1980s.

1973 Economic Mission

By 1972, Korea had already made major economic advances under the enlightened leadership of President Park Chung Hee, who had seized power in 1961 through a military coup. Park gave high priority to economic development and put his trust in export-led growth. Under him, export development became almost a religion in Korea during the 1960s and the 1970s. Export trends were monitored monthly by a high-level meeting, chaired by the President, and attended by both high economic officials and leading exporters with a view to co-ordinating policy and for trouble-shooting.

As a result of this almost single minded focus, manufactured exports from Korea, which were still a modest $100 million in 1965, had risen very rapidly to $1.7 billion by 1972. Real GDP per capita more than doubled over a short period of seven years and stood at $304 in 1972. Korea's dependence on external inflows to finance large savings and investment and balance of payments' gaps remained high, but its huge reliance on concessionary assistance, which had made some international observers regard the Korean economy as a basket case in the early-1960s, had, been largely eliminated by the early-1970s.

The Koreans were not, however, content with their success. In 1973, the Korean Planning Board, again under the direction of President Park, drew up an ambitious plan to sustain high growth rates of output and exports and, at the same time, to diversify and deepen the export and industrial structures. Targets of $1000 per capita income and $10billion exports were set for 1981.

Till that time, Korean exports were heavily concentrated in labour-intensive manufactured goods, such as textiles: textiles, clothing, footwear, and wigs, which accounted for nearly 70 per cent of manufactured goods exports in 1970. There was a recognition, however, that relatively low-skill intensive manufactured exports would lose their comparative advantage, as real wages had started to increase sharply, The long-term plan, therefore, aimed at developing more skill- and capital-intensive heavy industries, including steel and shipbuilding, as well as electronics, that were becoming the new growth pole in international trade.

The Korean government turned to the World Bank for an assessment of their long-term plan and targets in the summer of 1973. I was asked to lead an eight-person mission to undertake this evaluation. This was a challenging but exciting assignment: challenging, because I had no firsthand knowledge of Korea; exciting, because Korea, Taiwan, Hong Kong, and Singapore–sometimes called the gang of four–were at the cutting edge of export-oriented development, having very successfully exploited the opportunities opened up by the rapid expansion in world trade in labour-intensive manufactured goods.

I was aware that my task was being undertaken against the background of some skepticism in the Bank about Korea's very relentless pursuit of rapid growth. Some senior economists in the Bank felt that its very high rate of export expansion was being supported by unsustainable export subsidies. Some others felt that Korea's big push to heavy industry, like steel, was too ambitious, in view of the fact that it did not have natural resources, such as iron ore and coal. Indeed, the Korean Government had approached the Bank for financing a steel mill in earlier years, but the Bank had declined, considering the project uneconomic. The Koreans had not quite forgiven the Bank for this lack of confidence in their economy.

My first interactions with the Korean officials were, however, very reassuring. A team, headed by Suh Suk Joon, Director General, Planning, of the Economic Planning Board (EPB), later Deputy Prime Minister for the Economy, came to Washington in August 1973 to brief Bank officials on their long-term plans and made a detailed power-point type presentation, years before such software became widely available. Suh and his team were well-prepared, confident, and purposeful. This first experience of the systematic, disciplined, and businesslike manner in which Korean professionals operated was to be repeated throughout our month-long mission in September 1973.

My mission was an exhilarating experience, not least because the Korean economy was setting new economic records that year. GDP was heading towards an annual growth of 16.5 per cent that year and exports were well on their way to doubling in a single year. I had not seen such a single-year economic performance ever before–or since, for that matter.

The mission worked hard. Its effectiveness was greatly enhanced by Korean support and preparedness. Korean economic data base was rich and reliable. Meetings were always held punctually and there were rarely any cancelled meetings. The requests for additional information were responded to quickly and positively. This was or is hardly the norm in Bank member countries.

Quite clearly, the World Bank was given special treatment among the donors because of its Chairmanship of the Donor Consultative Group. But more than lending, it was the Bank's professional advice that was valued, because it was considered very objective. Of the total public debt outstanding of $4 billion at the end of 1974, only $300 million was owed to the World Bank Group.

The special relationship meant red-carpet treatment and invitations for dinner every evening, but, more importantly, fairly unfettered and frank access to top economic and business leadership, such as the emerging industrial giants: Hyundai, Samsung, Daewoo, and Lucky groups among them.

By the end of the mission, I was very impressed by the strengths of the Korean economy: growing export competiveness in manufactured goods; focused, well co-ordinated, and flexible economic management; and very effective co-operation between business and government. Already in the aid memoir given to the Government at the end of the mission's field visit, we indicated that ambitious targets for exports and GDP growth for 1981 were likely to be met, though we cautioned that the pace of industrial and export restructuring would not be as rapid as envisaged by the government. We felt, however, that industrial output and exports in light manufactures would do better than expected by the planners, thus making up for the somewhat slower growth of the new sectors.

We based this judgment on the vigour of the Korean institutional and economic structures, as well as impressions gathered through hundreds of meetings and many visits to major new projects, such as a steel mill, a shipyard, and electronic factories. I was particularly struck by the headway Koreans had made in manufactured exports, which had, by the early-1970s, become a major engine of growth in world trade. I felt that Korea would be able to increase its market share in world trade because of its many advantages: nearly 90 per cent of Korean exports consisted of manufactured goods; the skills and productivity of Korean workers were high, but their wages, while rising, were still low (one-sixth of those in Japan and not much higher than the Philippines); the proximity to the rapidly-growing Japanese market; and firm and generally well-thought-out plans for change in industrial and output structures, toward more profitable and, in the longer term, more viable economic areas.

The Korean policy makers were pleasantly surprised to get such an upbeat assessment from a senior World Bank official. This was the first time that the Bank had advised them not to scale back their ambitious targets.

I had not, however, given enough attention to the storm that was gathering on the energy front. We finished our draft report in late December and I headed, with family and a group of friends, to Disneyworld in Florida to treat our daughters and to enjoy a well-earned holiday. It was while we were in Florida that the world witnessed its first oil shock. OPEC (Organization of Petroleum Exporting Countries), led by the Shah of Iran, trebled the price of oil to $11 overnight. This was to affect energy-import dependent economies most adversely. Between 1972 and 1974, Korea's oil import bill was to rise more than fivefold, to $1.1 billion, the rise in oil prices over the period implying a loss of 5-6 per cent of national income per annum. The severe external shock was to cause substantial balance of payments difficulties for Korea during the years 1974-76. However, it was a measure of Korea's strong and speedy policy response and economic adjustments that the targets for exports and GDP in the long plan–1972-81–were met in real terms and substantially exceeded in nominal terms, because of the higher rates of international inflation. Exports and GDP per capita respectively totalled $17.5 billion and $1481 in 1980.

Policy Responses and Adjustment

The speed with which Korean planners made adjustments to changing circumstances was truly amazing. My first experience of this was during a visit in January 1974 to discuss our draft report and necessary modification to it in light of the higher energy prices. The mood in the capital, Seoul, had turned sombre in a matter of months: strict austerity in public expenditure had become the norm, lavish hospitality had been cut back, and all efforts were focused on dealing with the unexpected energy crisis. Real as well as symbolic policy changes had been put in place within a few weeks of the sharp increase in international oil prices, While the Korean response to the first oil shocks was formulated and put into action in weeks, as I have noted elsewhere (Chapter 23), it took Pakistan nearly ten years to make the full energy price adjustments, with the most devastating consequences for the financial health and viability of energy sector institutions such as WAPDA.

The symbolism of the response was driven home to me when we arrived for our first meeting with the Deputy Prime Minister. The all powerful EPB was then housed in a very modest three-storey building, with the offices of the DPM on the second floor. As we approached the bank of elevators, we were told politely that were no longer used because of energy conservation.

More substantively, most energy prices were adjusted to the new cost of oil, eschewing the option of subsidizing consumers or industries. In the process, the major government objective of keeping inflation low was deliberately given up and consumers faced price increases of 33 per cent in 1974 alone.

Equally important, Korea borrowed heavily during 1974–79, not to support consumption but to sustain the planned increase in investment to deepen the industrial structure and diversify exports. At the same time, Korea seized on the newly-opened opportunities in the oil-exporting countries in the Middle East, to obtain very large construction contracts, increasing both profits and worker remittances. It could not have just happenstance that one of Korea's ablest diplomats had been posted as its ambassador to Saudi Arabia just a few months before oil prices exploded.

I was to learn more about the quick response, flexibility of policies, and close co-ordination mechanisms for both plan formulation as well implementation in Korea in the next decade, especially as it coped with another major economic and financial crisis in 1980–81. But even during my first visits, I formed a clear impression of some of the fundamentals factors that were contributing to Korea's great economic success.

Factors in Rapid Growth

Korea is a homogenous society with no strong regional or religious differences, no deeply entrenched class or class structure. In the aftermath of the Korean War (1950–52), the society was more fluid and less structured than in most other parts of Asia. Consequently, the pursuit of economic opportunity was less inhibited by tradition and class (Hasan 1976).

Though Korea has very limited natural resources, it is endowed with an unusually well-educated, industrious, and disciplined labour force. Already by 1970, more than 75 per cent of workers had at least primary education, while nearly one-third of the labour force had secondary or higher education (Hasan and Rao, 1979). By the early-1990s, 90 per cent of the age group was enrolled in secondary schools. Once a proper economic policy framework and appropriate incentives were provided, the growth in labour productivity was rapid. Even though average real wages doubled over 1966–73, productivity growth in the period was even faster, and this trend continued at least till the late-1970s (Kwan S. Kim, 1991). This enabled Korea to maintain competitiveness abroad, and avoid labour militancy at home.

Economic development in Korea has also been supported in no small measure by an unusual degree of acceptance of the identity between the interests of various groups and national economic advancement. Even though the Korean economy is largely a free market economy, in the early decades of its development, private enterprise was quite willing to operate under highly centralized government guidance, somewhat like Japan, which was a role model for Korea. This stands in contrast to frequent tensions between public and private sectors, not only in developing, but many developed countries.

However, mere collaboration between the public and private sectors was not enough. Three other ingredients were important: a clear and well-thought out economic vision by a strong but honest political leadership (at least till 1980),[31] the concentration of power in conglomerates (*Chaebols*), and a very able, merit-based bureaucracy, which could very effectively implement policies and monitor progress.

Political Leadership

Without the long-term vision and strong commitment to economic development of President Park Chung Hee (1961-1979), the Korean economic miracle might not have happened with the same speed and sure footedness. It is widely known that when Park assumed power in May 1961, he looked around for models of development and was impressed by the progress Pakistan was making under President Ayub. He sent a mission to learn about Pakistan's planning processes. The mission met, among others, young Mahbubul Haq, not yet 30. We do not know what influence the report of that mission had on Park.[32] However, nearly two decades later, in the early-1980s, the East Asia Regional Office of the World Bank requested a senior Pakistani civil servant, Vasim Jafarey, to carry out an independent study of the factors in Korea's success. During his visit, Jafarey ran into one of the members of 1961 Korean mission to Pakistan. He told Jafarey that the important question was not why Korea succeeded, but why Pakistan did not fulfill its promise.

An Economic Planning Board that was set up later in 1961 was given wide powers over the economy, including planning and economic co-ordination among all economic ministries, and was placed under a Deputy Prime Minister, who was minister of planning, and effectively the economic czar. The EPB was complemented by the Korea Development Institute, an independent economic research organization, funded by the government.

In terms of policy focus, the export-oriented strategy was, as mentioned earlier, very much President's Park's idea, most probably influenced by the Japanese example. Apparently, the impulse for a move to heavy industry and electronics also came directly from President Park. I was told that Park felt that Korea's location, climate,

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[32] Pakistanis have tended to exaggerate their influence on Korean development. A recent article by Javed Masud, Can Pakistan learn from Korea? in The News, Pakistani newspaper dated January3o and February 1 2010 sets the record straight.

and educated and disciplined labour force could all, eventually, help match Japan's competitive edge in shipbuilding and could, ultimately, challenge Japan's dominant place in world shipbuilding at that time. He had to actively encourage private entrepreneurs, like the Hyundai Group, to take the risks in a field totally new to them, by offering backup public-sector support. But he had the foresight not to create a monopoly, by involving initially at least three *Chaebols* (Hyundai, Samsung, and Daewoo) in the field.

Chaebols

There is no doubt that Korean big business conglomerates, also known Chaebols, have played a major part in the country's rapid economic growth. The historical government support of the Chaebols has come under increasing criticism in recent years. But there is little doubt that Chaebols like Hyundai, Samsung, and Daewoo have created global brands and have enabled Korea, over time, to increase its share of international trade. Their role was particularly important in heavy industries such as shipbuilding and electronics. During 1973–78, the value added by the top five conglomerates increased by 35.7 per cent annually and their share in GDP increased from 8.8 per cent to 18.4 percent over the period. Chaebols had existed before 1960, but their presence enhanced the effectiveness of state-directed policies because a small number of groups could be targeted for spearheading the policies (Kwan S. Kim 1991).

But at least under Park Chung Hee's military rule, the power of the bureaucracy, the EPB, the Ministry of Trade and Industry, the Economic Secretary to the President, and the Director of the KDI was very substantial and government direction and advice to economic agents, especially Chaebols, was taken very seriously. During the 1970s and early 1980s, World Bank economic missions routinely met many of the heads of large conglomerates. This was well before they became household names and brands all over the world. What I recall most from these meetings is the supreme confidence of these industry chieftains in their future ability to penetrate world markets. The few times that we were entertained at their home by these business leaders, rather a rare honour for foreigners, I was struck by their unpretentious though modern residences that would have paled in comparison with the lifestyles of top Pakistani industrialists.

The economies of scale and organization have been an important part of the story of rapid and sustained productivity growth in Korea. We had the occasion to visit textile factories, employing more than ten thousand workers, and garment factories employing hundreds. Mostly, this labour was young females from the countryside, living on the premises. These girls worked for a few years, saved money, and then got married. I am sure their living conditions were not great. Despite many efforts, we were never shown their dormitories.

However I would not like to leave the impression that small and medium industries were neglected. While there was little growth over 1967–79 in manufacturing employment in very small enterprises, engaging less than 20 workers, the mid-size firms, employing 50 to 200 workers, saw their employment rise more or less in line with the average growth of 10.4 per annum. But the fastest growth rate of manufacturing employment (15 per cent per annum) was obviously in the firms employing over 500 workers (Kwan S. Kim 1991).

Even in providing support to medium-size industrial firms, the government kept its focus clearly on exports. I recall visiting the office of the Assistant Minister of Trade, a key official in implementing trade policies, in the mid-1970s. I was surprised to see hundred of bottles, jars, and packages lined up on the shelves of his large office. When I asked him about it, he told me that poor packaging was one of the important constraints on exports of miscellaneous manufactured exports. The government had looked into several hundred relatively small firms and then had decided to support a hundred or so, to help them to improve the quality of packing and aesthetics of their product.

Concern with the Rural–Urban Income Gap

While the emphasis on exports and, later, heavy industries have been the driving force of the Korean economy for decades, the true surprise during our 1973 visit was the attention being given to the growing gap between rural and urban populations. In 1963, the per capita household income in rural and urban household was roughly equal. By 1970, urban incomes were 60 per cent higher than rural incomes, though there was a real increase in rural income of 15-20 per cent during this period. This growing disparity worried the government, as 50 per cent of the population still lived in the rural areas and the army drew its support mainly from rural areas. In the subsequent years, the government took important steps to close the gap by increasing the support prices of rice and barley much above international levels, following the example of Japan and other industrialized countries. At the same time, the Sae Maeul (New Community) Movement was initiated in 1971, a self-help programme to improve living conditions in rural areas. Under this programme in the 1970s, all traditional roofs were replaced, rural electrification was extended to 90 per cent of villages, telephones were installed in most villages, methane tank systems for cooking and heating, using compost as fuel, were introduced, general improvements in the rural infrastructure were undertaken, and some effort was made to create industrial employment in rural areas. Already in 1973, the villages we visited had many of these facilities and the quality of life in rural areas appeared much better than in most other developing countries.

Curiously, the matter of living conditions in rural areas in Korea came up in a casual conversation with the then Finance Minister, Kyong Shik Kang (later Deputy Prime Minister and finance Minister 1997), a decade later, when I visited Korea in the context of a large Structural Adjustment Loan. The two of us were having an informal dinner in the summer of 1983, when Kang told me that he had recently had the occasion of visiting Korean communities in Central Asia. These were Korean families and their descendents who had been forcibly transmigrated from North Korea by Stalin after 1945, when the Second World War ended. Kang said that he was most shocked to find that the conditions of these Koreans in rural areas did not at all compare favourably with the situation in the Korean countryside. This was my first hint ever that things in the Soviet Union were not as rosy as they were reported to be. Years later, living and travelling in Central Asia, I saw widespread poverty, but not only among Koreans, but German families who had also been settled by Stalin in Kazakhstan. In the early-1990s, many of these families did not have access to piped water and had to drag large drums of water over ice and snow in the bitter winters. However, I reacted to Kang's comment by just saying that I thought Korean rural conditions were pretty good.

Visiting Pusan: Pohang Steel Mill and Hyundai Shipyard

Since the Pohang Steel Mill and Hyundai Shipyard were considered the crown jewels of the Korean heavy industry strategy, a several days' visit to Pusan was arranged for us to showcase these important projects.

The Pohang steel mill had been in the works for many years but the difficulties of financing and frequent reservations expressed by investors kept the project from materializing. Construction began only in 1970, when financing and technical assistance were assured by Japan. By 1973, the one-million-ton capacity steel mill, 70 per cent owned by the government, had already come into production. Its construction had been completed in record time and it was running full capacity. When asked why the mill was economical, despite heavy dependence on imported iron ore and coking coal, the managers responded that Korea had opted for the latest technology and the efficient operation avoided any breakdown and stoppages that were frequent in other steel plants.

Korean self-confidence–that they had the prospects of a viable steel industry–has been vindicated beyond doubt during the last several decades. Today, Pohang Steel is one of the largest and most efficient steel mills in the world; its production capacity is more than 25 million tons.

The foray into shipbuilding appeared less risky, but again has probably succeeded beyond Korea's wildest expectations. In April 2006, Korean shipyards occupied the first seven of the ten top places in terms of order backlogs, the next two were Chinese, and the tenth was the Japan industry leader, Mitsubishi Heavy Industries.

Several things impressed me when I made my first visit to Hyundai shipyard: First, I was surprised that the shipyard was being built at the same that a very large oil tanker, probably with a capacity of 300,000 tons, was also being constructed. Obviously, one bay had been completed, so the tanker construction could go ahead, while the rest of the shipyard construction was proceeding. When I expressed surprise that a buyer had been located in competition with established shipyards, I was informed that Koreans undercut the world price by 20 per cent. I was told that another super-tanker had also been sold recently.

Second, as in many other areas of manufacturing, including garments, textiles, and electronics, Koreans did not insist on strong backward linkages right away, and were content to rely heavily on imported technology and equipment. Apart from Pohang steel from practically next door, the initial value added came largely from labour inputs. The skilled labour employed was essentially nailing down the steel plates and the equipment. The general manager was from Denmark and told us that blueprints for the oil tanker, the engineering design, hydropumps, and other equipment were all imported.

A decade later, I made my second visit to the much-expanded shipyard and, over lunch, asked the Korean General Manager, rather naively, whether they had a design department–I was thinking of the conversation long ago, with the Dane telling me that engineering designs were all imported. The gentleman must have thought my question foolish, but told me that, of course, they had a design department and it employed more than one hundred engineers.

Another memory from that first visit was the sight of a middle-aged Korean, just looking over the shipyard construction for an extended period, without anybody with him. I enquired from a worker who that was; the reply, with a shrug of shoulders, was that he was the Chairman and he came every day. A chairman of the company wandering around without any one paying him much attention was a strange sight for a Pakistani.

According to the records, the first chapter of Korea's shipbuilding history ended in June 1974, with the completion of the construction of the world's largest shipyard and two oil supertankers simultaneously. A decade after its first delivery, the Hyundai Shipyard topped 10 million deadweight tons in aggregate ship production, and has maintained the leading position in the world shipbuilding market ever since.

World Bank Lending to Korea and Consultative Group

I returned from Korea in October 1973, full of enthusiasm about its economic future. I felt that the Bank's programme was too small in relation to the country's potential and creditworthiness. I argued not so much that, without a large Bank lending programme, Korea would be seriously hampered, but rather that the Bank would miss the opportunity of being closely associated with a very strong economic success story in the making. (This was before the oil price shock in December.) I was delighted that my boss, Area Director for East Asia, an Englishman, Raymond Goodman, strongly supported me, and the new division chief for Korea, David Loos, a Sri Lankan of Anglo-Sinhalese descent, fortunately shared my optimism. We became good friends and worked closely together on Korea for over eight years.

It was to turn out that Korea in fact did need substantial Bank lending, including a quick disbursing programme/structural adjustment lending, when it faced serious financial problems during 1974–75 and 1980–82, partly as a result of the large increases in international oil prices. It also required strong Bank advocacy on its behalf to other donors. It was, therefore, fortuitous that the economic and policy work done by the 1973 and 1976 economic missions had laid the groundwork for a much-expanded IBRD lending programme.

The annual Bank group lending, which had averaged less than $120 million in 1971–75, increased to an average of $440 million during 1975–78, and further, to the peak of nearly $600 million during 1983–86. This lending was largely in the form of project-lending, focused on critical sectors. However, the in early-1980s, when Korea once again faced a serious crisis, nearly one-third of Bank assistance was given in the form of quick-disbursing policy loans. By mid-1985, IBRD's outstanding loans to Korea had risen to $ 3 billion, larger than any country with the exception of Brazil and Mexico, though, including IDA lending, Indian and Indonesian programmes were also larger.

But while Bank financial support was important, Korea's total need for medium- and long-term external loans was very large; somewhat contrary to popular perceptions, the role of direct private investment historically was relatively limited. One reason was the Korean insistence that foreign investment must contribute to export development. The Korea Consultative Group, which had been set up by the World Bank in 1966, played an important role in mobilizing the $3-4 billion dollars that were needed annually in the late–1970s and early–1980s. There were at least four meetings of IECOK (International Economic Consultative Organization for the Republic of Korea) as the Korean called the Consultative Group, normally chaired by the Bank Vice-President for East Asia, over 1975–80.

It is hard to imagine now, but in the early–1970s, Korea was not a well-established or well-known political entity or economic power. While its links with the United States were strong, the relationship with

Japan was ambivalent. While Japan was a major trade partner and supplier of capital, there were reservations on both sides. The Koreans had not forgotten Japanese colonial rule and the Japanese were somewhat suspicious and rightly fearful of potential competition from Korea in fields such as shipbuilding and electronics. The rest of the world did not have much knowledge about the Korean economy and its deepening industrial and export structure. The relationship with the World Bank was considered, therefore, very important not only for a substantive exchange of ideas, but also for projecting and propagating the growing strength and importance of the Korean economy.

The Koreans, therefore, gave special treatment to World Bank officials. In return, they got a truly independent and non-political analysis from the Bank professionals. The strong support we gave to Korea for diversifying its exports and developing heavy industry left some Japanese officials uncomfortable. But these were President McNamara's times at the Bank. There was, as far as I know, no attempt to influence professional decisions. The closest the Japanese officials came to questioning the optimism of our conclusions about the Korean economy was in conversations with me at purely social occasions connected with IECOK meetings, with one strong exception.

The Japanese did complain to Robert McNamara at a fairly high governmental level, in 1977, about there being too many Pakistanis in senior management positions in the East Asia complex of the Bank. This was true: over six years, 1977–83, three of the four senior positions in the region were held by Pakistanis: S. Shahid Husain was Vice President, Kirmani was Project Director, and I was Chief Economist. The other senior position of Programs Director was held first by Stanley Please, a British national, and later, by Kim Jaycox, a US citizen. It is a tribute to McNamara's efforts to internationalize the staff and his turning a blind eye to nationality that we three Pakistanis and good friends were allowed, for a considerable period, to remain in charge of one the most dynamic regions of the Bank at the time.

But what tested Japanese patience the most was the 1977 Consultative Group meeting in Paris. At that meeting, the entire Bank delegation consisted of South Asians. Three Pakistanis–Shahid Husain, Zia Kalim, a senior loan officer, and myself–David Loos, a Sri Lankan, and D. C. Rao, an Indian, who was the lead economist on Korea. The

Japanese thought that we were all Pakistanis and said so to McNamara. No action was taken, however.

Much as they valued the Consultative Group, the Koreans were ready to end it in 1984, less than two decades after it was formed. Its final meeting was held in Seoul, to thank all the donors for their successful support. In the middle of the 1980s, Korea was also reaching the income limits set to graduate from Bank lending. Bank lending to Korea dropped steadily from over $500 million in 1986, to a little over $100 million in 1990. Korea has been a major contributor to IDA, the concessionary funding arm of the Bank group since the mid–1980s. Korea's transformation from a poor to a virtually developed country happened in a single generation, a record in the annals of history.

Deepening Dialogue and the 1980 Crisis

Against the background of increasing Bank lending and aid co-ordination, the economic policy work continued to gather momentum. The upbeat analysis of the 1973 economic mission and the subsequent publication of my 1976 book, *Korea: Problems and Issues in a Rapidly Economy*, which highlighted Korea as one of the outstanding success stories in international development, won me many friends there. My advocacy within the Bank for a quick-disbursing programme loan in 1975, without any policy conditionality, was also much appreciated in Seoul.

By 1976, the immediate balance of payments crisis caused by the oil price shock had been brought under control, and preparations for Korea's Fourth Plan (1977–81) had started in earnest. Suh Suck Joon was by then the Assistant Minister and Kim Je Ik, a Stanford Ph. D., who had been directly inducted into the civil service in 1974 under special rules, was Director General Planning in the EBP. They were close to each other and to Nam Duck Woo, the Deputy Prime Minister. On our side, D. C. Rao, a very able young economist, had become the lead economist on Korea. The Korean government requested close collaboration with the Bank on plan preparation, with the understanding that Rao and I would lead and co-ordinate this effort on our side. Under this arrangement, Koreans sent a large team to interact, in a seminar setting, with the large number of Bank staff working on Korea at the time. The Bank sent a number of sector missions in the first half of 1976 to cover human resources, industry, energy, transport, agriculture, public finance, the financial sector, and macro-modelling. These missions provided key inputs for the fourteen-member economic mission in July 1976, which was led by me with D. C. Rao as the deputy.

The report was completed in 1977 and published as a book, *Korea: Policy Issues for Long term Development* in 1979 by Johns Hopkins University Press on behalf of World Bank. In my experience of more than a quarter of century at the Bank, this was the closest and most fruitful interaction and dialogue with a client country. It was a real pleasure to work with the critical trio, Nam, Suh, and Kim, who led the Korean planning efforts. It was also rather heartwarming that these planners put their trust in a Bank team headed by two economists from India and Pakistan, countries whose development records at the time were not particularly inspiring.

The World Bank 1977 economic report on Korea was generally upbeat. It concluded that the main targets of the Fourth Plan, while ambitious, were attainable It further observed that chances were also good that Korea would be able to sustain a long-term growth rate of 9 to 10 per cent through the 1980s and thus, by 1990, would be a fairly high income, heavily industrialized, export-dependent economy, with a rapidly dwindling reliance on agriculture.

While the Bank analysis was generally supportive of Korean strategy and economic policy thrusts, it had one rather clear, though politely-worded note of caution about the role of the state in the economy going forward. Two excerpts from the 1979 published book (pp.104-105) below illustrate the point.

In the past, government has played a rather important direct role in most manufacturing sub-sectors. In the planned sub-sectors, particularly steel, fertilizer, chemicals, and shipbuilding, government identified major projects and ensured their implementation, sometimes to the point of initiating them through the agency of a public enterprise. Even in the unplanned sectors, such as textiles, there has been active government participation from time to time in establishing programs for modernization and capacity expansion at the enterprise level…. …In the longer term, the need for government promotion of specific projects will decline. Industrial growth will probably be healthier if private entrepreneurs sought out profitable opportunities themselves and took attendant risks. Mechanical industries, electronics, and light industry will be too diverse for government to have a useful direct role. Even in the basic intermediates, private entrepreneurs will have the necessary management ability and financial strength to take the lead.

The main point …is that market signals will inevitably become more important in the manufacturing sector. As the economy becomes more sophisticated, decision-making will have to be more decentralized, more automatic, and at the enterprise level.

By the late-1970s, many of the key economists and planners shared the concern about the excessive state push for heavy industries and felt the need for greater economic liberalization, further relaxation of controls on imports, dismantling of the state-controlled banking system, but 'a great deal of advice coming out of EPB was being overruled by policy makers in the Blue House who were bent on accelerating the development of Korea's heavy and chemical industries, regardless of cost.' (Kim Kihwan 1991).

Korea paid a heavy price for pushing growth and structural change too hard during 1976–78 and neglecting the advice to moderate the pace of investments in heavy industry, fuelled by credit expansion. By 1979, the Korean economy had become seriously overheated because of excessive credit expansion and faced the need for economic stabilization as well as structural adjustments, due to supply bottlenecks, excessive capacity in heavy industries, and a relatively energy-intensive output mix. Domestic inflation seriously impaired export competitiveness, precisely at the time when the second major oil shock increased Korea's petroleum import bill very sharply, from $2.3 billion in 1978 to $ 6.2 billion in 1980, implying a terms-of-trade loss equal to nearly 6 per cent of GDP.

'On the domestic front, the assassination of President Park threw the country into political confusion. By the spring of 1980 this confusion had turned into a full-blown crisis. Violent student demonstrations and strikes by labor unions were the order of the day. Under these conditions, employers gave in easily to demands for excessively large wage hikes, and they had little reason to invest given the great political uncertainty…. To make things worse, a disastrous harvest led to a decline to 22 per cent in agricultural production. As a result of these unfavorable developments, the Korean economy suffered negative growth for the first time in two decades, contracting by 5.2 per cent, while inflation soared to 29 per cent in consumer prices and 39 per cent in whole sale prices' (Kim Kihwan 1991). Consequently, the current account balance of payments rose to a peak of 10 per cent of GDP in 1980.

But, as in 1974–75, Korean policy makers rose to the occasion. Over the next three years, they tackled multiple economic challenges very effectively and simultaneously. Economic stabilization was achieved, growth was revived, and resource allocation substantially improved through a combination of restrictive fiscal and monetary policies, wage restraints, and structural policies aimed at economic liberalization, greater reliance on market signals, and promotion of competition.

A sharp depreciation of the real exchange rate in 1980 was accompanied by a reduction of non-tariff barriers as well as reductions in average tariffs. As late as 1979, only 68 per cent of all products could be imported without import licensing. By 1984, the import liberalization ratio had increased to 84.8 per cent, and, by 1988, most products were subject only to tariffs. A major step towards liberalization of the banking system was the relinquishing of government holdings in the country's major commercial banks in 1983; preferential interest rates and subsidies were eliminated; and direct credit controls were replaced by normal monetary management. Foreign direct investment ownership of up to 100 per cent was allowed. In order to prohibit monopolistic practices and collusion among firms, a law was passed and a fair trade commission established in 1981 (Hasan 1991).

The World Bank was closely involved in advising and financing of the Korean stabilization and structural adjustment efforts through two quick-disbursing loans in 1981 and 1983, totalling over half a billion dollars. The Bank focused especially on financial sector liberalization, reduction of energy intensity of economic activity, restructuring of heavy industry, including automobiles, and improving processes and strengthening capacity for project selection and evaluation (World Bank 1981, 1983). The success of the economic adjustment efforts was, however, due mainly to Korean determination to reform and their ability to execute policy changes quickly and effectively.

By 1983–84, GNP growth had recovered to over 8 per cent per annum, inflation was negligible, and the current account deficit was less than 2 per cent of GNP. Declining oil and raw material prices helped the balance of payments position, but, in quantitative terms, once again, it was a nearly 60 per cent increase over rise in exports over the four years, 1979–83, that was the major factor in turning around the balance of payments situation.

Despite all the declarations about reduced state intervention in the economy, the role of government in business behind the scenes remained considerable and was probably a factor in the early-1990s crisis. A part of the problem has been the big business not wishing to go against the real or perceived political interests of the government. In the early days after the de-nationalization of the banks, I attended a meeting at which most prominent banks as well finance and planning officials were present. When asked how independent the banks had become, some said they were independent, but others said they had submitted their proposals for top management changes to the Finance Ministry for clearance. To this, the response from Finance was that the envelopes containing the names had been returned unopened.

Key Economic Decision Makers and Their Counterparts

During my fairly long involvement with the country, only a dozen or so people dominated economic planning and management in Korea. Often, the best and the brightest in the civil service were picked up and, typically, in fairly quick succession, rotated and promoted across key economic ministries. This ensured continuity as well as broadening of experience of key policy makers. The Economic Planning Board and KDI were important stepping stones. Several Directors General of the Planning Bureau became Ministers of Finance, Commerce, and Industry, or Senior Economic Secretary to the President.

Because of the relatively small inner circle of policy makers, it was possible to get to know them well. Apart from Nam Duck Woo, Suh Suk Joon, and Kim Je Ik, already mentioned above, the persons that I worked most closely were Shin Byong Hyun, Kang Kyong Shik, Kim Mahn Je, and S. K. Lee: they all became very good friends of mine. In the early-1980s, Kim Kihwan, a friend and fellow student from my Yale days, also assumed a key position in the Economic Planning Board. Finance Minister Kim, who was senior secretary to the President in 1973, also became a friend.

Dr Nam Duck-Woo (1924–), perhaps the longest serving Deputy Prime Minister and Minister of Planning (1974–79), successfully piloted the Korean economy through some critical years. Nam, a Professor at Sogang University, was brought into the government in 1969 and was named Deputy Prime Minister in 1974 when the energy crisis seriously threatened Korea's long-terms plans. Nam kept the growth momentum going, while trying to resist pressures, not always successfully, from the President's house (Blue House) to accelerate the development of Korea's heavy industries. Suh Suk Joon and Kim Je Ik worked very closely with Nam to keep the economy on a steady but realistic growth path. In 1979, Nam moved as an adviser to the President, when President Park was assassinated and General Chun Doo Hwan took over. Later, he served as Prime Minister in 1980. He has headed many institutions which serve as a bridge between business and government, including the Korean Traders Association. Koreans make good use of their former senior economic ministers.

Though Nam had reservations about the pace of development of heavy industry, he also argued later that, though mistakes were made, Korea got into the field on the ground floor, because those who came later faced much higher costs of equipment and machinery.

Shin Byong Hyun served as Deputy Prime Minister and head of EPB twice during 1981–84. Shin was representing Korea on the World Bank Executive Board when I first came to know him in the early-1970s. He returned to Korea a few years later to become the Governor of the Bank of Korea and later served as minister of Commerce and Industry before becoming DPM. A low-key personality and most soft-spoken person, Shin was very effective in furthering Korean economic interests at home and abroad. He retired in the US and passed away a few years ago.

Kang Kyong-Shik, another Director General Planning, rose to be Finance Minister in 1980 and served later as senior economic secretary to the President. Later, he joined politics, was elected to the

National Assembly, and appointed as Finance Minister again in the early-1990s. Unfortunately, he was slow to respond to the financial crisis of 1997, became a scapegoat for financial mismanagement, and was jailed for at time–not a good end for an honest and able civil servant.

Kim Mahn Je, one of Korea's prominent economists, was the first Director of the Korean Development Institute when it was established in 1971, and served as its head till 1982. Kim deserves a great deal of credit for the world-class institution that the KDI is today. By establishing a graduate school of public policy and management in 1997, KDI has also become a major learning centre. In my experience, very few policy institutes have worked so closely and effectively with policy makers, while maintaining high standards of economic and policy research. In my own country, for instance, the Pakistan Institute of Development Economics has never been closely integrated with government policy work and thus, there has been a loss at both ends.

Kim Mahn Je became finance minister in October 1983, after the Rangoon incident, and soon afterwards, became Deputy Prime Minister. He later served as head of Pohang Steel and is still active in public affairs. In that latter capacity, Chairman Kim Mahn Je cut the number of subsidiaries by more than half, pared POSCO's workforce, and slashed layers of bureaucracy. The partially state-owned company also introduced outside directors to promote transparent management. Korea's Pohang Iron and Steel was thus in a relatively good position when the 1997 Asian crisis hit Korea.

Kim Mahn Je was asked to contribute a chapter on Korea and the World Bank to the First Fifty Years of the World Bank, a history prepared by Professor John P. Lewis and others in 1998. I was happy to see that in his very perceptive account of Korea's relationship with the Bank, he confirms many of my own impressions of the 1970s and early 1980s. I was especially pleased to see that, in his very first paragraph, while saying that many factors, persons, and institutions were responsible for the successful economic development of Korea, he mentions the World Bank as one of the major institutions to which the Korean economy owes much of its success (Kim Mahn Je, 1998, *The World Bank in its First Half Century*, Volume II).

During my numerous visits to Korea during the 1970s, spending a few hours one-on-one with Kim Mahn Je always provided a fresh perspective: the point of view of an insider, who was detached from day-to-day policy making, but was undertaking and guiding original research.

I recall one particular discussion with him which showed that Korean planners, while greatly optimistic about the economic future of their country, were paradoxically unaware of what sustained economic progress would mean for them in material terms. It was during the Bank 1976 Economic Mission that, fairly late one evening, a few colleagues and I had a wrap-up meeting with Nam, the DPM. After we had finished formal discussions, Nam said that he wanted my personal opinion on the issue of the future of the car industry in Korea.

The background to this query was the debate within the government on how much support the government should provide to the automobile industry. Hyundai had been assembling Ford Cortina cars in 1968. When the Korean government encouraged major industrial groups in 1975 to formulate plans for the production of cars, Hyundai took the lead by bringing out Pony, the first all-Korean car in 1976. The interesting thing in developing the so-called first indigenous model Korean car was that Hyundai hired an Italian firm for styling and design, Mitsubishi for the engine, transmission, rear axle, and casting technology, and former British Leyland Motor Corporation president, George Turnbull, and six other British technical experts to oversee development–somewhat like the Hyundai Shipyard. I told Nam that, based on the experience and competitiveness of Japanese automobile industry, I was rather optimistic about the Korean car industry prospects, though most of my colleagues did not share my view. Nam did not express a personal opinion.

From this meeting, we went directly to a dinner that Kim Kahn Je was hosting at Hotel Shilla. I mentioned my conversation with the DPM to Kim. Kim, like other leading economists, was more cautious–and rightly so–about a headlong drive towards heavy industry. So he challenged my relative optimism, which was based not so much on future car exports, but rather on the prospective expansion of the domestic market for automobiles. At that time, there were relatively few privately-owned vehicles. Kim had an official car by the virtue of his position. He was not convinced that there would be a large domestic market. In some frustration, I asked him whether he would own a personal car in a decade or so. His reply rather astounded me: 'Me, own a car? Never.' Such were the prevailing conservative attitudes towards what was perceived as luxury consumption. These attitudes were at the heart of high marginal savings rates.

In due course, many other Korean car-makers came into the field. In 2007, Korean automobile production exceeded 4 million units, nearly two-thirds of which were exported. What a difference a few decades can make!

It is to Kim Mahn Je that I owe the honour of being awarded a high Civil Merit decoration by the Korean Government. He first proposed it in 1984, when I was leaving my post in the East Asia Bureau of the Bank. Since I could not accept it then because of Bank rules, he was kind enough to arrange it on my retirement in 1996.

