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Editors' Note

Every year, the government budget and the ensuing debate in the media and political circles, brings the issues of fiscal management to the forefront. Limited fiscal space is a chronic problem facing Pakistan's economic planners and managers. For a very long time, the tax to GDP ratio has been stuck at around 9 percent which is the lowest in the South Asia region. The impaired ability of the state to collect revenue in order to meet its growing expenditures has resulted in a bourgeoning domestic and external debt and the accumulating debt feeds into subsequent budgets by drawing more and more resources for debt repayment. The only prudent recourse to financing the deficit is through increased tax revenue—an objective which continues to elude the policy makers. There are many factors which are responsible for the failure of the state to generate revenue through both direct and indirect taxes, ranging from a large unregistered economy to corruption or leakages in tax collection to a narrow tax base where manufacturing bears most of the tax burden relative to services and agriculture.

In the recent 2010-11 budget, the government pinned its hope on the Value-Added Tax (VAT) to substantially increase revenue collection. VAT is a tax on consumption with a collection and refund mechanism distributed throughout the value chain of a product. Specifically, a company or a business in the value chain is expected to pay the tax on its sales and claim refund on the tax paid on its inputs. Thus the tax paid is on the value added by that business. But for this mechanism to work, each stage in the production process has to be registered. In theory, companies or businesses outside the tax net may have an incentive to register in order to claim refunds on the purchase of inputs from registered sellers. However, in the presence of a large number of un-registered businesses in the value chain, the incentives to get on the tax authorities' radar would be greatly reduced. Furthermore, the tax refund mechanism has to be credible and efficient for the VAT to be effective; inaccurate and fictitious information provision by the private sector exaggerating VAT claims could end up eroding the effectiveness of the tax. Thus for the VAT to have created the promised fiscal space, the robustness of the tax collection and refund mechanism and, more importantly, the incentives of the private sector to participate in the system would have played a critical role. In the final analysis, it seems the challenges were too formidable for the government to overcome and it had to abolish VAT.

This issue of the Social Science and Policy Bulletin brings together four articles which offer fresh perspectives on the big issues of our time. The first article by Mohammad Waseem examines political conflict and state-formation in Pakistan in the framework of extant political theories. The article by John Briscoe looks at the India-Pakistan water dispute in light of the planned Indian hydropower projects in Kashmir and suggests the way forward for a dialogue that takes into account the needs and sensitivities of both sides. Asad Sayeed takes on the issue of corruption in Pakistan and provides a much-needed balance to the popular debate hitherto focused on a select group of public officials. His article looks at the various forms of corruption rampant in the country and warns us of the factors that doomed previous attempts to fight corruption. Finally, Kamal Munir takes a fresh look at mergers and acquisitions (M&A) using examples of failed mergers to illustrate the underlying behavioral reasons why seemingly profitable ventures don't succeed.

Political Conflict in Pakistan

By Mohammad Waseem



A sustained and substantive conflict defines the politics of Pakistan. Understanding this conflict not only requires analysis of a complex set of variables including postcolonialism, constitutionalism and praetorianism, but also an appreciation of the persistent and recurrent crises of federalism, civil-military relations, legitimacy, integration and identity. The year 2010 represents these crises compressed in time, led by a relatively new and potentially damaging challenge of Taliban and Talibanization. This includes the radicalisation of Muslim youth via exposure to compulsory religious education in schools, colleges and universities with wide coverage of religion in the print and electronic media (K. Ahmed, 2006). Various Islamic laws remain on the statute book in the face of pressure from the local and international civil society to delete them.

One needs to locate the sources of the endemic political instability in the country. It is argued that instability is subsumed by conflict, in both structural terms as institutional imbalance and in operational terms by not delivering on demands for equitable distribution of resources along ethnoregional and class lines. As opposed to the monocausal approach to conflict at one end and a factors analysis on the other, it is argued that the nation-building project in Pakistan has drawn heavily on 'incomplete partition' rooted in not only the Kashmir dispute (Lamb, 1997), but also in the externalization of identity, dwelling on separatism as nationalism (Sheikh, 2009). Pakistan understood as non-India is the dominant sentiment in the country (Tellis, 2004), termed by some as xenophobic nationalism (Buzan, 1991).

The deterministic potential of a typology of conflict notwithstanding, one can attempt a template of political dissension and confrontation in a broadly historical-structural framework. Categorisation of conflicts can be on the basis of issues, ethnicity, religion, territory, and divergent economic or institutional capabilities of protagonists (Singer, 1996). This entails an understanding of the state as a mélange of contending forces struggling for dominance, of major issues and parties in conflict over power, of ideological reformation of the political and social order, and of social movements seeking to change the dominant discourse and set of policies (Migdal, 1994).

In the context of Pakistan, the question is whether Muslim nationalism in India represented the latest incarnation of the Indo-Muslim civilisation (Robinson, 2001) or the agenda of an ambitious Muslim elite (Brass, 1991). Is Partition inevitable when all else fails (Kaufmann, 1998)? Was Pakistan the symbol of a minority syndrome looking for space in the post-independence majoritarian democracy (Jalal, 1992), or was it a natural re-enactment of the ancient Indus Civilization (Ahsan, 1997)? Was partition destined to lead to an unintended agenda of cleansing the Muslim society of Hindu influences? Did the founding fathers envisage a secular state in their new homeland (Munir, 1985)? How did resizing the state (Singh, 2001) and right-peopling the state (O'Leary, 2001) with 20 percent people belonging to the migrant stock in today's Pakistan sow the seeds of conflict? If Jinnah and the modernist Muslim middle class— the salariat (Alavi, 1990)—won the battle for Pakistan, how did the ulema manage to bounce back and push for institutionalization of religion in politics (Nasr, 2000)?

The conflict between Islamic and modern forces re-emerged after partition. This is not only the most protracted (spread over six decades) and all-encompassing (covering politics, economics, law,

education, culture, arts, morals and manners) conflict, but also one of the greatest challenges to the state. Jinnah remains the epitome of separation between religion and politics, with a decreasing number of followers in this respect. From the national poet Iqbal onwards, a large section of the educated middle class—the catchment area for the officer army's cadre and civil bureaucracy—and ulema, in general, increasingly adhere to the idea of conflation between religion and politics. The tension between conflationists and de-conflationists has persisted all along. This conflict is reflected through controversies about: Islamic statehood (I. Ahmed, 1985); the constitution; political parties, parliamentarism and elections (M. Ahmed, 1985); Islamization of laws (Kennedy,1996); religious minorities (Gabriel, 2007); women's movement (Khawar and Shaheed, 1987; Sumar, 2002); sectarian violence (K. Ahmed, 2006); Talibanization (Rashid, 2002); recruitment of militants (Fair, 2004); and counter-terrorism strategies (Wirsing, 2005).

The civil-military conflict also occupies a pivotal role in the politics of Pakistan because it draws on the semi-military state of British Punjab that later emerged as the power base of Pakistan (Tan and Kudaisya, 2000), the bloody process of partition, the politicization of military combined with the militarization of politics (Cohen, 2005), the military alliances between Pakistan and the US, or an assortment of these factors (Rizvi, 2003). Conversely, we can discuss the phenomenon of civilianization of military regimes whereby Bonapartist generals held elections, resorted to constitutional engineering, got massively discredited and in three out of four cases stepped down (Waseem, 2009). In 2009-2010, civil-military relations remained tense, especially at the time of the passage of the Kerry-Luger Bill in the US Congress.

Most nation-building projects typically carry out asymmetrical incorporation of ethnic groups into a political system leading to the emergence of an ethnic hierarchy (Spira, 2002). This project often privileges the majority and imposes monolithic values on a plurality of ethnolinguistic identities, thereby leading to a process of exclusion and marginalization. This project of modernization in terms of national integration often leads to ethnic activism. In Pakistan, where the constituent units had never formed a state in history, the migrants from India established a new ethnic hierarchy amidst overtones of ethnic superiority (F. Ahmed, 1999). Various cultural and geographical anomalies worked to complicate the ethnic landscape and contributed to political instability in different ways. Punjab dominates all other provinces in population (57 percent), recruitment into army (79 percent) and bureaucracy (54 percent). There are four ethnic movements in the three smaller provinces, including the Sindhi and mohajir movements in Sindh, all against Punjab. It is undoubtedly a challenging task to locate the locus of ethnic inspiration, either in cultural origins (Smith, 1996), official policies and elite competition (Brass, 1991), or the state-building project itself.