My closest counterparts and friends in Korea were Suh Suck Joon and Kim Jae Ik. Most unfortunately, they met an untimely death as victims of the Rangoon bombing on 9 October 1983.

North Korean armed terrorists attempted to assassinate President Chun Doo-Hwan of South Korea and other officials, who were paying a state visit to Burma at the time. They set off a bomb at Aung San's mausoleum, one of the planned visiting spots. President Chun escaped unhurt because he had been delayed in traffic. But the bomb killed 21 South Koreans officials. Among those who died, apart from Suh Suk Joon, the minister of planning and deputy prime minister, and Kim Je Ik, the senior economic secretary to the president, were the foreign minister, Lee Bum Suk, the minister for commerce and industry, Kim Dong Whie, and the minister of energy, Yang Yoonsae.

In Suh Suk Joon and Kim Jae Ik, Korea lost two of its ablest economic policy makers. It was such a great pity, they were barely in their mid-40s and though they were already holding top positions, they had much more to offer to their country and the international community. I felt their loss personally, because we had worked very closely during the Korean Fourth Plan preparation and the 1980 economic crisis. We had enjoyed each other company and enjoyed complete mutual trust.

Suh, the first senior Korean official that I met, was DG Planning during 1973, and became Deputy Prime Minister a decade later, after having served in the Blue House, as Assistant Minister of Planning, and as Minister of Commerce and Industry. Suh was a very strong administrator with great policy economic sense. He was also an outgoing, cheerful personality, with a deep sense of humour, which made him less formal than many other officials. It was a great pleasure negotiating with him. I also remember a joke he once told me about Korean hospitality. He said: as the Koreans took their guests to the dinner table, they always said that there is nothing or not much to eat, but please eat a lot!

Kim Jae Ik, a somewhat shy, self-effacing, but very warm individual, was a major policy force behind the very successful stabilization, restructuring, and liberalizing of the Korean economy during 1980–83. He became a principal economic adviser to the new President, Chun, in 1980, and senior economic secretary to him in September 1980, a post he held till his death in Rangoon. It was of course very fortunate that Suh, who had major executive responsibilities for the economy, first as Ministry of Commerce and Industry, and later as DPM, was a close friend and classmate of Kim Jae Ik. Kim also enjoyed great support from his mentor, Nam Duck Woo, and had earned wide respect among leading Korean industrialists, even as a Director General Planning.

Kim Je Ik's career and policy achievements are discussed at some length in a moving tribute to him by his friend and another distinguished Korean economist, Kim Kihwan, who, along with Professor Lawrence B. Krause, edited a volume of essays in honour of Kim Jae Ik, *Liberalization in the Process of Development* (University of California Press, 1991). It is a measure of the international respect and admiration that Kim Jae Ik commanded that more than a dozen highly-regarded economists from various parts of the world came together to contribute to this book in honour of his memory.[33]

In my dealings with Kim Jae- Ik, I was always impressed by his clarity of mind, his strong grasp of market economy principles, combined with a non-ideological pragmatism, and his innate modesty.

[33] Apart from Kim Kihwan and Lawrence B. Krause, they included Anne O. Krueger, Gustav Ranis, Assar Lindbeck, Chen Sun, Parvez Hasan, Juergen B. Donges, Ulrich Hiemenz, Wontack Hong, D. Gale Johnson, Yung Chul Park, Ronald I. Mckinnon

He was a strong believer in market signals, but did not follow them blindly. In formulating economic policy, he gave equal attention to the state of the real economy and the likely response of market agents in a given situation. I recall discussions with him on the structural adjustment loans from the Bank during the 1980s crisis. Not surprisingly, the Bank (and the IMF) wanted strong adjustments in the nominal exchange and interest rates to restore competiveness and eliminate negative real interest rates respectively. Kim Je Ik argued successfully that the Korean government would bring about positive real interest rates by raising both nominal interest rates and reducing the rate of inflation. On the exchange rate, he resisted a large step devaluation, saying that the structural policy efforts underway would bring about an improvement in the real effective exchange rate, through large increases in productivity. He promised further action within months, if his assumptions did not materialize. He turned out to be right.

Among Kim's many policy contributions, the introduction of value-added tax in 1977, by convincing DPM Nam deserves special mention. VAT has proven to be a very productive and elastic source of taxation, which had already by 1979, become the largest source of government revenue.

Lessons from Korea

There are many lessons to be learnt from Korean development, but many of them are not Korea-specific.

Economic Vision & Strong Political Leadership

It is now well-recognized that strong political leadership, political stability, an economic vision, and an export-oriented strategy are necessary ingredients of high and sustained economic growth and social development. The great success stories of development during the last half century–Korea, Taiwan, Hong Kong, Singapore, Thailand, Malaysia, and the relative newcomer, China–have had a couple of things in common: strong, visionary, political leadership, and reliance on exports as an engine of growth

Korea was very fortunate that President Park saw the importance of export development early in his rule and pursued it quite relentlessly. It is to his credit that, just a decade later, he had the foresight to recognize the need for diversification of exports to more skill-, capital-, and technology-intensive areas. He also deserves a great deal of credit for the development of electronics, and heavy and chemical industries that have made Korea a world leader in shipbuilding, automobiles, chips, and electrical appliances. It helped greatly that he was not corrupt, like his immediate successor.

Role of the State

Korea's case provides support for the important role the state can play, not only in setting out the broad economic strategy, but also in specifically picking out the winners in the early stages of development, by providing them with export incentives and credit subsidies, giving high priority to education and skills and research and development.

The high level of educational attainment, made possible by high public expenditure on education, has been a fundamental source of rapid productivity growth. In my visits to the more modern textile factories in the mid-1970s, it was not unusual to find that a large proportion of workers, mostly females, had completed secondary education, often from a vocational high school.

The state also played a major role in promoting research and development; initially setting up the Korean Institute of Science and Technology in the 1960s, the developing of five industry-based institutes (including shipbuilding, mechanical industries, and electronics), located in the science town of Daedak, and a Ministry of Science and Technology in the early-1970s. In 1972, total R&D expenditure was only $30 million, one-third financed by the private sector. By the early-1980s, it had risen eightfold in real terms, to over 1 per cent of GDP, with one-half being financed by the private sector.

Several special features and some strong caveats to the Korean strategy of picking winners and supporting them with direct and indirect subsidies need to be noted. First, the role of subsidies in Korean development can easily be exaggerated, even in the first decade of its rapid development. A study indicates that, in 1968, the average of effective rate of subsidy on total exports was only 7-9 per cent, and was slightly more than offset by the degree of currency overvaluation (Westphal 1978). At the same time, the degree of average protection–around 10 per cent–was quite low by international standards. The use of a realistic exchange rate was a key instrument in promoting exports and keeping imports low.

Second, industrial strategy did not push the backward linkages from exports to domestic production of needed inputs very hard. The links from export of textiles to production of synthetic fibers to the basic petro-chemicals evolved naturally. Electronics were initially largely an assembly operation and, as discussed above, the value added in shipbuilding and automobile exports was relatively limited in the early stages of these industries.

Third, where Korea succeeded exceptionally well was in providing exporters access to intermediate products at international prices, through a large number of effectively run duty-free zones, including within Seoul. Export rebate systems have worked very imperfectly in many developing countries and have been the source of administrative delays, corruption, and fraud.

Fourthly, the Korean government, in developing new areas of manufacturing activity, tried to ensure competition, even in the heavy industry fields such as shipbuilding and automobiles. The competition among the Chaebols has been fierce, in the sense that in international competition, sometimes one Korean party has just been outbidding other Korean parties. Within the fairly integrated Chaebols, there was an attempt to procure internally, but at the least-cost alternative, according to competitive bids that were obtained. This ensured that profit centres reflected true costs and that inefficient units did not distort the overall cost structure.

Finally, even with all the care that was taken, the overzealousness of the state and a degree of crony capitalism did lead to over-capacity and structural problems, as demonstrated in the crises in the early-1980s and the late-1990s. Korea was slow to learn the lesson that, as economies grow more complex, decisions from top down grow riskier, and market signals become even more important. This cautionary note should be kept in view by countries trying to emulate Korea's otherwise very impressive economic record.

Economic Institutions and the Civil Service

Another strong lesson from Korea's experience is the critical role of economic institutions in coordinating, implementing, and adjusting policies. Vision and development strategy are important pre-requisites, but without effective policy tools and institutions to further them, state interventions would not succeed.

The role of the Deputy Prime Minister, a virtual economic czar and the head of the Economic Planning Board, in Korea's development can hardly be overemphasized. In my experience, several other countries, notably Indonesia, Malaysia, and Thailand, and, to an extent, the Philippines, have had super-economic ministers, planning boards, and/or highly empowered Finance Ministers to lead and co-ordinate economic policies. But no country, with the possible exception of China, about which my own current knowledge is limited, comes close to the high overall quality of economic management that was, with a few exceptions, well sustained over long periods.

Several factors contributed to this. The Economic Planning Board was a very well staffed and empowered institution. It was greatly supported by the KDI which was both a think tank and a research arm. Further, even by the early-1970s, Korea had an elaborate and reliable system of economic statistics that was independent of political influences.

But the EPB did not–indeed, could not–operate without a highly capable economic bureaucracy, including the Ministry of Commerce and Industry, the Bank of Korea, the Ministry of Energy, and the Economic Secretariat in the Blue House. The core of this competent establishment was a dozen or so very high quality top economic leaders, who were rotated across key ministries and thus ensured continuity and broad experience.

But, behind the high-powered economic team was a robust civil service, with a strong work ethic, well-defined procedures, and strong discipline. Till the late-1970s, the civil service pay was inadequate, but reportedly, there was no widespread corruption.

A few anecdotes illustrate the discipline and hard work among civil servants. The lack of punctuality is an endemic problem among bureaucracies in developing countries. But in my observance in Korea, there was almost military-type punctuality in office attendance and meetings. I once asked Suh Sook Joon whether this was result of new-found economic success and the accelerated pace of activity. He replied in the negative saying that punctuality was ingrained in their culture and had always existed.

Kirmani, Projects Director for East Asia, told me a story about his first visit to Bank projects in Korea. Korean officials normally treated senior level Bank visits as largely ceremonial, mainly confining their discussions about project issues to Project and Divisional Managers. So when Kirmani asked about problems on his first field visit, he was told that there were no problems–this was the project staffs' brief. To this, Kirmani's response was that he was wasting his time if there were no problems. Apparently, the information was relayed back to Seoul and the brief changed. As Kirmani told it, from then on, as he went on field inspections, the list of problems was the first thing that was presented to him.

Internal communications within ministries/agencies were also strong as well as speedy. Junior staff took copious notes of meetings and apparently circulated them to all concerned. Once, we had a meeting with the DPM late in the evening and, unusual for the hierarchical society, that meeting took place ahead of our meeting with the Vice Minister Planning. When we met with the latter fairly early the next morning, he started by saying that he had been fully briefed on our meeting with the DPM and that we need not cover the ground that had already been covered. Doing business in Korea was streamlined.

The strength of the civil service was also in its depth. About half a dozen top economic officials lost their lives in the Rangoon incident. But when I visited Korea just a couple of months later, the positions had been filled by almost equally qualified and experienced officials and the government was functioning normally.

Priorities: Implementation and Flexibility in Policy Response

When I first went to Korea and read their planning documents, I was not particularly impressed. They did not look better in any obvious way than the Pakistan Plans. But, as I was to discover, the great strength of the Korean planning apparatus was, first, to take them seriously and, equally seriously, to modify them quickly and decisively as the objective circumstances changed.

The targets were taken seriously but also adjusted and policies modified. The Korean experience affirms that the growth path is never smooth, unexpected external shocks occur, and domestic policy excesses happen. The trick is not to be in denial, to accept the changed circumstances, rather than to wait for them to change, and to take quick and decisive action. Korea faced a major balance of payments crisis during 1973 due to the grave oil shock, and an even a bigger challenge in 1980, because when the second oil shock hit the economy, it was already in the grip of major economic disequilibria and structural problems. But it used its crises to overcome immediate problems, as well as to tackle some of the underlying structural problems. As is said these days, one should never let a crisis go to waste.

Private Sector Strengths

My account deals mainly with public policies in Korea. However, it is necessary to stress that without the dynamism and entrepreneurial spirits of the private sector, Korean economic success would have not been possible. The government focused on vision, strategy, and an enabling environment, but it was the private sector, especially the Chaebols, that delivered the results. The ownership of productive assets was mainly in private hands, but it was critical that there never was any confrontational relationship with the private sector as such.

It is not widely recognized that the high rates of economic growth in Korea, as in Japan, Taiwan, and Hong Kong, and unlike Malaysia, Indonesia, and possibly China, were made possible by a rapid growth in total factor productivity, as well as sharp increases in inputs of capital and labour (World Bank, 1993). That improved efficiency of resource use and rapid technical change has contributed significantly to Korean development is also reflected in its low capital: output ratios (ICORs). During 1963–67, the overall ICOR was 1.9 and, while rising, remained well below 3 during the 1970s. The manufacturing ICOR actually dropped from 1.7 in 1963–67 to 1.5 in 1967–71 and further to 1.2 in 1972–76, related to the rising share of manufactured exports in net manufacturing output (Hasan and Rao, 1979).

The contribution which a very proficient and modern construction industry, which largely developed through the large-scale infrastructure spending after the end of the Korean War in the early–1950s, made to keeping capital costs low, is less well known. In general also, good organization and greater internal management and labour discipline meant that projects could be completed more speedily than in most other countries. Finally, low capital: output ratios in Korea provide indirect evidence that corruption was low and leakages and underhand payments that ultimately increase project costs were not very significant. In the Philippines, in sharp contrast, high levels of corruption led to artificially inflated costs of projects, that were ultimately reflected in the high ICORs. At one time, I estimated that, if the Philippines had the same capital: output ratios in the 1960s and the 1970 as Korea had, its growth rate would have been 50 per cent higher than it actually was.

Just as at the macro level Korean policy makers responded quickly and flexibly to changing circumstances, the Korean industrialists were also very nimble in responding to changing world demand for Korean products. While following the general strategy of widening the geographical spread, range, and skill intensity of exports, Korean exporters moved in and out of particular products and geographical areas with unusual agility, to suit the shifting tastes of markets and overall trends in the international economy (World Bank, 1979 pp. 430-35).

Last but not least, a critical though rather obvious lesson of the Korean experience is that rapid growth cannot be financed without a major national savings effort. Korean savings were practically negligible in 1960, but the national savings rate rose to 16 per cent of GDP by 1970, and had climbed to 30 per cent by 1985, indicating a long-run marginal saving rate of over 33 per cent. While in critical crises years like 1975 and 1980, the current account balance of payments deficit rose to around 10 per cent of GDP, the trend always was towards lowering the dependence on external capital.

Chapter 19

China's Joins the World Bank: 1980

China: Then and Now

The membership of China was a major event, not only for the World Bank and the IMF, but for the international community as a whole, because it signalled clearly that China wished to develop closer financial and economic relations with the rest of the world. Nobody at that time could have imagined, however, that, just a quarter of a century later, China would become a great economic power and its economic size and the magnitude of its foreign trade would begin to have major consequences for the world economy.

China's entry into the international financial institutions had long been rumoured, but was decided upon by Chinese authorities after a great deal of thought and preparation. Robert McNamara led a mission to China in April 1980 to essentially negotiate the terms for the Chinese assuming the ROC-held membership. Interestingly enough, apart from his personal assistant, Cao Koch-Weser, the other two members of his team were Pakistanis: Moeen Qureshi, Senior Vice-President Finance, and Shahid Hussain, Vice President for East Asia. I am sure this fact, though coincidental, must have given Chinese a favourable impression of the international character of the institution.

China's membership was finalized during the next few months; I was charged to lead and organize, with the help my deputy on the mission, Edward Lim–a Chinese with Philippines nationality at the time–a large economic mission, to produce a comprehensive report on the economy: a requirement before the Bank initiates lending to a country. A major task for the mission was to estimate the average per capita income level in China, so that its eligibility for the concessional source of funds from the IDA, the soft assistance arm of the Bank group, could be determined.

The first economic mission to China was a unique experience. Because of the sheer size and importance of the country and the lack of much previous knowledge about its economy, there was a tremendous interest among fairly senior staff to volunteer for the task. The biggest surprise was that one of the senior-most Vice Presidents, a Frenchman named Bernard Chadenet, who was just retiring from the Bank, expressed an interest in heading the energy sector team. The other four sector teams–agriculture, transport, industry–were also led by very experienced and qualified experts. Adrian Woods, then a young British economist and now Chief Economist of UK's Ministry of Overseas Development, was principal economist and assisted me and Ed Lim in putting together the overview report on the economy.

All told, there were 26 members of the economic mission, who spent a good part of three months–October- December 1980–in the field. The report draft was completed by April 1981 and, after discussion with the Chinese Government, was circulated to the Board on 1 June. After some hesitation, the Chinese government agreed to the publication of the report, *China: Socialist Economic Development,* in 1983. The main report on the economy and the detailed eleven annexes, covering all major sectors of the economy and providing information on the Chinese statistical system and basic statistical tables, ran to a total of over eight hundred pages.

The uniqueness of the report can be judged from the fact that there was previously no authentic survey of the Chinese economy. While the Chinese had an elaborate system of collecting statistics, they were only selectively put together for senior members of the PolitBureau and were never released to the public in any systematic fashion. The sharing of statistical information with a group of foreigners was an almost painful process. The preferred method was for Chinese officials to read out the figures from a handwritten sheet and for us to note them down. This was tiresome and terribly wasteful of time. I recall at one meeting, when I could not control myself and, half jokingly, snatched the sheet of paper from the lady across the table. The panic in her eyes was palpable and I quickly gave the sheet back. Considering the odds, the mission did a good job of assembling and analysing data. Most of my colleagues felt that the quality of data-collection methods and the data itself was as good as in most developing countries. The problem was to overcome the secrecy that was historically attached to most statistics.

Main Findings and Recommendations of the Mission

One basic finding of the Economic Mission was that the Chinese per capita income in 1979 was around US$250–only about 20 per cent higher than India's per capita income at that time. The mission had given very careful thought to the issue because, as mentioned above, the question of eligibility for soft-terms assistance (IDA) was directly tied to the level of poverty of a country. We had tried to crosscheck the estimate by different methods. The Chinese helped us by taking us to see their poorest provinces. Ed Lim and Caio Koch-Weser went to Gansu in the North West. I and Adrian Woods went, along with many others, to Sichuan province, which had a population of over one hundred million at that time. Ed Lim told me that winter had set in Gansu in October, but most of the rural children had no shoes and no clothing below the waist. The deprivation levels in the rural areas of Sichuan also seemed severe.

In our visit to Sichuan, we also learnt that agricultural reform–a shift to a responsibility system from a centralized collective–had started there spontaneously on local initiative, in the wake of the Great Famine of 1958–1960, when, a very large number (the estimates range from 15 to 30 million)–died as a result of crop failures, forced collectivization under the Great Leap Forward, and banning of private plots. Reportedly, the famine was most severe in Sichuan and, according to provincial statistics, eleven million persons perished there alone. At the peak of the shortage of grains, only 100,000 tons had been supplied from the centre.

A conclusion that truly surprised us and probably annoyed top Chinese policy makers initially was that China was headed towards becoming a net importer of oil. We were aware that just in 1978 China had signed a trade agreement to export oil and coal in significant quantities to Japan, in exchange for imports of plant and equipment, technology, and construction materials. Our oil expert, Darren Fallen-Bailey, spent a few days visiting the Daqing oil field, which was and still is the largest oil field in China. His conclusion was that production at Daqing, which supplied nearly half of the oil output in China at the

Because the mission felt that opportunities for influencing energy production in 1980–85 were relatively limited, we placed a great deal of emphasis on energy saving, through shifting output from energy-intensive sectors and by replacing more energy-intensive materials, such as metals, with plastics. The mission also found that the basic oil and coal prices were low compared to international levels, and this encouraged waste of energy resources.

It is a fair guess that Chinese took our conclusions to heart; they seem to have redoubled the exploration and developments and gave special attention to energy conservation, at least till 1990. Still, oil production did not exceed 125 million tons till 1985, and has grown very slowly since then: currently, oil output is around 190 million tons. However, energy use per unit of GDP was reduced significantly during the 1980s. Even so, China's energy import dependence emerged in the early-1990s and has grown steadily. China overtook Japan in 2003 to become the world's second largest crude oil importer after the United States. Currently, China's annual oil imports are around 200 million tons and more than half of the oil demand is met from imports.

Another somewhat surprising finding of our work was that, though it was a socialist country, income inequality in China was only a little less than in India and Bangladesh. This was due mainly to large differences between rural and urban income and among provinces. Though China has grown rapidly and income has risen markedly everywhere, reducing the incidence of poverty, income inequality has worsened almost steadily and poses a serious problem to China's stability.

On the central issues of economic reform, the mission essentially took a pragmatic position. While arguing that price reform could no longer be neglected, it recognized that the process of price reform would have to be a gradual one. On the subject of Market versus Plan, the report said that, 'The future of economic reforms in China…does not lie simply in an expansion of the role of the market at the expense of the Plan. Indeed, without more effective planning of the economic variables and major investment decisions, many of the prospective benefits of reform will be lost.' Indeed, this is the approach Chinese have followed with tremendous success for the last several decades.

Our report failed, however, to judge the determination and the effectiveness with which the Chinese were to implement reform policies. Even our optimistic projections on the growth rate of the economy (5.5 per cent per annum) and expansion of exports (8 per cent per annum) for the 1980s proved way off the mark. Actual annual growth of GDP during 1980–90 averaged over 10 per cent. Over the same period, exports grew annually at the rate of 12.4 per cent, with volume growth probably in the range of 10–11 per cent.

The report received high praise from Board members and others parts of the Bank, particularly because we had made a special effort to provide Chinese statistics in a comparative setting whenever possible. The comments from the Chinese were a bit more ambivalent. On the one hand, they were impressed that a group of foreigners could prepare such a comprehensive report on their large economy in a matter of months. On the other hand, some policy makers were not so sure that opening of their books to a bunch of international civil servants was such a good idea.

While no questions were raised at the Board meeting about our estimation of per capita income, the Executive Director representing India, Mr. H. N. Ray, was not totally convinced and, of course, was rightfully concerned that IDA allocations for poor countries, including India, would now have to be shared with China. He requested a meeting with me and said that all of the output data–for instance on steel and energy–had always shown China to be far ahead of India. I explained that gross output figures were misleading, because there was ample evidence that in many cases, the Chinese were using inputs into final products very inefficiently, because prices did not reflect scarcity value. GDP takes into account only the value added to the economy in the process of production of goods and services.

I am not sure that I convinced Mr Ray, but it is interesting to note that, even after nearly three decades of very much higher growth of per capita income in China (8.5 per cent per annum over 1980–2007) than in India (4 percent per annum), the Chinese per capita income is only a little over double that of India. If the differences in growth rates are to be believed, as by and large they should be, extrapolation back to 1980 would suggest that China was actually substantially poorer than India then.

Relative poverty issues aside, our economic mission provided us insights into why China wanted to join the World Bank. Obtaining of financial resources, partly as concessional loans from IDA, was a factor, but, I believe, not a principal consideration. By mid-2009, the total borrowing of China from IDA was less than $ 10 billion and less than $ 19 billion (net of repayment) from IBRD. China stopped borrowing from IDA several years ago, but even in the 1980s, IDA credits averaged only $500 million a year, a very small sum in relation to Chinese GDP or exports. Similarly, the borrowing from the IBRD was a paltry figure in relation to nearly three trillion dollars of Chinese foreign exchange reserves and investments. During most of the last twenty-five years, China has run sizeable current account balance of payments surpluses and the large private investment inflows have been used mainly to augment reserves. In other words, the Chinese have financed their large and rising investments almost entirely from domestic savings.

I believe the major motivations for China to turn to international financial institutions and to open up the country to direct foreign private investment were to seek the help of the international community to upgrade its technological capabilities, to get expert advice, and to benefit from rapidly growing international trade in manufactured goods. That they would succeed so spectacularly and would exceed their own expectations could not have been imagined.

Despite the political and economic missteps of the Great Leap Forward and the Cultural Revolution, the Chinese economy grew by nearly 5 per cent per annum and per capita income expanded by at least by 2.7 percent over 1952–77. This rate of increase was above that of other low-income countries, but China still had widespread poverty in rural areas, probably as bad as on the Indian subcontinent, because the migration to urban areas was greatly restricted. Furthermore, the relative satisfactory growth had been achieved with a relatively high rate of investment and very large inputs of voluntary and non-voluntary labour. China needed to integrate with the world economy, if nothing else, for the creation of jobs for over 70 per cent of the labour force was locked in agriculture.

Even through casual observation, one could see how far behind China was in availing of new technologies and trends. Ballpoint pens were not available in China in 1980. Their large textile industry was producing goods with the same designs as in the1940s. I discovered this while staying at a State Guest House during our first mission. For some reason, the government had decided to accommodate the large mission in a secure compound at the edge of the city. The alternative was the famous Friendship Hotel in the centre of Beijing, near Tiananmen Square. (There were no luxury hotels then.) Perhaps it was thought that such a large and mixed group of foreigners would attract undue attention. Anyway, we had comfortable rooms and very good service facilities. I had a suite the furnishings of which somehow reminded me of my childhood days in British India. It took me a little time to realize that the bed linens and towels in use were identical to the Shanghai imported textiles that were popular in British India in the late-1930s and early-1940s. The mills had changed hands, but the new state managers did not see the need to change anything. Consumer choice was not important.

There was a caveat to our comfort. We arrived early in October and the weather was already getting quite cold. But the heating was not yet on in the guesthouse. Most of us were managing somehow. But my friend, Ramesh Chander, an able statistician from Malaysia, felt very cold and moved about in his overcoat, even indoors. When our administrative liaison, a very attractive woman who was a Deputy Director in the foreign ministry and had extra clout because she was married to the Foreign Minister, came to see us and saw some of us shivering, she told the Manager to turn on the heating. It was pointed out to her that the rules required that heating should not be started before the middle of October. But she persisted, saying, 'These foreigners do not know the Chinese rules.' So we got our heating.

Apart from strong administrative arrangements, the Chinese government made sure that some of the best people in the government worked with us as counterparts. Mr. Li Peng, probably the senior-most Vice Minister in the Finance Ministry, was our principal counterpart. But in addition, more than a dozen senior professionals were assigned to work with us almost full time. They represented various organs of the state, such as the State Planning Commission, the State Economic Mission, and all the various technical ministries and specialized institutes. It took me years to realize how distinguished this group was. Mr Zhu Rongji, who represented the State Economic Commission on our counterpart team, became an economic wizard, and then served with great distinction as Vice Premier and finally became Premier (1998–2003). I wish I had gotten to know him, but the sheer size of the mission and the number of counterparts, as well as the language problem made it impossible. I am sure he knew then who I was.

The person who became our good friend was our main interpreter, Lin, again a senior man, who had interpreted American movies for Chairman Mao Ze Dong, his wife, and a group of his close friends, during the 1960s, being called to duty sometimes in the middle of the night, but had fallen victim to the Cultural Revolution when, with many others, he had been sent to the countryside. He was quite bitter about that period of his life. By the end of the mission, the Bank staff's way of speaking and the general messages that they wanted to convey were fully fixed in Lin's mind. This led to a funny incident: Hollis Chenery, the Chief Economist of the Bank and Vice President Development Policy, had joined us towards the end of the mission. While translating for him, Lin proceeded at one point to anticipate him. When Chenery finished a sentence and expected it to be translated, Lin calmly said that he had already done that.

At the end of the mission, I felt that we should reciprocate some of the great hospitality shown to us, so we wished to invite the Finance Minister, Wang Bingqian, and several of his colleagues. But I did not know how to go about it because everything seemed state-controlled. A senior official of the Finance Ministry, Wang Liansheng, later Chinese Executive Director on the Board for more than a dozen years, came to our rescue. He said he would arrange the venue and the menu; I had just to indicate to him the amount per person that we wished to spend. Faced with this, I had to ask him what the range was.

He said it could be from US$25 to US$ 200 per head. In order not to offend the sensibilities of our Chinese guests, I decided on $ 80 per head, feeling also that it would not cause any problems back at the Bank.

The dinner for a dozen or so people, including on our side Ed Lim, me, and one or two others, was really excellent. We had a good exchange of views with the Minister, who had been fully briefed about our wrap-up meeting that afternoon with the Vice Minister, Li Peng, which seemed to have gone very well. The Minister and others relished the food. I also praised the exceptional food a few times, till Ed Lim told me in English that I should not do that too much, since I was the host.

Travel in China

Personally, travel within China in the 1980s was a fascinating experience. I was able to visit the Great Wall and the Ming tombs twice, once in 1980 and then again with my wife in 1984 when I paid a goodbye visit to China after being transferred to work on the Middle East, North Africa, and the Europe region. On the first mission, I travelled by train with the transport team, all the way from Beijing to the south-west first to Xian and then to Chengdu, the capital of Sichuan, a total train journey of over a thousand miles. It was a great opportunity to see the countryside and witness widespread rural poverty, typified by porters, labour-drawn pull carts, underdevelopment of the road sector, and limited use of mechanized transport. In terms of spatial density, China's road system at the end of the 1970s was one of the least developed in the world: the length of roads in relation to the area was only a little over 25 per cent of the level in India.

The train journey was only moderately comfortable. There were no luxury coaches. The only distinction in the class of travel was between hard and soft seats, the latter with a padded cushion, but berths were narrow, though sleepers were available.

The highlight of our visit to Xian was the visit to the Terracotta horses and warriors which are one of the most sensational archeological finds of all times: the site was listed as one of the world cultural heritages by UNESCO in 1987. Upon ascending the throne at the age of 13 in 246 BC, Qin Shi Huang, later the first Emperor of all China, had begun to work for his mausoleum. It took eleven years to finish. The buried treasures and 7000 life-size figures of soldiers, horses, chariots, and treasure were supposedly to protect him in the after-life.

When we visited the magnificent display of row after row of hundreds of soldiers and horses, they were still in the open and there was as yet no museum: indeed, the site had been opened to Chinese public only a year before. Now, there is a museum covering 160,000 sq. feet that is on the must-see lists of most foreign visitors to China.

Chengdu is the capital of the largest Chinese province, but back then, it was very unimpressive as a town. There were hardly any modern buildings in the centre of the city, except the hotel we stayed at. Indeed, in my view it did not compare favourably with the bigger district towns in Pakistan at the time.

Hospitality and food were, however, fabulous throughout China. Even in the villages we visited, the headman would often go to great length to provide us a feast. In our get-together with elderly men in senior positions, which they probably owed mainly to having been a part of the Long March many decades earlier, I was impressed by the fact that our hosts did not touch the liquor served at the table, since I did not drink it.

The food was also very cheap in dollar terms. The most vivid contrast was on my 1984 visit. My wife and I had stayed overnight at the Imperial Hotel in Tokyo on a stopover from Washington. In the evening, we had a nice but relatively frugal meal in a restaurant, paying the equivalent of sixty dollars. Next morning, we flew to Shanghai, our first stop, and went down for lunch in the restaurant of our unpretentious hotel. The restaurant was very noisy but the food was excellent and plentiful and the bill was only about two dollars. All that has, I believe, changed: prices in China have moved in the direction of those in Japan.

The 1984 visit to Shanghai also enabled us to visit the ancient city of Suzhou, about an hour by train from Shanghai. Suzhou, a most beautiful city of lakes and gardens, has become another important stop on the tourist map.

Shanghai is probably the most crowded city that I have ever visited. It was literally impossible to walk without touching other pedestrians. The city, the largest in China and the world, has also become, during the last twenty years, one of the most modern. With the development of a new economic zone on the other side of Huang River, the sub-provincial city, now known as Pudong, has a skyline that rivals that of Manhattan. None of this existed in the 1980s. The most famous tourist destination in Shanghai was the Bund, meaning embankment, an area that was a financial hub in East Asia during the1930s and early 1940s. The area was under the control of the British at that time, as a part of many foreign concessions in China. Our tourist guide took us to a lovely park at the bund and showed us, with inverse pride, the sign that said, 'No Chinese or Dogs allowed'.

During the same visit to Shanghai, I was asked to address a large gathering of university students on international economic and financial issues. I spoke in English and was surprised at the relevance and depth of questions and the good command of the English language of the audience. Since China's opening to the West had taken place only a few years earlier, I was truly surprised and impressed. Our experts had found the level of higher education development relatively low. Indeed, the first loan that the Bank made to China in 1981 was for higher education. But possibly Beijing and Shanghai were well ahead of the country as a whole.

In all, I made six visits to China over 1980–88. The last visit in July 1988 was a personal one, with my daughters, Samia and Samira. But it was only in that last visit that I became fully aware how fast China was changing. In Shanghai, we stayed at the brand new, luxurious Hilton, my first experience of a modern hotel in China. But the most visible sign of growth was the frantic pace of construction. We had to walk back from an acrobatic show in the evening, a walk of nearly two miles–taxis were already becoming scarce. During this walk, we saw scores of high rises that were under construction. The other sight was thousands upon thousands of Chinese sleeping in the streets to avoid intense summer heat in the apartment buildings. I presume the affordability of air conditioning has changed and is also within reach for the growing middle class families. It would be nice to go back and see.

My last official conversation in China was in 1984, when Li Peng hosted a dinner for my wife and me. We discussed China's future. I expressed great confidence in the economic prospects, provided there was continuity and consistency of reform and economic policies, and not abrupt changes, as had happened several times in the earlier history of communist China. At that, Li Peng most emphatically asserted that there would be no going back and policy directions would be maintained. He was absolutely right. But surely Mr Li Peng, long since retired, did not expect what actually happened.

I have not been to China since 1988 so I do not have recent personal impressions to share. It is hardly necessary, however, to dwell on China's many achievements in the economic field in any detail. China is now considered an emerging power and, as mentioned above, the second largest economy in the world after the US. China is also as a major creditor of the US, which makes it an important player in world financial matters. China's real per capita GNP has grown, an almost unbelievable tenfold in thirty years. Its exports have grown from less than $20 billion in 1980 to over $1400 billion in 2008. It has run very large current account surpluses in recent years and has thus, as mentioned before, accumulated foreign exchange reserves equal to two years' foreign exchange earnings. Most impressively, China has survived world recession and financial shocks in 2008 and 2009 extremely well, and its growth rate is almost back to past levels.

Still, in some ways, China remains a poor country. While its per capita income, in purchasing power parity terms, at over $6000 in 2008 was more than double that of India ($2960), it was only a fraction of that of the United States ($ 47,000). Because China has had very high and rising rates of investment, the growth in private consumption has been substantially less than the growth in its per capita income. Furthermore, though still very impressive, the annual growth of around 6 per cent per annum in consumption has not been equitably distributed among the population, as consumption (and income) disparities that were significant to begin with have grown.

Poor regions and rural areas have not shared fully in prosperity. According to some World Bank measures, poverty incidence in China is estimated to be in the range of 10–12 per cent suggesting that the number of poor could be as high as 150 million. Finally, a great deal of Chinese success has been tied to extremely effective exploitation of opportunities through an open trading system, especially in the area of manufactured goods. China increased its share in world exports of manufactured goods from a negligible 0.8 per cent in 1980 to 12.7 per cent in 2008. In recent years, strong competitiveness and relentless growth of exports has been made possible by an exchange rate that is considered under-valued. Because China is contributing to large global imbalances through its huge surpluses in trade and payments, international pressures from the US, as well other Chinese competitors will continue to grow for appreciation of the Chinese currency. Domestic pressures, through rising real wages, will also help to moderate the growth of Chinese exports.

Finally, the Chinese appear to be following–like the US–a path of rather energy-intensive development. Cars sales and use is rising and will greatly add greatly add to oil imports. Statistics compiled by the China Association of Auto Manufacturers (CAAM) show that China's auto sales exceeded 13.5 million vehicles in 2009, for an annual growth of 40 per cent. By contrast, car sales in the US shrank to 10.43 million, down 2.8 million vehicles from 13.2 million in 2008.

Pakistan has yet to take full advantage of its good political relations with China to forge a closer economic relationship. Pakistan has a sizeable trade deficit with China. While Chinese consumer goods have made important inroads into Pakistan's domestic market and have, in some cases, adversely affected manufacturing output, Pakistan's exports have not been able to establish a foothold in China's burgeoning market. It must explore ways to expand its exports to China and, at the same time seek, Chinese investment in its manufacturing industry, with a view to improving the market access and competitiveness of its exports.

Chapter 20

Middle- East and North Africa

I worked on many countries of the Middle-East and North Africa during 1984–91. My travels for the Bank took me to Algeria, Morocco, Tunisia, Yemen, Jordan, Iran, Egypt, and Turkey. It was both enjoyable and satisfying to work on these Muslim countries: almost each one of them has a distinct culture, a long, rich history, and many tourist attractions. All of them, with the exception of Yemen, are middle-income countries, with Algeria and Iran having relatively high incomes, due to their oil wealth. Unfortunately, none of them, with the exception of Turkey, have achieved sustained high growth for any length of time. Certainly, they have not shown the economic dynamism, consistent good governance, and sound economic management over extended periods which have been the hallmark of the success stories in East Asia. As a result, their economic performance has been below average and their social indicators compare unfavourably with countries with their level of incomes.

The long-term growth rate of per capita GNP of all these countries, except Turkey, based on the World Bank Atlas Method, has been less than1 per cent per annum over the last quarter of a century–not even enough to keep pace with the USA, where average per capita growth was 2.2 per cent per annum over 1980–2008. Turkey and Malaysia, with an average growth rate of nearly 4 per cent over the same period are the only Muslim countries, other than the oil-rich Arab countries, that have shown rapid economic and social progress.

Consequently, Egypt, Morocco, Tunisia, Algeria, Iran, and Jordan, even though they are middle-income countries, still have, in varying degrees, serious problems of unemployment and poverty. Algeria and Iran are in the same position, despite considerable oil revenues. Egypt also had more limited oil income, but very large worker remittances. It is difficult to avoid the impression that economic management especially in Iran and Algeria has not been very effective. While it is difficult to generalize, it appears that authoritarian regimes and socialist leanings have had a negative impact on growth

My involvement on behalf of the Bank was particularly heavy in Turkey and Egypt, the two large borrowers in the region. At least during the 1980s, there were a sharp contrast in governance and economic management between Turkey and Egypt. Turkey had a genuine democracy and had learnt the need for opening up its economy, after the deep economic crisis of the late–1970s. Egypt was and still is very centrally controlled politically and, in addition, its economy was weighed down by the burden of large debt and huge economic subsidies, though, beginning with the 1990s, the economic performance of Egypt has improved significantly. (Ikram 2006)The second half of the 1980s, when I dealt with Egypt, was a difficult economic period for it. Egyptian revenues from oil had increased nearly six-fold to $ 2.6 billion over 1975–85. Over the same period, worker remittances grew twenty-fold to $3.5 billion. Yet Egypt frittered the oil-revenue windfall, borrowed heavily on the basis of improved creditworthiness, but ultimately built up external debt to unsustainable levels and required a Paris Club Debt reduction and restructuring with the help of the World Bank and the IMF in 1991. The waste of the oil windfall can be judged from the fact that Egypt actually allowed domestic energy prices to decline by 40 per cent in real terms over 1975–85. By 1985, domestic energy prices were, on average, less than 20 per cent of international prices and the implied economic subsidy was equal to nearly 10 per cent of GDP (Hasan, 1991). Very high subsidies on bread further added to the budget deficit. Nigeria's example also illustrates the fact that large unexpected rises in oil revenues can be a mixed blessing. It can lead to waste, corruption, and excessive debt. In my experience, Indonesia was the only country that handled the positive oil shock well and avoided debt problems, while maintaining a high growth rate. It did not allow its real exchange rate to appreciate and, through a fourfold adjustment in energy in a short period of three years (1982–84), it brought down the economic subsidy on oil products to less than 1 per cent of GDP.