The roots of conflict pertaining to Islam, civil-military relations, and ethnicity discussed above relate to social and political cleavages. These rifts are reflected through electoral politics (Wilder, 1999), perceived religious bigotry (HRCP, 2009), arbitrary constitutional amendments (Waseem, 2006), emasculation of the judiciary punctuated with judicial activism such as in 1996 and 2009-2010 (Newberg, 1995; Khan, 2001), civil society (Pasha, 1997) and social movements such as the lawyers movement of 2007-9, the peace movement (Samad, 1999), the women's movement (Gardezi, 1997) and the educational reform movement (Saigol, 1997). One also needs to bring in the direct or indirect role of transnational actors in exacerbating the situation of conflict in Pakistan: the India syndrome (Racine, 2002), the American connection, the proxy war between Iran and Saudi Arabia (Nasr, 2000), the transnational Islamic networks (AbouZahab and Olivier, 2002) and Afghan irredentism.

In essence, no analysis of conflict in Pakistan would be complete without drawing on theories of conflict emphasizing relative deprivation, systemic imbalance, political process and resource mobilization (Jenkins and Schock, 1992), not to mention the psychocultural dramas played out as polarizing events (Ross, 2001) and a historical loss of autonomy (Gurr, 1993). Pakistani political conflict is also very much about a two-level game corresponding to domestic politics and inter-state negotiations (Putnam, 1988), a postmodernist case for deconstruction of the knowledge base for suppressed communities and reconstruction of the political discourse (Varshney, 1997).

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War or Peace on the Indus

By John Briscoe



Anyone foolish enough to write on war or peace in the Indus needs to first banish a set of immediate suspicions. I am neither Indian nor Pakistani. I am a South African who has worked on water issues in the subcontinent for 35 years and who has lived in Bangladesh (in the 1970s) and Delhi (in the 2000s). In 2006 I published, with fine Indian colleagues, a book titled *India's Water Economy: Facing a Turbulent Future* and, with fine Pakistani colleagues, one titled *Pakistan's Water Economy: Running Dry*.

I was the Senior Water Advisor for the World Bank who dealt with the appointment of the Neutral Expert on the *Baglihar* case. My last assignment at the World Bank (relevant, as described later) was as Country Director for Brazil. I am now a mere university professor, and speak in the name of no one but myself.

I have deep affection for the people of both India and Pakistan, and am dismayed by what I see as a looming train wreck on the Indus, with disastrous consequences for both countries. I will outline why there is no objective conflict of interests between the countries over the waters of the Indus Basin, make some observations of the need for a change in public discourse, and suggest how the drivers of the train can put on the brakes before it is too late.

Is there an inherent conflict between India and Pakistan?

The simple answer is no. The Indus Waters Treaty allocates the water of the three western rivers to Pakistan, but allows India to tap the considerable hydropower potential of the Chenab and Jhelum before the rivers enter Pakistan.

The qualification is that this use of hydropower is not to affect either the quantity of water reaching Pakistan or to interfere with the natural timing of those flows. Since hydropower does not consume water, the only issue is timing. And timing is a very big issue, because agriculture in the Pakistani plains depends not only on how much water comes, but that it comes in critical periods during the planting season. The reality is that India could tap virtually all of the available power without negatively affecting the timing of flows to which Pakistan is entitled.

Is the Indus Treaty a stable basis for cooperation?

If Pakistan and India had normal, trustful relations, there would be a mutually-verifiable monitoring process which would assure that there is no change in the flows going into Pakistan. In an even more ideal world, India could increase low-flows during the critical planting season, with significant benefit to Pakistani farmers and very little interference with power generation in India. But because the relationship was not normal when the treaty was negotiated, Pakistan agreed to this only if limitations on India's capacity to manipulate the timing of flows were hardwired into the treaty. This was done by limiting the amount of "live storage" (the storage that matters for changing the timing of flows) in each and every hydropower dam that India would construct on the two rivers.