Algeria is another country that has not exploited its oil wealth to an optimal advantage. When the oil prices declined in the 1990s, Algeria had to seek debt relief from the Paris club in the mid-1990s. The hydrocarbons sector is the backbone of the Algerian economy, accounting for roughly 60 per cent of budget revenues, nearly 30 per cent of GDP, and over 97 per cent of export earnings. However, the non-oil economy has not grown significantly and, because the country has not been able to diversify its economic structure, serious unemployment problems exist, while wider distribution of benefits of oil wealth remain an issue. A part of the problem is the socialist bent of the economy and the large role of public enterprises that are not particularly efficient.

Turkey's path to economic progress has not been smooth. A large oil importer, the country was hit hard by the oil price increase of 1973. It neglected necessary economic adjustments in the late-1970s and a grave foreign exchange crisis emerged. Turkey had to cut back on even essential imports. According to some stories, home heating was not available for many in the cold winter, and coffee, Turkey's favourite beverage, was in short supply in 1979–80. Impelled by the crisis, Turkey was unique among oil-importing countries in undertaking not only a strong stabilization programme, but also an equally effective structural adjustment programme. A fundamental shift from an inward-looking to an outward-looking strategy adopted at that time has been a key element in Turkey's overall success over the past three decades.

The growth of Turkey's exports, helped by exchange rate adjustments, export incentives, and import liberalization, has been phenomenal. Manufactured exports from Turkey increased from $0.8 billion in 1980 to over $103 billion in 2008: over the same period, manufactured exports from Pakistan increased from $1.2 billion to $14.5 billion. What a contrast a few decades make!

Iran is a relatively rich country because of oil revenues and the present high prices of oil. However, its growth rate per capita over 1980–2007 was only was 1.3 per cent per annum, substantially below the rate during the Shah regime, and below the rate of growth of OECD countries of 2 per cent per annum during the last twenty-five years. Iran's unemployment problem is also huge and it would need to expand its non-oil economy rapidly to meet its social challenges.

On a personal note, I went to Iran a couple of times in the mid-1960s as part of a delegation to attend meetings of the Regional Co-operation for Development (RCD), a group consisting of Turkey, Iran, and Pakistan that still functions. I found Tehran a very lively and modern city, with an elegant Hilton Hotel where we stayed. My only other visit to Iran was in 1991, when I went to hold economic discussions with the government, focused on a World Bank report on the Iranian economy, and to explore possibilities of Bank assistance. This was a lean time for Iran, as oil prices were low and its debt was mounting.

A decade under the Revolution, Tehran seemed quieter and less vibrant. However, I was impressed by the competence and businesslike manner of the economic team: the central bank governor, the finance minister, and several deputy ministers whom we met were highly-qualified, relatively young men, often with a doctorate from the United States. They were, of course, religious conservatives, but did not appear to be ideologues. Reportedly, this has changed in recent decades and the regime appears to have become more dogmatic, according to some of my Bank friends who have visited Iran in recent years

In the policy field, I was impressed by two things: the emphasis on girls' education and considerable attention to family planning. The growth rate of population in Iran is down to 1.3 per cent per annum. I expressed some surprise at the very rapid rise in girls' enrolment in rural areas during the 1980s, implying that I did not expect a very religious regime to be so pro-active in this field. I was told that it was the Shah's insistence on co-educational schools that made rural area residents reluctant to send their daughters to schools. But with separate sex schools, the demand for girls' education had gone up sharply. I was also told that the Shia clergy did not see anything un-Islamic in practising birth control as part of women' health.

During that visit, I also got a sense of the havoc that the Iraq–Iran war had created, as a very large number of families had suffered losses. Also, there was resentment against some of the very orthodox practices. A senior official of the Finance Ministry, who escorted me on a weekend trip to Isfahan, told me that a few members of the clergy visiting his ministry for full one full day to explain the proper way to perform the *Wudu*, the ablution before the Muslim prayer. He could not imagine–and I cannot either–why instruction for such a simple ritual would require guardians of the faith and then take a whole day.

Finally, it was sad to see the Hilton Hotel, taken over by the state, in a state of decline and disrepair. The most disappointing thing was that my room was never properly cleaned. A *burqa*-clad woman, apparently in charge of my floor, did show up very promptly when I was leaving, expecting a tip. Accountability and work-ethic often take a back seat in state-controlled institutions.

Chapter 21

Eastern Europe and Breakup of the Soviet Union

I spent most of my last years in the Bank working on the formerly centrally-planned economies that, in varying degrees, were attempting to transition to a market-based system. In the process, I saw the dissolution of the former Soviet Union, the utter chaos in Russia in the aftermath of the breakdown of communism, the independence of Ukraine, Belarus, the Baltic, and the Central Asian states, and the general collapse of economies almost everywhere. Personally, it was an opportunity to travel and ultimately live in an area that was largely unfamiliar.

I saw the beauty of Yugoslavia, the wonderful cities of central Europe–Prague, Budapest, and Warsaw–the ancient cities of Samarkand and Bokhara, the vast spaces in central Asia. Professionally, it was not a totally satisfying experience. One learnt a great deal about why and how communism failed and the depth of inefficiency and corruption of some state-run institutions. But it was far more difficult to give effective advice on orderly transition to market economies. I do not think that the Bank's record was glorious in this regard. Perhaps economic disruption was unavoidable in the wake of what turned out to be, in most cases, the collapse of an entire economic system However, the large drops in output and incomes across eastern Europe and the former Soviet Union during the 1990s, which caused a great deal of economic hardship and misery, could perhaps have been moderated. The recovery during the past decade has been, at best, uneven.

When I joined the large EMENA (Europe, Middle East, and North Africa) region of the Bank in 1984, the only active East European members were Yugoslavia and Hungary, the latter having joined just a few years earlier. The Bank had sizeable programmes because these countries were considered the showpiece of the Bank's involvement in socialist development: the China programme was just emerging. Both countries were more or less at the same level of per head income in the mid-1980s. Hungary has been able to make steady progress and is now a member of the European Union. But most of Yugoslavia, which broke into six pieces after violent strife in the 1990s, has been left far behind, with the exception of its two small former republics, Slovenia and Croatia, with a population of 5 million and 2 million respectively, which have done well by assimilating with Europe,

I had not been aware of the long presence of the Ottoman Empire Turks in Hungary and Yugoslavia. In fact, large parts of Hungary and Yugoslavia came under the control of the Turks in the early sixteenth century and in Bosnia-Herzogovina, Ottoman rule ended only after the middle of the nineteenth century. The evidence of this long presence registered on me fully suddenly late one evening in Sarajevo in 1985.

I visited Yugoslavia quite a few times and had the opportunity to travel widely within the country during 1984–86. The western coast of Yugoslavia was, at that time, the summer play-ground of the Europeans. The beautiful beaches, the towns of Split and Mostar, as well as the marvellous medieval city of Dubrovnik, were strong tourist attractions. Willie Wapenhans, Regional Vice President, and I went on an extended tour of Yugoslavia in 1985, covering almost all the republics. We had only a short stop in Sarajevo, capital of the republic of Bosnia-Herzogovina, and spent it in long meetings with regional officials all through the day at the Holiday Inn where we were staying. After dinner, our hosts expressed disappointment that we had not done any sightseeing and suggested that we go out and at least visit the old city. So went to what turned out be the old Turkish part of the town. It was the month of Ramadan and, to my utter amazement, the large old mosque was full with both men and women saying their *taravih* prayers, normally offered well after sunset. I was aware that a large part of the Bosnian population was Muslim, but I had not expected them to be observing Ramadan rituals so strictly. Even in Pakistan, many who fast do not say the optional *taravih* prayers. Certainly, few women in Pakistan go to the mosque for *taravih* prayers. That this was happening in a place where communism, with its atheist beliefs, had had complete sway for nearly half a century was a revelation. Obviously, the ethnic differences and tensions were just below the surface and, as central authority fell apart, we saw some of the worst ethnic cleaning exercised, especially against the Muslims in the 1990s.

I have other memories of Yugoslavia from the1985 visit. The republic of Slovenia, then the most economically advanced of the Yugoslav Republics, and now an independent country and a member of the European Union, whose officials were particularly hospitable to us. The Minister of Finance decided to show us the great tourist sights of his small country–with Italy in its east and south and Austria in its north–using a small plane. A short visit to the most beautiful mountain Lake Bled was exhilarating. We also stopped at a 400-hundred-year-old stud farm for the world famous Lipizzaner horses. When I mentioned to the Minister that I thought Lippizzaner horses were Austrian, he said that this part of Slovenia used to be a part of Austria at one time. He went on to say that his grandmother had lived in a place nearby all her life but had changed nationalities four times, being Austrian, German, Italian, and Yugoslav at various times. This was a quick lesson on the changing map of Europe in the twentieth century.

In the mid-1980s, the momentum of work on socialist economies grew rapidly, as several other formerly eastern bloc countries, notably Poland, Bulgaria, and Czechoslovakia became members of the World Bank and sought not only project lending, but also quick-disbursing balance of payments assistance for their nascent reform programmes. In 1990, Romania resumed an active relationship with the Bank, after Nicole Ceausescu was overthrown and killed. Meanwhile, political change was coming to the former Soviet Union under Michael Gorbachev. After1988, there a great opening to the west under Perestroika, but still, the Soviet Union surprised western countries by applying for membership of the IMF and the World Bank in July 1991.

I was at the Bank Executive Board meeting in late August when the USSR membership application was to be considered. However, it was deferred because an army coup had taken place against Gorbachev. When the coup was reversed a few weeks later by the courageous efforts of Boris Yeltsin, the application was revived again. However, before matters could proceed much further, the dissolution of the Soviet Union by Yeltsin in late December 1991 made the matter moot.

World Bank President Preston, who had just succeeded Connable, went to Russia in November 1991 and first met Gorbachev and then Yeltsin. He was told by Yeltsin, President of Russia, that there were two Presidents in town. The writing was on the wall. Gorbachev had lost most of his effectiveness and Yeltsin, less than two months later, abolished Gorbachev's job by breaking up the Soviet Union. This historic change of the Soviet Union disappearing could not have been foreseen even a year earlier. But the portents were there.

I made my first visit to Moscow in September 1990 for a conference convened by a private group. The place, including the poorly-kept though large hotel Rossiya where I stayed, did not seem functional. The ruble in the black market was a tiny fraction of its official value; all prices that were not expressed in dollars were highly distorted. There were hardly any private restaurants and cafés and thus the city in the evening had a dead look. Except for the hotel you were staying at or a few designated tourist places, meals were hard to get. This was surprising, because there were many large state-owned restaurants, practically empty, but with many waiters wearing bow-ties and standing idle. But if you asked to eat there, they demanded a reservation that one did not have.

It took me some time to solve the mystery. Because prices were extremely distorted, a meal would cost almost next to nothing in rubles at the market rate of exchange. It was much more profitable for the restaurant management and staff to show several hundred meals sold at these ridiculous prices, take the supplies–meat, milk, vegetables, sugar, etc also–supplied at very low prices, and sell them in the black market at eight or ten times the fixed rates.

The US dollar was king. I had made an appointment to see the head of a research institute. Unfortunately, the taxi dropped me off at the wrong address and drove away. It started raining and I did not have an umbrella and so stood in the street, getting wet, looking for a taxi. Scores of vacant taxis passed by, but none would stop. Feeling quite helpless, because I did not know the way to the hotel, I took out a couple of dollar bills from my wallet and started waving them at a passing taxi. It stopped in seconds.

Whatever Gorbachev's intentions, the top economic officials that we met had little appetite for economic reforms, even though the economy seemed to be falling apart.

An event that heralded the future was the visit by a joint large senior delegation from the Baltic States (Lithuania, Latvia, and Estonia)–the republics that had been annexed by the Soviet Union in the 1930s). The delegation came to visit the Bank, most probably in early 1991. I was present when they met with Moeen Qureshi, who was the Senior Vice President of Operations, and had a working lunch. They asked a lot of questions about the Bank. At the end of the session, they said they were interested in becoming members. Qureshi patiently explained to them that Bank membership was open only to sovereign states and, in their case, only the Soviet Union could become a member. They were not dissuaded, adding confidently, 'Mr Qureshi, but we will be independent within two years.' We thought they were out of their minds. Now, the Baltic States are members of the European Union and have been since 2004.

During the course of 1992, Russia and all fifteen former republics of the Former Soviet Union became members of the IMF and the World Bank in their own right. This meant a quantum jump in the economic and lending work of the Bank and, consequently, the EMENA region was split into two: Europe and Central Asia, and MENA (Middle East and North Africa) in November 1991. I opted to stay with Europe and Central Asia. But, in less than a year, I accepted the position as head of first the World Bank Regional Mission in Central Asia at Tashkent. So I spent nearly four of the final years of my service working exclusively on Central Asia, especially Uzbekistan

Among other new members, my heaviest involvement was with Poland, but I also had direct exposure to the chaos in Russia and the Ukraine. The turbulent times in these countries and the great devastation caused by the failed economic system left a deep impression on me.

In retrospect, Poland has perhaps been the most successful case of transition from a socialist to a market economy. But even in Poland, the short-term costs were very high. I recall the Director of the European department of the IMF coming to a meeting at the Bank to brief us on the strong stabilization programme that they were proposing to respond to the situation of almost hyper-inflation in Poland in 1989. The well-prepared programme involved, among other things, a large upfront devaluation and strong credit controls. The programme appeared to be necessary and generally sound, though rather harsh. I was a little uneasy and asked the IMF Director whether they had estimated the loss of output expected. He frankly admitted that they had not, but that possibly there could be a drop of GDP of 5 per cent in 1990. The actual drop in output turned out to be 12 per cent and private consumption apparently fell much more. It is to the credit of the Polish people that they bore this kind of pain with stoicism for the sake of a better future. Now, Poland is a European Union member and has overtaken Russia in terms of average living standards in less than two decades. To the credit of the IMF Director, he was honest enough a couple of years later, to admit publicly that the IMF had seriously under-estimated the initial adverse impact of Poland's stabilization programme on incomes and consumption and gave me credit for greater realism.

Many families suffered greatly. I recall that on a Pan Am flight from Warsaw to London in first class (those were the good old days) some time in 1990, an air hostess approached me and enquired whether I was with the World Bank. When I said that I was, she said that the younger people in Poland like her, were all in support of strong reform measures suggested by international financial institutions, but she wanted to tell me about her parents. They were white-collar professionals who owned a car but could no longer afford to run it and were also short of food but were too proud to accept help from her. She apparently just wanted to share her personal story with someone who looked at reform from only a long-run global perspective.

Though not matching the Polish success, many former socialist countries of Eastern and Central Europe–Hungary, the Czech Republic, Slovakia, Romania, the Baltic states and, to a lesser extent, Bulgaria–have made successful transitions to market economies, have had high growth rates during the last decade, and are members of the European Union.

Most of the republics of the former Soviet Union have been less fortunate. Russia has done reasonably well, partly due to the large oil revenue and high oil prices. Among the losers, the Ukraine stands out. It has a per capita income no higher than it had at the end of the1980s.

Political problems have been a factor, but probably two other factors have contributed to the stagnation in Ukraine–its heavy dependence on Russia for energy supplies and the long-term effects of the Chernobyl nuclear accident on environment and the health of the population.

I visited Kiev in April 1991 for about ten days, supervising a Bank economic mission. It was during this visit that I discovered how deeply the Chernobyl accident had affected the population. Chernobyl is about 100 miles to the north of Kiev. But apparently, parts of nearby neighborhoods were considered contaminated by radiation. Young people told us that the marriage rate in the city had dropped 50 per cent due to fears about genetic birth defects. Cancer deaths have been growing and the overall population of the country is declining at a faster rate than any other large country in Europe.

Ukraine's dependence on cheap energy from Russia was brought home to me when we visited a large collective farm that produced fruits, vegetables, and flowers under hot-house conditions, using heat based on gas. The Director of the farm, a tall impressive-looking man in his sixties, addressed us, the World Bank visitors. He was apparently well informed and told us he knew that our recommendations would include things like rationalization of energy prices. He said his farm would close or be seriously affected, jobs would be lost and the social services that included a very well-equipped day care centre–rivaling, in my view, the best facilities in the US–would disappear. He said that this was a personal tragedy: he was a product of the Communist system, his parents had been illiterate peasants, and he owed his education and a successful career as manager entirely to the State. It was obviously very painful for him to see his whole life's work and value system disappear–for him there was no transition to a new life.

The disruption caused by the collapse of the Soviet system was unavoidable. But it was deepened by the innocent faith in the free market and price signals by young reformers like Yegor Gaider and Antony Chubais in Russia. Gaider became Russia's Deputy Prime Minister for the economy in November 1992 at the young age of 35 and was acting Prime Minister in the second half of 1992. Following his strong faith in the market system, he dismantled the state control of prices entirely, causing prices to soar and real incomes to plummet. He with his friend and colleague, Antony Chubais, Minister of

Privatization, pushed for rapid privatization of state enterprises, creating fortunes overnight. The so-called shock therapy was strongly supported by Harvard economist, Jeffery Sachs, who advised Gaider. The mass poverty and unemployment that resulted from hasty reforms was all too visible in Russia when I travelled to or through Moscow several times during 1992 and 1993. In retrospect, the reforms were hasty and totally ignored social costs.

The reasons why shock therapy was relatively successful in Poland probably had to do with the fact that its economic structure was less distorted than in Russia and that there had been a tradition of private enterprise before 1939.

It is fair to say that some of us in the Bank were not gung-ho about shock therapy, but it was hard to counter the innate impulses of the young reformers. However, the Bank did encourage and financially support quick privatization, though a few Russian economists had warned us that the only people with money to purchase state assets were the criminal mafias. This explains the generally favourable public reaction to the efforts of the state under Vladimir Putin, first President and now Prime Minister, to recentralize parts of industry and to curb the power of the oligarchs.

In final discussions on the first large Structural Adjustment Loan to Poland in thesummer of 1990, I remember myself cautioning Deputy Prime Minister Leszek Balcerowicz that they should not leave all public enterprises to the fate of market forces. Later on, I encouraged our first Resident Representative in Poland, Ian Hume, to take a special interest in large public enterprises. I believe that when distortions are very large, the government cannot just throw the state-owned enterprises entirely at the mercy of market forces. It has an important role in facilitating an orderly transition.

In 1992, there was tremendous interest not only among staff but also among the members of the Executive Board in transition economies. Larry Summers was at that time the Chief Economist of the World Bank. There was a largely attended Board Seminar on the former Soviet Union in March 1992. Many luminaries, including Henry Kissinger, George Soros, and Zbigniew Brzezinski attended. Henry Kissinger in his remarks said that he had neither met a Russian who supported the breakup of the Soviet Union, nor a Russian who would not like to restore the Union. So he wholeheartedly supported our efforts to assist the new member countries. On Russia, he was more circumspect. I got the impression that he did not view large assistance to Russia in the interest of the United States. I am afraid this rather negative attitude towards Russia coloured US policy in the 1990s and the Russians have not forgiven the US for the many slights that they suffered when they were down and out.

George Soros was, on the other hand, very supportive of intellectual and financial assistance for all the members and, later, showed it by supporting many endeavours in the former republics with his personal funds.

Chapter 22

Central Asia and Uzbekistan 1992–1996

It was the best of times. It was the worst of times. My last job as the Bank's resident representative in Central Asia was perhaps the most difficult of my entire career. It was most challenging to deal with centrally-planned economies whose leaders were, by and large, not very interested in economic reform, unlike Eastern Europe and Russia, but were more interested in asserting their newfound sovereignty. These countries had never dealt with foreign policy, the UN, or international financial institutions. They found their feet gradually. The language was another major problem. Again unlike Russia and Eastern Europe, English speakers in the government were few and thus most of the official business was conducted in Russian, which in itself was not the native tongue for most of the population in Central Asia. On the personal level, my wife found the first year of living in Tashkent most trying. Language was a problem, though Parveen succeeded in learning more Russian than I did. After her active social life in Washington, the initial shock of isolation in Tashkent was quite unsettling, especially as I had to devote most of my energies to establishing a new mission. The health facilities were also less than modern and even for dental treatment, the preferred destination was Islamabad, less than two hours flying time away. But in time the diplomatic community grew and we made many new friends. Also, with the growing number of local staff, Parveen became more interested in and involved with the staff's families. Fortunately, the facilities for tennis and, swimming, her favourite sports, were also reasonably good.

Work-wise, the concept of a regional mission did not take root. I had not been aware of the tensions and rivalries among the Central

Asian countries of Kazakhstan, Uzbekistan, Tajikistan, Turkmenistan, and Kyrgystan, that had all of which had been part of the large Turkestan under the Ottoman Empire. Over time, my responsibilities shrank to Uzbekistan and Tajikstan, countries that were slow reformers. Had I known this, I might not have successfully persuaded the Bank management to locate the mission in Tashkent. The original idea was to place the mission in Alma Ate, where it is now, because Kazakhstan appeared to have more economic potential and greater interest in economic reform. However, when approached to head the mission in Central Asia, I conditioned my interest on its being established in Tashkent, because I thought that it would be less remote and culturally richer, which it is.

Despite the many difficulties, I do not at all regret our years in Tashkent. They provided us with many unique experiences at an important turning point in world history.

Eventually, we greatly enjoyed our three-and-a half-year stay in Uzbekistan. It was quite an experience to live in a country that was the hub of the historic silk road from the Middle East to China over centuries, a country that was home to the famous old cities of Samarkand, Bokhara, and Khiva, a country that provided India with the founder of the Mughal Dynasty, the sixteenth century Prince Babar from the Ferghana valley. Indeed, the land that is now Uzbekistan has been an important part of the cultural heritage of the Muslims in India. Samarkand and Bokhara, made famous by Persian poet, Hafiz, were part of the folklore in northern India. One of the most important Muslim saints, Imam Bokhari (817–875), who is the author of one of the most authentic collections of the Prophet Mohammed's sayings (*ahadis*) is buried just outside Samarkand. Interestingly, this fact was brought to the notice of President Isam Karimov, ruler of Uzbekistan, by Pakistan's Prime Minister, Nawaz Sharif, during his visit in 1992. Pakistan also supported the restoration of the mausoleum and the attached mosque. The shrine now attracts thousands of visitors annually.

Equally interesting was to see Uzbekistan shedding its veneer acquired during sixty long years of Russian rule and beginning to revert to its cultural and Islamic roots. Surprisingly though, the Muslim greeting, '*Assalam Alaikum*', had remained intact in the Soviet era.

One of my most satisfying activities in Uzbekistan was to help recruit and train local staff for the Regional Office. With high inflation and a sharp drop in real wages, the economy was not in good shape and employment opportunities were limited. However, we were looking for English-speaking persons and these were relatively scarce. We focused on hiring young people who had no previous experience and thus had not acquired the Soviet ways of working or their attitudes. This strategy paid off. Over a period of time, we hired more than a score of people, including economists, interpreters, secretaries, drivers, and guards. Almost all of them turned out to be high-quality persons with quick learning abilities and a keen desire to excel.

I am particularly pleased that two young men, whose career I helped launch, have done extremely well in life. Bahadir Atahajaev, was a young man of twenty when he applied for one of the advertised secretarial positions. My office manager, an Englishwoman, Jane Holden, from Headquarters in Washington, interviewed him, did not think he would fit in a secretarial position, but still wanted me to see him. Bahadir made a very strong pitch for a job, saying he was a mathematics graduate from one of the top universities in Russia and would be willing to do any job at any salary. His father had told him he must work for a good organization. Bahadir had an engaging manner and pleasant personality, so we hired him at a salary not much higher than $100 a month as a general assistant. He started helping in all kinds of ways. We were still in our temporary quarters when, late one evening, I found him studying Paul Samuelson's textbook on economics. He explained that since the World Bank dealt a lot with economics, he wanted to learn some economics. I was impressed.

A few weeks later I saw an advertisement in the London *Economist* for a short summer course at the London School of Economics. Even though the cost for the two-month course was more than a couple of thousand pounds, I decided to send Bahadir to attend it, both to test his abilities and to improve his economic skills. He did very well and justified a total expenditure that was equal to his two years' salary. In those early days, the mission head had full freedom where salaries, training programmes etc., were concerned. Soon afterwards, we promoted Bahadir to an economic assistant's position and later helped him get a US scholarship for Master's studies in economics. Meanwhile, as a consequence of an office romance, he married Yuldoz, a very pretty girl from a very good family, who was our receptionist. I was actually asked to accompany his father to finalize the date of marriage, an honour reserved for elders in the family. Seeing limited opportunities in slow-changing Uzbekistan, Bahadir and his family migrated several years ago to Canada, where Bahadir became a CFA and, with a Russian colleague from the University, launched a financial company that I believe is doing very well. My last communication from Bahadir was a Fathers' Day card last June. I was very touched.

Another Bahodir (Ganiev) joined us as an economist in the Tashkent Mission a year or so before I left. I could immediately see his potential. A quiet but independent-minded economist, he would argue his case forcefully. I was happy to arrange for him to be in the US on a fellowship. He did his masters in economics and is now employed as a country economist in the Asian Development Bank and is currently posted in Vietnam

Some of our secretaries did well also. One of them, Nona, works at the Headquarters in Washington. Another, Aziza, was selected for a job at the OECD in Paris

There were only four of us from Headquarters including Ziad Allahdad, Tom Daves, and Jane Holden. Thus, the effectiveness of our mission depended quite a bit on our local staff including two excellent interpreters, Oleg and Elmira, and our administrative officer, Ilham, who was a pillar of strength. Once Mr. Hamidov, Deputy Prime Minister for Economy, told me that our office functioned very well–the government had good methods for keeping tabs on us. I told him that these were his people, but working under Bank incentives and work ethics.

Everyone at the mission seemed to work hard and the visiting missions were in the office for long hours at weekends as well. We did not think much of it and how peculiar it might seem to some of the locals. We had three guards for the office, including one who was a former colonel in the Soviet army, named Anatoli, and another who was a retired Uzbek army doctor, named Shermat. I did not have much contact with the guards because of my ignorance of Russian. About one year after the office stared functioning, our able administrative officer, Ilham Yuldashaev, told me that the Anatoli wanted to leave because the Russian government had promised land to veterans if they returned by a certain date. I told Ilham to give him a few months' severance pay, but I was told that Anatoli wanted to see me personally before leaving. When I met him, Anatoli told me that all his life, he had been told by the Soviet propaganda machine that the West was decadent and in decline But here, in the Bank office, he had been amazed how hard people work without supervision. Indeed, in his time, he had never seen any people work harder. This was quite a compliment coming from a former Soviet colonel, whom we had been paying rather low wages.

Tashkent was a showpiece of the Soviet Union and a must-stop for delegations from developing countries. It had a metro, an opera house, many parks and squares, the city having being largely rebuilt after the massive earthquake of 1966. But in the early-1990s, it still had a lot of the shoddiness of the Soviet era. The only large hotel, Uzbekistan, was poorly maintained and badly serviced. There was a lot of public housing, high rises up to twelve stories, but with no elevators. The few times that we had the occasion to visit our friends and colleagues, it was a bit horrifying–and more than a little unsafe–to find that the height of the steps were not uniform and varied from step to step, increasing the chances of stumbling on the stairs. Obviously, not much quality control had been exercised over construction.

There were not many modern single-family homes in either the public or the private sector. For most of the in-city residents, public bath houses were the norm. Finding a suitable place for the World Bank office as well as a residence for the head of the mission posed serious problem. On an exploratory visit that my wife and I made to Uzbekistan in April 1992, Finance Minister Bakabaev was kind enough to personally escort me to the possible accommodations. Still, the best option for the office turned out to be an abandoned but centrally-located four-room bungalow, with a large yard (43 Sulaimania Avenue), which required substantial renovation and later, a large addition. For the residence, we had to go to the edge of the city to a secure government compound with lots of open spaces, trees, and shrubs, which housed a dozen or so *dachas*–summer cottages, normally reserved for top party officials as vacation retreats. The government was gracious enough to offer us one of these *dachas* but at a monthly rent of US$ 3500. By US standards, it was a modest 3-bedroom 3-bath room residence, but had a family room, a nice rose garden, and was a next to a small stream. It also required a lot of fixing up but with imported furniture, carpets, and appliances, it was a comfortable and happy home for us for more than three years.

Outside Tashkent, even large government buildings did not have modern plumbing. On my first visit to Bokhara in February 1992, at the invitation of the central bank of Uzbekistan, I was asked to address their staff in the large building of the bank branch. As the meeting was likely to be long I asked for the rest room. To my horror, I was escorted all the way out of the building to a nearby shed. No indoor toilet facilities for several hundred staff seemed so wasteful of time, especially in the winter!

The lack of modern plumbing was a widespread problem in the former Soviet Union. I had to travel quite often between Tashkent and Bishkek, a distance of three hundred miles. On this route, there was only one hotel, about two-thirds of the way, where toilet facilities were available. In winter, travel with ladies, my lady interpreter and occasionally my wife, required strict bladder control.

The warmth of the Uzbek people and the devotion of our staff made the small irritants not so important. I am mentioning them to give a flavour of life in the former Soviet Union. As we lived in Uzbekistan, we also discovered that all the major economic decisions, such as the large increase in area devoted to cotton after the Second World War and the exploitation of gold deposits were made in Moscow. Indeed, the top policy makers told me that Uzbeks had no information before independence on how much gold was mined in the republic because the production was shipped directly to Moscow. Large-scale cotton production, though economically profitable, caused a development disaster by shrinking the inland Aral Sea.

As we got to know Uzbek families, we learnt that, beneath some of the trappings of the Russian culture and modernization, Uzbek ways of life had remained unchanged. For instance, parental authority was strong. Grown-up men would often defer to their fathers in deciding on a course of study or choice of a profession. Similarly, even with practically universal literacy among men and women, and substantial participation of women in the labour force, emancipation of women was not complete: the mothers-in-law remained dominant in typical extended family households.

The Uzbeks' Islamic identity also began to remerge almost spontaneously after independence. Religious practice was frowned upon in Soviet times. Our first Eid (Eidul- Fitr) fell in early March 1993. I requested our administrative officer to find out about the main congregation and timings. He had no idea but had to ask his father-in-law for guidance. It turned out that, as in Saudi Arabia, the Eid prayers were said about an hour or so after the Fajr prayer. So, accompanied by Ilham, I headed to the mosque well before sunrise on a rainy and cold morning. We were expected and were shown to the front row under the covered part of the mosque. But I could not get over the fact that hundreds of people were in the open courtyard under the falling rain.

The comic confusion between religious observance and modernity was evident to us when we were invited in the month of Ramadan for a mid-afternoon diplomatic reception by the Ministry of Foreign Affairs. I was really curious about whether any food would be served before sunset, the time of breaking the fast. The reception started with a musical concert; then there was dancing, and a very interesting film on Uzbek customs was shown, including one in which the bride and groom are wrapped in the beddings and an old woman of the family was asked to jump on them as a sign of welcome–I suppose. Anyhow, by the time film ended, it was sunset and drinks and other refreshments were served. Someone in the Ministry had dreamt up this compromise. Why the reception had to be held in Ramadan was not clear to me.

I am sure the search for identity has further stimulated the interest in religion. During my stay, observance of Ramadan was increasing. However, the extremists have also exploited the situation. Right now, because of the extremist threat, there is a very tight lid on society by the government of President Karimov, who has ruled the country since independence in 1991. But the economic situation remains difficult and poverty incidence, especially in rural areas, is high. Unless the economic and employment situation improves, discontent could spread and political stability could be threatened.

My major counter-parts in the Uzbek government were former Finance Minister Mr. Bakibaev, Deputy Prime Minister for economy, Mr. Hamidov, Central Bank of Uzbekistan Governor, Mr. Faiullah Mullanjaniv, Deputy Governor Askarov, Alisher Shaikhov, and Mr Rustom Azimov, then Chairman National Bank of Uzbekistan and now Deputy Prime Minister for Economy and Finance Minister. They all became good friends and supported our efforts to initiate a wide-ranging reform programme that was supported by a First Structural Adjustment Loan to Uzbekistan. Unfortunately, only Messrs Shaikov, Azimov, and Askarov were fluent in English, so discussions with others through interpreters were not as frank and intimate.

Also, after some initial enthusiasm, economic reform and liberalization has proceeded very slowly in Uzbekistan since the mid-1990s. According to a recent World Bank economic brief, 'The government's approach has relied heavily on the use of state controls, planning and direct interventions in many sectors of the economy, foreign exchange and trade restrictions, directed and sometimes subsidized credits to selected sectors, and large public investments. Uzbekistan made progress in increasing self-reliance in both energy and foodstuffs, and has been pursuing a policy of "localization," i.e. encouragement and protection of domestic production.' Presumably, the government has not felt any macroeconomic pressures to change policies. The external financial position has grown steadily stronger because of strong growth in exports of energy, cotton and gold. The current account balance of payments has continued to show surpluses and foreign exchange reserves have continued to rise. Currently, exports of goods and services account for over 35 per cent of GDP and foreign exchange reserves exceed 100 per cent of exports.

However, Uzbekistan faces many serious problems. Because of the resource-based pattern of growth, the benefits of recent economic expansion have not reached the masses. The poverty incidence at 25 per cent remains high and unemployment remains a major problem. Uzbekistan is clearly not exploiting its considerable potential. According to the World Bank Atlas method, the per capita GNI in 2008 at US$ 910 was only half of the real level in 1991 and slightly lower than that of Pakistan. In order to reduce poverty and increase job opportunities, Uzbekistan would need to stimulate its lagging private sector.

Other Central Asian countries, with the important exception of Kazakhstan, have not progressed much either, because of political turmoil or lack of clear economic direction. Tajikistan and the Kyrgyz Republic had a per capita GNI of $600 and $740 respectively in 2008, representing a drop of more than 50 per cent over the early-1990s. Turkmenistan has shown a small real increase over the period, because of its large gas exports and high prices and had a per capita GNI of $2840 in 2008. Kazakhstan, which was already ahead of other Central Asian republics in Soviet times, now has a per capita GNI of $6140, due to both expansion of oil and gas development and speedy economic reform.

In the initial years, the World Bank provided a lot of support to the Kyrgyz republic in the form of very soft term loans. But the lending did not have the desired effect because of poor governance and corruption at the highest levels of the government. It is a country that remains politically unstable and economically backward.

Some memories of our Tashkent days are still fresh in my mind.

As I have said, Uzbekistan had decided to go slow on reform because, among other things, Karimov was afraid of the collapse of employment and output in the wake of total liberalization of prices, as had happened in Russia. Still, the World Bank was encouraging the newly independent Central Asian countries to adopt their own currencies, because of the high rate of inflation in the ruble area. Kyrgystan was the first state to be persuaded and introduced its own currency. This did not sit well with Uzbekistan government, because their ruble became less acceptable in the market and it resorted for a while to restrictions on trade with Kyrgyystan.

I was to learn later from Governor Mullajanov that the powerful head of the central bank of Russia, Victor Gerashchenko, was also against the move away from the ruble, as another western ploy to weaken the Russian bloc. He visited Tashkent in March 1993 and brought a plane load of currency–rubles–and just gave them to the Uzbekistan central bank. My guess is that this was done without the knowledge or explicit agreement of Gaidar, head of the economic team. Such were the times. The Russian bribe worked for a while, but a year or so later, Uzbekistan also had to adopt an independent currency. Gerashchenko was removed in 1994 but returned to his old post in

1998 and served another four years, as the influence of economic reformers weakened.

The World Bank was much concerned with the environmental consequence of a major shrinkage of the Aral Sea, the loss of livelihood, major health problems, and deep sandstorms that travelled hundreds of miles. It initiated studies and convened a special Consultative Group meeting in Paris to which it invited concerned ministers from Kazakhstan and Uzbekistan. At least some of the ministers from these two countries travelled with a small attache case. They had just one suit in which they travelled. This kind of glimpse into the reality of the Soviet Union was almost heartbreaking.

As we moved from Washington to Tashkent, we were sure that we could find plentiful help at very reasonable costs. Still, my wife felt that we should persuade our Pakistani cook, Shah Mohammad, to accompany us, even though we would have to give him US level wages. At first, Shah Mohammad demurred. He was not impressed with my posting to Central Asia. He first reaction was, 'Sahib, I always thought you were a high officer of the World Bank! Why are they sending you to Russia?' In time, he was persuaded to accompany us.

Shah Mohammad in his early career had been a soldier in the Pakistan Army, later working as an orderly to my brother-in law, Brigadier Malik Mohammed Afzal. As he settled down in Tashkent, Shah Mohammad found out that the support staff in the Bank office, among them drivers and guards, were paid a fraction of his salary, so his attitude towards them became somewhat superior. The fact that his English was a bit better than some of this staff added to his importance. As I mentioned earlier, one of the guards, Shermat had been an army doctor. Shermat opted to work part time in our garden for some additional pay. This really enabled Shah Mohammad, as a housekeeper, to boss him around, until, on a Veterans' Day, when Shermat showed up to see us, in his captain's uniform, with rows of medals. Shah Mohammad was truly deflated. He had it coming.

My last major official duty in Tashkent was to orchestrate the arrangements for a three-day visit of the World Bank President, James D. Wolfensohn, to Uzbekistan. The Uzbeks were a little sensitive that the previous Bank Presidents had visited only Kazakhstan and Kyrgystan. So Wolfensohn, who had become President just a few months earlier, agreed to an early visit to Uzbekistan in late October 1995.

Wolfensohn was to remain President for two terms and, under his direction, the Bank was to change considerably, becoming more responsive to outside voices and interests, thus improving the image of the Bank. However, at the same time, the Bank operations became more complex and less speedy. My short exposure to this charming, mercurial, emotional, but evidently intellectually very sharp and public-relations-wise very savvy leader was quite an experience. He was certainly very different from the previous four Presidents.

Wofensohn arrived in the middle of the night on a private plane with his wife in late October 1995. His entourage included Jane Holden, who had been my secretary and office manager a few months earlier and had been selected as his Executive Secretary. He was received by Hamidov and, at the state guest house, he was very pleased to find a good-sized carpet with his picture woven into it. Uzbeks could be very gracious hosts.

Next morning, I and my senior colleagues met with him and his team for an hour before the high-level government meetings. In welcoming him, I made a special mention of Jane Holden. It was a big thing for her to be coming back to Tashkent with the President of the Bank. At this, Wofensohn, who apparently was not in the best of moods, made a kind of disparaging sound. I was nonplussed but added for good measure that my efficiency had gone down since Jane left. To this, Wolfensohn responded tartly that his efficiency had also declined. I am sure he regretted this outburst. Just a few hours later, when he was shown a collection of beautiful hand-painted miniature wooden boxes by a reputed Uzbek artist, he decided to buy all of them as gifts for friends, but pointedly told me that one was for Jane. He was trying to make amends.

Wolfensohn did a have away with people. He got along very well with Karimov and his senior ministers. He invited Karimov to his summer house in Jackson Hole, Wyoming. At the state dinner, which included entertainment and some very elegant dances by young Uzbek girls, he said that he would be willing to change places with Karimov for a few days.

In those early days, Wolfensohn was also concerned with the resistance to change and acceptance of his ideas within the World Bank. He said so at a staff meeting that we organized for him. I had to assure him that the young enthusiastic staff in the Uzbekistan office was not in any sense set in their ways.

Wolfensohn's programme included a visit to the Aral Sea, even though it meant long hours of flying in a small noisy plane. We felt this was important, because his personal friend, Al Gore, the US Vice President, had visited the area a few months earlier. The devastation he saw moved him to tears. We only learnt later that the children he met had been supplied a new set of clothes by the government only a day earlier. If he had seen them in their rags, Wolfensohn might have broken down completely. I must add that Wolfensohn was very generous: a short time later, as an anonymous donor, he sent a lot of toys and books for the children in the area from his own funds. We were told to strictly keep this fact confidential.

On our return from the Aral Sea, we made a stopover at Samarkand, the ancient city which was one of the centres of the Persian Empire and the capital of Amir Taimur during the fourteenth century. The most impressive of Samarkand's many wonderful monuments is the famous large Registan Square, a complex that includes three Madrassahs which seem to have been the inspiration for Mughal architecture in India a couple of centuries later. Wolfensohn had expressed a desire to meet with the civil society leaders during his visit. We did not want to tell him that there was really no civil society in this strongly controlled former communist bastion. I came up with the idea that, since world's major religions, Christianity, Judaism, and Islam, had all co-existed in Samarkand since ancient times, it would be useful to arrange a meeting for Mr and Mrs Wolfensohn with the senior religious leaders from these faiths right in the middle of Registan Square. This worked very well. Wolfensohn was reduced to tears a second time in a day. I believe that this meeting was the inspiration for his inter-faith initiative that he launched in the World Bank later.

Despite all the goodwill generated, Uzbekistan has resisted rapid reform and structural change and the Bank operations in the country remain small.

I want to conclude my narrative about Wolfensohn with a story that I was told a couple of years after I left the Bank by Malika, a middle aged and very low key lady, who had been one of my personal assistants in Uzebekistan. Malika was in Washington D.C. for some kind of training and we invited her for dinner at our house. During dinner, she mentioned excitedly, that while she was in Jane Holden's office one day, Mr Wolfensohn came in. Malika jumped up and told him that he would not remember her, but they had met when he came to Uzbekistan. At this, Mr Wolfensohn told Malika that of course he remembered her and would have liked personally to take her to the Kennedy Centre but he was soon travelling. Still, he insisted on arranging for her to be escorted to dinner and a performance at the Kennedy Centre. So Malika was royally entertained and the tale of Wolfensohn's graciousness must have spread back in Tashkent. What a public relations genius!

Chapter 23

Z. A. Bhutto's Failed Economic Promise 1972-77

Zulfiqar Ali Bhutto (1928–1979) was a bold, courageous, charismatic, and extremely ambitious politician–a master of realpolitik, who had aspirations to be a leader on the international level. With his gift of speech, his exuberance, and his slogan of *Roti, Kapra, Makan*, he captured the imagination and devotion of the Pakistan masses. He was a sophisticated and well-educated individual, who could be extremely charming. But Bhutto was also a feudal lord, who did not inspire trust among his peers or tolerate dissent, and was vengeful towards friends and foe alike. His insecurities and search for complete authority ultimately caused his downfall. Still, I believe that he was one of two most influential leaders in Pakistan's recent history: the other was his nemesis, General Ziaul Haq. Bhutto changed the country's politics forever by founding a party with mass appeal–the Pakistan People's party–and creating a political dynasty. Zia gave an Islamist turn to the society and emphasized very conservative interpretations of Islamic values and practices, introduced the controversial *Hudood* and Blasphemy laws, and thus encouraged–if not outright promoted–sectarianism, fundamentalism, and extremism. Bhutto and Zia unleashed conflicting forces that, even today, are struggling to gain control over Pakistan's soul.

Scion of a prominent Sindhi landowning family, Bhutto studied at Berkley and Oxford and was practising law in Karachi when he was invited to join the cabinet after the country was put under martial law in 1958. Though brought into the government by President Iskander Mirza, he became Ayub Khan's protégé and served in his cabinet for eight years (1958-66); in the final years as a very influential foreign minister noted for his initiative for opening up to China. But he started distancing himself from Ayub after the not-so-successful 1965 war with India, of which he was one of the architects. After he was eased out of the cabinet in 1966, he founded, with a half a dozen intellectuals including Dr Mubashar Hasan, Hanif Ramay, and J.A. Rahim, the Pakistan's People Party (PPP) at the end of November 1967, and became its chairman. PPP's creed was: 'Islam is our faith; democracy is our politics; and socialism is our economy; all power to the people'.[34]

Though Bhutto had feudal instincts, he projected and created a close bond with the common man and gave people a voice and respect that had not existed before. This is Bhutto's true legacy. Even though the governance record of the People's Party has been very mixed, it remains the single most important national party in the country, with a solid vote bank of about one-third of the voting population. PPP has no longer strong socialist leanings, as Bhutto's experiment with socialism in the 1970s failed, but it has a left-of-centre agenda and is identified in the public mind as favouring social justice, despite serious corruption allegations against its top leadership in the past two decades.

Bhutto created not only a political party but also a political dynasty. After Bhutto's execution in 1979, which was essentially a political act by Zia, though Bhutto had been found guilty of charges of murder, young Benazir Bhutto became his political heir and remained the undisputed leader of PPP, in and out of prison and in and out of exile, till her most tragic = assassination at the end of 2007. Now, the mantle of leadership has passed to her husband, Asif Ali Zardari, who was elected President of Pakistan after the ouster of General Pervez Musharraf in 2008. Benazir's son, Bilawal Bhutto Zardari, currently a student at Oxford University in England is the Co-chairman of the PPP and its clearly-designated future party leader.

After the PPP's strong victory in West Pakistan in the 1970 elections, Bhutto emerged as the strongest leader in Pakistan. By all counts, Bhutto did not play a constructive role in the process that led to the separation of East Pakistan. He encouraged Yahya's tough stand against Mujib and threatened members of the National Assembly from West Pakistan against attending the National assembly meeting,

[34] See Philip E. Jones , The Pakistan['s People's Party: Rise To power, Oxford University Press 2003, for a comprehensive history of the PPP

originally called for early March 1971 in Dhaka–forcing Yahya to postpone the meeting. After the emergence of Bangladesh, Yahya still wanted to hold on to power, but was forced by army officers to transfer authority to Bhutto as a Martial Law President.

Since there was general public disgust with Yahya's management of the crisis in East Pakistan, the assumption of power by Bhutto and the end of military rule was widely welcomed. My friends and I, especially Mahbubul Haq, were delighted at the restoration of civilian rule. There were great hopes pinned on Bhutto in those early days, partly generated by desperation at the loss of half the country.

At the personal level, both Mahbub and I and possibly others in the World Bank did not rule out working for the new Bhutto government, if the call came: such was the optimism about the new democratic era. I was not totally surprised to learn in the summer of 1972 that I was being considered for the post of Economic Adviser in the Ministry of Finance, which was becoming vacant as my friend, Azizali Mohammad, was returning to the IMF after a two-year leave of absence. I was asked whether I could come for an interview with Dr Mubashir Hasan, the Finance Minister. Subsequently, I gathered that the idea did not originate from political quarters, but from Kazi, who was Finance Secretary and felt, because of our past association, that I was most suitable for the job. But the Minister needed to be convinced. I was definitely interested, because at that time, I regarded my stay at the Bank temporary. Therefore, on a visit in June to the Philippines, I arranged for a three days' stay in Islamabad. On arrival, I contacted the Minister's office but was given a run-around for a couple of days. Several appointments made were cancelled at the last minute. On the third day, I was running out of time, so I took the liberty of going directly to the Minister's house in the morning before office hours. He was really surprised but polite and we had a long conversation on the economic, social, and institutional issues facing Pakistan. But evidently I did not impress him. Unknown to me, Kazi continued to argue my case, but to no avail. Later, on probing the matter, I understood from my friend, Hanif Ramay, also a senior PPP leader and later Chief Minister of Punjab, that Mubashir felt that I was an establishment-type, while they were looking for people who would bring down the economic system.

Bhutto's anti-capitalistic sentiments were mixed with rather vague notions of experimenting with socialism. Mr. Sultan Khan, a former foreign secretary, told me of his accompanying Bhutto on a visit to Beijing in mid-November 1971. This visit was to seek Chinese military support for Pakistan to deal with the likely Indian intervention in East Pakistan. Meanwhile, Yahya Khan had promised Bhutto that he would become Prime Minister after the fall of East Pakistan–which was feared. According to Sultan Khan, Bhutto told Zhou Enlai during a private meeting that he was going assume power in West Pakistan soon and he planned .to introduce socialism. Reportedly, Zhou Enlai cautioned him about the difficulties of introducing a socialistic system without a long period of preparation and without broad public support. Again according to Sultan Khan, Bhutto, rather than appreciating this advice from an outstanding and friendly Chinese leader, was greatly upset that the Chinese Prime Minister presumed to know about conditions in Pakistan.

I also recall Shahid Hussain (see below) telling me that he once asked Bhutto about his long-term economic vision for Pakistan. Bhutto's reply was that, in a few decades, he would like to see Pakistan where some Eastern European countries had arrived at that time. What an unrealistic and impractical goal for a poor, heavily-populated, agrarian country! I also heard later from Mr. Poonegar who was Chief Secretary in Baluchistan in late 1976, that, despite public assurances that no further nationalizations would be undertaken, they were asked to prepare lists of important commercial real estate ahead of the 1977 elections.

In other words, Bhutto's view of socialism was at best a patchwork of loosely held views as his nationalizations showed. Dr Mubashir Hassan, his close associate and minister of finance, economic affairs, and development was more clearly ideological and had an aggressive anti-private sector bias in an economy that was largely in private hands. But Mubashir resigned after a few years. However, while he was minister, he guarded his turf jealously against those he considered interlopers. Mahbubul Haq's brief venture into Pakistan in early 1974 illustrates the point.

After a couple of years of socialistic policies, Bhutto was apparently not satisfied with the direction of the economy and wanted some expert advice. He asked M. M. Ahmed for suggestions. MM strongly supported Mahbubul Haq's appointment as Deputy Chairman Planning Commission, reporting directly to Bhutto. This was finally agreed to. Mahbub had, at that time, a very important position as Director, Policy Planning Department at the World Bank and worked closely with the President Robert McNamara. He was excited, however, to return to Pakistan, especially as the Bank agreed to grant him leave of absence.

At that time, Mahbub and I were carpooling to work and shared many plans, confidences, and fantasies during our long rides. Mahbub told me that Viqar Ahmed, the Cabinet Secretary to Bhutto, and probably the most influential bureaucrat at the time, was very interested in bringing me back into government also and my being offered the Planning Secretary's job was a strong possibility. More importantly, Mahbub asked me for ideas to improve prospects for economic growth and equity. In our discussions, I stressed the critical need for land reforms as the most important economic and social issue. Mahbub quickly agreed and started researching the issue seriously.

After a round of many farewells, Mahbub left for Pakistan in February. To our utter surprise, he was back in a little over a week after ascertaining that his job at the Bank had not been filled.

What happened is an interesting story: One element was that, on arrival in Karachi, he spoke about the need for land reform. The idea of a technocrat shortly to be inducted in government, taking a strong position on a major political issue did not go well with Bhutto. On arrival in Islamabad, Mahbub found it difficult to get a meeting with Bhutto and was referred to Mubashir Hasan. According to Mahbub himself, Mubashir gave him long lectures about technocrats trying through the back door to get powerful policy positions that belonged only to elected representatives. He tried to impress on Mahbub the importance of street power by introducing to him to a young economist, who could bring tens of thousands of persons on to the street within hours. All this unnerved Mahbub, especially as he could not talk to Bhutto himself to ensure that he would be effective in his job. And so, he decided to return to Washington. I think it was a lucky escape, because of subsequent drift of Bhutto's economic policies that Mahbub might have found difficult to support.

Bhutto made one more try in late 1975 to obtain the services of a Pakistani economist serving in Washington, this time successfully. He wrote to M. M. Ahmed to make some suggestions. This time MM sent a list of names, including Moeen Qureshi, Mahbubul Haq, Shahid Hussain, Azizali Mohammad, and myself, providing brief backgrounds and present positions held: he showed me a copy of the letter he had sent. Shahid Hussain was offered the position of Special Economic Assistant to the Prime Minister and served for a year from February 1976 onwards. Later, I heard that the powerful cabinet secretary Viqar Ahmed, was favouring me for the position, after obtaining support from GIK, who was serving as Governor, State Bank of Pakistan. Bhutto, however, decided to appoint Shahid Hussain, who was at the time the senior-most Pakistani serving in the World Bank, holding the position of a regional vice-president. A close friend later told me that it tickled Bhutto to have a vice-president of the World Bank on his staff. Shahid Hussain himself told me that Bhutto's first comment to him was: 'I hope you have a degree in economics'.

I do not believe Shahid Hussain's experience of serving with Bhutto was a particularly satisfying one, mainly because Bhutto did not have a clear vision for the economy and had unrealistic expectations about what his steps towards greater state control of the economy would deliver. Also, the approach to nationalization, after the first wave, was essentially ad hoc and not well thought through.

Bhutto had come into power on the wave of strong popular but not well-articulated sentiment for change in the socio-economic order. There was clearly disenchantment with the distribution of growth benefits during the Ayub era and resentment against the economic power of the twenty-two families, especially against the interlocking of their interests in banking, insurance, and industry, as highlighted by Mahbubul Haq's famous speech mentioned earlier. Upon assuming office, Bhutto moved quickly to implement what he considered the popular mandate. In January 1972, the government took over the management and control of thirty-one basic industry groups, including iron and steel, heavy engineering, motor vehicles, heavy chemicals, and cement. Life insurance companies were taken over in March 1973 and banks were nationalized a few months later. These nationalizations were part of a well thought-out plan to curb the power of major business houses. But in the summer of 1973, the government proceeded to nationalize the edible oil industry as widespread floods caused severe shortages and led to the price of cooking oils trebling. In July 1976, the government unexpectedly took over about three thousand relatively small cotton ginning and rice and flour mills, with a total employment of 30,000 persons. This took place even though the government had promised not to undertake any further nationalization of industry.

Though opinions differ, my view is that this last round of takeovers, which made landlords directly dependent on government, was to make them more amenable to government influence and patronage in the forthcoming elections (Hasan, 1998, Burki, 1980, Noman, 1986). Whatever the intention, the nationalization of small agro-processing units sent a shockwave among the middle class and solidified opposition to Bhutto's rule in the 1977 elections.

As mentioned above, Bhutto did not have a very clear notion of socialism, though his advisers on the left, notably Mubashir Hasan, clearly favoured a more wholesale takeover of the industry: the nationalization of 31 industrial units that was undertaken in 1972 affected only twenty per cent of value added and only 40,000 or 4 percent of jobs in large-scale manufacturing. Moreover, many of the units taken over were among the most inefficient and loss making.

The interesting thing is that Bhutto did not push land reform–potentially the most powerful instrument of economic, social, and political change–very hard. His land reforms in March 1972 did lower the ceilings on individual holdings to 150 acres of irrigated land and 300 acres of non-irrigated land, but allowed even more generous transfers to heirs than the 1959 reforms. In the end, only 1.3 million acres, or about half of the area resumed under the 1959 reforms was acquired. It is widely suspected that declarations were very low, and that large landowners concealed and illegally transferred vast amounts of land (Naseem, 1986). However, land reform did improve the conditions of tenancy and apparently helped to stabilize the number of landless.

Why did Bhutto not insist on more meaningful land reform, when he had the power to do so? Was it because he himself was a large landowner and identified himself at some level with the feudal class?

The broader question is whether Bhutto delivered for the poor through his large economic and social programmes, that included land reform, a new labour policy, educational reforms, expansion in public development spending, credit policies for small farmers and businessmen. Here, the results were decidedly mixed. The Bhutto government significantly increased health and education expenditures both in real terms and as a percentage of GNP. The labour policy did improve the condition of industrial labour and real wages did go up sharply in the early Bhutto years; but rising inflation in his later years wiped out a substantial part of these gains. Bhutto also provided a critical boost to labour migration, by greatly relaxing the procedures for issuance of passports. Rising worker remittances were to turn out to be a major factor in sustaining growth in real wages and reduction in the incidence of poverty in the late-1970s and early-1980s. However, rural poverty persisted at a high level, partly because agricultural growth during 1972–77 was low, only 2.1 per cent per annum, partly because of floods and unfavourable weather conditions. Much more significantly, Bhutto's educational policies, meant to promote better conditions for teachers, introduce universal education, improve quality, and encourage women's literacy in rural areas actually had a great long-term, deleterious impact on the development of the education sector, especially primary education.

Although Bhutto's educational policy, announced in March 1972, was far-reaching and comprehensive, its immediate impact was the nationalization of all private educational institutions above the primary level, the absorption of the staff of nationalized schools and colleges in government service cadres on the same terms as applicable to government teachers. Nationalization was felt most acutely at the high school and college levels, because half of the colleges and 40 per cent of the schools had been privately run. The move to nationalize education was popular among teachers who had been strong supporters of PPP. Indeed, it has been suggested that, although rationalized on reformist and development grounds, nationalization of education was essentially a political move.

The wholesale takeover of educational institutions turned out to be a big, unintended blow to the growth and quality of the education sector, the consequences of which are still with us, nearly four decades later. Even though the primary schools were not nationalized, the biggest impact was on the development of basic education and literacy. This is because the limited growth in national resources available for education was preempted by higher levels of education and the urban bias in education deepened. As a result, the basic education sector, especially in rural areas, was starved of funds and the primary gross enrolment ratio improved little over 1970–86. The adverse impact on the quality of education was due to an overextension of the management capacity of the government and a loosening of accountability of teachers under a nationalized education system that the private sector provides more effectively. Even though Ziaul Haq allowed private schools, the broader issue of the role of the private sector was not addressed. It was only in the 1990s that private educational institutions began to flourish and grow rapidly.

In the overall management of the economy, the Bhutto government had to deal with three problems: the adjustment of foreign trade and balance of payments, after the virtual disappearance of trade with former East Pakistan; the oil price shock of 1973 that quadrupled international oil prices; and the virtual collapse of private sector investment in medium- and large-scale industry.

The diversion of trade was initially quite successful, because of substantial real devaluation of the currency and the boom in the international economy and commodity prices in 1972–73. Pakistan formally devalued the rupee in May 1972, from Rs4.76 to Rs11 per US$, abolishing the export bonus scheme and removing a system of multiple exchange rates. With the introduction of large export duties, the bias against agriculture and exports persisted, however. Pakistan's share in world exports dropped significantly over 1970–77 and growth in important manufactured goods sector suffered also due to the anti-private-sector bias.

The chief architect of the large and necessary devaluation was A. G. N. Kazi, who was Finance Secretary. It was not easy to persuade Mubashir Hasan, who gave his consent only when he was told that the large change in the exchange rate would increase the foreign debt obligations of the private sector, largely big businesses, dramatically by 130 per cent in local currency. This misfortune of the twenty-two families was greatly welcomed.

The response to the oil price increase, which added $700 to $800 million annually to the foreign exchange bill was twofold: on the one hand, mobilization of large external assistance, especially from oil-producing countries on concessional terms and, on the other, postponement of any domestic energy price adjustments.

During the four years 1973–74 to 1977–78, foreign aid commitments by Iran and Arab countries to Pakistan totalled $1.2 billion, mostly on concessional terms. Meanwhile, there was also an increase in the annual commitment from Consortium countries, to over $700 million during 1974–77, compared to a little over $500 million for Pakistan as a whole, including special assistance for the Indus Basin Works in the late-1960s. Thus, after a brief hiatus in aid commitments during 1971–73, more or less fully compensated by debt relief, Pakistan had ample supplies of foreign assistance–no mean political feat after the debacle in East Pakistan, just a few years earlier. I had once jokingly said that the only advantages in having two separate countries could be the increase in foreign aid. This actually happened.

Larger aid flows, combined with rising worker remittances, largely neutralized the foreign exchange impact of the oil shock. But lack of adjustment in energy prices led to growing energy subsidies, continued high growth of energy consumption, and much reduced resources for WAPDA, KESC, and Sui Gas to finance additional investment from internal resources. This was just another case where policy focused on less painful short-run choices. The delayed adjustment in energy prices for nearly a decade was in sharp contrast to the speedy policy response in East Asian countries, notably Korea, which I witnessed personally. Had Pakistan moved then–and later–it would have reduced its energy deficit, strengthened its structural position, and, possibly, saved its well performing public institutions, such as WAPPDA from financial disaster.

As discussed earlier in Chapter18, I was leading the World Bank team on Korea when the large oil price increase took place in December 1973. I was most impressed when I visited Korea a few weeks later and found that a comprehensive adjustment package to deal with the oil shock had been adopted and included across the board adjustments in the prices of energy products to reflect new realities. In contrast, it took Pakistan nearly a decade to bring domestic energy prices in line with international prices.

Partly by design and partly due to the start of work on the Russian-financed steel mill, the sharp drop in private investment in industry was more than made up for by a nearly tenfold increase in real public investment over 1970–77. The Board of Industrial Management, which was responsible for running nationalized enterprises, made huge investments in fertilizers, cement, and heavy engineering. In addition, the provincial governments, especially Punjab, invested in several sugar and textile mills.

The country's principal industry, however, suffered greatly because it was largely in the private sector that was disinclined to invest. In general also, no attempt was made to deal with the problem created by devaluation, a sharp rise in the external debt burden of enterprises in rupee terms.

Reflecting both large public industrial investments, a very significant increase in infrastructure spending, and bunching of expenditure on the steel mill and Tarbela Dam, public development expenditure rose to a peak of 11 per cent of GDP in Bhutto's final years–a level that has not seen since. Unfortunately for Bhutto, the fruits of a large part of this public investment, especially in the steel mill, Tarbela Dam, and fertilizers became available only after his removal from power.

The huge expansion of public sector expenditures increased the budget deficits to a record average level of over 8 per cent of GDP in the Bhutto years, compared with deficits of 2-3 per cent of GDP in the 1950s and 4 to 5 per cent in the 1960s. Notwithstanding the substantial foreign financing of the deficit, there was heavy reliance on money creation to meet fiscal needs. Large inflationary financing of the budget was a major cause of more than doubling of the price level between 1972 and 1977 and consequent macroeconomic instability.

Under Bhutto, the government for the first time began to incur deficits, not only to finance development spending, but also to meet part of current expenditures. Till the 1960s, public savings, excess of current revenues over current expenditure, had been significant. However, during 1972–77 government revenue deficit amounted to Rs10 billion or close to 2 per cent of GDP. Unfortunately, the negative government savings were to become a permanent feature of Pakistan's finances and there have been only a few years in the last four decades when government revenues have covered current expenditures.

One cause of our borrowing for current expenditures is the low level of tax revenues. But an equally important factor has been the high and rising level of defence spending. Putting it another way, the country has wanted a strong defence but has not been willing to pay for it through higher taxes. In real terms, the defence expenditure in the last two years of the Bhutto regime was one-third higher than in 1969–70, even though the size of the country had shrunk, eliminating at least the need for a military establishment in the former East Pakistan.

Why did Bhutto decide to expand the size of armed forces from 365,000 in 1969 to 500,000 in 1975? Certainly, the demoralized army was in no position to press for increased spending. It must be that Bhutto wanted Pakistan to be a global player with important alliances with China and the Middle East. This also explains why the development of a nuclear weapon was given such high priority. More fundamentally, Bhutto did not trust India and felt future wars with India were inevitable (Wolpert, 1994, p.186 and 191-196). I do not think our policy for continued confrontation with India has served us well. Indeed, it has been disastrous.

It is ironic that it was the army that had brought him to power and it was the army that brought him down. But he gave the army an opportunity it never could have had, if he had governed with greater consensus, respected smaller provinces, realized that the support for socialism was limited among the general public and the intelligentsia, and had been more careful in his choice of the Army Chief of Staff.

Bhutto's greatest achievements were restoration of a sense of dignity to the nation after the loss of East Pakistan, his standing up to Indian pressure at Simla in July 1972 and refusing any basic concession on Kashmir, his deepening of the relationship with China, the Chairmanship of the Islamic Summit in February 1974, and his persistence in the development of a nuclear weapons' programme, despite strong pressure and warnings from the United States.

Henry Kissinger has this to say about Bhutto, "No doubt he was later carried away by excessive self-confidence in his manipulative skills. But in the days of his country's tragedy, he held the remnant of his nation together and restored its self confidence. In its hour of greatest need, he saved his country from complete destruction. He later brought himself down by excessive pride. But his courage and vision in 1971 should have earned him a better fate than the tragic end his passionate countrymen meted out to him …' (Kissinger p.907).

The economic and social programme of Bhutto's administration did not advance the PPP's social justice agenda in the long run, though there were gains in the short term. While the overall GDP growth rate during his five years was a respectable 5 per cent per annum, employment growth was slow, as heavy industries did not create much employment and inflation began to eat away at the wage gains made earlier. But the economy was also sustained by the rapid rise in worker remittances (to nearly $ 600 million in 1976–77) that were to become an increasingly important factor in the reduction of poverty levels in the 1980s. Economic discontent was not a factor in Bhutto's downfall.

It was his search for absolute authority, specifically the effort to gain more than two-thirds majority in the 1977 elections, so that he could modify the constitution to a Presidential form of government that started the protest movement by the combined opposition which ultimately gave an excuse to the army to step in on 5 July to remove him, 'temporarily'. Clearly-rigged election results gave PPP 75 per cent of seats, with less than 60 per cent of the vote. Naturally, the opposition PNA (Pakistan National Alliance) called foul. 'Had he been less greedy, less suspicious, less mistrustful–or less insecure, he would have most likely won a majority, even if not the two-thirds of the seats in the National Assembly' (Wolpert 1994, p.282). But through his behaviour towards friends and foes alike, his many false promises to opposition politicians like Wali Khan, his economic policies which troubled the middle classes as well as top industrialists, Bhutto had alienated significant sections of Pakistani society and gave the Islamists in the PNA a platform for demanding enforcement of Islamic Law, banning sale of wine and liquor, gambling of every kind, the payment of interest, and the use of obscenity, etc. In order to win favour, Bhutto in his last months of rule banned liquor and gambling and reversed the nationalization of small agro-processing. But the fury of his opponents was as strong as the admiration or indeed the worship of his followers and the concessions did not save him. A bolder course to have re-elections would have served him better.

For the country, Bhutto's failures and shortcomings meant a major missed opportunity. Here was a young, western-educated, secular leader who could have modernized the country and probably ruled it for decades, if he had shown more respect for his friends and opponents and had not been so obsessed with his own unlimited power.

Chapter 24

Ziaul Haq's Long Rule and Even Longer Shadow 1977-88

No one could have imagined in early 1977 that Pakistan would again be under military rule within months: stories of the army's behaviour and its defeat in East Pakistan were still too fresh. It would have been even more bizarre to expect that a relatively obscure general, Muhammad Ziaul Haq, who had been elevated to the position of Chief of Army Staff by Bhutto only a year or so earlier, on grounds that are not considered flattering (Wolpert, pp.262-63), would be able to rule Pakistan for more than a decade, with a strong grip on power. Indeed, Zia's rule might well have lasted for another decade, were it not for the mysterious airplane accident that killed him. Certainly, there was no hint that Zia's military rule would become, 'a ferocious instrument of change–with far-reaching effects that still haunt the body politic of Pakistan–[and would witness] –the emergence of the lower middle class, the rise of Islamists in the military and state sponsorship of militant Islamic–largely Sunni–sectarian groups which provoked a Shia backlash and spawned sectarian warfare' (Nawaz, 2008 p. 359).

The start of Zia's rule on 5 July 1977 was tentative. He promised to restore civilian rule after fresh, free, and fair, elections within 90 days. 'But Bhutto's continuing popularity with a large segment of the population and the fear that his return to power through free elections could unleash a vendetta against the top military leadership prompted Zia and his colleagues to postpone elections. Attention turned instead to investigating abuses of power during the Bhutto years. The government published a number of White Papers outlining Bhutto administration's misdeeds. More importantly, a pending complaint accusing Bhutto of complicity in the murder of a political opponent was pursued by the government. The Lahore High

Court found Bhutto guilty in March 1978 and ordered his execution. By a narrow margin, the Supreme Court of Pakistan upheld the judgment in March 1979. Ziaul Haq, though he faced enormous diplomatic pressure from major foreign leaders, refused to grant Bhutto clemency and to reduce his sentence' (Hasan, 1998). Bhutto's hanging on 4 April 1979 was, in the final analysis, a wilful political act.

After Bhutto had been eliminated from the scene, Zia's political legitimacy was at a low ebb, the pressures for elections had mounted. Fortunately for Zia, the Soviet invasion of Afghanistan in December 1979 gave a new lease of life to the regime as it softened both external and internal pressures for broader participation. In due course, Pakistan and Ziaul Haq's highly successful efforts to mobilize, co-ordinate, and channel very considerable external assistance for the Afghan Mujahedin from diverse sources, such as the USA and Saudi Arabia, increased his political control and standing, at home and abroad. The Soviet defeat and withdrawal, beginning with May 1988, further solidified Zia's position and emboldened him.

The elections were finally held in March 1985, but that too only on a non-party basis and after the constitution had been amended to substantially increase the powers of the President vis-à-vis the Prime Minister. Following the elections, Zia handpicked Muhammad Khan Junejo, a veteran politician from Sindh, as Prime Minister. Junejo showed considerable independence and persuaded Zia at the end of 1985 to lift martial law and allow political parties to function. But Junejo's assertion of authority eventually led to a conflict with Zia, especially on the matter of Junejo ordering an enquiry into a disastrous explosion of a military ordnance depot, right within the city limits of Rawalpindi (See also Chapter 11). Junejo's government was dismissed under the new powers given to the President by the amended constitution, on grounds of incompetence. It is said that, had Zia lived, he would have attempted to change the political system to a Presidential form of government (Burki, 1991, p.85).

In retrospect, luck was only one element in Ziaul Haq's ability to ward off the challenges to his authority more successfully than the two previous military leaders, Ayub Khan and Yahya Khan. Zia was a wily leader with a political cunning and ruthlessness unmatched by his military predecessors, qualities which he hid very successfully underneath a religious orthodoxy and a veneer of outward humility. His luck rested in getting to play a major role in the war against the Soviet Union in Afghanistan and a buoyant economy that performed well in the medium term because of several exogenous factors, without requiring hard choices or attention to longer term investments. But several elements of Zia's political strategy were critically important.

The first was the elimination of Bhutto, through ostensibly legal means.

Secondly, whether out of conviction or political necessity, Zia made major efforts to Islamize society and forged links with the Islamic parties, especially the Jamaat i Islami, as well as the rank and file of mullas in the mosques. By the time he died, he had won significant popular support as the 'Servant of Islam' (Husssain Haqqani, 2005).

Thirdly, Ziaul Haq really looked after his constituency in the military. There was a general dispensation of patronage and privilege to the armed forces. There was an extension of the role of the army in governance through extensive use of the ISI (Inter-Services Intelligence) and the appointment of senior officers to key positions. He thus created a strong vested interest in the army in the continuation of his regime.

Finally, Zia successfully weakened the hold of the PPP in urban Sindh, especially Karachi, by encouraging the development of the powerful MQM (Muhajir Qaumi Movement), which has become a major force, representing the Urdu-speaking people, descendants of migrants from India.

Strong Economic Growth

The political maneuvres might not have been enough to sustain Zia's rule if the economy had not performed so well. GDP growth averaged 6.6 per cent per annum during the eleven years of Zia's rule and matched the high growth performance of the 1960s. The inflation rate, which was still in double digits in Bhutto's final years, came down to the average of 6-7 per cent per annum during the 1980s. There was also a broad sharing of benefits of growth, real wages increased and poverty incidence tended to decline. This was a great boon to the military rule.

The apparently exceptional economic performance was partly due to relatively good short-term economic management under

Ghulam Ishaque Khan (GIK), who was Finance Minister from 1978–85, and a return of confidence in the private sector. However, a substantial part of good economic fortune under Zia was either fortuitous or the result of the gestation of large public investments made in the 1970s. More seriously, the seemingly remarkable performance over a period of more than a decade masked deepening of the long-term structural problems, inadequate level of national savings, growing fiscal deficits, a sharp shift in priorities from economic and social development to defence (especially neglect of education and a high rate of population growth), an anti-export bias in the trade policy, lack of agricultural diversification, excessive dependence on cotton textiles for exports and industrial development, and an overarching role of the state in key economic areas. None of the difficult policy issues which had emerged during the 1960s and 1970s were tackled resolutely by Zia and his close associate, GIK, and were left to simmer under the surface. In addition, serious shortages of physical infrastructure, especially power, had already emerged by the mid-1980s. Load shedding by WAPDA reached a peak of over 44 per cent in 1986 (Hasan, 1998, p.297). Extreme shortage of public resources for energy development finally forced the slow and painful process of upward adjustment of electricity prices, especially for the medium- and high-income consumers, which started only in 1985. With the help of the World Bank, a comprehensive framework for attracting private investment for the development of the power sector was announced in 1986: however, the first project (Hub) of the Independent Power Producers (IPPs) did not get financial closure till 1991.

What were the special factors that caused the acceleration of growth during the Zia period?

First, there was the recovery in agricultural growth rate during 1977–88 to nearly 4 per cent from a dismal 2 per cent per annum during 1972–77, largely unrelated to any immediate policy changes. Agricultural output in the Bhutto years had been adversely affected by exceptionally poor weather conditions, both drought and floods. Even more important was the addition of nearly 10 million acre feet of irrigation water from Tarbela Dam after 1976: this amounted to well over 10 per cent augmentation in irrigation water supply. Domestic fertilizer production nearly tripled in the first half of the 1980s and combined with greater water availability (both from Tarbela and private tubewells), and availability of improved varieties of cotton doubled the use of fertilizer per hectare in less than a decade. The sharp rise in cotton productivity and production exercised a strong upward pull on the economy.

A second factor which influenced the economy very positively was the sharp growth in worker remittances from less $600 million in 1976–77 to a peak of $ 2.9 billion in 1982–83 or 10 per cent of GNP: this added one per cent per annum to the growth of national income over 1977–83. Though worker remittances tended to decline after 1983, they remained sizeable well into the 1980s.

A third set of favourable factors, though difficult to quantify, were the injection of money into the economy as an indirect result of the foreign support of the Mujahidin and the flourishing illegal drug trade.

Finally, the continued large expansion of public spending that started with Bhutto continued during the Zia years: total public expenditure as a percentage of GDP increased from 23.3 per cent of GDP in 1976–77 to 26.7 percent in 1987–88. This ratio in 2008–09 was only 19 percent. The structure of expenditures also changed dramatically between the two periods and the pattern of financing of the deficits was also quite different, changes that were to have major long term adverse consequences for the economy.

The overall public expenditures, adjusted for inflation, grew by 8 per cent per annum during 1977–88, obviously at a rate much faster than the growth of the economy.

The biggest factor behind the increase was the almost relentless growth in defence spending, which rose by over 9 per cent per annum, increasing from 5.4 per cent of GDP in 1976–77 to a peak of 7 per cent in 1987–88. This expansion was on top of a large increase in the Bhutto era. Towards the end of the Zia regime, Pakistan's real defence spending was nearly three and a half times the level of defence expenditures for united Pakistan in 1969–70.

The balance between development and defence was seriously upset during Zia regime, the real development spending growing only 3.2 per cent per annum during 1977–88. At the beginning of Zia's rule, defence spending was a little over half of development spending. A decade later, defence spending had caught up with development spending. Why did this happen? The spending on nuclear programmes must have been a factor. It is also possible that security risks related to the Soviet invasion of Afghanistan were viewed gravely. But it is also clear that a significant part of the increase was due to the liberal pay and benefit increases and greater amenities for the military personnel, ensuring that Zia continued to enjoy their strong support. Equally important, with only limited political activity and controls on the press, there was no real constituency for development. But then even under democratic rules, choices between defence and development have never really been debated.

Zia's government inherited large deficits from the Bhutto era. With GIK as finance minister, the fiscal deficits were gradually brought down to the average of less than 6 per cent of GDP during 1980–84 from the peak of over 9 per cent in 1975–77, through a major effort after 1979 to impose additional taxation and sharply slow down the growth of development spending, while defence spending continued to grow.

There was also a fundamental shift in the 1980s in the structure of financing of the overall deficit. Whereas the Bhutto government had relied on large money creation through borrowing from the central bank and thus fuelling inflation, the Zia government relied on large borrowing from the non-bank sector, specifically in the form of national saving schemes. This did slow down the rate of monetary expansion and brought the inflation rate down. However, because the real interest rates offered on the national saving schemes(NSS) were very high (nominal interest rates of 14–15 per cent per annum when inflation was around 7 per cent) and were, in addition, tax-exempt, the burden of domestic debt was to grow rapidly in the next decade, propelled chiefly by rising interest payments.

The large borrowing through NSS was facilitated by the fact that the pool of national savings was growing because of very large worker remittances. The relatively painless alternative–admittedly short-term–was preferred to alternatives of cutting the growth of defence expenditure or mobilization of additional revenue through taxation. That the rapid growth of the domestic debt was endangering future growth and financial stability was evidently given little attention.

Large government borrowing from the public at highly attractive interest rates had one other consequence. It crowded out private sector borrowing and limited capital market development and thus dampened private investment growth.

By 1985–88, fiscal deficits had climbed back to an average of 8.6 per cent of GDP. A contributing factor was the loosening of expenditure controls, especially on social sectors, by civilian Prime Minister Junejo and his Finance Minister Mahbubul Haq, in the 1986 budget. The rise in the fiscal deficit did lead to a re-emergence of negative government savings after the mid-1980s, a trend that had been briefly reversed during 1980–85.

Thus, the problem was not only the deficit levels but also what they financed. Even though private sector investment revived under Zia, the large decline in public investment meant that the rate of overall capital formation stagnated and averaged only17 per cent of GDP during 1977–88. The emergence of serious infrastructures shortages mentioned above also acted as a constraint on private sector investment. The generally depressed investment level after the mid-1980s was to bring the long-term growth rate down in the 1990s.

Even more than the delays in important water, power, and transport projects, it was the neglect of investments in human capital in the 1980s that was to hurt Pakistan's future development. In terms of provision of basic public services, the Zia regime did poorly, despite the fact that the Sixth Plan (1983–88), formulated under Mahbubul Haq, who had joined the cabinet as Deputy Chairman of the Planning Commission, had emphasized a direct attack on poverty. The actual achievements fell far short of the targets.

The biggest failure was in basic education. Gross primary enrolments during 1977–88 grew at an average annual rate of only 4 per cent, just moderately faster than the rate of population growth, despite the push by the Junejo government during 1985–88. As a result, the actual enrolment rate at 46 per cent in 1987–88 was only a little higher than in 1970 and fell far short of the Sixth Plan target of 75 per cent. This was notwithstanding the fact that a special *Iqra* surcharge on imports was levied to finance education.

Under Zia, as in the previous regimes, little effective progress was made in dealing with the critical issue of high population growth.

Zia's attitude towards population control was at best ambivalent and at worst negative. He probably felt that a strong push for birth control would undercut his emphasis on religious values and Islamization. In the absence of a major political commitment, the multi-sector approach of the 1980s to fertility control did not have any more success than the target-oriented approach of the 1960s or the contraceptive-innovation approach of the 1974–77. The contraceptive prevalence rate remained at 11 per cent. Meanwhile, the lag in the education of women and the very limited increase in the participation rate of women in the workforce remained fundamental factors, hindering the demand for family planning services. Population growth throughout the 1980s thus remained high, at over 3 per cent per annum.