While this made sense given knowledge in 1960, over time it became clear that this restriction gave rise to a major problem. The physical restrictions meant that gates for flushing silt out of the dams could not be built, thus ensuring that any dam in India would rapidly fill with the silt pouring off the young Himalayas.

This was a critical issue at stake in the *Baglihar* case. Pakistan (reasonably) said that the gates being installed were in violation of the specifications of the treaty. India (equally reasonably) argued that it would be wrong to build a dam knowing it would soon fill with silt. The finding of the Neutral Expert was essentially a reinterpretation of the Treaty, saying that the physical limitations no longer made sense. While the finding was reasonable in the case of *Baglihar,* it left Pakistan without the mechanism— limited live storage—which was its only (albeit weak) protection against upstream manipulation of flows in India. This vulnerability was driven home when India chose to fill *Baglihar* exactly at the time when it would impose maximum harm on farmers in downstream Pakistan.

If *Baglihar* were the only dam being built by India on the Chenab and Jhelum, this would be a limited problem. But following *Baglihar* is a veritable caravan of Indian projects *Kishanganga, Sawalkot, Pakuldul, Bursar, Dal Huste, Gyspa* etc. The cumulative live storage will be large, giving India an unquestioned capacity to have major impact on the timing of flows into Pakistan. Using *Baglihar* as a reference, simple back-of-the-envelope calculations suggest that once India has constructed all of the planned hydropower plants on the Chenab, it will have the ability to inflict major damage on Pakistan. First, there is the one-time effect of filling the new dams. If done during the wet season this would have little effect on Pakistan. But if done during the critical low-flow period, there would be a large one-time effect (as was the case when India filled *Baglihar*). Second, there is the permanent threat which would be a consequence of substantial cumulative live storage which could store about one month's worth of low-season flow on the Chenab. If, God forbid, India so chose, it could use this cumulative live storage to impose major reductions on water availability in Pakistan during the critical planting season.

Views on "the water problem" from both sides of the border and the role of the press

Living in Delhi and working in both India and Pakistan, I was struck by a paradox. One country was a vigorous democracy, the other a military regime. But whereas an important part of the Pakistani press regularly reported India's views on the water issue in an objective way, the Indian press never did the same. I never saw a report which gave Indian readers a factual description of the enormous vulnerability of Pakistan, of the way in which India had socked it to Pakistan when filling *Baglihar*. How could this be, I asked? Because, a journalist colleague in Delhi told me, "when it comes to Kashmir—and the Indus Treaty is considered an integral part of Kashmir—the ministry of external affairs instructs newspapers on what they can and cannot say, and often tells them explicitly what it is they are to say."

This apparently was the case in the context of the recent talks between India and Pakistan. I read, in Boston, the electronic reports on the disagreement about "the water issue" in The Times of India, The Hindustan Times, The Hindu, The Indian Express and The Economic Times.[1] Taken together, these reports make astounding reading. Not only was the message the same in each case ("no real issue, just Pakistani shenanigans"), but the arguments were the same, the numbers were the same and the phrases were the same. And in all cases the source was "analysts" and "experts"—in not one case was the reader informed that this was reporting an official position of the Government of India.

Equally depressing is my repeated experience—most recently at a major international meeting of strategic security institutions in Delhi—that even the most liberal and enlightened of Indian analysts (many of whom are friends who I greatly respect) seem constitutionally incapable of seeing the great vulnerability and legitimate concern of Pakistan (which is obvious and objective to an outsider).

A way forward

This is a very uneven playing field. The regional hegemon is the upper riparian and has all the cards in its hands. This asymmetry means that it is India that is driving the train, and that change must start in India. In my view, four things need to be done.

First, there must be some courageous and open-minded Indians—in government or out—who will stand up and explain to the public why this is not just an issue for Pakistan, but why it is an existential issue for Pakistan. Second, there must be leadership from the Government of India. Here I am struck by the stark difference between the behavior of India and that of its fellow BRIC—Brazil, the regional hegemon in Latin America.

Brazil and Paraguay have a binding agreement regarding their rights and responsibilities on the massive *Itaipu Binacional* Hydropower Project. The proceeds, which are of enormous importance to small Paraguay, played a politicised, polemical anti-Brazilian part in the recent presidential election in Paraguay. Similarly, Brazil's and Bolivia's binding agreement on gas also became part of an anti-Brazil presidential campaign theme in Bolivia.