Still, GNP per capita grew by 3.3 per cent per annum and poverty incidence declined significantly, perhaps as much as 10 percentage points from the late-1970s to 38 per cent in 1987–88, due to the strong revival of agricultural growth and large inflow of remittances, factors that certainly contributed to the longevity of Zia's rule.

The contrast between short-term good performance and neglect, indeed, in some cases deepening, of long-term structural issues is also evident from the disaggregated trends and patterns in industrial output, exports, and taxation.

The manufacturing sector growth of over 9 per cent per annum over 1977–88 compared very favourably with a growth of 3.7 per cent during 1972–77. As mentioned earlier, the large public investment made in the 1970s began to yield results. The investment climate for the private sector was improved by providing guarantees against nationalization, clearer demarcation of activities between the private and public sectors, and additional tax concessions. While no wholesale divestiture of nationalized industries was undertaken, the investment controls on private sector investment were greatly relaxed. Finally, the incentives for manufacturing exports were strengthened by the introduction of a flexible exchange rate policy and increasing export rebates and subsidies. This led to a major expansion of manufactured goods exports in the 1980s.

The sharp expansion in raw cotton production, in large part the result of technological change, was at the root of good export performance. The share of cotton and cotton-based textiles and garments increased from 40 per cent in 1979–80 to nearly 60 per cent in 1989–90. Within the textiles sector, the low domestic price of cotton and other incentives for textile exports favoured relatively simple and limited value added processing, notably cotton yarn production. By 1989–90, cotton yarn exports exceeded cloth exports by a margin of 50 per cent.

Pakistan's dependence on cotton-related exports was greater at the end of the 1980s than it had been at the end of the 1960s. This lack of diversification and unhealthy dependence on yarn exports were directly responsible for the export difficulties that Pakistan has continued to face since then. The raw cotton production stumbled after 1991–92 and, as the withdrawal of unsustainable incentives for cotton textile industry became necessary, the lack of competitiveness of a large segment of this important industry became obvious, a problem that has not been solved to this day.

At the international level, the long-term consequences of our trade and industrial policies have been a stagnation of our share in world manufactured exports at 0.18 per cent, while major developing countries have expanded their share several-fold. We have largely missed out on the most dynamic element of globalization, the growth in world manufactured exports.

The trade policy failures were linked to the way additional revenue was collected during the 1980s. The low tax: GDP ratio and the inelasticity of the tax system have been perennial problems in Pakistan. Additional taxation, introduced in 1979 and 1986, did help to raise the tax ratio from nearly 12 per cent in 1978–79 to 13.3 per cent in 1987–88. But here again, the improvement in tax collection was achieved at the cost of further worsening of the tax structure. Almost all of the increase came from indirect taxes, mainly import duties. The foreign trade taxation, which had gone up steadily in the 1970s, was further increased in the 1980s to nearly 6 per cent of GDP or about 45 per cent of government revenue. This deepened the anti-export bias that had already existed. Further increase in the cost of imported raw materials and intermediate goods made manufactured exports, especially other than textiles, less attractive.

Are the above judgments on the failures in long term policies under Zia too harsh? I do not think so. A close associate of General Ziaul Haq, General (Retd.) K. M. Arif, has this to say about Zia's handling of the economy:

The Zia administration…did not restructure the inherited economic order with a system in which the free market mechanism played a dominant role. The economic policies in the Zia administration lacked innovation and revolutionary vision and basically moved in safe grooves. Four factors influenced the adoption of the *status quo* approach… These were: the government's pre-occupation with the Bhutto case; Pakistan involvement in the Afghanistan *jihad* and its fallout on national security; the lack of economic expertise of General Zia and his close military associates; and the over-conservative and risk free policies adopted by the Minister of Finance, Ghulam Ishaque Khan, the high priest of economics in the Zia era, whose advice on economic matters had biblical sanctity for General Zia (Arif, 1995 p. 253).

My point is that the long period of military rule and sustained growth under Zia offered opportunities for tackling underlying structural economic issues which were not exploited. For instance, the opportunities for raising national savings offered by the huge worker remittances and the rapidly expanding economy were not seized. Instead, the government launched another round of large increases in defence spending and pre-empted an important part of private savings by large-scale borrowing through national savings schemes. The relative roles of state and the private sector were left to be defined largely on the basis of inertia. The weaknesses of the direct taxation policy and system, a fundamental cause of heavy and distorting reliance on indirect taxation, were not addressed, even though martial law extended over eight and a half years. At another level, policy makers did not learn from the mistakes of the earlier periods, such as over-emphasis on short-term growth, the neglect of education, lack of adequate structural change in agriculture and large-scale industry. They also did not draw on the experience of the East Asian countries, where an 'an economic miracle' had been unfolding.

Just as much of the credit for the relatively good short-term economic management must be given to Ghulam Ishaque Khan, a good deal of the missed opportunities in economic policy and neglect of structural issues must rest on him, because he was the economic czar during 1978–85. GIK, a strong and able economic manager, had however, a public sector bias that dated from 1961–65, when he was the successful chairman of WAPDA. His mistrust of the private sector was probably a factor in his acceptance of the Bhutto nationalizations largely as a *fait accompli*. Bureaucracy as a whole also quickly came to appreciate the power and the privilege that an extended public sector afforded it. Zia's early attempt to involve pro-private sector individuals in decision making was successfully undercut by GIK. He, like many other managers, was also not totally convinced about the advantages of a strategy of labour-intensive manufactured growth, based on imported raw materials.

However, it should be stressed that the sharp increase in defence spending decided on by Zia left limited room for maneuvre on the development side. Perhaps GIK could have resisted the military buildup more strongly, but the fact is his own suspicions of Indian intentions were always strong. Basically, Zia was not interested in economic development and was disinclined to rock the boat when the economy was doing reasonably well.

With the induction of a civilian government under Junejo in 1985, the room for any major policy moves was further reduced, as the expenditure controls were loosened and the macro-economic situation deteriorated. By the time the Junejo government was dismissed in May 1988, the economy was again in serious trouble.

Mahbubul Haq had taken over as care-taker finance minister after the Junejo administration. While introducing the new budget in June 1988, he claimed that the economy was bankrupt. This was a clear exaggeration but there was no doubt that the financial situation was deteriorating and growth was slowing down. Had Zia lived, he would have had to face the consequences of his neglect of some basic economic issues. As it turned out, the responsibility of coping with the difficulties fell to a succession of weak, political, democratic governments which followed Zia. These governments were not very well equipped and/or were disinclined to deal with the multitude of structural and financial issues that had accumulated over time. They tried but were not successful in avoiding the periodic economic crisis in the 1990s.

Personal Involvement during Zia Period

I had fair amount of involvement in discussions on economic policy during the Zia period. This came about for a variety of reasons. GIK, Kazi, Jafarey, top technocrats of the regime had been senior colleagues and one had easy access to them in Islamabad as well as in Washington D.C. during their many visits to the international financial institutions. Mahbubul Haq, a close friend, left the World Bank in 1982 and joined Zia's government. He invited me to join him in the Planning Commission as a Member. However, the World Bank was not willing at that time to allow its senior staff to be deputed in policy positions to their home countries. However, I was allowed to go on several short-term consulting visits over 1978–84 In any case, I spent a lot of time with Mahbub during vacation visits. In the last year of Zia's regime, I was also directly involved in the World Bank economic and policy work on Pakistan. But it was above all, an early opportunity to meet Zia in a very small meeting and then personally, one-on-one, during the summer of 1978 that helped me to learn something about the man, his personality and style of governance, and, to a more limited extent, offer economic advice.

When Zia and his generals seized power in July 1977, they were genuinely nervous about the economy, partly because the US was toughening its stance on the ongoing nuclear programme in Pakistan. I am sure that GIK and Kazi, who became the principal economic managers, felt perfectly capable of handling the economy. But Kazi had also been closely associated with Bhutto. In any case, the military regime wanted some reassurance from sources outside the country. Mahbub was invited for a visit in December 1977 for ten days or so. But obviously that was not considered enough. A couple of months later, we learnt that Ziaul Haq was writing to President McNamara to allow myself and Shahid Javed Burki, who was one of Mahbub's deputies in the Policy Planning Department at that time, to come to Pakistan in our personal capacities to advise him on the economic situation. This was definitely Ghulam Ishaque Khan's idea, probably endorsed by Kazi, because they were familiar with our work and, more importantly, were aware of the independence of our views.

So we waited for the letter for weeks. It finally showed up in late April. It was a long letter, explaining why Pakistan would like its own professionals to advise them and requested McNamara for Burki's and my services for a few weeks. It turned out that this elaborately-written–though considered urgent–letter had been put in the ordinary mail. McNamara was gracious enough to allow us permission to go and we left for Pakistan in mid-May. Before leaving, Javed and I thought it proper to call on Sahibzada Yaqub Ali Khan, Pakistan's ambassador to the US. We knew Yaqub very well socially, so when he started our meeting with a very formal, eloquent, and somewhat flowery speech, praising our sense of duty and patriotism in accepting this assignment, we were a little taken back. The Ambassador gave us the full treatment. I do not quite know why, to this day. We had just gone for a chat. But we did learn how charming and gracious Sahibzada Yaqub could be in his official duties.

During our visit, we were located in the Planning Commission where Vasim Jafarey and Moin Baqai were Secretary and Special Secretary respectively. They were good friends and this greatly facilitated our work. Burki (Javed) and I worked on a long paper, outlining the problems with the economy and some necessary policy shifts. Being the senior of the two-member team, I led the effort and probably leaned too hard on Javed, somewhat the same way that I had done when he worked with me as a consultant on an economic mission to the Philippines in October 1971. At end of a gruelling day, Javed could not resist telling me 'Yes, Mahbub is also a hard taskmaster, but at least he says thank you'. I have always wished that I was kinder and gentler to my colleagues, friends, and family. However, it is good that at least friends like Javed have occasionally reminded me to mind my manners.

We circulated our paper and, a couple of days later, were invited to a meeting in the evening at Ziaul Haq's residence, which he occupied as the Army Chief of Staff and where he lived till his death. The residence was large but unpretentious. We met in the living room which did not have any lavish furniture, fittings, or artefacts. Among upper middle class residences at that time, it would not have ranked very high.

Apart from Ziaul Haq, there were only five persons present: GIK, Secretary General, Kazi, Finance Secretary, Major General K. M. Arif, Zia's Chief of Staff, Burki, and myself. Zia sat on the large middle sofa with his team on his left, while Burki and I sat on his right. What I found most striking about Zia was his plain looks and his totally unassuming manner. He did not seem at all like the powerful head of a large state that he was. The other characteristic was his cool and calm demeanour during the almost two-hour meeting.

At Burki's suggestion, I had agreed that I would present a detailed analysis of the economic situation, while he would outline some of the remedial actions. I expressed most concern about the macroeconomic situation, the large fiscal deficits, the relatively stagnant large-scale industrial output and manufactured exports, and the overextension of the public sector. Since I was the World Bank's Chief Economist for East Asia and had just finished a book on Korea, I dwelt at some length on opportunities that would open for a second round of world exporters of labour-intensive goods (I also presented a copy of my book on Korea to the President.). I was witnessing that in Korea, Taiwan, Hong Kong, and Singapore, the high growth of output and exports was being accompanied by rapidly rising real wages, a trend that I felt would force these countries to move out of the more labour-intensive exports, such as textiles and clothing and light manufactured goods. In the next decade, this came to pass. Thailand, Philippines, and Malaysia all made major strides in the labour-intensive manufactured exports and, totally unpredictably, China made even more spectacular gains in the field, drawing on Deng Xiaoping's vision to transform the eastern coast of China into another Hong Kong.

As I recall, I did not highlight the two elements that were to save the economic situation for Zia: the phenomenal rise in worker remittances and the fruition of large investments in water, steel, fertilizers, etc., made in the Bhutto period.

I am sure I was my usual blunt self, because the purpose was to goad the government into action. Burki, who followed me probably sensed Zia's uneasiness at my presentation. He started by saying that Parvez Hasan was a pessimist while he was an optimist. This surprised me because I don't think that I would have termed my analysis pessimistic. But, as it happened, Burki's comment cheered up Ziaul Haq greatly. He showed emotion for the first time during the meeting and thumping his breast said that he was also an optimist. Burki thus won Zia's heart and had easy access to him throughout his rule.

Burki proceeded to stress the need to scale back large public sector development programmes, especially in industry, more realistic exchange rate policies, revival of the private sector, and strengthening of direct taxation. I kept on harping on the Korean export drive and their success in ensuring rapid growth and job creation.

At the end of the meeting, I felt that GIK had achieved his objective of demonstrating that the economy was not in any great danger. Only Kazi took the point about exports seriously and subsequently asked me to do follow up on my work and have discussions on the subject.

In the subsequent meetings with Kazi and Vasim Jafarey, I agreed to come back in July and spend a month of my vacation working on industrial and export issues, provided suitable accommodations for me and my family could be provided. Vasim very kindly arranged two rooms for us in the luxurious Sindh House on the top of the hill above the Ministers' enclave. The air-conditioned rooms had a beautiful view of the Margalla hills, prompting my daughters to say that it does look a little bit like Switzerland. I think Margalla hills were greener then.

I went to work from 9 a.m. to 3 p.m. at the Planning Commission in the P block nearby and still felt I was working only half time. With the commute, the working day in Washington was at least ten to eleven hours. It was a fruitful summer. I had many meetings with Ghulam Ishaque Khan and Kazi,who accepted many of my suggestions, including increasing the rates of rebates of customs duty and sales tax for exports and introduction of export subsidies for cotton textiles and clothing and other manufactured goods to compensate for high duties on imports. These support measures were also necessary because the exchange rate had again become significantly overvalued. A flexible exchange rate policy was not introduced till 1982. Unfortunately, the export subsidies favoured yarn over more value added textile exports and were not extended to other manufactured exports till 1981, resulting in the lack of diversification in exports discussed above.

During my stay in Islamabad, I kept on highlighting the Korean experience in exports, especially their success in creating a trade regime in which exporters really had duty-free access to raw material and intermediate goods imports. The setting up of export-processing and free trade zones was an important part of their drive. But I also discovered that a sound policy is not worth much if it cannot be implemented properly. To Pakistan's credit, it had initiated the development of a duty-free industrial zone in Karachi as early as 1970. But to my horror, I discovered that it had not made much progress or had much impact by 1978. On probing, I found that one factor in its slow progress was that it was under the Ministry of Industries and the crucial co-ordination with the Ministry of Commerce, responsible for export development, was missing. This could have never happened in Korea.

I was also chastened by attending a meeting with some of the leading industrialists that Kazi arranged. I do not think my message about the importance and rewards of an export-oriented strategy got through to this group of businessmen who were still smarting from the wounds suffered during the Bhutto period. Naseer Sheikh, head of Colony Textile Mills, was most vocal and told me that I had no idea of the conditions in Pakistan. He said he could not yet recover from the fact of being dragged from his office on to the street by his own mill workers during the *gheraos* (worker sit-ins and blockades). I am sure these experiences were painful, but I was also disappointed that there was not a sufficient looking forward and examining of new ideas and global developments.

Towards the end of my stay, General Arif arranged for me to have a private meeting with Ziaul Haq. It was not easy to arrange the meeting because it was the month of Ramadan. But the President was gracious enough to give me an appointment for 10 p.m., well after Iftar, dinner, and *taravih* prayers. The meeting lasted about an hour. Zia was very patient and we discussed a range of economic policy and management issues. On my favourite subject of more valued added textile exports, he directed his secretary to set up meetings with clothing, hosiery, and bed linen exporters on his next visit to Karachi. We discussed the serious shortages of vegetable ghee and his planned decision to reduce the controlled price by Rs1 per 5 lbs., at the urging of some politicians as a goodwill gesture in the holy month. When I said that reducing the price would increase the shortages, he did not appear to be convinced. When I urged him to make more use of the Planning Commission and his very able Planning Secretary, Vasim Jafarey, he complained that he did not find planning staff to be quick enough to carry out his directives. All in all, a pleasant enough meeting.

At the end of it, Zia came to the porch to see me off and stayed there till my car moved away. I had heard of his courtesy, but was still surprised. In any event, I had never before or since been seen off by a Head o f State. I met Ziaul Haq a few times afterwards socially, but never felt the need to ask for a meeting with him as the economy was doing relatively well and Ghulam Ishaque Khan was fully in charge.

On the morning after the meeting with Zia, I did convey his unhappiness with the Planning Commission to Vasim Jafarey. Vasim then showed me a thick file of three or four line directives from the President, many of which were either too vague or were not practical. Clearly, Zia was not a strategic economic thinker and his expectations from planners were off the mark.

Looking back, one of the biggest disappointments of my career has been the failure to persuade to Pakistan policy makers regarding the importance of learning from the East Asian experience, especially in exports, despite frequent attempts over a thirty-year period. In the 1980s, Ghulam Ishaque Khan and others were never convinced of the strategic importance of manufactured goods, especially non-cotton based exports. I remember a friend who was commerce secretary in the early-1980s telling me that he did not consider importing of cloth and exporting of shirts 'industrialization'. He and many others were stuck with the notion that the best industrialization is one based on the processing of domestic raw materials, a notion that was also popular with Pakistan's pioneers–indeed, a notion that goes back to Thomas Jefferson in the United States at the end of the eighteenth century. But the world around us has changed. East Asia has flourished by both importing raw materials and exporting finished goods and world trade increasingly consists of intermediate goods and components.

An invitation from Mahbub ul Haq in 1982 gave me another opportunity to reflect on Pakistan's industrial policy and the potential role of exports in economic development. The paper I prepared was circulated to the cabinet, received some praise, but nothing concrete came out of it. I made the point in the paper that Pakistan should not take comfort from the fact that it had a higher foreign trade ratio to GDP than India, which, like other continental economies, notably China and the US, had large domestic trade. But now, a quarter of a century later, even India has overtaken Pakistan in the share of foreign trade in the GDP and China has proven that there are no serious limits on export expansion, even for large economies.

I wonder sometimes whether the economic policies would have been more forward-looking and less bound by the status quo in the 1980s if there had been greater mutual trust between Ghulam Ishaque Khan and Mahbubul Haq, who was Deputy Chairman Planning Commission from 1982–85 and Finance Minister twice from March 1985 to January 1986 and May 1988 to December 1988. Even though Mahbub's entry back into Pakistan was facilitated by GIK at the urging of M. M. Ahmed, GIK ensured his control on planning by assuming the chairmanship of the Planning Commission, which had previously rested with the President. Even earlier, in his capacity as Finance Minister, he had transferred the final authority for the development budget to the Ministry of Finance. Thus Mahbub, while he was responsible for plan formulation, did not have much control over economic and social priorities and allocations. The result was a gross neglect of the education and other social sectors. Mahbub, an ambitious individual, also did not help matters by not hiding some of the disdain he felt about GIK's overly conservative policies. GIK never quite forgave Mahbub for that. In 1990, when GIK was President and Nawaz Sharif became Prime Minister and wanted to bring back Mahbub as Foreign Minister, GIK blocked the appointment. This was a pity for the country, though it enabled Mahbub to solidify and expand his professional achievements. He was a pioneer in developing the first *UNDP Human Development Report* and a Human Development Index in 1990.

Chapter 25

Wobbling Democracy
1988–1999

Eleven years of military dictatorship were followed by eleven years of wobbling democracy, a period in which three elections were held, three elected governments were dismissed with questionable legality, and the fourth one removed through a military coup; prime ministers changed six times, and, sadly, each time a government was toppled, people seemed to breathe a sigh of relief. There were plenty of leadership failures, but no one yearned for the Zia regime.

Several features of this period stand out:

- The democratic governments did attempt structural change and tilted the economy towards freer markets and more reliance on the private sector, but they could not cope well with the large burden of public debt that they inherited. They found it difficult to mobilize resources and thereby ensure financial discipline under conditions of stagnant public sector resources. In the absence of hard choices, economic growth slowed down and foreign exchange difficulties followed.

- Both Benazir Bhutto and Nawaz Sharif took initiatives to improve relations with India. The visit of the Indian Prime Minister, Atal Behari Vajpai, to Lahore during Nawaz Sharif's rule in 1999 seemed to open a new chapter in relations between these two countries; but hopes for improvement of relations were dashed, following the Kargil affair, for which the responsibility rests principally with the military leadership.

- The military presence in political affairs was not very far below the surface: the Inter-Services Intelligence (ISI) was active in influencing national election results, and each democratic government had to watch its step, especially under President Ghulam Ishaque Khan (1988–93), who remained an important link with the military and past rule.

- The country's fortune and the economy continued to be buffeted by foreign policy/security decisions which often greatly limited options. Continued development of nuclear capability invited sanctions in the early-1990s, especially under the Pressler Amendment adopted by the US Congress in October 1990. The decision to test a nuclear weapon in 1998 in the wake of India's test invited more sanctions; the Kargil adventure in 1999 undercut Pakistan's credibility abroad and brought about a humbling that contributed to the downfall of the second Nawaz Sharif government.
- The democratic leaders did not behave democratically; they targeted their political opponents and treated them as enemies, misusing sensible accountability mechanisms to discredit or jail politicians who were out of power.
- Governance under civilian leaders did suffer and was somewhat more arbitrary than under military rulers. Many elected representatives felt that the dispensation of patronage was essential to retaining power and considered bending of the law to help constituents quite appropriate. The level of corruption and the misuse of public bank credit increased and the quality of public services deteriorated further.

It is not necessary here to recount the well known political history of the period which has been well covered by two impressive recent books (Shuja Nawaz, 2008 and Sartaj Aziz, 2009). My aim is to reflect on why the 1990s came to be known under Musharaf–I believe somewhat unfairly–as the lost decade. I will focus on key developments in the economy, trying to understand and distinguish more clearly the serious constraints under which the elected governments operated, the initiatives they took, and the economic mistakes that they made.

Because of serious financial constraints arising out of the sharply rising debt burden and declining remittances, investment suffered and the economy slowed down. The average annual growth in GNP per capita was barely 1 per cent in the 1990s, compared to 2 per cent per annum in 1985–90 and the peak of 4 per cent per annum in the years of spectacular growth in remittances. In relation to other South Asian countries, Pakistan, which had been the best performer during 1960–85, when GNP per capita growth averaged 3 per cent annum, became the worst performer in the 1990s, when India's per capita income grew at an average annual rate of 4.5 per annum, while comparable growth both in Sri Lanka and Bangladesh was above 3 per cent per annum.

Unfortunately, much slower growth in Pakistan was also accompanied by a worsening of income distribution and an increase in the incidence of poverty. Several factors explain this deterioration. First, inflation accelerated during 1990–97 to a double-digit level, because continued large deficits were financed with money creation and came down only slowly in the next three years. The high rate of inflation hurt fixed income groups significantly. The nominal wages did not keep pace with the rise in prices because employment growth also slowed down. Second, the increase in corruption and the growth in economic rents, notably from preferential allocations on bank credit and large government contracts, benefited only a few wealthy individuals. Third, redistribution of income in favour of agricultural producers at the cost of urban consumers , which took place as agricultural prices were liberalized and export duties on agricultural commodities, such as cotton, were phased out, did not help equality because of the concentration of land holdings and the absence of an agricultural income tax. The continuous decline in worker remittances as a percentage of GNP also affected income growth adversely at the lower rungs of the society.

The Debt Overhang

The root of the economic difficulties in the 1990s was the heavy burden of high-priced debt that was inherited from the 1980s. Pakistan's gross public debt had grown from 54 per cent of GDP in 1980 to 94 per cent in 1989–90 and rose further to over 100 per cent by 1998–99. The debt growth during the 1990s was principally fuelled by rising interest payments. By 1999–2000, interest payments at 33 per cent of public expenditure constituted 60 per cent of tax revenue and were equal to the combined expenditure on defence and development (Debt Committee Report March 2001).

There were major consequences of this debt overhang. The fiscal deficits remained high, averaging over 7 per cent of GDP during the 1990s. Even though large deficits were run, non-interest public expenditure in real terms stagnated over the decade. But within a roughly unchanged resource envelope, there were significant shifts in the structure of non-interest expenditure: while defence spending remained the same, development spending was cut sharply and the expenditure on general administration tended to rise.[35] (World Bank 2004) There was a strong negative impact on the balance of payments situation, not only because of rising fiscal deficits but also because of the continued fall in worker remittances and a reduction in aid flows. The drop in infrastructure spending, especially on energy and transport, coming in the wake of neglect of these sectors in the 1980s, seriously hurt growth. Though more attention was paid to social sectors, especially basic education, the low levels of education and skills continued to constrain growth.

Policy Initiatives

As has been discussed earlier, the economy that the democratic governments of Benazir Bhutto and her successors inherited was not in good shape. Not only were there serious macroeconomic problems because of the overhang of debt, but also there were deep structural problems, because of long neglect of investments in human and physical capital and an export and industrial structure that was overly dependent on textiles.

The four elected governments–Benazir Bhutto (1988–90), Nawaz Sharif (1990–93), Benazir Bhutto (1993–96), Nawaz Sharif (1997–99)–did not rise to the challenges of reversing the slowing growth and bringing the macroeconomic situation under control. But their room for maneuvre was extremely limited, unexpected external developments befell them, and their tenures were cut short. Nawaz Sharif's second government was hit very hard by the consequences of exploding nuclear devices in the wake of India's nuclear tests and the Kargil affair in 1999. It is not, therefore, altogether surprising that, by

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[35] The sharp cut in development spending in the reported numbers is exaggerated because after 1991 the development expenditure of public bodies and their deficits were excluded from the Federal Budget.

the time of General Musharaf's takeover in October 1999, the economy was at a low point and external debt default loomed large.

This should not obscure the fact, however, that there were major policy efforts in the first half of the 1990s, initiated by Nawaz Sharif's government to liberalize Pakistan's economy, to expand the role of the private sector, and to redress the imbalances in the social services. These initiatives though only partly implemented and thus only moderately successful helped to reduce distortions in the economy and provided a sound footing and better direction for reforms in the next decade. The 1990s' reforms covered a broad range: privatization, private sector development, virtual abolition of controls on foreign exchange, financial sector liberalization, reduction of import duties, and improvement of terms of trade for agriculture (Aziz, 2009). That some of these reforms were forced on the governments by worsening public finances does not detract from their importance.

Privatization

There were two main objectives of the privatization and private sector development programme: reducing the drain on government resources caused by the losses of state-owned enterprises and supporting structural reforms, especially in the financial and energy sectors. Nawaz Sharif's initiatives in accelerating the pace of privatization and removal of foreign exchange controls went far beyond the recommendations and expectations of the World Bank, which had been involved in supporting structural reforms during 1989–93.

The Privatization Commission, established in January 1991, identified 115 industrial units to be privatized. By the middle of 1993, sixty-six had been privatized. Even more important was the quick sale of a large public commercial bank (Muslim Commercial Bank), because the preparatory work for that had been completed in 1989.

The agenda for privatization covered not only industries and banks but also telecommunications and power generation. At the same time, the entry of the private sector into fields such as power generation, highway construction, airlines, shipping, and banking was actively sought and controls on private sector investment were relaxed substantially. Encouragement to foreign equity investment was provided by allowing foreign investors to own up to 100 per cent of equity and permitting them to purchase equity in existing industrial companies on a freely transferable basis. Access to foreign borrowing by both domestic and foreign investors was greatly liberalized, especially when no government guarantee was involved. Benazir's second government, after some delay, confirmed the broad privatization policy and extended its scope. It also actively pursued private investment in the energy sector.

The actual progress in privatization after 1993 was quite slow. Between mid-1993 and mid-1995, only two industrial units were privatized. No commercial bank was privatized after the sale of the two during 1991–93.

The delays in implementation of the privatization programme were, to some extent, natural, because the sale of large entities required considerable preparatory work. But they also reflected institutional weaknesses in the Privatization Commission and perhaps a lack of strong political will.

In the telecommunications sector, the necessary legal framework was not completed till 1994. Even so, the government decided to sell a small part of the equity to the private sector, 2 per cent to general public, and 10 percent to a foreign investor. The sale was highly successful: total proceeds included foreign currency proceeds of $870 million. These proceeds should have been used mainly to retire debt, both domestic and foreign, so as to reduce the growing interest payments and support the process of fiscal adjustment. Instead, they were used to maintain unsustainable levels of public expenditures and current account balance of payments deficits. In any case, the management remained in public hands.

Progress was also made after the mid-1990s in drawing up plans to privatize parts of WAPDA, namely, the Kot Addu and Jamshoro thermal power stations, the Faisalabad Area Electricity Board, and the Sui Northern and Sui Southern Public Companies. But all in all, the actual transfer of control of assets from the public sector was relatively modest.

Most of the banking system remained in public hands. In the interim, the political pressures on state-owned institutions grew and credit allocations were frequently not made on merit. Under the circumstances, the relaxation of investment controls and strong incentives for the private sector led to some over-investment and a poor choice of projects (Hasan, 1998).

Dismantling of Foreign Exchange Controls

The boldest economic step taken by the first Nawaz Sharif government was the virtual dismantling of the strong exchange control by allowing free trading in foreign exchange by private trading companies, extending the privilege of holding foreign currency deposits to Pakistani residents, and allowing foreigners to make portfolio investment with a guarantee of repatriation. It was a set of brilliant moves to deal with the crunch of foreign exchange and was immensely successful in improving confidence in the currency and brought in large flows of money and helped to finance a significant part of the large balance of payments (BOP) deficit. The large inflows into foreign currency deposits also substantially made up for the decline in the flow of foreign assistance.

However, in the absence of structural measures to strengthen the underlying weaknesses in the balance of payments, the system of resident foreign currency deposits (RFCD) simply sustained unsustainable BOP deficits. The fact that the inflows of RFCD were increasingly subsidized by the State Bank of Pakistan and that no attention was paid to maintaining adequate levels of foreign exchange reserves against these most liquid of foreign exchange liabilities further contributed to bringing the system crashing down in May 1998, when the government could no longer guarantee their encashment in foreign exchange. This was a deep blow to the overall economic liberalization and one that greatly shook the confidence of overseas Pakistanis in their country's economic management.

How and why RFCD ultimately caused so much trouble, after being considered a boon for many years, needs to be understood, because the episode has important lessons for economic management in a liberal framework. The annex to this chapter discusses some of the details

Here, I will confine myself to some personal recollections and observations.

My friend, Sartaj Aziz, was again Finance Minister in the second Nawaz Sharif government which took office in February 1997. He was clearly worried about the balance of payments situation; in order to deal with the issues of risk management, Sartaj consulted with a number of noted Pakistani economists to exchange ideas and elicit suggestions.

I recall two meetings during 1997–98, which were attended, apart from Sartaj and his economic team, by several economists, including Mahbubul Haq and myself. The second meeting, held in March 1998, remains particularly fresh in my mind. Among the economists that attended were, Shahid Kardar,Dr Sarfraz Qureshi, Dr Nawab Haider Naqvi, Mahbubul Haq, and myself. The Finance Secretary, Mueen Afzal, and Deputy Chairman, Dr Hafeez Pasha were also there. The meeting started with a focus on an article in that morning's *Dawn* newspaper by Shahid Kardar, who argued for a debt default on foreign loans. I took serious issue with the recommendation and felt that, on the whole, it would not serve Pakistan's interests. In passing, I also added that it seemed to me that there was a much greater chance of default on foreign currency deposits.

I had just finished my book, *Pakistan's Economy at the Crossroads*, which was to be published a couple of months later. In it, I had expressed great concern about the heavy reliance on foreign currency deposits, not only because of the subsidy involved, but also the resources mobilized were supporting consumption rather than additional investment which would have sustained future growth and exports.

My comment on foreign currency deposits caused an uproar because, initially, the participants misunderstood me as saying that there *should* be a default on foreign currency deposits. I had to explain that I saw that simply as a strong possibility, if there was an external shock, because the reserves were totally inadequate. My sense from the meeting was that a default or freeze on foreign currency deposits was considered unimaginable. Unfortunately, it was only a couple of months away. My regret is that no serious options were examined as a result of the discussion.

I was concerned enough to take up the issue of foreign currency deposits with the State Bank Governor, Dr Yaqub, an old colleague and a friend, when I visited Karachi a few weeks later; my wife and I had a private dinner with him and his wife. (Dr. Yaqub had not been in the March meeting.) I found that Yaqub appeared far more conscious of the possibility of not being able to honour foreign exchange obligations to Pakistani residents. But he also mentioned to me that the IMF did not consider RFCDs in the same category as external debt and thus would not consider it a default. I had the distinct impression that Yaqub was mulling over such an alternative if the crunch came.

Sartaj Aziz's account of how resident foreign currency deposits came to be frozen rather than forcibly converted to rupees in the aftermath of Pakistan's nuclear tests is summarized in the annex. This freezing caused a furor in Pakistan and abroad because a substantial part of the so-called resident foreign currency deposits were in fact held by overseas Pakistan. But I do not think the furor would have been any less with the forced conversion of resident deposits at the official exchange rate.

What I am surprised at, however, is that the Contingency Plan, developed by Sartaj Aziz's team did not consider an exchange rate adjustment as a possible option to avoid a run on reserves and renew confidence in the currency. Despite substantial nominal devaluation, the effective real exchange rate had appreciated substantially over 1988–97 and was combined with import liberalization and reduction in import tariffs, a source of loss of competiveness of industry, excessive expansion of imports, and slowdown in exports. A year or so later, the government found itself with the worst of all possible worlds, a lack of trust in its ability to honour foreign exchange obligations, a significant devaluation, and a surrender to demands of the holders of RFCDs to convert them to foreign exchange obligations, albeit through medium-term bonds with a minimum maturity of three years. In the end, the holders of foreign currency deposits did not lose much, but the government got a lot of blame.

There are two lessons from this policy episode: first, essentially good policy decisions can also lead to very bad results, if they are not carefully monitored and necessary adjustments are not made with changing circumstances; second, the attraction of short-term gains must be balanced against longer term costs and risks.

Finally, it was not the Foreign Currency Accounts (FCAs) scheme that was the problem; it was the continuing of large government subsidy to attract these deposits, to spend most of the foreign exchange on essentially maintaining domestic consumption levels, not to keep a strategic reserve to deal with contingencies, and to let the real exchange rate appreciate, when liberalization measures actually required a compensatory devaluation.

Macroeconomic Imbalances

In the final analysis, it was the inability of the democratic government to deal effectively with the large inherited macroeconomic imbalances that undercut the benefits of liberalization. The economic liberalization and structural reform measures were necessary and had been overdue. They should have been pursued with even greater vigour and effectiveness. But they could not substitute for adequate stabilization and macroeconomic stability. Paradoxical though it may seem, the liberalization measures, though sound in themselves, had the consequence of diluting the urgency of macroeconomic adjustment. First, the ease of financing the foreign exchange gap through foreign currency deposits, portfolio investment, and large turnkey energy investments by IPPs became an excuse for not facing up to the unsustainability of the large balance of payments deficits. There was not much focus, either in the government or the World Bank, that large energy investments by IPPs (Independent Power Producers)–approximately over $ 5 billion in the 1990s alone–would add over $1 billion to fixed foreign exchange obligations annually to investment income payments, while they would generate no exports earnings directly. Second, large privatization receipts were used to bolster spending, rather than to retire debt.

The lack of macroeconomic adjustments was notwithstanding five programmes agreed with the IMF over 1988–98. The designs of these programmes were seriously flawed; they set unrealistic goals, both in terms of reduction of fiscal deficit and additional taxation; they did not focus on expenditure reduction; and, above all, they did not pay sufficient attention to what the deficits were financing.

The additional taxation proposals in the six budgets for fiscal years 1992–97 amounted in total to an extraordinary 8.2 per cent of GDP (Hasan 1998). With an elastic tax system, this should have raised the tax revenue to GDP ratio to 20 per cent, but actually it remained at less than 14 per cent of GDP. Obviously, additional taxation strategy did not work and, at the same time, it added greatly to the unpopularity of the successive governments. Such heavy additional taxation was thus both poor economics and poor politics. There are few parallels where additional taxation of 1 per cent of GDP has been successfully introduced year after year under democratic regimes. It certainly undermined the credibility of the government, because year after year, tax collections remained low. Forceful tax collection was certainly hindered by vested political interests.

It should be added, however, that even though tax to GDP ratio did not increase, the structure of taxation improved. The reliance on foreign trade taxation was reduced by lowering import tariffs and thus the anti-export bias in the policies was diminished. But there were costs attached to lowering of import duties. It has also been estimated that the tariff changes did reduce government revenue by at least 10 per cent over time (Social Policy Development Centre, 2006).

The government revenue deficits, negative general government savings, which had already emerged after 1985, reached a peak of nearly 3 per cent of GDP in the late-1990s. This was a fundamental factor why the overall national savings rate did not increase, notwithstanding a more active private sector and the modest improvement in the investment rate financed entirely by foreign savings.

Effectiveness of Development Spending

The problems arising from shortages of public sector resources for development were made worse by the way in which the public sector programme was managed in the 1990s. The effectiveness of public sector development suffered because political pressures in the choice of projects and implementation arrangements became quite overt, the institutional capacity for review and appraisal of projects was further weakened and diffused, and the economic policy co-ordination arrangements for setting economic priorities tended to be bypassed. The approval process for important programmes, such as highways and energy development, and the politically-motivated People's Work Programme was removed from the purview of the Planning Commission. This resulted in an overextended programme which lacked clear emphasis on high priority projects. In this situation, money tended to be spent thinly over a large number of projects and the benefits were delayed. Specifically, there were two kinds of mistakes: poor choice of projects and poor implementation.

The Lahore–Islamabad Motorway, the superb road and a scenic highway, built at the cost of nearly a billion US dollars, is a grand monument to Nawaz Sharif's determination to provide the country with twenty-first century roads. From an economic point of view, however, it is a project whose time had not yet come. The motorway would yield benefits for generations but it has not paid for much for its costs in the decade that it has been in operation.

The important Social Action Programme (SAP) was conceived and initially launched by the government in 1992–93 with its own resources and was subsequently supported by donors in 1993–94. The programme covered four important sectors: primary education, basic healthcare, population welfare, and rural water supply. There is general agreement that performance outcomes, financing, and governance were disappointing. Despite substantial allocation of resources, institutional capacity remained weak. Problems of teacher absenteeism, proper deployment of quality teachers, and non-adherence to site-selection criteria remained endemic. Even more seriously, there were substantial leakages from the expenditures, as suggested by widespread stories about ghost schools and phantom teachers. Corruption and inefficiencies took a heavy toll.

The misuse of some of the credit resources controlled largely by the public sector banks also resulted in less than optimal economic returns to the economy. A perfectly good idea to create jobs and improve public transport for the middle classes, by allowing concessional rates of import duties on private taxis, the famous yellow taxi scheme, led to excesses and waste. Normal credit standards were greatly relaxed, down payments were not insisted upon, and procurement procedures raised a lot of questions.

Nawaz Sharif's Second Government

Farooq Leghari, a long time PPP leader and an associate of Z. A. Bhutto, was handpicked by Benazir Bhutto to be President in 1993 after she returned as Prime Minister for the second time. It would have inconceivable then that Leghari would dismiss the second Benazir government just three years later in early November 1996. But poor governance, rampant corruption, misuse of authority, and the tussle with the judiciary had caused widespread disillusionment with the PPP's rule, and there was not much public reaction when the government was removed. Fresh elections were held under a caretaker government, and Nawaz Sharif's Pakistan Muslim League, PML (N), crushed the opposition, emerging with a more than two-third majority in the National Assembly. The PPP did not win a single national seat outside Sindh and the PML (N) was able to form the government in all four provinces.