The public and press in Brazil bayed for blood and insisted that Bolivia and Paraguay be made to pay. So what did President Luis Inacio Lula da Silva do? "Look," he said to his irate countrymen, "these are poor countries, and these are huge issues for them. They are our brothers. Yes, we are in our legal rights to be harsh with them, but we are going to show understanding and generosity, and so I am unilaterally doubling (in the case of Paraguay) and tripling (in the case of Bolivia) the payments we make to them. Brazil is a big country and a relatively rich one, so this will do a lot for them and won't harm us much." India could, and should, in my view, similarly make the effort to see things from its neighbour's point of view, and show the generosity of spirit which is an integral part of being a truly great power and good neighbour.

Third, this should translate into an invitation to Pakistan to explore ways in which the principles of the Indus Waters Treaty could be respected, while providing a win for Pakistan (assurance on their flows) and a win for India (reducing the chronic legal uncertainty which vexes every Indian project on the Chenab or Jhelum). With goodwill there are multiple ways in which the treaty could be maintained but reinterpreted so that both countries could win.

Fourth, discussions on the Indus waters should be de-linked from both historic grievances and from the other Kashmir-related issues. Again, it is a sign of statesmanship, not weakness, to acknowledge the past and then move beyond it. This is personal for me, as someone of Irish origin. Conor Cruise O'Brien once remarked, "Santayana said that those who did not learn their history would be condemned to repeat it; in the case of Ireland we have learned our history so well that we are condemned to repeat it, again and again."

And finally, as a South African I am acutely aware that Nelson Mandela, after 27 years in prison, chose not to settle scores but to look forward and construct a better future, for all the people of his country and mine. Who will be the Indian Mandela who will do this—for the benefit of Pakistanis and Indians—on the Indus?

The author is the Gordon McKay Professor of Environmental Engineering at Harvard University. He may be reached at jbriscoe@seas.harvard.edu. *The above article first appeared in The News on April 3, 2010. It is printed here with author's permission.*

Notes

[1]As of writing, these reports were located at: http://timesofindia.indiatimes.com/india/Water-Pakistans-diversionary-tactic-/articleshow/5609099.cms; http://beta.thehindu.com/news/national/article112388.ece; http://www.hindustantimes.com/News-Feed/india/River-waters-The-next-testing-ground/Article1-512190.aspx; http://www.indianexpress.com/news/Pak-heats-up-water-sharing/583733; http://economictimes.indiatimes.com/news/politics/nation/Pak-takes-water-route-to-attack-India/articleshow/5665516.cms

Contextualising Corruption in Pakistan*

By Asad Sayeed



Discourse on corruption has lately consumed urban Pakistanis more than perhaps any other national issue in the recent past. In fact there is a discernible pattern over the years where concerns about corruption dominate discourse for some time and then other issues seamlessly take over public imagination. Meanwhile corrupt practices continue in one form or the other, only to raise their head again.

It is useful to note that corruption was mentioned as one of the ailments afflicting territories constituting Pakistan by the founder of the country, Mohammad Ali Jinnah, in his first address to the Constituent Assembly on 11 August, 1947. He said:

> One of the biggest curses from which India is suffering—I do not say that other countries are free from it, but, I think our condition is much worse—is bribery and corruption. That really is a poison. We must put that down with an iron hand and I hope that you will take adequate measures as soon as it is possible for this Assembly to do so.

That is exactly what the Constituent Assembly did. An anti-corruption law was one of the first items of legislation enacted by the assembly soon after independence, only to be followed by a myriad of laws (see Table 1). However, the perception of Pakistan as a highly corrupt polity and society persists amongst Pakistanis as well as outsiders even after 62 years of the country's existence.

The obvious question is why in spite of so much concern for so long, has Pakistan failed to effectively reduce corruption? Is it because of lack of effective anti-corruption strategies? If that is so, then it must be ascertained why international or regional best practice cannot be adopted. After all, in some areas, most notably those related to weaponization and warfare, international best practice has been adopted. Or are we to understand that corruption is not the cause but the symptom of socio-political tensions that Pakistan as a nation-state has been unable to resolve over the years?

One can only attempt to answer the above questions once we discern the nature of corruption prevalent in Pakistan along with the form and substance of anti-corruption strategies adopted to combat the problem. Therefore, this article first lays out the contours of corruption in Pakistan by classifying it into three broad categories for analysis and then provides a brief history of existing anti-corruption laws and strategies in the country. It concludes with tentative proposals for more effective and sustainable anti-corruption drives in Pakistan.

Contours of Corruption in Pakistan

Corrupt practices and their impact on citizen welfare can be categorized in several ways over time and across countries. Numerous unethical and illegal practices are termed as corrupt in common parlance. However, there is no perfect overlap between legality and ethics or vice versa.[1] In fact for these very reasons, the UN Convention Against Corruption itself does not provide a succinct definition of the phenomenon. According to the UN, a uniform definition of corruption encountered "legal, criminological and in some countries, political problems." (UN 2004b, p. 10). This article is going to deal with

facets of corruption that involve transfer of public resources for private gain.

There are three broad areas where the prevalence of corruption needs to be examined in Pakistan. This particular categorization will also help us in assessing the effectiveness or otherwise of anti-corruption mechanisms adopted in the country.

Collusion between private sector and the state

What is commonly referred to as 'rent-seeking' in economic literature occurs when individuals and groups from the private sector interface with the state through a variety of mechanisms to transfer public resources to themselves. The most salient example of this form of corruption in Pakistan has involved land, both through the allocation of state land and in the process of land transactions.

The practice started immediately after partition, when millions of refugees came to Pakistani territory from post-partition India. In the aftermath of the Partition, the state adopted a policy of granting land and housing left behind by migrating Hindus to the incoming refugees in order to honor property 'claims' based on what the latter had left behind in India. Waseem (2002) documents the use of influence and money as a form of patronage by the bureaucrats and politicians in granting such claims. This particular policy resulted in creating a class of 'propertied' migrants and was one of the first forms of 'primitive accumulation' carried out in Pakistan.

The practice of 'land grabs', of both urban and rural land, has continued through a variety of channels over the years. The Acquisition of Land Act (1894) has been modified periodically to facilitate the acquisition of land by government agencies which then sell it off to private developers (colloquially referred to as the 'land mafia').[2] Residential colonies and commercial ventures developed on such land cater largely to the more affluent sections of society. Therefore the distributional implications of this transfer, mainly from the poor to the rich, are also self-evident.

Land transactions, as distinct from the land grabs discussed earlier, are also an important conduit for whitening black money acquired through corruption and criminal activities. Due to taxation loopholes, usually more than two-thirds of the money paid in a land or property transaction is unrecorded. Thus even if an honest property seller is to claim the market value of her property, she will be handed a fraction of money which is not declared. This particular practice, which is pervasive, results in large chunks of black money circulating in the economy and a variety of ingenious methods adopted subsequently to 'launder' that money.

Another important form of rent-seeking that has bred corruption over time has occurred due to state control over allocation of resources. In the pre-liberalization period, cases of bribery in acquiring industrial and commercial licenses and later in willfully defaulting on loans acquired from state-owned banks and financial institutions frequently hit the headlines in Pakistan.[3]

The literature on rent-seeking for development (read industrialization) is divided on its implications. The mainstream view is that not only does state allocation of resources create artificial monopolies (and hence inefficiency), but also that the process of seeking rents itself creates a deadweight loss to the economy (Krueger, 1974). Others have argued that in the early stages of industrialization, it is prudent to allocate resources to sectors which create greater externalities and are geared towards creating dynamic comparative advantage in the long run.[4] This stream of literature does not deny the existence of corruption in the process but contends that long-run returns to the economy outweigh the deadweight loss incurred in seeking rents. East Asian development is often flagged as evidence of this process of capitalist development (Chang, 1994).

The above form of corruption was prevalent in Pakistan till the economy was liberalized in the early 1990s. Cheema (2002) demonstrates that state-led industrialization did

not bring about the intended outcomes for a variety of reasons. As a result, corruption became an end in itself rather than a necessary means for accumulating capital for productive purposes. He thus concludes that by the end of the 1980s, "economic graft was no longer restricted to funding individual members of the bureaucracy … but also included financing key political factions in dominant political parties and the army" (Cheema 2002, p. 32).