It was a heady time for Nawaz Sharif when he became Prime Minister once again in February 1997: no elected leader in Pakistan's history had had such clear mandate. It was also a time of hope for the nation, because it was felt that a strong government would be able to provide decisive leadership and have the courage to tackle deep-seated political, social, and economic problems. Unfortunately, as Aziz discusses in his chapter on 'The Perils of a Heavy Mandate', hubris led to overreach. Nawaz took on the Presidency, the judiciary, and the army, as well as political opponents, losing a lot of public support in the process (Aziz, 2009). The president's power to dismiss government was dropped from the Constitution and the Chief Justice of the Supreme Court was removed, President Leghari resigned when he could not agree to removal of Chief Justice Sajjad Ali Shah and, less than a year later, the Army Chief of Staff, Jehangir Karamat, was forced to resign.

Not content with this, Nawaz Sharif used his overwhelming majority in the national assembly to move to change the constitution and create the Islamic *Sharia* rule, with himself as the leader of the nation, as *Amir ul Mominin*. Fortunately, the change could not be pushed through the Senate because the PML(N) did not yet have enough votes there to ratify the change. I am one of the large majority of Pakistanis who feel strongly that the introduction of *Sharia* would put us further down on the slippery slope of mixing politics and religion. Who is a true Muslim? Whose *Sharia* should we follow? Already, sectarianism is major cause of social tensions in Pakistan. Quite a few among the Sunni majority do not consider the Shia as proper Muslims and vice versa. And what about the non-Muslim minorities? We must follow the direction of Jinnah, the founder of the country, for equal rights for all citizens. The present fight with the Taliban has brought this fundamental problem of the yearning, in what I believe is a small minority of the population, for *Sharia* rule to the forefront in the most violent way. I hope the outcome of this battle will settle the issue forever in favour of a moderate, middle, and largely secular course.

Handling of the Economy

The new government (1997–99) inherited a difficult economic situation overall and an especially precarious foreign exchange situation, with very low reserves and a large balance of payments deficit.

In its first two years (1997–99), it was certainly able to rein in corruption at the higher levels of government; it reduced government administrative spending, and made some progress in improving the effectiveness of spending. By and large, it reaffirmed support for liberal economic policies, speedy privatization, and major financial sector reform, though the actual progress on privatization of public enterprises and public-owned banks remained painfully slow. But it also made major economic policy mistakes and did not even begin the difficult task of rebuilding public institutions for development. Among the policy mistakes, three that stand out are: the timing of the tax reform, avoiding devaluation in May 1998, and the dispute with the Independent Power Producers (IPPs).

The not-well-thought-out major reduction in income tax, sales tax, and customs duty rates in March 1997 led to a decline in the already low ratio of tax to GDP to 13 per cent in 1997–98, notwithstanding the windfall in the form of higher taxes on petroleum, reflecting lower international oil prices. The expectations that low income tax rates would lead to an enlargement of the base of tax payers and that lower trade taxes would reduce smuggling did not materialize. The basic philosophy of extending the base of taxation and reducing the immense tax leakage and evasion through a more moderate level of taxation might have been sound, but the timing and sequencing of tax reform measures was wrong. The loss of revenue is estimated at about 1.5 per cent of GDP.

The second mistake, as discussed earlier, was to resist the needed up-front devaluation, following the imposition of economic sanctions and the deterioration in the foreign exchange position in May 1998 and, as already discussed above, instead of opting for the freezing of resident foreign currency deposits to forestall a run on these deposits.

Similarly the handling of the disputes with the IPPs left much to be desired. While the allegedly serious corruption by the IPPs had to be investigated, the high profile fashion in which the government went about it seriously damaged the foreign investment climate in Pakistan.

Meeting Sharif and Bhutto: World Bank Visit 1989

Nawaz Sharif, a protégé of General Ziaul Haq and General Jilani, the Governor of Punjab, had become Chief Minister of the Punjab in April 1985 after the 1985 elections. He was re-elected to the position after the 1988 elections. His tenure as Punjab Chief Minister was generally well regarded because of his pro-business inclinations and populist appeal. Benazir Bhutto had become Prime Minister in December 1988. The tensions between these two ambitious young leaders were already visible on perks and privileges and other more serious matters. I had a chance to learn about this personally during the spring of 1989 when I, as Chief Economist, accompanied Wilfried Thalwitz, World Bank Regional Vice President for a number of Middle Eastern, European, and North African countries, including Pakistan.

Thalwitz, a German national, was very keen to have an intimate discussion with the upcoming dynamic leader in Lahore. So we requested a small working lunch of six to eight persons. There might have been some miscommunication or Nawaz Sharif decided otherwise, I do not know. But at lunch time, we were escorted, sirens blazing, to Mason Hall on the Mall road, Lahore where, to our great surprise, we found a large band in attendance and about 150 guests present. Nawaz Sharif's idea was obviously to overwhelm his World Bank guests with generous but loud hospitality. (Earlier, security guards had been placed outside our hotel rooms.) Just as we had sat down at the head table, the first thing that Nawaz Sharif said to Thalwitz was that Benazir Bhutto had stopped all bank credits to his family's many businesses. This was possible because all large commercial banks were under state control. This was just one example of how these two major political figures went after each other when they came to power. But on the whole, Thalwitz was more impressed by Nawaz Sharif because of his knowledge and interest in development than he had been with Benazir in our meeting a few days earlier in Islamabad. I am sure that was partly due to the fact that Benazir was very new in her job as Prime Minister, while Nawaz had been a Chief Minister of the largest province already for three years.

Our meeting with the Prime Minister Benazir Bhutto had been difficult to arrange. This was despite the fact that Vasim Jafarey, her Advise on Finance,[36] was a good friend of mine. Apparently, she was not too familiar with the World Bank and its role in Pakistan. At one point, we were told she did not want to see every Tom, Dick, and Harry banker that came into town. A young member of her private circle of friends came to talk to us and find out what we wanted. Finally, we got our meeting. But in those early days, her trust in the bureaucracy was perhaps not great, though Vasim Jafarey earned her great confidence and she reappointed him to the post again when she came back to power in 1993.

As we waited out for our meeting outside the Prime Minister's office, to my surprise, the US Ambassador, Robert E. Oakley, came out of the Prime Minister's office and reassured us that he had smoothed the way for our meeting. He was probably called for a briefing that was considered reliable and independent. The US connection proved to be important till the very tragic end of Bhutto's life.

The meeting itself was uneventful. The World Bank assured the Prime Minister of its great eagerness to work closely with the new elected democratic leadership, but also said that more pro-market leanings of the new PPP leadership might be formalized in the form of a new compact with the private sector to assure business that there would be no break with the recent past.

Another interesting meeting during Thalwitz's visit was a call on the Speaker of the Parliament, Mr. Mairaj Khalid, a veteran politician of great integrity and a senior PPP leader who later served as the caretaker Prime Minister in 1997. Mairaj Khalid made two main points with a frankness that surprised me. First, he lamented the tremendous

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[36] She held the Finance Portfolio herself,

increase in the power of drug money in Pakistan. He said he had represented his constituency for decades but, in the last election, he could win only by a small margin against an opponent engaged in criminal activity and with strong ties to the drug trade. This was only months after Zia's death, so the military rule had been either unwilling or unable to control drug traffic. His other point shed some light on Benazir's style of governance. He said that he even though he was the Speaker of the Parliament and a long-time PPP leader, the Prime Minister had had little consultation with him during the first few months of her rule. Team work has not been a hallmark of Pakistan's governance.

Getting More Involved in Pakistan's Economy

I retired from the World Bank in mid-1996 and devoted the next two years entirely to writing my book on Pakistan, mentioned earlier. This was an important personal goal to try to make amends for my long absence from the homeland. I also thought that writing a book covering the first fifty years of Pakistan's development, with a focus on economic policies, would prepare me for further work on the country's economic issues which I was anxious to pursue. I must confess that giving policy advice was not in the forefront of my mind. For one thing, I did not start with the assumption that Pakistan's economy was in bad shape. My goal was mainly to understand why Pakistan had lagged so far behind the East Asian countries that I had been closely involved with for more than a dozen years during my career at the Bank. But towards the conclusion of my work in early 1998, it was clear to me that Pakistan faced not only the worst financial crisis of its history, but also a serious but less clearly perceived 'growth crisis'. There was a growth crisis in the sense that significant increases in the per capita income, which had been enjoyed for long periods in the past, could no longer be taken for granted. The unsustainability of the past pattern of Pakistan's development, with its excessive reliance on foreign resources, neglect of human development and equity issues, and high growth rate of agriculture, based on large increases in inputs of irrigation water, was patently clear. That led to the title of the book, *Pakistan's Economy at the Crossroads: Past Policies and Present Imperatives*.

At the end of 1997 and in early part of 1998, I was in fairly frequent touch with finance minister Sartaj Aziz. Like many Pakistanis, I was disappointed that Nawaz Sharif did not finally pick him to be the President of Pakistan, an appointment that could have had major positive influence on the course of Pakistan's political history. In the spring of 1998, I expressed my very serious concerns to Sartaj about the state of the economy, shared with him the advanced chapters of my book, and had many conversations on the subject while playing golf together. When I urged him to take a stronger stand on macroeconomic adjustments, he simply said the process of economic policy making was much too diffused. He invited me to attend two large meetings at Islamabad and Lahore, chaired by the Prime Minister to see firsthand some of the influences at work.

The occasions of these meetings in late April 1998 were the presentations by Shaukat Aziz, who was a senior executive of the Citibank at the time, and some of his Pakistani colleagues in New York. Shaukat Aziz and his younger friends undertook analyses of the Pakistan's economy in their spare time and travelled at their own expense to brief the Prime Minister on their assessment. My own sense was that this noble enterprise, while useful in some ways, undercut the authority that the Finance Minister should have enjoyed, by giving Shaukat Aziz direct and confidential access to Nawaz Sharif. I did not know at the time that Nawaz Sharif had already decided to move Sartaj Aziz to the Foreign Ministry: the change actually took place in August 1998.

Just a couple of months after the publication of my book in May 1998, Mahbubul Haq , my close friend of longstanding, died rather suddenly in New York in July 1998. It was a great personal shock. I was invited by Dr Sarfraz Qureshi, Director of PIDE, later that year to give the first Mahbubul Haq Memorial Lecture at the Pakistan Society of Development Economists in December. In that lecture, 'Pakistan at the Threshold of the 21st Century: How to Shape a Better Economic Future?', I dwelt not only on Pakistan's deep economic problems, but also on conditions for an economic turnaround.

Several points of analysis and conclusions from the paper remain relevant even today, more than a decade later. I am thus taking the liberty of sharing some excerpts:

Pakistan's economic crisis is much more deep-seated than the government appears willing to admit. Both the structural and the financial problems have been building up for a long time. The heavy burden of debt, the low level of educational attainments, and major weaknesses in the structure of industry and exports are problems which will continue to influence economic prospects adversely for a number of years.

The gravity of these problems must be recognized by policy makers and it should be realized that there are no quick fixes to the predicament in which Pakistan finds itself. The government undercuts its own credibility both at home and abroad when it promises a quick and relatively painless economic turnaround because the nature of economic difficulties, i.e., unsustainable level of dependence on external resources, an inequitable pattern of growth, neglect of longer term investments in human and physical capital, and broad institutional decline, are widely known and understood. If firm but realistic policies for the resolution of the structural and financial problems are implemented forcefully, the confidence in the economy and the leadership will actually increase, even though slow growth may persist for a number of years.

A strong, enlightened and honest political leadership, which can build a national consensus not only on economic priorities but also on the more difficult issues of relations with India, the priority of defence spending, and power sharing arrangements with the provinces is vital for better economic performance. The record of democracy in Pakistan during the last decade is not an encouraging one. But one hopes that the present leadership will learn from its mistakes, not ignore professional advice and have the political will to stay the course of unpopular and painful economic decisions.

The political leadership can also help to promote the much needed changes in values and attitudes by accepting the need for a rules-based society in which hard work, thrift, innovation and merit are the criteria which guide both the civil service reform and the relations with the private sector.

The governance problems of deteriorating law and order, widespread corruption and misuse of public resources, and ineffective bureaucracy are looming rather large in Pakistan at present and are acting as a strong disincentive to both foreign and domestic private investment and have the effect of lowering economic growth. But to an extent, the present governance problems have their roots in the pattern of economic development over the last fifty years. The uneven distribution of growth benefits and increasing dualism in the society are reflected in the sharp contrast between the growing numbers of poor and illiterate on the one hand, and increasing wealth and sophistication of the elite and the upper middle classes on the other hand.

A longer run economic vision is absolutely necessary. This vision should concern itself not only with growth but also equity and greater financial self reliance. Unless long-term goals are defined in these broader terms, short-term costs, tradeoffs and sacrifices will not be either understood or accepted. …it is quite feasible for Pakistan to achieve per capita GNP growth of 4 per cent per annum over the next twenty-five years, double the average rate in the last half-century, and combine it with a better distribution of growth benefits and greater self-reliance, provided political governance and economic management can be improved and provided painful economic and financial adjustments can be made over the medium term.

Substantial potential for agricultural growth still exists because a large part of the increase in agricultural output in the past has come from enormous increases in availability of inputs, especially water and fertilizer. On the demand side, the substantial scope for import substitutions in wheat and edible oil will help overcome the constraint from slow-growing economy. The improvements in efficiency have been relatively limited and irrigated yields per hectare have shown only modest increases over long periods.

To exploit fully the elements of Pakistan's long-term economic strength (a declining population growth rate and greatly under-utilized agricultural potential), a much greater commitment to human development and much more effective public interventions in education are required. Remedying the past neglect of education is an important goal in *itself* but has become absolutely critical in the context of global economic challenges of an information age.

…the public and the private sector need to develop a new partnership to foster the country's economic and social goals. This will not be easy, given the past history of public sector's mistrust of the private sector and private sector's heavy reliance on patronage of the government for subsidies and economic rents… *The government* needs to make sure that the private sector clearly understands that the strong policy and institutional support for its activities will have to be balanced with a new respect for and conformance to tax laws and financial, environmental, and other regulations. Also, though the private sector cannot be formally held responsible for the social goals such as adequate job creation, skills development, and environmentally friendly growth, it must recognize that the range of economic freedoms it will like to enjoy will endure only if the society can deliver sustained and equitable growth.

…The viability of long-term policies will be vitiated if Pakistan does not restore financial equilibrium. Whether the fiscal and balance of payments adjustment can be made consistent with longer term goals and reasonable GDP growth in the medium term will depend on three things: the ability of the tax system to mobilize large additional resources through direct and expenditure taxation, the greater effectiveness in the use of resources in the public sector, and the ability of the industrial sector to use the substantial real exchange rate adjustment in 1998–99 for diversifying and expanding exports.

After nearly a decade of another bout of military rule, we seem to be drifting back to a situation, both in growth terms and financial stability, like at the end of 1990s, with the added problem of a serious insurgency threat from the Taliban and other extremist elements. Why has the progress during 2002–07 not been sustained and why has economic and social progress not been more broadly shared are the questions that are discussed in the next chapter.

Annex

The Saga of Foreign Currency Deposits

Over 1991–1998, there was an increase of nearly $7 billion in Resident Foreign Currency Deposits and they began to be considered as a growing and permanent source of external finance. At the basic level, one mistake was that these foreign exchange obligations were considered receipts rather than borrowings in official statistics–with the full and misguided blessing of the IMF. The current balance of payments deficit was thus substantially understated. The reported deficit during 1991–98 was about $21 billion. Including financing through RFCD, the BOP deficit was more than one-third larger, or $28 billion, or nearly 6 per cent of GDP. This level of deficit would not have been sustainable, even with a rapid expansion of exports. In actual fact, export growth slowed down sharply after an initial burst in 1990–93, and remittances continued to decline. 'The alarm bells on external debt did not ring partly because till 1996, only about half the balance of payments financing required resulted in an increase in external debt, the rest being financed from accruals to resident and non-resident foreign currency deposits and direct, portfolio, and IPP-related investment' (Debt Committee, 2001 p.23).

The Government, the IMF, and the World Bank were all too sanguine about the prospects of large additions to resident foreign currency deposits, though it had become clear by the mid-1990s that a major factor in their increase was the large implicit subsidy provided by the State Bank of Pakistan through foreign exchange risk cover at a much lower rate than the high domestic inflation (and expected depreciation of the rupee) warranted.

Commercial Banks receiving the foreign currency deposits were required to surrender them to the State Bank for local currency. In turn, the State Bank provided a guarantee for the provision of foreign exchange at the surrender rate but charged an annual fee that was initially 3 per cent per annum but had been increased to 5 per cent by the end of 1996. Because the domestic interest rates in Pakistan were much higher than international rates due to high rates of inflation, this cosy arrangement provided foreign exchange to the government, provided holders of foreign currency deposits much higher return than those they could obtain internationally (even allowing for the guarantee fee charged by the State Bank), and provided good profits for the commercial banks.

There were, however, very large costs borne by the exchequer. Even though the depreciation of the rupee lagged the growing differential between domestic and international price level, there was a nominal devaluation of the rupee of 50 per cent over 1993–96, the State Bank of Pakistan suffered huge losses estimated to be close to Rs100 billion over 1992–98 on the exchange guarantees given to holders of foreign currency deposits. Since the net profits of the central bank are government revenue, there was a probably a loss of 1 per cent of GDP annually over a four or five year period.

The State Bank of Pakistan began drawing the attention of the government to the dangers inherent in the heavy and subsidized reliance on RFCDs after August 1996 (see SBP annual Report 1997–98, Chapter VII and appendix on Foreign Currency Deposits). By that time, the problem had already become very large. Certainly, the State Bank of Pakistan could have been far more aggressive in increasing the fee for forward exchange cover, because it took its first large loss (Rs13 billion or nearly 1 per cent of GDP in 1993–94). The raising of the guarantee fee to cover the expected losses would have discouraged growth in RFCDs and forced a review of the balance of payments position and the options for dealing with it.

Another way the problem could have been averted was if the government and the State Bank had linked the levels of desired foreign exchange reserves to the level of foreign currency deposits, because already in 1993 there had been a run on foreign currency. My own guess is that a billion US dollars, additional to the billion or so dollars that were actually in foreign exchange reserves, would have been enough to deal with a run after the announcement of nuclear tests and subsequent sanctions. In other words, if only 10 per cent of the total foreign currency deposit liabilities of $10 billion had been set aside for meeting contingencies, the problem of the run on the reserves could have been dealt with.

According to Sartaj Aziz, 'In the cabinet meeting of 14 May 1998, it was decided that the ministry of finance should formulate, in consultation with the ministries and State Bank of Pakistan, an economic contingency plan, in case Pakistan decided to go ahead with the nuclear test option and had to face economic sanctions. A small team consisting of Dr M. Yaqub (Governor, State Bank of Pakistan), Dr Hafiz Pasha (Deputy Chairman, Planning Commission), Mueen Afzal (Finance Secretary) and Ghafoor Mirza (Special Secretary Ministry of Finance) worked round the clock for the next four days. Based largely on proposals submitted to the team by Dr Yaqub, the team finalized and submitted to me a detailed note on 18 May, which I reviewed and finalized in a meeting with the team on 19 May' (Aziz, 2009 p.196). The details of the Contingency Plan provided indicate that the most important decision recommended was the conversion of RFCDs at the official exchange rate, while non-resident currency accounts were to be placed under State Bank restrictions (Aziz, 2009, Appendix I). As Aziz reports, 'The prime minister felt that compulsory conversion of FCAs of resident Pakistanis at the official rate would be too drastic. Why not treat them at par with non-residents, i.e., just suspend withdrawals without State Bank permission?' In the end, this is what happened because there was no time to consider other options.

Chapter 26

Musharraf's Rule: The Rise and Fall of Pakistan's Economy 2000-2008

The military takeover in October 1999 was not totally unexpected. Tensions between the army leadership and the Prime Minister had been brewing for months in the aftermath of the Kargil affair. The army had been clearly unhappy about the removal of General Jehangir Karamat rather summarily a year earlier and, fearing another abrupt change, was willing to resist it. The economy was not in good shape under the burden of strong international sanctions; governance had not improved under the second Nawaz Sharif government; and the public confidence in the government was declining. The US and other western powers were clearly concerned not only by the newly-acquired status of nuclear power by Pakistan but also Nawaz Sharif's strong push towards Sharia rule which would have given absolute powers to the Prime Minister.

It can be argued that, because of the Kargil disaster, Nawaz Sharif had good reason to remove General Musharraf from the army command, but his own stock in the country was not high at the time. But the decision 'to remove Musharraf when he was out of the country and the decision to prevent his plane from landing in Karachi to ostensibly facilitate General Ziauddin's induction as the new army chief before General Musharraf's landing, were not only unwise but also rash'(Aziz, 2009 p.290). It gave the army commanders the excuse they had been looking for.

As often in the past, many politicians welcomed this ultra-constitutional change and the public generally seemed to welcome it. Western governments showed no surprise and indirectly blamed Nawaz Sharif for not being able to control the situation.

The new army rule followed a familiar pattern: subjugating the judiciary, inducting technocrats into office, focusing on the economy, slowly restoring political participation, but strongly manipulating political processes. There were good results in the early years as a consequence of quick and resolute decision making, greater professional management, and more emphasis on merit in the civil services. Free from political pressures, the newly-inducted technocrats, invigorated bureaucracy, and the state institutions performed well, at least initially. But then, many political mistakes were made and, what was even worse, the hubris of high economic growth and good economic performance led to overconfidence and laxity in economic management. There was a loosening of expenditure controls, ignoring of setbacks and threats such as negative economic shocks, rising inflationary pressures, and growing public discontent with concentration of economic gains among higher income groups.

The Supreme Court dismissed the petition against the military takeover on the often used grounds of state necessity. Hopefully, this will prove to be the last time that the judiciary was so pliant. It allowed Musharraf three years to achieve his declared objectives and to hold general elections. With the two principal political figures of the country in exile, every effort was made to manage the 2002 elections, through a compact with the breakaway elements of the Pakistan Muslim League-Nawaz (PML-N)–who were many and eager–encouragement of religious parties in NWFP and Balochistan, a great deal of horse trading after the elections with politicians with dubious records whowere willing to co-operate. Even with all this, President Musharraf could not find a politician of stature and competence to whom he could entrust the running of the government. In any case, Musharraf found it difficult to abide by his promise to transfer real powers to the Prime Minister, Zafarullah Khan Jamali (2004–06). With the appointment/election of Shaukat Aziz as Prime Minister in the summer of 2006, the political system became largely Presidential. In retrospect, Zia did better by choosing Junejo and, willingly or unwillingly, giving him a lot of power, at least for three years.

With the 9/11/2001 terrorist attacks on the US and–correctly–quick security alignment with the US and western powers, external resources as well as political support for the Musharraf regime increased enormously. President Bush's personal relationship with

General Musharraf fed the euphoria about his effectiveness. With the economy doing well and foreign support assured, Musharraf's political allies at home assured him of victory in the approaching national elections in October 2007 on his terms–in uniform and retaining his position as army chief. They gravely misjudged the public mood. Had Musharraf announced in early 2007 that he was shedding his uniform (a promise he had made to the National Assembly to do by the end of 2003) and agreed to transfer power to a freely-elected assembly, he probably would not only have survived as President, but could have remained a respected national figure. But his crude attempts to hold on to full power at all costs–perhaps encouraged by the then US administration–was to throw the country into chaos.

His dismissal of Supreme Court Chief Justice in March 2007, who was later restored by his colleagues, started a lawyers' movement that was to prove to be a death knell to the regime. Musharraf made a deal with Benazir Bhutto for power sharing and, through the NRO (National Reconciliation Order), waived all criminal wrongdoing cases against Benazir, other politicians, and bureaucrats for the period January 1996–October 1999. This enabled him to be re-elected as President for another five years in October 2007 by the outgoing National Assembly–another trick of political manipulation. But he did not trust the Supreme Court. This led to the imposition of a virtual second martial law on 3 November 2007, through the introduction of Emergency Rule, suspension of the Constitution, and requiring all judges to take a fresh oath. There was a sharp reaction in the country and abroad and Musharraf had to end the emergency on 16 December and had to hold free elections.

In retrospect, Musharraf's biggest mistake was not the takeover, but his instinctive distrust of democracy. Even so, he might have succeeded in becoming a genuine political leader had he been willing to take some risks. If he had declared in early 2007 that he would seek the next presidential term in late October, after shedding his uniform, the subsequent confrontation with the judiciary and its aftermath, the lawyers movement, might well have been avoided. In the early years, his popularity was high, yet he was unwilling to face a direct election for the Presidency which he could have called and won handily, with Sharif and Bhutto out of the picture. Instead, he relied on a national referendum in April 2002, which was a sham and did not increase his legitimacy but damaged it. Later as well, there were opportunities for damage control that were missed because he was so risk-averse. This is surprising for a military commando by training.

Again, it is not the purpose here to dwell in detail on these political developments that have been well covered by many others. My focus is on the economy which was held up to be the showpiece of the regime and appeared to be so, for at least a three-year period, 2003–2006, when average annual GNP growth peaked at nearly 7.5 per cent, both investment and consumption rose strongly, inflation, though increasing, remained below double digit, and foreign investment inflows reached record levels, stimulated by strong privatization efforts. Thus, foreign exchange reserves continued to rise, though the current account balance of payments deficits were growing steadily. During those apparently heady years, the policy makers came to believe that sustained high growth and shared prosperity was around the corner, if not already achieved. Even for the skeptics, it would have been hard to imagine that the economy would be facing acute crises just a couple of years down the road. Economic growth slumped to 3 per cent in 2007–08 and further declined to 1 per cent in 2008–09.The current account deficit expanded to a record level of $14 billion or 8.5 percent of GDP in 2007–08, wiping out a large part of foreign exchange reserves, as foreign inflows declined and the confidence in the currency weakened.

The rise of the economy was relatively swift but so was the fall. It is a saga that remains something of a puzzle. There are those that argue that the economic achievements were not at all exceptional and, even so, were facilitated largely by improved relations with the West in the wake of 9/11. Then there are those, especially the economic managers of the time, who would claim that everything was fine when they were in charge or that all of the setbacks were due to external shocks. The reality is more complex and needs to be probed in some depth to understand better what happened and what lessons to draw from it for the future.

Personal Involvement

Fortunately, I can base my account not only on the reported facts, but also on the extensive opportunities I had to interact with the key leaders of the economic team led by Shaukat Aziz, first as Finance

Minister and later as Prime Minister, through both formal advisory tasks and informal discussions.

My deep concern and pessimism about the economy had continued to grow in 1999, though one still continued to struggle with defining strategies for an economic and political turnaround. In this connection, I recall an economic conference convened by Boston area Pakistani students on 9 October 1999. Mr Asif Iqbal, a PML (N) leader, who was at the time the Deputy Chairman of the Planning Commission, was a Special Guest, and the speakers included, among others, Ishrat Hussain, at that time still with the World Bank, Shaukat Aziz, a high executive of the City Bank Group, Tariq Banuri, formerly head of the Sustainable Policy Development Institute, and Dr Nasim Ashraf. The discussion was lively, but to my taste, not sufficiently hard-hitting on the central issues facing the country. In my speech, I struck a rather strident note, perhaps because I had the luxury of a retired status and no institutional link to worry about. My introduction was as follows

There is no doubt that, at the threshold of 21st century, Pakistan is at a low point in its history. Inadequate investment, economic and social policy failures, and grave institutional decline are at the root of growth, governance, and financial crises the country is facing. The governance issues are highlighted by the crisis of confidence in the state, which is resulting from poor delivery of public services, especially law and order. This, along with widespread corruption, has led to a breakdown of the compact between the people and the state. This makes it difficult, among other things, to collect taxes. At the political level, the divisions in the country remain large and appear to be growing."

At the end of the session, Mr Asif Iqbal invited me to meet with him during my next Pakistan visit, which was planned for the end of the month. Little did we know that the Nawaz Sharif government was to be toppled just a few days later on 12 October!

Meanwhile, at the invitation of Dr Sarfraz Quereshi, Director of PIDE (Pakistan Institute of Development Economics), I had spent a good part of my summer preparing a paper on 'Pakistan's Debt Problem: Its Changing Nature and Growing Gravity' for the Annual Meeting of the Pakistan Society of Development Economists (PSDE) at the end of October. My analysis led to very sobering conclusions.

Pakistan is now a severely indebted country. Its public debt is close to Rs 3000 billion and 100 per cent of GDP and 600 per cent of annual government revenue. These public debt figures do not include (1) the unfunded losses of the public corporations especially WAPDA; (2) the large part of the bank loans arrears which are unrecoverable (possibly only one-quarter of Rs 200 billion in bad loans of the public sector banks will be paid back and the rest will become a charge on the budget in order to protect the depositors); (3) large government guarantees given to IPPs, which could become callable because of the weak financial position of WAPDA. External debt now totals over $35 billion (excluding frozen foreign currency deposits) and is about 60 per cent of GDP and 350 per cent of annual foreign exchange earnings. Government debt service absorbs 60 per cent of government revenue and external debt payments constitute around 35 per cent of earnings. Despite substantial relief and some debt reduction from Paris and London clubs, totalling over $6 billion, the foreign exchange situation remains very difficult and further re-scheduling and exceptional financing from the IMF, the World Bank and other sources will continue to be needed in the next three years.

By the time PSDE conference took place, General Musharraf had taken over, Shaukat Aziz was Finance Minister, and the press seemed freer in its critiques of the economy. The paper, therefore, got a lot of attention in the media. Meanwhile, Mueen Afzal, who had resigned as Secretary Finance a year earlier, had returned to the Finance Ministry as Secretary General. He revived the idea that Sartaj Aziz and he had had earlier of asking me to chair a high-level Debt Committee to suggest a strategy for reduction of the debt burden and a system for better management of public and external debt. Shaukat Aziz, whom I had first met around 1990, when he came to see me in my capacity as World Bank Chief Economist dealing also with Pakistan, heartily endorsed the idea, as did General Musharraf, who wanted to give high priority to resolving debt issues.

I agreed to serve the government in this capacity with great enthusiasm, especially as some of my key suggestions, the terms of reference of the Committee, high-level official representation, and ultimate release of the report to the public were readily agreed to. The official members, Mueen Afzal, Yunus Khan, Secretary Finance, Ishrat Hussain, Governor State Bank of Pakistan, Naveed Ahsan, Secretary

Economic Affairs, and Fazlullah Qureshi, Secretary Planning gave me unstinted support in our work. Dr Ashfaque Hasan Khan was Secretary of the Committee and helped greatly with macroeconomic projections. Among non-government members Dr Aliya Khan, Professor Quaid – e- Azam Iniversity, Dr Aisha Ghouse Pasha, of Social Policy Development Centre, and Mr Fateh Chaudhry, former Economic Adviser World Bank especially made notable contributions.

While I did not accept any remuneration, the government had to provide for my frequent travel from and back to Washington which, fortunately, could be covered under a technical assistance grant from the Asian Development Bank. In all, I spent eight months in Islamabad on the Debt Committee work over the period January 2000 to September 2001, and made six trips from Washington. I enjoyed great freedom in my work, there was no attempt to influence our recommendations and/or dilute the critical tone of the findings. The draft Debt Committee Report was discussed at length in the Cabinet twice, in October 2000 and February 2001. The Report, when released in March 2001, was generally well received at home and abroad. Some foreigner observers commented that it was the frankest government report that they had ever seen. There remained a degree of skepticism in the public and the media about the feasibility of the debt reduction path but, as discussed below, the Government moved to implement its recommendations, if not in spirit at least in letter.

I must say I was greatly impressed by General Musharraf's deep interest in the work of the report and his eagerness to understand the nature of the debt problem and its solutions, and to share them with the public at large. Without his active support, the committee's principal recommendations would not have been accepted and the report would not have been made public.

Indeed, it was at President Musharraf's insistence that the committee's work was discussed in the cabinet twice. My presentation to the cabinet in a discussion lasting a couple of hours in October 2000 stressed the grave magnitude of the debt problem. I argued that since the debt problem had risen because of policy failures on a broad front and over a sustained period, there was no quick fix for debt reduction. The satisfactory resolution of debt problems would take both time and aggressive policy actions.

I made the case for a multi-prong economic strategy that would have several components: reviving growth, exports, and worker remittances through improvements in factor productivity and governance; reducing the rate of future borrowing by reducing the fiscal and current account balance of payments deficits; and reducing the large losses of state-owned enterprises which augment the budget deficit, working towards an agreement with the IMF for Poverty Reduction and Growth Facility (PRGF) for 2001–2004, which would also ensure exceptional financing needed from other multilateral organizations, and debt rescheduling from bilateral sources.

I also strongly argued for accelerating the process of privatization. The overall contribution of privatization revenues to debt retirement was expected to be modest: the Chairman of the Privatization Commission, Mr Saleem Altaf, had informed the Debt Committee in its first meeting that privatization could not yield more than $4-5 billion. However, speedy privatization was absolutely essential to generate confidence among private investors, both foreign and domestic, and to help reduce the losses of public sector corporations. I do not know whether the cabinet discussion contributed to the decision to raise the status of the Chairman of the Privatization Commission to a full cabinet rank a few days later.

The second cabinet meeting in February 1981 to discuss the final draft was even more interesting. The discussion lasted three-and-a-half hours, throughout which I found myself standing in front of a power point screen. This meeting focused on both the causes of the steep rise in public debt and the specific recommendations for debt burden reduction and management. I pointed out that the origin of the debt problem went back to the mid-1980s, when, during Ziaul Haq's regime, the government started running substantial revenue account deficits, thus borrowing to cover current expenditure, including defence. Furthermore, the borrowing was done mainly through high interest rate saving schemes, paying as much as 14 per cent per annum, when inflation was relatively low at 5-6 per cent. I also pointed out that over 1980–1990, the balance between defence and development had been seriously upset. The share of development spending, which had been 40 per cent of total government spending in 1980, had come down to 25 per cent in 1990 and 13 per cent in 2000. All of the increase in the share of interest payments had come at the cost of development. While defence spending in constant prices more than doubled over 1980-2000, development expenditure over the period actually declined.

The reduction in development spending had lowered the growth rate of the economy, exports, and government revenues thus had limited the capacity to repay debt at a time when the debt levels were rising. The debt committee's recommendations therefore included a recommendation on freezing defence spending in real terms, eliminating the revenue deficit in the budget, and bringing down the cost of borrowing through rationalizing the returns on the national savings schemes.

I must confess I was heartened by the calm and patient manner that President Musharraf displayed throughout the discussion. He asked the most questions and did not seem annoyed at defence spending being highlighted as an important factor in the debt buildup. The rest of the cabinet seemed more ambivalent and only Shaukat Aziz, finance minister, Ishrat Hussain, and Mueen Afzal (both senior members of the Debt committee) were strongly supportive of the Report.

At the end of the discussion, it seemed that any formal decision on the report might be postponed because of an important technicality. A copy of the report was supposed to have been circulated to the cabinet members at least a day before, along with the Summary for the Cabinet submitted by the Finance Secretary, which I had prepared. Unfortunately, the Finance Secretary decided not to circulate the report because of fear of leakage to the press. This was a wrong decision because it left the cabinet members miffed and led to the suggestion by the cabinet secretary that, since the report had not been circulated, a formal decision on the Summary for the cabinet should be postponed. But President Musharraf came to our rescue. He asked the Cabinet Secretary to read out the recommendations, which included the release of the report to the public, a formulation of a Debt Policy statement, and the setting up of a Debt Policy Coordination Office. To these, he voiced no objection and since no one else did, the recommendations were approved.

I must say that without President Musharraf's personal interest and openness and the strong support of key members of his economic team, it would have been difficult to write such a frank report, much less to share it with public. I felt fulfilled. In those early days before 9/11, Musharraf was extremely concerned about the state of the country's finances and the threat it posed to the economic future of the country.

At the press conference in the evening after the cabinet meeting, which was chaired by the Finance Minister Shaukat Aziz, the government credibility did not appear high and I sensed a rather defiant mood among the journalists. I was asked several questions, including one about my status: apparently being a Pakistani was not enough and any connection with the IMF or the World Bank was viewed with suspicion. So far so, that one journalist implied that the then Governor State Bank, Dr Mohammed Yaqub, was an import from the IMF. My plea that we should all be judged as Pakistanis rather than as former officials of international organizations did not strike a sympathetic chord.

I was also asked about the Debt Committee recommendations on the level of future defence expenditures. When I said that our recommendation was to freeze defence spending in real terms at the then level (this was several months before 9/11/2001), the journalists got the headline they were looking for. As I learnt later, representatives of major newspapers got together after the press conference and agreed on a common headline. Next morning, I was surprised and pleased that the Debt report was the lead story in all the newspapers and the big headlines all said: 'Debt Body recommends freezing of defence spending'. For better or worse, I have never grabbed such a major headline ever before or after.

My second major involvement with the Government was through leadership of a large World Bank economic mission to review public expenditures and policy. This was a direct fall-out of the Debt Committee Report being received very favourably, especially among donors. When John Wall, a Country Director on Pakistan, and Sadiq Ahmed, the Chief Economist for South Asia asked me to undertake this task, I was reluctant, partly because I had gone through treatment for prostate cancer just a few months earlier. But Sadiq and John, both former colleagues at the Bank, were very persistent and assured me utmost freedom in my work. My wife finally made the telling point 'You like working on Pakistan. This time, in addition, you will be paid also.'

The work of the mission extended over June 2002 to October 2003 and its final report, 'Pakistan Public Expenditure Management: Strategic Issues and Reform Agenda', was issued by the World Bank in January 2004. This work enabled us to explore dimensions of crisis in public expenditures, both in social sectors, especially education and physical infrastructure especially water and power. The report also dealt with a host of other issues: the effectiveness of public spending, federal-provincial responsibilities and financing arrangements, planning and budgetary procedures, and institutional issues, including civil service reform. The report was written, however, in a very different macroeconomic environment than the one that had prevailed a couple of years earlier, when the Debt Committee Report was written.

As a result of strict financial discipline and substantial external support, including debt relief, the burden of interest payments in the budget had gone down sharply. This, combined with the government commitment to keep defence spending constant in real terms, had opened up the prospect of a very substantial increase in fiscal space, defined as non-interest and non-defence public expenditure

Indeed, the mission's conclusion that fiscal space would expand by about 80 per cent in real terms over 2002–07 caused quite a bit of surprise. (The actual expansion was to turn out to be slightly higher.) The main thrust of the mission's findings was that the prospect of a remarkable expansion in real public spending on social and economic development represented a tremendous opportunity to meet social and infrastructure gaps, provided priorities were carefully chosen and institutional mechanisms for planning, project selection, and delivery of public services were greatly strengthened.

My third involvement was during 2005–06 and involved supervision of the preparation of the World Bank Report on Pakistan: *Promoting Rural Growth and Reducing Rural Poverty* (March 2007). It was in the course this work that I became fully aware of the declining trend in the growth rate of agriculture from about 4 per cent per annum for the last several decades to 2.7 per cent per annum during 2000–08. The report also pointed out that, despite the reduction in the incidence of rural poverty over 2002–05 to 34 per cent, there was not much change in the level of poverty or real consumption of the poor compared to 1998–99.