However, this does not imply that economic liberalization has eliminated rent-seeking behaviour amongst Pakistan's business elite. Rent-seeking for licenses and quotas has been replaced by unregulated cartels across a range of industries—such as banking, automobile, cement, and sugar sectors—that have served to reduce consumer surplus in the same manner that licensing and quota regimes did earlier.

Corruption and Extortion by State Actors

Agents of the state, across different institutions, engage in various forms of corrupt practices. These range from straightforward bribery and extortion from individuals and businesses to various forms of domestic and international kickbacks on procurement of material and services. For the sake of clarity, we will distinguish between and expand on state-led corruption committed by civil bureaucrats, the armed forces and politicians.

Much of the bribery and extortion carried out by the state is executed through the civil bureaucracy, ranging in value from the petty bribes accepted by the policeman or the building authority clerk to major kickbacks on procurement. Civil bureaucrats are the 'deal executors.' In other words, they are in the loop of all corrupt transactions for the simple reason that they carry out the requisite documentation and are most familiar with all existing rules, regulations, loopholes and lacunae. However, apart from the petty bribes and extortion, the civil bureaucrat is not the sole claimant of big ticket corruption. Over the years, the civil bureaucracy in Pakistan has lost its clout and political power to the executive presiding over them, whether it is civilian politicians or the military.[5]

As such, the central protagonists in state-led corruption are the military junta and civil politicians who have intermittently controlled executive power in the country. Arguably, civil politicians are more accountable than the military junta for three reasons. First, the logic of electoral democracy itself holds politicians accountable for their misdeeds and lack of delivery to the electorate.[6] Second, various audit and accountability laws apply to politicians, leaving them relatively more susceptible to legal provisions than their uniformed counterparts. Third, their conduct tends to be more transparent because of their greater interface with the public as well as the media.

The military, on the other hand, is powerful enough to evade public accountability. The military's budget in Pakistan is neither presented in detail to Parliament nor is it thus far allowed to be debated by public representatives. Moreover, not only is the military budget not audited by civilian audit authorities, but to top it all, serving military personnel are also exempt by law from investigation by civil anti-corruption watchdogs (see below for more details). Also, because of the very nature of the civil-military imbalance in Pakistan, investigation and reporting of military 'scandals', as opposed to those of politicians is a much more hazardous proposition for an otherwise free media.

'Institutionalized' Corruption

There are a number of areas in Pakistan where corruption is institutionalized. As mentioned earlier, enough tax and legal lacunae exist through which black money can be laundered. The most salient in this regard is the 'no questions asked' private remittance in foreign exchange. According to this law, an individual can receive any amount of foreign exchange into the country tax-free without being questioned about the source of funds. This is the most common conduit for laundering money made through land transactions (mentioned earlier), tax evasion and criminal activity. In addition to this law,

periodically a window is provided by the state to 'whiten' black money at a nominal rate of taxation.[7]

The other form of institutionalized corruption is land grants given to military personnel. As an entitlement, officers of the armed forces are granted residential, commercial and agricultural land at highly subsidized prices. In the case of residential land, numerous societies developed by the armed forces dot Pakistan's urban landscape where infrastructure is developed largely at state expense while land is allotted to military personnel at subsidized rates, who in turn can sell it at the market rate and extract a hefty premium.[8] Similarly, developed agricultural land is provided at subsidized rates and in some cases army personnel are deputed to tend the land at state expense.[9]

Another feature of institutionalized corruption in Pakistan is located in the country's covert security and foreign policy. For the last three decades, the Pakistani state has been involved in a number of operations as part of its foreign and security policy. Perhaps the most elaborate has been the country's nuclear program. The confession of Dr. A.Q. Khan in 2004 that he supplied contraband material to other countries in return for cash[10] is perhaps the tip of the iceberg so far as money laundering and clandestine activity for this purpose is concerned. In the formative phase of the program, material and equipment was purchased illegally from the international market. According to Levy and Scott-Clark (2007), this process involved a large number of state and non-state actors that laundered state money for this purpose.[11]