My final and least satisfying exercise in advising the Pakistan government was the two extended visits to Islamabad, totalling nearly two months, over September-December 2006. These visits were triggered by an article in *Dawn* in late December 2005, where I expressed growing concern about the widening balance of payments deficit. Naveed Ahsan, then Secretary General Finance, persuaded the Prime Minister to seek my advice on external finances and set up an inter-ministry working group to assist me in the task. I spent nearly two months writing a fairly alarming 43-page report (with a 10-page summary) and submitted it at the end of December 2006.

My efforts this time, however, did not lead to any serious policy discussion, much less any policy change. The current account balance of payments deficit during 2006–007 and 2007–08 far exceeded the worst scenario outlined in the report. The political agenda had begun driving all policy decisions and disarray in the management of the Finance Ministry made things further difficult.

Some excerpts from my report follow:

The persistence of current account BOP deficit at a high level notwithstanding, some cooling down of the economy and slowing down of import growth is due to several factors

- persistence of international oil prices at a high level,
- slow down of exports growth,
- a very rapid growth in consumption,
- and last but not least, disappointing trend of real investment growth and thus capacity as well as competitiveness problems.

Consumption has risen more than 50 per cent faster than the GDP growth rate, adjusted for the terms of trade loss caused by the large oil price increase. Thus, one of the most worrying aspects of the balance of payments deterioration and sharp increase in import payments is that the widened balance of payments deficit is financing consumption rather than investment. In contrast to rapid growth in consumption, gross fixed capital formation rose by only 13.2 per cent over the last three years or at average annual rate of 4.5 per cent.

The main policy objectives for the balance of payments in the short-run should be to avoid a further deterioration in the payments situation during 2006-07 and 2007-08. Further rise in current account deficit will add to speculative pressures on the exchange rate and thus affect the confidence in currency. In the worst-case scenario, some loss of reserves is also possible, which could be very damaging to the present high standing of Pakistan in the international financial markets.

Fairly broad ranging policy responses are needed to avoid the downside risks. An immediate target should be to moderate the growth in non-investment related imports. Contrary to general impressions, these imports are large–probably double the size of imports supporting investment directly or indirectly. Some of the policy options/recommendations are

- Tightening of fiscal policy may make the most economic sense in the short run and could be least difficult politically.
- Government borrowing from the State Bank should be eliminated.
- A more flexible exchange rate policy is needed.

If most of these recommendations had been followed, I am confident that much of the disastrous deterioration in the current account balance of payments during 2007 and 2008 would have been avoided.

Anatomy of the Rise and Fall of the Economy

There are two main points to the above personal narrative. Early on in the Musharraf regime, there was a fairly high demand for critical analyses, an openness to advice, and a strong determination to stabilize the economy by reducing macroeconomic imbalances. This is because resources were very tight and options were limited. The IMF agreed to a short-term standby agreement only in October 2000 and a full-fledged sizeable support programme was not introduced till a year later. With reform policies yielding quick results in terms of control of inflation and a much more comfortable external resource position, the government stayed the course for a few years. However, when adverse external shocks, notably the international oil price rise (but also the devastating earthquake) hit, starting in 2005, and then deepened over the next three years, the government seemed to be partly in denial and partly preoccupied with the political situation, so that it was extremely reluctant to adjust energy prices. Above all, the hubris created by huge private investment flows, largely linked to the purchase of existing domestic assets, blinded the government to the underlying deterioration in the current account balance of payments, much as the easy availability of foreign currency deposits had made the governments in the 1990s complacent. There was no shortage of warning signals from the World Bank and others, though the IMF stayed on the sidelines for too long, giving the government the benefit of doubt.

Economic performance: 2000–2008

GDP growth during 2000–08 averaged nearly 5.5 per cent per annum and GNP growth at 6.0 per cent was even higher. Average per capita GNP annual growth during the period was nearly 4.0 per cent and compared very favourably with a rise of less than 1 per cent per annum in the previous decade. The growth rate of GDP was very volatile, however. It rose from a low of 2 per cent in 2000–01, the year of a strong stabilization effort, to the peak of well over 7 per cent per annum during the four years 2003–07, and then dropped back sharply to 1 per cent in 2008–09 under the weight of adverse external shocks and political uncertainty.

The serious setbacks to economic expansion during the last two years and substantial uncertainty about how soon economic growth could revive back to at least 6 per cent–considered a minimum to ensure adequate job creation and poverty alleviation–suggest that the economy is far short of being on a path of sustained and self-reliant growth.

What fueled very strong growth during 2003–07? Why did economic reforms and high growth for several years not firm up the economic foundations? Why has the economy not proved more resilient?

Sources of Strong Growth

Among the factors that contributed to exceptional growth for a few years were:

- The sharp expansion in public expenditures, especially non-interest and non-defence spending, facilitated by completion of stabilization, reduction of interest burden on external debt, and increased external assistance.

- Strong export growth during 2000–05, as a result of a much-needed exchange rate adjustment, greater access to the EU, and substantial new investment in balancing and modernizing of the textile industry.
- Strong agricultural growth in the fiscal years 2004–05 to 2006–07, after severe drought lasting over several years.
- Improved professional management of public enterprises, more autonomy to strengthened boards of directors.
- Critical further reforms in the banking sector, both through much stronger privatization efforts and stronger regulatory control of the central bank over financial institutions.
- Massive foreign private investment inflows, related both to sales of existing assets in public and private sectors and new investments especially in the burgeoning telecommunications sector.
- On the policy side, the low level of fiscal deficits and low level inflation initially made possible substantial easing of monetary policy and fairly aggressive credit growth policies in new areas such as consumer credit.
- Finally, the availability of substantial idle capacity in industry enabled a quick supply in response to higher demand.

The specific factors noted above were, however, strongly underpinned by a macroeconomic situation that had improved dramatically between 1999 and 2003, unstinted support for the Musharraf regime from the international community, and general confidence both at home and abroad in the political stability in Pakistan expected in the near future. Among international investors, the political risk attached to the country appeared to have gone down substantially. In March 2006, Pakistan was able to sell 30-year bonds at a reasonable spread over US treasury bonds (2.6 per cent). Also, the sale of PTCL at an unexpectedly high price to a Middle Eastern investor in 2006 suggested that foreigners were not very worried about the possibility of political turmoil, though two prominent political leaders remained in exile and the process of political manipulation after the parliamentary elections in October 2004 had been unsavoury. To an extent, Pakistan also benefited from the extreme international liquidity, a bubble that was to burst in 2008. Still, the fact was that, at home, President Musharraf remained relatively popular till late 2006.

What Went Wrong So Quickly

In 2002–03 and 2003–04, Pakistan registered sizeable current account surpluses, probably reflecting reverse capital flight of money that had moved out in 1998–2000. The gross official foreign exchange reserves had already climbed to nearly $10 billion by mid-2003. The fiscal deficit, including grants, touched a low of 1.6 per cent of GDP in 2002–03 and year over year consumer price inflation was less than 2 per cent.

By 2007–8, the current account balance of payments deficit had shot up to the highest level in four decades, and the official foreign exchange reserves had dropped from a peak of $18 billion in mid-2007 to a low of $6.5 billion in mid-November 2008, less than two months' foreign exchange payments. The reported fiscal deficit (excluding grants) during 2007–08 was 7.4 per cent of GDP. However, the actual deficit was substantially larger, because the large buildup of arrears to oil marketing companies (the so-called circular debt) and the unfunded losses of public enterprises were not reflected in the official numbers. The year-to-year inflation, as measured by consumer prices, rose to an all-time high of 21 per cent in 2007–08 and persisted at this level over 2008–09. Meanwhile, GNP growth dropped sharply. By October 2008, there was no option except to seek large financial support from the IMF.

The scale and speed of the deterioration in macroeconomic imbalances was totally unprecedented as was the deceleration in economic growth. How did Pakistan get into such a dire economic situation in a matter of just a few years?

The story is fairly straightforward. First, the large and deepening external economic shocks over 2006–08 that, on the one hand, reduced the real growth of national income and, on the other hand, substantially widened the current account balance of payments were neglected by the Musharraf-Shaukat Aziz government, as well as by the Caretaker government that followed for a few months–December 2007 to March 2008. Indeed, the *Economic Survey of the Government of Pakistan*, issued in June 2007, oblivious to the gathering storm, continued to paint a very rosy picture. Second, the deep-seated structural problems in three key sectors–energy, agriculture, and exports–which were neglected in the hubris of the high growth years, emerged as longer term constraints on growth.

External Shocks

Negative shocks, either natural or external, have taken three forms in Pakistan in recent years. First, the devastating earthquake in October 2005 caused untold death and destruction and required large spending on relief as well as reconstruction; the latter expenditures were estimated at $5-6 billion. Unfortunately, the government made a totally unrealistic assumption that, in addition to emergency help and rehabilitation, all of the reconstruction costs would be met from *additional* concessionary assistance. Supplies of soft multilateral assistance are severely limited and its allocation among countries is, in large measure, pre-determined. In actual fact, Pakistan will probably spend $3 billion on earthquake reconstruction from its own resources.

The international oil prices started rising in 2003, but still averaged only $ 30 per barrel in 2003–04. They rose inexorably and steadily and in 2007–08 averaged $108.2 per barrel. Oil import bill peaked at $11.2 billion in FY 2008–an increase of $8-9 billion over the last four years. The failure of the government to pass on the full increase in oil costs to the consumers was either on the mistaken assumption that the rise in oil prices would not be lasting or that difficult political decisions could be left for after the elections.

The rise in world food prices, especially of grains and edible oil in 2007, further adversely affected Pakistan's terms of trade and increased both the import bill and wheat subsidy outlays. Here again, the wheat policy was not well managed; wheat exports earlier in the year 2007–08 were not justified; there was excessive optimism about the size of the 2007 wheat crop; the response to rising international prices was not speedy enough; and there was such a delay in announcement of the higher procurement price that its purpose as an incentive for higher production was largely lost. More fundamentally, not enough attention was given over time to the slowing trend of growth rate in agriculture, especially food crops.

Poor Macroeconomic Management

All told, negative external shocks reduced the real growth of income in Pakistan on average by about two per cent per annum during the four years, 2005–08, to 4 per cent from 6 per cent. Thus, the growth in per capita income, adjusted for loss of purchasing power, was only 2 per cent per annum rather than 4 per cent per annum. In other words, the apparently high GDP growth during 2005–08 did not translate into high growth in national incomes.

There was a real failure to manage macroeconomic policies in light of the adverse exogenous developments. The required adjustment in consumption and possibly investment plans was not made. The need for scaling back aggregate demand could be ignored, partly because privatization revenues and sovereign borrowing on world markets were easily available to finance growing deficits and partly because delivering high growth was considered–mistakenly it turns out–a political imperative.

Real consumption and investment together increased by 35 per cent over the three years, 2004–07, in contrast to the growth in national income, adjusted for terms of trade loss, of little more than 25 per cent. Hardly surprising, the imbalance was reflected, as noted above, in the sharp deterioration in the current account balance of payments.

The fiscal and monetary policies remained excessively expansionary, even though domestic inflationary pressures had already developed by 2005–06, while international and commodity inflation was absent: the general price level, as measured by the GDP deflator, had increased by over 9 per cent in 2005–06.

The tight fiscal policies of 2000–04 and the substantial unused capacity in the wake of a major stabilization effort made possible a very accommodative monetary policy and a sharp decline in interest rates. While this policy did result in reviving economic growth strongly, partly through better utilization of existing capacity, it was pushed too far and for too long. Growing inflationary pressures were ignored. Interest rates began to be suppressed in 2005–06, as government had difficulty in meeting the growing domestic borrowing amount from the market through Public Investment Bonds (PIBs), without offering higher interest rates. It thus resorted to the low-cost alternative of borrowing huge amounts from the central bank, which moderated the cost of government borrowing (thus helping to keep interest payments on domestic debt in the budget low); but it also contributed to higher rates of monetary expansion, by creating excess liquidity in the banking system. This went against the earlier practice and the recommendation of the Debt Committee that government domestic borrowing should principally be undertaken through floating of PIBs of various maturities. This would have left interest rate determination largely to market forces, and would have helped create an appropriate yield curve. And the resulting interest rate increases would have dampened inflationary pressures.

Structural Problems Resurface

The predicament that the newly-elected government found itself in 2008–09 was not only that macroeconomic imbalances were huge, but also that the re-emergence of longstanding structural economic issues (as well as a major new threat from insurgents) made the managing of the economy very difficult.

Investment Growth Greatly Exaggerated

Historically, low savings and investments rates have been a major drag on Pakistan's growth. The ratio of gross fixed investment stagnated in the 1980s and tended to decline in the second half the 1990s. There was a definite revival of investment during 2000–08, though much of the real growth of 63 per cent was concentrated over three years: 2004–07. Private sector share in fixed investment increased from 60 to 72 per cent over 2000–08, while public sector development programmes that had stagnated in the 1990s also grew rapidly, while investments in public sector enterprises shrank in real terms.

A closer look at the investment picture, however, suggests that the claims of success in this area by the Musharraf government as a factor in raising the long-term growth rate cannot really be substantiated, because investment rate did not rise significantly and the pattern of investment was flawed.

The ratio of gross fixed capital formation to GDP in current prices did rise from 15.9 per cent in 1999–2000 to 20.3 per cent in 2007–08. However, in real terms fixed investment rose on average less than 6 per cent per annum, only moderately faster than GDP growth. The ratio of fixed investment to GDP in constant 1999–2000 prices improved only modestly, from 15.9 per cent to 17.7 per cent over 2000–08. It has fallen back to 16 per cent in 2008–09. The divergence between the two set of figures simply means that prices of investment goods like, steel, cement, and imported machinery rose faster than the general price level, as denoted by the GDP deflator.

Most economists would agree that the current rate of fixed investment of 16 per cent would not be adequate to sustain a long-term growth rate of 6 per cent. Indeed, it is generally felt that it would be desirable to gradually increase the investment rate to 25 per cent over the next decade or so, if Pakistan aspires to accelerate and sustain its growth rate at 7-8 per cent per annum. So we have a long way to go.

There were serious problems also with the pattern of investment. Energy investments were clearly neglected (see discussion below). Exports and manufacturing investments were not adequate, while there was a boom in service-related industries, notably telecommunications and finance. Real investment in the financial sector grew by eightfold and growth in cellular phone investments was truly spectacular. But quite surprisingly, investment in large-scale manufacturing grew little. The investments in gas and electricity were lower in 2006–08 than in 2002. Though precise data is not available, the oil and gas exploration and investment did rise significantly.

Symptomatic of the lack of adequate investment in key export activities and the manufacturing sector was the fact that only a fraction of the very large direct investment flows into Pakistan (over $17 billion during the five years FY 2004–08) found its way into foreign exchange earnings or saving activities. This was partly the result of investment coming through privatization sales. Also, the attractiveness of returns in service sectors, especially telecommunications and finance, was very great. The government policy obviously did not give sufficient attention to the prospective increase in the burden of investment income payments and the longer term viability of the balance of payments. It is worth noting that investment income payments on both portfolio and direct investments have risen sharply from the average of $0.5 billion in the two fiscal years 2000 and 2001, to the average of $3.4 billion in years 2008 and 2009. These investment income payments now far exceed the interest payments on external debt that averaged less than $2 billion in FYs 2008–09.

Disappointing Export Performance

Pakistan's missed export opportunities, against the background of an almost explosive growth of manufactured exports from major developing countries, are a saga that has continued for decades. Pakistan's share in world manufactured exports in 2008, at 0.14 per cent, was lower than in 1970, while all major developing countries, notably China, have expanded their share several-fold over the period. Over time, Pakistan has lost relative ground in manufactured exports to all major countries except Brazil (IPP 2008). A lack of clear focus on exports as a central pillar of development strategy, the anti-export bias in trade policies, excessive preoccupation with the textile industry, and the neglect of other manufactured exports have been some of the factors responsible for Pakistan falling so far behind in the export field.

Unfortunately, Musharraf's government was also not able to achieve any breakthrough in exports, despite some initial success. Total exports grew strongly over 2000–05 after stagnating in the second half of the 1990s. A more realistic exchange rate, greater market access to Western countries, and a domestic market that was suffering from stabilization, all helped boost exports by over 70 per cent over the five-year period. The momentum, however, was not maintained. Manufactured exports from Pakistan expanded only 15 per cent over 2005–08, while world manufactured exports grew by 43 per cent; thus, our share in world manufactured exports declined to 0.14 per cent.

The phasing out of the International Multi-Fiber Agreement in 2005 has dealt a serious blow to Pakistan's textile and clothing industries. Even though Pakistan had drawn up plans to cope with this major liberalization of trade in textiles, they did not prove enough. The real appreciation of the rupee as a result of domestic inflation added to the industry's woes. Between 2005 and 2008, Pakistan's textile and clothing exports expanded by less than 4 per cent, while the world total in this category expanded by 27 per cent. The textile and clothing industry is in need of major improvements in labour productivity and investments, aimed at increasing the scale of production, restructuring, and modernization that would enable it to effectively compete in the international markets. It is doubtful that the needed investments and technological improvements can be achieved without the help of foreign investors say from China, Hong Kong, Taiwan, and Korea, where labour-intensive industries are facing increasing real-wage costs.

The basic problem of excessive dependence on textile and clothing exports that account for over 60 per cent of total exports and 80 per cent of manufactured exports also needs to be addressed. Without diversification to high-value agricultural exports and other manufactured goods exports, the markets for which will continue to expand faster than for textiles, Pakistan will not achieve a high sustained growth rate of exports, which it desperately needs to revive its economy and strengthen its balance of payments.

Savings, Consumption, and Taxation

Along with slow-growing exports, persistently low domestic/national savings have been a fundamental constraint on Pakistan's development. Here again, national savings went through a cyclical pattern during the Musharraf era. During 2001–2 and 2002–03, national savings rose above 20 per cent of GDP and indeed exceeded domestic investment levels as Pakistan ran large current account balance of payments surpluses. This was the result of several factors: elimination of large negative government savings (that had touched 3 per cent of GDP in 1999–2000), very strong growth in worker remittances, reverse capital flight as the rupee was devalued and then stabilized, improvement in the climate for private sector savings and investments, and, last but not least, substantially larger external inflows. But by 2007–08, the national savings were back to the low level of less than 13 per cent of GDP, as large public savings deficits reverted to the old peak, high inflation and low real interest rates discouraged savings, and private capital outflows again became a major factor as the rupee became over-valued.

As mentioned above, the continuation of easy monetary policies and low interest rates far beyond the period when the availability of unutilized capacity and inflation was low also encouraged consumption, especially through very rapid rates of growth of consumer credit. At the margin, car sales especially expanded very fast, increasing congestion, adding to the energy bill, and pushing the domestic automobile industry which does not have a high value added.

The biggest failure of the military regime was its inability to raise the level of revenues, even though the pattern of income distribution worsened and the gains from growth went disproportionately to the rich and the well-to-do. The tax ratio to GDP, which was 10.7 percent in 1999–2000, essentially stagnated in the next seven years, and then dropped to 9.3 per cent in 2007–08. The overall results of an extensive taxation reform programme, stretching over several years, have been dismal. The basic problems are that the income tax, which should be a source of progressive taxation, is totally ineffective, and expenditure taxation in the form of a comprehensive value added tax has yet to be introduced. These and the fact that there is no capital gains taxation or estate tax means that the burden of tax falls lightly on the rich and thus the fiscal policies contribute to income inequalities.

Even though income tax receipts are shown as direct taxation, a very large part of these collections come from withholding taxes, which are essentially indirect levies. Right now, income tax collections on non-salaried individuals (excluding corporate tax, withholding, and salaried individuals) total only Rs40 billion or 0.3 of GNP, and average annual collection is around Rs60,000, with an average declared income of probably Rs300,000: the average per capita national household income is between Rs400,000 and Rs500,000. The number of filers, including salaried individuals, is less than 700,000, with the total number of households being in excess of 30 million.

Energy Shortages

At present there is perhaps no greater constraint on the private sector than the power shortages and no greater irritant to daily life than the extended load shedding. How has this situation arisen? Several factors have contributed. First, the Musharraf government inherited a flawed power sector policy from the 1990s, which, under undue pressure from the World Bank, set the unrealistic goal that the private sector should meet the needs of the power sector, without recourse to public funds except for hydroelectric development and transmission. Second, the structural problems such as continued large system losses, high cost of power from independent power producers (IPPs), making WAPDA foot the bill for the large power subsidy to the Federally Administered Tribal Areas (FATA) were not given sufficient attention. Finally, consumer resistance to higher electricity tariffs, which reflected in part the inefficiencies and lack of investment in the system, became quite strong.

In the report that we wrote for the World Bank on 'Public Expenditure Management' during 2003, it was made clear that there was a serious mismatch between large national power requirements and the amounts that were in the public sector plans. For instance, the Planning Commission's suggested allocation of Rs90 billion (0.4 per cent of GDP) for the power sector for the five years, 2003–07, stood in sharp contrast to WAPDA's total requirements of Rs261 billion: only a small portion of which could be met from WAPDA's own resources. The rest required public funds and/or government guarantees. KESC's needs were over and above this.

The World Bank's efforts to engage the highest political level in the country on deep and problematic issues in the energy sector did not result in any major policy actions aimed either at improving efficiencies in the power system, or a more rational electricity tariff structure, and increased investments.[37]

Finally, starting in 2007, the energy crisis was deepened by the deteriorating macro-economic situation, because there was a buildup of circular debt and rising arrears to oil companies. Because of the shortage of financial resources, even the existing generating capacity could not be utilized to the full, as oil supplies were withheld because of non-payment. This problem is now being resolved, but it is not clear that full generating capacity is being utilized as yet.

Water and Power Availability and Kalabagh Dam

President Musharraf must be given credit for giving serious attention to water issues. In the 1960s, total water and power investments in the public sector, including the Indus Basin works, had exceeded $1.5 billion, accounting for about half of total public spending or about 4 per cent of GDP. In the 1970s, another $1 billion or so were spent on Tarbela Dam (Hasan 1998). The huge investments in water and power sustained strong economic growth into the 1980s by providing additional water and a significant supply of low cost hydro power.

The earlier vision that additional water supplies as well as additional hydro-electric power in the 1990s would be provided by another large dam started in the 1980s did not materialize. Neither did the hope that additional water supplies would lead to highly productive agriculture, in which water and other agricultural inputs would be used

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[37] Conversations with Praful Patel Regional Vice president South Asia (2003-08)

very efficiently. Indeed, the large increases in water supply between 1960 and 1990 tended to prolong and extend low productivity agriculture. Meanwhile, public spending in agriculture and water touched a low of 0.8 per cent of GDP in 2000–01. Other than the Chashma Right Bank canal, and the Pehur High Level canal, expansion of irrigation in the late-1980s and 1990s was limited to small isolated schemes, outside the Indus Basin.

As a result, canal water availability at Farm Head, which had increased from 48.4 million acre feet (MAF) in 1960–61 to 65 MAF in 1990–91 stagnated. Even more serious, the availability from ground water (tube wells), which had shown a spectacular increase of nearly tenfold to 41 MAF between 1961 and 1985-87, also seemed to have reached saturation point. Consequently, the total irrigation water availability, which had doubled to 106 MAF by 1991, has shown no increase since then (World Bank 2004).

The Musharraf government rightly concluded that the great neglect of the water investments in the 1980s and 1990s justified substantial acceleration in overall public sector spending in the sector. The provision for water projects included in the Planning Commission's Ten-Year Perspective Plan (TPP 2001–11) for 2003–07 was roughly Rs40 billion a year, compared to Rs9 billion spent in 2001–02.

Musharraf's very strong push for the Kalabagh Dam met strong political resistance from the Sindh and NWFP governments and the project had to be put on the backburner. Belatedly, the preparatory work on the Diamer-Bhasha Dam was begun and the engineering design and tender documents are now ready. The estimated cost of $12 billion, to be spent over seven years, would, however, pose major financing problems, especially in the present weak resource situation. Nevertheless, a large storage dam is essential for power and water needs and deserves very high priority.

The projected benefits from the Diamer-Bhasha Dam should not, however, be exaggerated and need to be placed in perspective. By the time the project is completed, hopefully by 2020, its generating capacity of 4500 MW would meet the growth in demand for electricity for only three years. The addition to live storage of 6.4 MAF would increase irrigation supplies by 5-6 per cent only. Put another way, the addition to storage provided would merely offset the storage lost due to steady sedimentation in, Mangla, Tarbela, and Chashma dams.

Pakistan's most serious challenge in the water sector is to use 100 MAF of present supplies more effectively by charging appropriate water rates , making investments in land leveling, and on farm development, and improving the irrigation infrastructure and the introduction of technologies, including drip irrigation, that economize on the use of water.

While investment in lining of canals and water courses were encouraged under Musharraf, the pre-occupation remained on large projects, including some marginal ones, which will yield benefits after several years. The co-ordination of WAPDA, who is executing these projects, with the provincial governments, who will be ultimately responsible for the Greater Thal and Katchi canals, has not be been very good.

Lag in Human Development

It is well known that Pakistan's social indicators compare poorly with those of other countries with similar levels of per capita income. 'Only half of Pakistan's adult population is literate. The situation is worse for women with only about a third of adult females literate. Despite rapid progress in increasing primary enrollments across region and gender, only one out of every two children aged 5-9 years (was) enrolled in primary school in 2004/05, and less than half of those who enroll actually complete Grade V. Enrollment at elementary and high school levels is extremely disproportionate to primary school rates. Gender, inter-provincial, regional and urban and rural discrepancies are glaring in all education indicators' (World Bank, 2007).

The lags in education and health are the result of decades of policy neglect and/or failures, the very high rate of population growth, and, above all, poor governance and the declining effectiveness of public institutions which have had an adverse impact on the efficacy in the use of resources as well as the quality of public services.

As has been noted, the Musharraf administration 'was slow in recognizing education as a sector deserving of government support and attention. It was not included in the seven-point plan the military leader presented…to the country in October 1999. However, once he recognized that this was a sector that had been long neglected by the state…President Musharraf launched a comprehensive programme under the direction of dynamic leaders' (Burki, 2007). Among the number of strong initiatives in the education sector that Musharraf's government took were: increased allocations for education, seeking the World Bank's help in support of reform efforts, especially in the Punjab, focus on curriculum improvement, attempts to address the knotty problem of madrassah education, and priority to the neglected higher education and information technology sectors. The acceleration in the Punjab education budget, supported by four World Bank education policy credits (totalling $400 million from 2002–2007) to support the provincial education reform programme was quite marked.

What has the impact been? The story is mixed at best. According to the UN Human Development Index, Pakistan ranks still low, 141st out of 182 countries in 2007. But there has definitely been an improvement in the indices for education and literacy in this decade; whether the progress has been greater than in the previous decade is much less clear.

The enrolment in primary schools increased from 18.2 million in 1999–2000 to 24 million in 2005–06, but has risen little since. Overall, enrolments at primary, middle, and high school have risen at an average rate of around 3.5 per cent per annum over 2000–08, a rate not high enough to close the gap between Pakistan and even Bangladesh and India any time soon. It is encouraging, however, that female enrolments at all levels of education have risen faster than male enrolments. At school level, the average annual growth in female enrolments over 2000–08 was well over 6 per cent, and at the university level, it was a rather astounding 20 per cent. The gender gap, however, remains large, ranging from 2-3 to 1 at most levels of education.

Pakistan still has a long way to go before meeting the MDGs relating to achieving universal primary enrolment and gender parity in school education. Perhaps the most worrying aspects are the persistent lag in basic education (net enrolment at primary level is only 52 per cent) and the sharp slowdown in growth in enrolments in 2006–08 at all levels except the university and professional college level. The most satisfying change has been much greater attention to and allocations for higher education. The share of public education expenditures allocated to higher education has risen significantly, though the proportion of the 20-24 age cohort who are attending institutions of higher learning has not risen much since 2005, when it was reported to be a very low 2.9 per cent, compared with more than 7 per cent for India (Burki, 2007).

In the more difficult areas of the country, the general quality of education, relevance, and strength of curriculum and textbooks, redirecting focus on madrassah education, it is more difficult to make judgments. However, indirect indications do not appear to support the view that the decline in the quality of public education has been halted. The flight to private schools continues and public dissatisfaction with the quality of public school education remains high. Much-needed curriculum changes have been slow to take effect and thus education's role in providing a push towards national goals of tolerance and modernity remains limited.

'Since the Private School Census conducted in 2000, private enrolment in Pakistan has gone up from 3.6 million to about 7.1million in 2006. The number of private institutions in Punjab has more than doubled from about 23,700 to more than 46,000. Private enrolment now accounts for almost 40 per cent of total enrolment, and 42 per cent of all education institutions are in the private sector. The prevalence of private sector is not only an urban phenomenon, as almost 40 per cent of total private enrolment is in rural areas, and 47 per cent of all private institutions in Punjab are in rural areas. … A majority of the private schools are low-cost schools, and private education is becoming increasingly affordable. Recent research shows that a growing number of children enrolled in private schools are not only from middle-class and but also poorer families, including from rural areas. Even on the quality side, findings of student achievement tests administered under a survey of primary public and private schools in Punjab show greater differences between students of public and private schools (with private school students performing relatively better, although learning outcome levels are overall low) than between children from rich and poor households' (World Bank 2007).

I believe that the serious problems with the quality and relevance of public education cannot be solved without major decentralization to local government. The issues of accountability, ownership, and feedback cannot be solved at the provincial level. While the World Bank assistance to Punjab was an important factor in improving resource availability and delineating the road to reform, it unfortunately acted against efforts at devolving authority: actually, college education was recentralized in Punjab.

Governance

As I have written elsewhere, considering the last half century as a whole, it is the governance failures in Pakistan that stand out much more than the growth disappointments (Hasan, 2007). To some extent, the almost steady decline in governance over time has been the result of very high population growth which complicated, both financially and managerially, the delivery of basic public services. However, the principal responsibility for weakening of the rule of law must be borne by the political leadership, both military and civilian. Some argue that extra-judicial interventions by the military and disregard of the Constitution are the root cause of this problem. But in some respects, Pakistan's military regimes were less arbitrary than some democratically elected leaders, starting with Z. A. Bhutto. The weakening of bureaucracy, a decline in its competence, and an increase in corruption was as much due to its steadily declining relative compensation as to the frequent political interventions, in violation of rules and regulations.

If governance had not deteriorated so much and the strength of public institutions not eroded over time, the resources mobilized through taxation would have been more adequate and the quality of public services, especially education, would not have declined so precipitously. Poor governance hurt the poor and low-income groups, especially as they depend relatively more on public services.

Improved governance was high on the following seven-point agenda that General Musharraf presented to his countrymen in October 1999

- Rebuild national confidence and morale.
- Strengthen the federation, remove inter-provincial disharmony and restore national cohesion.
- Devolution of power to the grass-root level.
- Revive economy and restore investor confidence.
- Ensure law and order and dispense speedy justice.

- Depoliticize state institutions.
- Ensure swift and across-the-board accountability.

Quite clearly, Musharraf was not able to deliver on many of his promises. In his attempts to stay in power at all costs, preferably in uniform, he created constitutional crises, first by dismissing the Chief Justice of the Supreme Court and then by declaring emergency, suspending the constitution, and dismissing the entire Supreme Court. He dealt even more serious blows to the rule of law than any other military leaders. He sought to improve governance, but only as long as his power base was not threatened. On the whole, he left the governance structures in something of a shambles.

President Musharraf and Pakistan's military must also share the responsibility for not taking the threat posed by the extremists to the very existence of the Pakistani state more seriously, though the roots of the problem went back to the policies in 1980s and 1990s. The support of domestic Jihadist groups which became active in Indian-held Kashmir in the 1990s and support for the Taliban in Afghanistan after 1995 have led inexorably to the present state of affairs, when a war has had to be launched in many parts of the country.

Pakistan's involvement with Afghanistan started in the 1980s, after the Soviet Union's occupation of the country and the brave resistance by the Mujahideen. The large but covert help from the US and Arab states to the Afghan resistance was funnelled almost entirely through the powerful Pakistani ISI (Inter-Services Intelligence). After the Soviet withdrawal in 1989, Kabul and Afghanistan fell to the Mujahideen in 1992, a loose grouping of several freedom-fighter organizations. The intense infighting among various factions of the Mujahideen over 1993–94 led to Kabul being reduced to rubble and deepening chaos in Afghanistan. This gave birth to the spontaneous movement that came to be called the Taliban. 'The Taliban were born in Pakistani refugee camps, educated in Pakistani madrassas and learnt their fighting skills from Mujahideen parties based in Pakistan' (Ahmed Rashid *Taliban*, 2000).

As the Taliban consolidated their rule in Afghanistan, Pakistan recognized their government in early 1997 (and remained the only country to do so till their fall in 2001) and provided it substantial material support over the next few years. Pakistan believed that a friendly government in Afghanistan would provide it strategic depth against its primary enemy, India, and could give Kashmiri militants bases to operate from. But, as Ahmed Rashid's very perceptive and well-researched 2000 book on the Taliban notes, the attempts to control the Taliban were not successful: they were nobody's puppets. Indeed, the Taliban had developed deep connections 'with Pakistani state institutions. Political parties, Islamic groups, the madrassa network, the drug mafia, and business and transport groups'. This enabled them 'to play off one lobby against another'. Thus, Pakistan became a victim rather than master of the Afghan situation. The warnings on Pakistan's Afghan policy by Ahmed Rashid and others, notably Eqbal Ahmed (*Dawn*, 23 August 1998), went unheeded.

This changed after the 9/11 attack on the Trade Towers in New York, when Pakistan rightly yielded to US pressure to join in the war on terrorism. But evidently, many Pakistanis, including the government and the army, did not perceive a serious internal threat till very late and did not anticipate the possibility that the banned extremist organizations, like Lashkar-e-Taiba, would join hands with a home-grown movement, called the Pakistani Taliban, to confront the army and the state as it has never been confronted before.

Still, Musharraf must be credited with three initiatives that may help improve long-term governance in the country. Firstly, he provided for much greater participation for women in the political processes by providing a fixed number of special seats for them at the national, provincial, and local government levels. Women could prove an important force against the extremist agenda in the ongoing battle for the soul of Pakistan. Second, Musharraf's liberalization of the media, especially encouraging the growth of the electronic media, was historic, though in the end he did try to put the genie back in the bottle. The free media has become a potent political force and will help in the long run to make state institutions and public officials more accountable and, thus, hopefully, more honest. The third important step was the devolution of authority to local governments, creating a position of Nazim as an elected head of government at the district level, and the creation of a new political structure, consisting of thousands of units of government below the district level. The devolution initiative, however, is the most controversial, especially among elected leaders at national and provincial level, who feel it as a threat to their influence and power.

But it is not likely that the transfer of power to local government can be totally reversed.

There were also several problems with the way devolution was carried out. Initially, Musharraf promised to combine the transfer of powers to the local government with the devolution of authority from the federal government to the provincial governments in the spirit of the federation that Pakistan is. This did not happen. This made the provinces suspicious that transfer of greater authority to elected officials at the local level was intended to undermine their authority and to create a bypass of authority. There is general agreement that the spirit of the 1973 Constitution, which implied great autonomy for the provinces, has not been respected for decades, partly because of long periods of military rule. 'The system of governance that was in operation during the 1999–2007 period concentrated powers in the hands of the President, who was not only the head of state but was also the country's chief executive' (IPP Report 2008 p.96).

Though elections of local officials–especially Nazims–were held on a non-party basis, the Nazims with connections/and sympathies to non-friendly parties were not treated with respect and fairness by provincial governments. Finally, the local governments were not provided with a larger share of the pie, consistent with their enhanced responsibilities, or with the financial support that they needed to improve their functioning. As national resources grew sharply, the transfers to local governments did increase significantly over 2003–07. But the share of transfers to local governments in provincial resources fell from 39.4 to 37.7 per cent over the period (IPP Report 2008 p.130).

The control of police, who now essentially operate independently, remains a live issue. In the spirit of democracy, thought should be given to giving control of police to elected Nazims, at least in a few districts on a pilot basis. At the same time, the legitimacy of the Nazims can be enhanced by allowing party affiliation and holding of elections to the post by a direct vote. The elite capture and abuse of power remains an ever-present danger where traditions of public service have not been well-established. The answer should not be to deny powers to elected officials, but to have a totally independent structure of accountability and prosecutorial authority, perhaps on the lines of US district attorneys, who have authority to initiate enquiry and criminal action against all public officials, without consulting with higher authorities.

On the negative side, the list of sins of commission or omission by the Musharraf regime is long. After the elections of 2004, the state institutions were politicized. The National Accountability Bureau was willing to ignore cases against politicians who were co-operating with the regime and, on the other hand, there was the use of the accountability tool to keep 'undesirable' politicians at bay. When the head of the Securities and Exchange Commission, Dr Tariq Hassan vigorously pursued an enquiry into the charges of manipulation at the Karachi Stock Exchange in the early months of 2005, he was rather summarily dismissed.

Another disappointment was the neglect of broad civil service reform. While merit now plays a greater role in recruitment and promotion and there is an important initiative to upgrade the skills of civil servants through foreign training, the restructuring of processes and incentives to attract the best and the brightest to the top layers of governments at all levels of government was not tackled, even though skill levels were becoming a major problem, especially in the higher tiers of the government. Civil service reform must go ahead if public administration is to be improved and should include much-improved compensation, mostly in the form of direct pay, at higher levels, as well as more competition for these positions, including hiring from the private sector.

My great personal regret is that, while almost all of my recommendations in the Debt Committee Report for improvement of debt management were accepted on paper and indeed were reinforced by the passage of a Fiscal Sustainability Law, the actual institutional progress has been far short of expectations. My recommendation that the head of the Debt Policy Co-ordination Office should be a strong macroeconomist, enjoying the highest pay grade in the Government MP1 and should be reporting directly to the Finance Minister and prepare an annual report to the cabinet on public and external debt trends were not implemented in spirit. The job was given to the incumbent Economic Adviser to Finance as an additional charge, thus essentially making the position a part of the chain of command in the Ministry of Finance and creating great room for conflict of interest. On the statistical side, even my two modest hopes–that the Debt Office would provide a robust macroeconomic framework as well authentic detailed series of Debt Statistics–has not been fulfilled. Good ideas and intentions are not enough, their implementation is critical.

Income Distribution and Poverty

The revival of strong growth and the doubling of real public spending over 2000–07, after the stagnation of a decade, expanded employment, resulted in an increase in real wages, but apparently reduced poverty incidence at best only modestly. There can be little doubt that the benefits of growth were not widely shared and income distribution worsened.

The latest year for household income expenditure survey data (HIES) available is for 2005–06. This data indicates that the consumption distribution as measured by the Gini coefficient worsened from 0.28 to 0.32 over 2001–06. The share of the bottom 40 per cent of the households in total consumption dropped from 23.8 per cent to 20.9 per cent. The gap in consumption between the highest and the lowest quintile grew from 3.8 to 5.0 in a short five years. The share of the top 20 per cent households grew from 38 per cent to 43.3, all of the gain coming from lower and middle income groups. There were of course gains in real income for all groups, though for the lowest 40 per cent households, they were probably totally wiped out by the sharp rise in the price of food in 2007–08.

There are several factors that explain why high growth during 2002–07 was deepening inequalities more dramatically than was the case in the earlier high growth periods of the 1960s and 1980s. First, the growth of incomes of the relatively well-to-do was fuelled greatly by extraordinary booms in the real estate and stock market and there was not even a modest capture of the windfall profits because of a total absence of capital gains taxation.

Second, unlike the 1960s and 1980s, the periods that witnessed at least a moderate growth in the ratio of taxes to GDP, the taxation effort currently appears stalled with the tax to GDP ratio stagnating at the rather low level of around 10 per cent.

Third, unlike the earlier periods, rural poverty is now much more deeply grounded among the landless poor and non-farm households. These are groups that are hard to reach because they do not benefit significantly from even robust agricultural growth. For them, the creation of additional employment opportunities in the manufacturing, non-farm, and service sectors hold the only real promise of escape from poverty.

Poverty Incidence

The only concrete numbers for the incidence of poverty which were available during the Musharraf regime related to 2001–02 and 2004–05 and, not surprisingly, showed a significant drop in the level of poverty over these three years. Unfortunately, the government made too much of this decline and claimed that its economic policies were working, growth momentum was being sustained, and prosperity was being shared. According to World Bank estimates, the poverty incidence did drop from 34.4 per cent in 2001–02 to 29.2 in 2004–05. But the drop was only partly due to strong economic growth and expansion of public spending. It also reflected the fact that 2000–1 and 2001–02 were very poor agricultural years: taking the two years together, the agricultural growth was negative by more than 2 per cent. It has been pointed out that if cyclical factors are adjusted for, most of the apparent satisfactory drop in the incidence of poverty over 2002–05 might disappear (Hasan, 2007).

According to IPP estimates, the poverty incidence remained roughly unchanged in the years 2006 and 2007, but increased to 34 per cent in 2007–08, as a result of a sharp rise in food prices (IPP 2008 Report, Table 4.7). But even ignoring the obvious increase in poverty in 2007–08, it would appear that there was no significant decline in the incidence of poverty during the Musharraf era from the reported figure of 30 per cent for 1999–2000.

The structural factors responsible for the persistence of widespread poverty are well known: the inherent inequalities promoted by existing power and asset structures, a tax system that does not generate sufficient revenue to fund poverty programmes adequately, and a labour market which is far from buoyant and does not yet exploit fully the opportunities offered by labour-intensive exports. These remain fundamental challenges for economic and social policy in Pakistan, as the country continues to witness a widening of disparities in income and wealth.

Containing income and consumption disparities as well as steady reduction in poverty, especially rural poverty, needs to be built in more explicitly as an integral part of the future economic strategy, because clearly, the issue of the distribution of growth benefits has assumed more urgency with economic liberalization and a greater role for the private sector.

The distribution problems have distinct dimensions in rural and urban areas, with poverty being much more of a problem in rural areas and growing income disparities much more of a problem in urban areas. In rural areas, the ratio of consumption of the highest quintile to the lowest quintile was only 2.2 in 2004–05 and had changed little since 2000–01. Rural poverty is widespread and nearly 80 per cent of Pakistan's poor live in rural areas. In contrast, urban areas account for little over 20 per cent of the poor. But in urban areas, consumption disparities are huge and growing. In 2004–05, the share of consumption of the highest quintile to the lowest quintile in urban areas was over 12 times and had grown from 10.4 in a short period of four years.

Overall, the Musharraf era did deliver high growth for a few years, partly as a result of good management and partly as a result of good luck. There were a few really shining years, when it appeared that perhaps there would be a new economic dawn. But the return of old-style politics after the 2004 elections and the increasing compromises made by Musharraf in order to stay in power led to distractions. When adverse exogenous shocks struck, the government in its hubris ignored the need for adjustments, hoping to ride the tide on a mistaken assumption of wide public approval. As a result, the deepening of structural reforms was put on the backburner and, thus, in terms of fundamentals, Pakistan's economy finds itself in not much better shape than it was at the end of the 1990s. Nevertheless, in the long run, governance could benefit from giving a greater voice given to women, local bodies, and the media, the initiatives for which credit must be given to Musharraf.

Chapter 27

Daring to Look at Pakistan's Future

Pakistan is now in the third year of a democratically-elected government and a new decade has begun. However, in some ways, the country's problems have deepened and the PPP government, which enjoys a majority in the National Assembly, has not been able to provide a strong, honest, capable, and consistent leadership in dealing with new difficulties and old structural problems. The threat from extremists has risen to an all-time high and the level of violence and the terrorists' attacks have taken a heavy toll of human life during the last couple of years. The costs of the war on terrorism have been large and increasing (Second Annual IPP Report 2009).

The deteriorating law and order situation and continuing critical power shortages have negatively influenced both production and investment. The public finances remain precarious, the debt burden is growing, and the weak foreign exchange position has been kept under control only through large infusions of short-term assistance from the IMF. The international economic slowdown has exposed the weaknesses of the export sector, which has not been able to withstand fierce international competition and has lost market share. Given the multi-faceted economic and political problems, the revival of economic growth to a level that would ensure an adequate rate of job creation and some progress towards reduction in the present high incidence of poverty appears an uphill task and perhaps more difficult than at any time in the past.

The two most urgent issues, however, are political governance and the battle against the Taliban. The PPP government, headed by President Asif Zardari and with Yusuf Raza Gilani as Prime Minister, does not enjoy high credibility for several reasons. Because of longstanding allegations of corruption against him, Mr. Zardari is held in low esteem and his popularity rating is in the low 20s. At the same time, there is a widespread perception that corruption under the present democratic government has actually increased and several scandals have surfaced. In appointments to important positions, merit has often not been a dominant criterion. Though the Eighteenth Amendment to the Constitution has clearly made the Prime Minister the head of government, the de facto division of powers between the President and the Prime Minister remains unclear because the President is also the effective head of the political party in power.

To complicate matters, the relationship between the judiciary and the executive remains difficult. With the National Reconciliation Order (NRO), which was promulgated by President Musharraf to provide amnesty to Benazir Bhutto and other politicians and bureaucrats having being declared unconstitutional by the Supreme Court, all cases against the beneficiaries, including President Zardari, have been revived. While Zardari presumably enjoys immunity against any legal action while he remains President, the speed with which the government is proceeding against others has aroused suspicions of slow compliance and created tensions with the Supreme Court. The tug of war between the executive and the judiciary, along with reported divisions within the National Accountability Bureau, continues to cause uncertainty and anxiety.

Given the above developments, the government's relationship with not only the major opposition party, PML (N), but also its coalition partner, the MQM, has become strained. The dilemma is that the opposition politicians do not wish either to topple the government or derail the democratic system which might once again invite ultra-constitutional interventions by the army.

Meanwhile, the army has been heavily engaged in operations against the Taliban and all the other extremists groups that have joined them, first in Swat in May 2009, and more recently in South Waziristan. The scale of these operations has been without precedent, but they have appeared to yield very positive results, at least in the short run. The extremists have been pushed out of the main centres and most of their bases for operations in key areas outside North Waziristan have been destroyed. While the number of Taliban killed or captured does not appear to have been large, there is confidence that their capacity to launch terrorist and suicide attacks has been greatly diminished. The

US drone attacks in tribal areas of Pakistan have also helped by killing a number of senior Taliban leaders. Still, a very large army presence in Swat and the tribal areas is necessary at present and in the foreseeable future, pending US and NATO efforts to bring stability and at least a semblance of peace to Afghanistan.

Given the present realities and somewhat uncertain prospects, whether the Afghan and Pakistan Taliban can be defeated and/or brought into the political processes in Afghanistan and Pakistan in the near future, it is easy to be pessimistic about Pakistan's future. When, a few years ago, some in the Western press termed Pakistan the most dangerous place in the world, many Pakistanis scoffed at the notion. Today, among the intelligentsia, the unshakeable faith in the future of Pakistan as a modern, moderate, single, political entity may be diminishing.

Some bad scenarios might not appear so remote: a breakup of the country on regional lines, a Taliban takeover of swathes of Pakistani territory, a military conflict with India, or a continued muddling through, somewhat like the Philippines, with continuing regional conflict, an increasing social divide, with elites becoming more entrenched and less responsible, poverty incidence remaining high, and income inequalities continuing to grow.

A good scenario is harder to imagine at this time. Such a scenario would be one in which extremism has been controlled and sectarianism subjected to heavy penalties; a new national identity and political arrangements have been forged, on the basis of a working federation, and genuine attention has been paid to economic and socially backward areas; relations with India improve steadily, leading to benefits of economic integration, and the burden of defence goes down steadily, in relation to economic size (this need not involve necessarily a sharp cut in the size of the armed forces); and, last but not least, merit, thrift, innovation, and productivity become the driving force for economic growth.

I believe that it is quite possible that, in a decade, Pakistan might surprise both itself and the world at large by not only surviving with its present borders intact, but also turning a corner in a very significant way towards a modern, moderate, rapidly growing state. No doubt, an element in this statement simply reflects the fact that dreams never die.

However, I am prepared to argue that it is not merely cheerleading about the future from a disappointed member of the first generation of Pakistanis. The most hopeful signs that augur well for the future of democracy are: the recent constitutional changes that devolve a great deal of political and economic powers to the provinces; the Seventh National Finance Commission, which transfers a lot more resources to the provinces; a strong, independent, and assertive superior judiciary; and a free, vibrant, and bold media. These institutions are contributing to the development of effective checks and balances in the system. Supporting this process is a resurgent civil society which is advocating basic rights, the prime example of this being the lawyers' movement that helped restore the dismissed Supreme Court judges (IPP 2010).

Contrary to suspicions common among many Pakistanis, there are no international conspiracies to break up Pakistan. International powers, especially China and the US would regard a break up as destabilizing the region. Middle Eastern Arab countries, especially Saudi Arabia, see Pakistan as a friendly power which can help if the need arises, especially considering its large population, sizeable armed forces, and its nuclear status. Iran, for its own reasons, might not wish to have an independent Balochistan on its border. There are definitely elements in India who have never really reconciled to the partition of India and the emergence of Pakistan. But the large majority of informed Indians and the government would see serious dangers in either the break up or the Talibanization of Pakistan. The growth of extremism in Pakistan, if unchecked, would spread to India, where the large Muslim population is an under-privileged minority, which could easily be exploited in the name of religion.

Most threats to Pakistan's territorial integrity are internal. Balochistan, a province with large area and borders but a small population and low income, has a long list of complaints against the Federation. There is a Balochistan National Liberation Movement, but how wide its appeal is not known. The Pakistan Government strongly believes that India has been supporting the dissidents in Balochistan. The present government has made strong overtures to Balochistan through both a special policy package and a recent NFC (National Finance Commission) award which, as mentioned above, substantially increases the share of the province in national tax revenues. Essentially, Balochistan's problems can be solved by giving it the autonomy in governance which was intended in the 1973 Constitution, providing safeguards for a reasonable share for Balochis in the exploitation of the considerable natural resources in the province, and a real transfer of resources from the centre to further economic and social development. Fortunately, most of the ethnic Balochis (55 per cent of the province's population) do not support the Taliban who have the allegiance only among the Pushto-speaking Pashtuns (30 per cent of the population). Ethnic and ideological divisions also make it unlikely that separatism tendencies will succeed.

A more real risk is that Pakistan could lose control over the tribal areas which have become the staging ground for attacks by both Pakistan and Afghan Taliban and the Al-Qaeda. Till last year, most Pakistanis and perhaps elements in the military were ambivalent about Pakistan's war on terror. It was considered largely a war being waged in support of US forces in Afghanistan and agreed to by Musharraf in return for financial assistance.

The virtual takeover of the Swat Valley by forces allied to the Taliban in 2008 and their strict enforcement of their interpretation of Islamic laws and the subsequent relentless suicide and other bomb attacks, both against military and police and also civilian targets across the country, raised serious alarms in the society. In 2008, there were 15 major terrorist attacks, killing hundreds and injuring thousands. The overreach by the Taliban in the spring of 2009, when they claimed that they were only a hundred or so miles from Islamabad and did not recognize Pakistan's constitution, sent shock waves through the population. The Taliban lost a lot of sympathy which they had enjoyed as a force for law and order, speedy justice, and eradication of corruption and the army began to fight them in earnest.

The battle against the Taliban, either in Pakistan or Afghanistan, cannot, however, be won by military means alone. The poor governance, growing economic disparities in income and wealth, and the lack of recourse to speedy justice provide a measure of appeal for the Taliban, even though their treatment of women and their narrow interpretations of Islam are viewed with disdain and fear among the large majority of the population. Governance will have to improve substantially, corruption will have to be curbed, and the delivery of public services, especially for the poor, will have to be made effective, before the hard-core support for the Taliban, which still exists, can be whittled away. The fight is also difficult because the preparations of a gradual takeover by the Taliban have been ongoing for at least a decade and a half.

A major problem in the mobilization of greater and more active support from the population in the fight against the Taliban is the widespread anti-Americanism, because of the US presence in Afghanistan, the war in Iraq, and US foreign policies towards Israel. Even though there have been major shifts in US foreign policy under President Barak Obama, the US is viewed with great suspicion because President George W. Bush's legacy, rightly or wrongly, interpreted as the 'War on Islam' lingers. The situation could change dramatically, if the US forces are largely pulled out of Afghanistan in the next two years, leaving Afghans to govern themselves. The dilemma for the US, of course, is that they do not want Afghanistan to become a base for Al-Qaeda. In any case, at present there is not much confidence among Pakistanis that the US will pull out of Afghanistan any time soon.

Similarly, there is a lack of trust, in light of past experience, that US will remain an important and reliable partner. Even the sizeable US aid package under the Kerry-Lugar Bill is viewed with misgivings because of explicit or implied conditions.

It is not realized that it is in the US's own strong, long-term interest that Pakistan remains politically stable, makes steady economic and social progress, and is able to avoid even the remote possibility that its nuclear assets fall into the hand of the *Jihadists.* I believe, therefore, that the US should stay the course with Pakistan. It is true that the US is also developing a very close relationship with India as an emerging global power. But it would be a mistake for Pakistan to assume that this relationship would necessarily have adverse consequences for Pakistan.

Indeed, the US can play a constructive role in diffusing the tensions between India and Pakistan. Even before his election, President Obama was frank enough to recognize that the dispute between Pakistan and India on Kashmir is a major stumbling block in the way of Pakistan's giving undivided attention to fighting extremists, because a large part of its army remains deployed, of necessity, on the Indian border. The US is also very much aware of Pakistan's interest in ensuring that the future Afghan governments are not unduly under Indian influence, thus becoming a potential threat for Pakistan.

While the US can contribute to bringing about a more harmonious relationship between India and Pakistan, which will improve regional peace prospects, it is up to the two protagonists themselves to commit to moving away from the confrontation that has lasted over six decades and has certainly limited their efforts for rapid growth and widely shared prosperity.

India is growing fast and is being recognized as an emerging global power. Why should it make overtures or give concessions to Pakistan, which appears weak and unstable? Intellectually, the rationale appears simple. An unstable neighbor can cause a lot of headaches and worse. Kashmir remains a security as well as a moral problem for India. The very large Muslim population around the globe considers India's cause in Kashmir unjust. The simple fact that it has to deploy nearly half a million troops to control the territory indicates that the situation in Kashmir is far from normal. It is also doubtful whether India's global aspirations, such as a seat on the Security Council at the UN, can be achieved, if its relations with Pakistan remain strained and the danger of a boiling point continues to hover. Finally, greater opening up in trade, travel, tourism, and possibly even investment between the two countries, would have long-term benefits for both, as the experience in greater regional integration around the world has demonstrated.

India, being the larger and the more powerful country, needs to be more forthcoming than it has been. Many peace initiatives by Pakistan during the last decade have been rebuffed or ignored, including approaches by President Musharraf, when his hold on power was unchallenged. Too much capital has been made of the Mumbai attacks. These attacks certainly originated from terrorist groups in Pakistan. But these very terrorists groups have been playing havoc in their own country.

Pakistan also requires a basic change in mindset about its policy of confrontation with India, which has achieved little and cost much. Unfortunately, because of the isolation caused by restrictions on trade and travel, the distorted versions of history taught them in schools, and the anti-India stance of many political leaders, including the charismatic Z. A. Bhutto, natural suspicions about the large neighbour have been aggravated amongst most Pakistanis. As mentioned earlier, Bhutto strongly believed that periodic wars with India would be inevitable, a concept that seems rather antediluvian now. Still, it would not be a gross exaggeration to suggest that many Pakistanis regard India as a historical enemy. The rise of the Taliban and their aspirations for turning Pakistan into a theocratic state has further deepened anti-India sentiment.

The founder of Pakistan, Mohammad Ali Jinnah's promise and vision–that all citizens would have equal rights and there would be freedom for all to practise their own faith–is often forgotten. Jinnah envisaged a tolerant and moderate society, rather than a state governed by religion. Jinnah also visualized good relations with the big neighbour.

It is the same change in mindset that Pakistan needs to fight the *Jihadi* elements that it requires to promote a balanced view of India and more friendly relations towards it. This will be a long-term process and would require, among other things, changes in the education curricula and enlightened leadership provided by the politicians. However, even in the short run, a major opening of travel, especially tourism, could do wonders to improve understanding across the borders. Indeed, a major opening to India on these lines could do a great deal to dampen the extremist sentiments on both sides by showing the great commonality of humanity across the borders, the historical bonds of race, culture, and language.

Despite its manifold problems, Pakistan has made a great deal of progress since independence. The gap between Pakistanis and Indians has certainly narrowed in terms of incomes and wealth and even social development; more importantly, the self-confidence which the new generation of Pakistanis enjoys is a vast improvement over the relative status of their ancestors in British India. Pakistanis do not have any reason to approach relations with India in a defensive mode. There are areas in art, literature, and fashion in which they have excelled and even in agriculture and industry, they can, given a chance, rise to a competitive edge with India.

The Kashmir problem has no easy solution. India is not likely to agree to any adjustment of borders in the near future. However, as many have suggested, the present border in Kashmir, i.e., the Line of Control, can be made a soft border, by allowing relatively free movement of both Kashmiris and Pakistanis. A prelude to such opening could be the withdrawal of a large number of Indian troops from Kashmir and India giving Kashmir a special autonomous region status, allowing open trade with Pakistan, and, perhaps, even investment by Pakistanis. Pakistan will have to reciprocate by withdrawing its army from Azad Kashmir, the part of Kashmir now under Pakistan's control.

However, the most urgent issue before Pakistan, one that even transcends the control of extremism and the relations with the US and India, is the evolution of a workable democratic system. The performance of the latest democratic government does not inspire much confidence. The PPP's rule is hobbled, both by the controversial past of its leader, Asif Zardari, and by his style of governance. The government has moved, albeit slowly, to implement the Charter of Democracy, a rather historic far-reaching agreement, signed by the leaders of the two main political parties and previous prime ministers, Benazir Bhutto, Chairman of PPP, and Nawaz Sharif, President of PML (N). The Charter provided for the restoration of the 1973 Constitution, cancellation of the Seventeenth Amendment, which gave more powers to the President, an independent judiciary and election commission, and far greater autonomy to the provinces. (See Annex) If implemented in earnest, it will go a long way to building national identity and solidifying progress towards a meaningful democracy.

The baggage of old corruption charges has made the PPP rule and old-style politicians all very vulnerable. But the strength of the unified senior judiciary, the force of public opinion, the lawyers movement, the growing strength of civil society and a relentless, free, electronic media, which highlights corrupt practices and poor governance episodes in dramatic detail suggest that Pakistan is headed towards an open democratic system, in which abuses of power will not be tolerated as in the past, and an accountability mechanism will be strengthened. How long this process takes is hard to say, but the direction is indeed clear.

There is now a societal consensus that corruption needs to be brought under control, accountability processes need to be strengthened, and governance should move closer to the people. Implementation of proposals like abolishing the concurrent list in the Charter of Democracy, even in a modified form, would go a long way to empowering provinces in the true spirit of the federation and reduce regional tensions. After the overcoming the terrorist threat, the integration of the tribal areas with the rest of the country is also on the agenda, as indicated by the Charter of Democracy.

It is not clear, however, whether the local government system devised by President Musharraf will survive. The recent amendments to the Local Government Law by the Government of Sindh indicate that the position of elected *Nazims* will be abolished and the administration of districts will revert to bureaucrats appointed by the provincial government. This is a retrograde step. Governance must move closer to the people. The province is just too large a unit to be governed centrally. Local political intervention would be unavoidable. In the new system, the civil service administrators of the districts will be under pressure from the elected officials of the national and provincial assembly from the area rather than directly elected officials at the district level. This system will, therefore, have less accountability. Perhaps, at this stage, conditions are not considered ripe to give control of the police and law and order function to locally-elected representatives because of the danger of the elite capturing the process. It will be a great pity, however, if elected officials are not made directly responsible for the delivery of public services including health, education, agricultural extension, roads, etc. The silver lining is that there is full agreement on the speedy election of local bodies.

In the ultimate analysis, only rapid and equitable economic and social development can deliver on the promise of Pakistan–a promise that remains unfulfilled for a large portion of the population. Under the present circumstances, it is clear that a strong revival of the economy presupposes a restoration of law and order and rule-based governance. In other words, at the moment, the non-economic issues are the ones that seem most intractable. But what if, as I have argued, extremism can be brought under control and democratic governments gather root by largely implementing the agenda outlined under the Charter of Democracy, and corruption and abuse of power are subjected to strong accountability mechanisms and heavy jail sentences? Would the economy revive automatically in those circumstances?

A quick and strong turnaround in economic growth does appear problematic in the best of circumstances. The elimination of macroeconomic imbalances would continue to constrain growth in domestic demand for some time. Restoring strong export competitiveness would also take time because of the lag in education and skills. In any case, international economic conditions may remain difficult and limit the growth in world trade. On the supply side, the constraints imposed by the scarcity of water and power and other infrastructure are very real.

But the economic prospects for Pakistan in the medium and long run appear excellent, if strong economic policies and a pragmatic approach is taken to issues of the respective roles of the state and the market and if governance and security problems are brought under control. Taking the longer run first, Pakistan's large population, which has been a major burden on both governance and growth in the past, will become a major asset in the international setting.

Major parts of the world are facing declining populations because of very low fertility rates. The average number of children born to women of marriageable age is less than 2–the replacement level fertility–in Europe, Russia, Japan, and China. The US is the only large developed country where the population will continue to grow for some time. A very large part of the increase in the world labour force is thus going to come from countries like India, Indonesia, Brazil, Mexico, Pakistan, and Bangladesh. The countries of the subcontinent will enjoy an added advantage because the medium of instruction for higher education is English.

If it can remedy the lags in education and can renew its strong commitment to higher education that started just a few years ago, Pakistan will be increasingly well placed in both exporting labour and in labour-intensive goods and services. There is no real reason why Pakistan cannot try to emulate India's success in information technology, even though it might require opening up the field to Indian private investment. Similarly, Pakistan should try drawing on the example of LUMS (Lahore University of Management Sciences), GIK Institute of Engineering Science and Technology, and Aga Khan University of Medical Sciences, to develop centres of excellence in agriculture, education, and health. Private initiatives and grants, especially from the Middle East, supported by selective government support, possibly in the form of land, can go a long way in creating viable new institutions of learning.

In the medium term, success will depend not only on increasing investments in human development, infrastructure, agriculture, and industry, but also on the productivity of land, capital, and labour. As noted earlier, the ratio of gross fixed capital formation to GDP at around 16-17 percent is low. Allowing for capital consumption allowance or depreciation of assets, the <u>net</u> capital formation is only about 8-9 per cent of GDP, compared with rates of 25 and 35 per cent respectively for India and China (World Bank 2008 Development Indicators). Historically, the persistence of low levels of investment has been the result of the low level of confidence in the economic future and the country's institutions reflected in low levels of savings, both in the public and the private sector. However, the relatively robust revival of investment during the middle of the last decade were made possible by record foreign private investment flows and reverse domestic capital flight. This suggests that, with political stability and strong pro-private sector policies, a strong turnaround will be possible. The Middle East remains an important source of investment funds, as does the large and prosperous Pakistani diaspora. In an ideal political and governance setting, resources would not be a constraint on Pakistan's development.

The improvement in public sector performance and better delivery of public services requires two prerequisites: (a) a substantially higher level of mobilization of tax revenue (say, 15 per cent of GDP, as against less than 10 per cent at present); and (b) stoppage of leakage from expenditures through corruption. However, neither of these requirements are mainly technical issues, and can be met only through a fundamental improvement in governance.

Nevertheless, in the foreseeable future, Pakistan cannot match the very high rates of investment achieved by China and India. Thus, by necessity, if it wishes to strive to match their performance, it would have to achieve higher growth rates of productivity. Productivity gains can come in many ways: for instance, changing the structure of production towards higher value added activities; improvements in agricultural technology, such as improved seeds, which yield more output with given inputs such as water and fertilizer; applications that reduce the waste of water, fertilizer, seeds, and pesticides. In manufacturing industries, the labour productivity levels, say, in sewing a shirt or assembling a car, determine the labour costs per unit of output, given a wage level. To be internationally competitive, it is simply not enough to be a low-wage cost country. In competing with China, for instance, India, Pakistan, and Bangladesh have to contend not only with a country that has not only generally low wages, but also has a highly-educated, skilled, and disciplined labour force. Thus, China enjoys a considerable competitive advantage not only over developed countries, but also most developing countries.

Pakistan has not done too well in improving productivity levels, especially in manufacturing. As mentioned earlier, its industrial and export structure has not been transformed over the last several decades and remains extraordinarily dependent on textiles and clothing. Because of its inward-looking policies, Pakistan missed the opportunities for synthetic-based textiles in the 1950s, electronics in the 1960s and 1970s, and information technology in the 1980s.

In agriculture, there have been only two short periods of major technological change: the spread of dwarf varieties of wheat and rice in the late 1960s, and improvement in cotton yield based on new varieties in the late 1980s. By and large, the improvements in productivity per acre have been modest. This is due to insufficient attention to agricultural research and extension, as well to wasteful use of water, fertilizer, and pesticides. In general, low levels of education hamper agricultural productivity. But the biggest issue is the optimal use of limited and possibly dwindling availability of irrigation water. As discussed earlier, the use of per acre feet of water for major crops is high, because of a lack of land levelling, low water rates, and limited use of technologies such as drip irrigation.

Precisely because the productivity levels in factor use are low, large gains are possible in a relatively short period, with a combination of intensified agricultural research and education, and appropriate public policy incentives.

Similarly, future export development possibilities appear good. Though Pakistan is now well behind major developing countries, especially in manufactured exports, the fact is that its world market share in commodities other than textiles and clothing are miniscule is an advantage.

Provided there is political stability and good governance and the high costs of public sector corruption and rent-seeking in the private sector can be minimized, Pakistan would have a good chance of tripling its GNP per capita over the next twenty-five years. In the past, a trebling of per capita GNP took nearly 60 years. Despite the boom of 2003–07, per capita GNP grew only by about 60 per cent over the past 25 years.

Pakistan does not need miraculous growth rates to transform its economy and society and substantially improve its economic and social performance. The target of trebling of GNP over 2010–35 would require an average annual growth rate of only 6 percent and a per capita growth of 4.5 per cent per annum. Population growth, which has already come down to around 1.7 per cent per cent per annum, will slow down further, as the demographic transition continues and family planning services become more widely available.

However, the acceleration of the average growth rate would not be enough. The issue is whether higher growth can be accompanied by more equitable distribution of growth benefits, a faster rate of job creation, and significant progress towards reduction of the incidence of poverty. This would not happen automatically. Aggressive efforts to reduce fertility rates in rural areas, which account for 80 per cent of the total poor, a continued high rate of agricultural growth, rapid expansion of labour-intensive exports, and the use of fiscal policy to redistribute incomes by taxing the rich, who are lightly taxed at present, and providing more basic public services to the poor are some of the elements that are necessary to make growth more equitable. More attention to very poor districts will also be critical.

To manage a dramatic turnaround, Pakistan would also need major civil service reform stressing adequate pay, merit, and integrity–not an easy task. But a ruthless emphasis on merit and integrity can go a long way in overcoming shortages and the large, professionally-qualified Diaspora can be counted on to help if asked

Can all this actually happen? The chances appear good because suddenly students, lawyers, civil society, and the judiciary have become empowered, and the major political parties seem to be committed to major changes under the Charter of Democracy.

Would the army co-operate in the shifting of resources towards development from defence? Here again the role of the US will be important. Continued military assistance to Pakistan and continued pressure on both India and Pakistan to reduce tensions will be crucial.

All in all, I feel that both politicians and the military have learnt their lessons and will collaborate rather than confront each other in the efforts to move Pakistan towards a better future.

Annex

Text of the Charter of Democracy

The following is the text of the Charter of Democracy, signed by former prime ministers Benazir Bhutto and Nawaz Sharif in London on 15 July 2008

We the elected leaders of Pakistan have deliberated on the political crisis in our beloved homeland, the threats to its survival, the erosion of the federation's unity, the military's subordination of all state institutions, the marginalisation of civil society, the mockery of the Constitution and representative institutions, growing poverty, unemployment and inequality, brutalisation of society, breakdown of rule of law and, the unprecedented hardships facing our people under a military dictatorship, which has pushed our beloved country to the brink of a total disaster;

Noting the most devastating and traumatic experiences that our nation experienced under military dictatorships that played havoc with the nation's destiny and created conditions disallowing the progress of our people and the flowering of democracy. Even after removal from office they undermined the people's mandate and the sovereign will of the people;

Drawing history's lesson that the military dictatorship and the nation cannot co-exist–as military involvement adversely affect the economy and the democratic institutions as well as the defence capabilities, and the integrity of the country–the nation needs a new direction different from a militaristic and regimental approach of the Bonapartist regimes, as the current one;

Taking serious exception to the vilification campaign against the representatives of the people, in particular, and the civilians, in general, the victimisation of political leaders/workers and their media trials under a Draconian law in the name of accountability, in order to divide and eliminate the representative political parties, to Gerrymander a king's party and concoct legitimacy to prolong the military rule;

Noting our responsibility to our people to set an alternative direction for the country saving it from its present predicaments on an economically sustainable, socially progressive, politically democratic and pluralist, federally cooperative, ideologically tolerant, internationally respectable and regionally peaceful basis in the larger interests of the peoples of Pakistan to decide once for all that only the people and no one else has the sovereign right to govern through their elected representatives, as conceived by the democrat par excellence, Father of the Nation Quaid-i-Azam Mohammed Ali Jinnah;

Reaffirming our commitment to undiluted democracy and universally recognised fundamental rights, the rights of a vibrant opposition, internal party democracy, ideological/political tolerance, bipartisan working of the parliament through powerful committee system, a cooperative federation with no discrimination against federating units, the decentralisation and devolution of power, maximum provincial autonomy, the empowerment of the people at the grassroots level, the emancipation of our people from poverty, ignorance, want and disease, the uplift of women and minorities, the elimination of kalashnikov culture, a free and independent media, an independent judiciary, a neutral civil service, rule of law and merit, the settlement of disputes with the neighbours through peaceful means, honouring international contracts, laws/covenants and sovereign guarantees, so as to achieve a responsible and civilised status in the comity of nations through a foreign policy that suits our national interests;

Calling upon the people of Pakistan to join hands to save our motherland from the clutches of military dictatorship and to defend their fundamental, social, political and economic rights and for a democratic, federal, modern and progressive Pakistan as dreamt by the Founder of the nation; have adopted the following, "Charter of Democracy";

A. CONSTITUTIONAL AMENDMENTS

1. The 1973 Constitution as on 12th October 1999 before the military coup shall be restored with the provisions of joint electorates, minorities, and women reserved seats on closed party list in the

Parliament, the lowering of the voting age, and the increase in seats in parliament and the Legal Framework Order, 2000 and the Seventeenth Constitutional Amendment shall be repealed accordingly.

2. The appointment of the governors, three services chiefs and the CJCSC shall be made by the chief executive who is the prime minister, as per the 1973 Constitution.

3. (a) The recommendations for appointment of judges to superior judiciary shall be formulated through a commission, which shall comprise of the following: i. The chairman shall be a chief justice, who has never previously taken oath under the PCO.

ii. The members of the commission shall be the chief justices of the provincial high courts who have not taken oath under the PCO, failing which the senior most judge of that high court who has not taken oath shall be the member

iii. Vice-Chairmen of Pakistan and Vice-Chairmen of Provincial Bar Association with respect to the appointment of judges to their concerned province

iv. President of Supreme Court Bar Association

v. Presidents of High Court Bar Associations of Karachi, Lahore, Peshawar, and Quetta with respect to the appointment of judges to their concerned province

vi. Federal Minister for Law and Justice

vii. Attorney General of Pakistan

(a-i) The commission shall forward a panel of three names for each vacancy to the prime minister, who shall forward one name for confirmation to joint parliamentary committee for confirmation of the nomination through a transparent public hearing process.

(a-ii) The joint parliamentary committee shall comprise of 50 per cent members from the treasury benches and the remaining 50 per cent from opposition parties based on their strength in the parliament nominated by respective parliamentary leaders.

(b) No judge shall take oath under any Provisional Constitutional Order or any other oath that is contradictory to the exact language of the original oath prescribed in the Constitution of 1973.

(c) Administrative mechanism will be instituted for the prevention of misconduct, implementation of code of ethics, and removal of judges on such charges brought to its attention by any citizen through the proposed commission for appointment of Judges. (d) All special courts including anti-terrorism and accountability courts shall be abolished and such cases be tried in ordinary courts. Further to create a set of rules and procedures whereby, the arbitrary powers of the chief justices over the assignment of cases to various judges and the transfer of judges to various benches such powers shall be exercised by the Chief Justice and two senior most judges sitting together.

4. A Federal Constitutional Court will be set up to resolve constitutional issues, giving equal representation to each of the federating units, whose members may be judges or persons qualified to be judges of the Supreme Court, constituted for a six-year period. The Supreme and High Courts will hear regular civil and criminal cases. The appointment of judges shall be made in the same manner as for judges of higher judiciary.

5. The Concurrent List in the Constitution will be abolished. A new NFC award will be announced.

6. The reserved seats for women in the national and provincial assemblies will be allocated to the parties on the basis of the number of votes polled in the general elections by each party.

7. The strength of the Senate of Pakistan shall be increased to give representation to minorities in the Senate.

8. FATA shall be included in the NWFP province in consultation with them.

9. Northern Areas shall be developed by giving it a special status and further empowering the Northern Areas Legislative Council to provide people of Northern Areas access to justice and human rights.

10. Local bodies election will be held on party basis through provincial election commissions in respective provinces and constitutional protection will be given to the local bodies to make them autonomous and answerable to their respective assemblies as well as to the people through regular courts of law.

B. CODE OF CONDUCT

11. National Security Council will be abolished. Defence Cabinet Committee will be headed by prime minister and will have a permanent secretariat. The prime minister may appoint a federal security adviser to process intelligence reports for the prime minister. The efficacy of the higher defence and security structure, created two decades ago, will be reviewed. The Joint Services Command structure will be strengthened and made more effective and headed in rotation among the three services by law.

12. The ban on a 'prime minister not being eligible for a third term of office' will be abolished.

13. (a) Truth and Reconciliation Commission be established to acknowledge victims of torture, imprisonment, state-sponsored persecution, targeted legislation, and politically motivated accountability. The commission will also examine and report its findings on military coups and civil removals of governments from 1996.

(b) A commission shall also examine and identify the causes of and fix responsibility and make recommendations in the light thereof for incidences such as Kargil.

(c) Accountability of NAB and other Ehtesab operators to identify and hold accountable abuse of office by NAB operators through purgery and perversion of justice and violation of human rights since its establishment.

(d) To replace politically motivated NAB with an independent accountability commission, whose chairman shall be nominated by the prime minister in consultation with the leader of opposition and confirmed by a joint parliamentary committee with 50 per cent members from treasury benches and remaining 50 per cent from opposition parties in same manner as appointment of judges through transparent public hearing. The confirmed nominee shall meet the standard of political impartiality, judicial propriety, moderate views expressed through his judgements14. The press and electronic media will be allowed its independence. Access to information will become law after parliamentary debate and public scrutiny.

15. The chairmen of public accounts committee in the national and provincial assemblies will be appointed by the leaders of opposition in the concerned assemblies.

16. An effective Nuclear Command and Control system under the Defence Cabinet Committee will be put in place to avoid any possibility of leakage or proliferation.

17. Peaceful relations with India and Afghanistan will be pursued without prejudice to outstanding disputes.

18. Kashmir dispute should be settled in accordance with the UN Resolutions and the aspirations of the people of Jammu and Kashmir.

19. Governance will be improved to help the common citizen, by giving access to quality social services like education, health, job generation, curbing price hike, combating illegal redundancies, and curbing lavish spendings in civil and military establishments as ostentations causes great resentment amongst the teeming millions. We pledge to promote and practice simplicity, at all levels.

20. Women, minorities, and the under privileged will be provided equal opportunities in all walks of life.

21. We will respect the electoral mandate of representative governments that accepts the due role of the opposition and declare neither shall undermine each other through extra constitutional ways.

22. We shall not join a military regime or any military sponsored government. No party shall solicit the support of military to come into power or to dislodge a democratic government.

23. To prevent corruption and floor crossing all votes for the Senate and indirect seats will be by open identifiable ballot. Those violating the party discipline in the poll shall stand disqualified by a letter from the parliamentary party leader to the concerned Speaker or the Chairman Senate with a copy to the Election Commission for notification purposes within 14 days of receipt of letter failing which it will be deemed to have been notified on the expiry of that period.

24. All military and judicial officers will be required to file annual assets and income declarations like Parliamentarians to make them accountable to the public.

25. National Democracy Commission shall be established to promote and develop a democratic culture in the country and provide assistance to political parties for capacity building on the basis of their seats in parliament in a transparent manner.

26. Terrorism and militancy are by-products of military dictatorship, negation of democracy, are strongly condemned, and will be vigorously confronted.

C. FREE AND FAIR ELECTIONS

27. There shall be an independent, autonomous, and impartial election commission. The prime minister shall in consultation with leader of opposition forward up to three names for each position of chief election commissioner, members of election commission, and secretary to joint parliamentary committee, constituted on the same pattern as for appointment of judges in superior judiciary, through transparent public hearing process. In case of no consensus, both prime minister and leader of opposition shall forward separate lists to the joint parliamentary committee for consideration. Provincial election commissioner shall be appointed on the same pattern by committees of respective provincial assemblies.

28. All contesting political parties will be ensured a level playing field in the elections by the release of all political prisoners and the unconditional return of all political exiles. Elections shall be open to all political parties and political personalities. The graduation requirement of eligibility which has led to corruption and fake degrees will be repealed.

29. Local Bodies elections will be held within three months of the holding of general elections.

30. The concerned election authority shall suspend and appoint neutral administrators for all local bodies from the date of formation of a caretaker government for holding of general elections till the elections are held.

31. There shall be a neutral caretaker government to hold free, fair, and transparent elections. The members of the said government and their immediate relatives shall not contest elections.

D. CIVIL–MILITARY RELATIONS

32. The ISI, MI and other security agencies shall be accountable to the elected government through Prime Minister Sectt, Ministry of Defence, and Cabinet Division respectively. Their budgets will be approved by DCC after recommendations are prepared by the respective ministry. The political wings of all intelligence agencies will be disbanded. A committee will be formed to cut waste and bloat in the armed forces and security agencies in the interest of the defence and security of the country. All senior postings in these agencies shall be made with the approval of the government through respective ministry.

33. All indemnities and savings introduced by military regimes in the constitution shall be reviewed.

34. Defence budget shall be placed before the parliament for debate and approval.

35. Military land allotment and cantonment jurisdictions will come under the purview of defence ministry. A commission shall be set up to review, scrutinise, and examine the legitimacy of all such land allotment rules, regulations, and policies, along with all cases of state land allotment including those of military urban and agricultural land allotments since 12th October, 1999 to hold those accountable who have indulged in malpractices, profiteering, and favouritism.

36. Rules of business of the federal and provincial governments shall be reviewed to bring them in conformity with parliamentary form of government.