The other major element in this vein has been the secret operations conducted in Afghanistan and Kashmir by the Pakistani state. Conducting the entire war effort through non-state actors (including training, provision of arms and ammunition as well as logistic support) meant a large chunk of state resources was diverted to them. For the Afghan jihad in the 1980s, covert funding provided by the American CIA and the General Intelligence Department (GID), the external intelligence arm of Saudi Arabia, has been well documented.[12] According to Gregory (2008, p. 4), "Neither the CIA nor the GID had clear and tight oversight of what the ISI [and by extension the Pakistan military government] was doing with the money or the arms. It has since become clear that the ISI siphoned off hundreds of millions of dollars for its own purposes as well as millions of small arms." This undisclosed transfer of money was laundered through a variety of bank accounts, domestically and internationally.[13] Nawaz (2008, pp. 372-73) further states that "private Saudi money was also encouraged and these flows used various channels, including the informal network of *Hundi* agents and the *Hawala* system under which funds were delivered speedily and efficiently to specific recipients merely on oral instructions and the use of simple code words."

Apart from channeling foreign money, domestic resources through the budget are expected to have been siphoned off through various informal and illegal means. The actual quantum of the money is less important; what is important is that this money will eventually make its way back through re-laundering into the land and real estate markets as well as other 'legal' and criminal activities.

The most important implication of institutionalized corruption is that the actors involved—be they state or non-state—wield so much influence and power that bringing them under the 'due process' of anti-corruption laws appears virtually impossible. This is because there will always be an imperative to protect big business and state personnel (in the case of covert policy operations) for what may be considered important interests for the state and the economy.

Anti-Corruption Mechanisms and Laws in Pakistan

Apart from regular laws against crime and fraud enshrined in the Pakistan Penal Code (PPC), specific anti-corruption laws in Pakistan date back to the inception of the country. As we see in Table 1, five anti-corruption legislations have been enacted to date.[14] Much of the legislation has

Table 1: Anti-Corruption Legislations in Pakistan

Year	Name of Act	Basic Features	Present status
1947	Prevention of Corruption Act	• Any public servant who accepts or obtains any undue gratification is liable to be punished under this law	In force
1949	Public and Representative Office (Disqualification) Act—PRODA	• This Act provided for the debarring of public and representative office holders found guilty of misconduct[15]	Repealed
1959	Elected Bodies (Disqualification) Ordinance—EBDO	• This law applies to persons holding any public office or membership of any elective body • In this law, misconduct includes all the offences mentioned in PRODA, in addition to indulgence in 'subversive' activities[16] • The punishment prescribed is disqualification from membership of an elective body for a period of seven years.	Repealed
1997	Ehtesab Act	• The law applied to political administration as well as public servants (federal or provincial government employees). The law excluded the institution of judiciary and members of the armed forces except in cases when they hold a post in public office.	Repealed
2000	National Accountability Bureau Ordinance—NAB	• Investigate corruption against holders of public office or any other person • The Chairman NAB or Court under 'plea bargain' (voluntary return clause) may withdraw the case against any accused • The burden of proof to prove innocence is on the accused[17] • Serving armed forces personnel and judiciary are exempted[18]	In force

Source: Sardar Muhammad Raza (2000)

Table 2: Anti-Corruption Agencies in Pakistan

Name	Date of Establishment	Jurisdiction	Functions
Anti Corruption Inspection Commissions	1970	Provincial	Check on corruption within the Federal and provincial governments
Federal Investigation Agency (FIA)	1975	Federal	Immigration, financial and cyber crimes, anti-terrorism
National Accountability Bureau (NAB)	2000	Federal	Investigate public and private sector white collar crime

concentrated around politicians. The Prevention of Corruption Act (1947) and the National Accountability Bureau Ordinance (2000) have, however, included bureaucrats and big business in their ambit also.

In addition, there are a number of specialist agencies and bureaus that are dedicated specifically to investigate white collar crime. Presently, there are three specialized anti-corruption agencies listed above. The list provided in Table 2 is in addition to routine investigation carried out by the police and other civil and military intelligence agencies.

The general perception in Pakistan is that in spite of the myriad laws and agencies investigating corruption, white collar crime has increased over time. Moreover, analysts do not consider anti-corruption mechanisms in Pakistan to have been successful. The most common lament is that the above cited laws and agencies are seen to be discriminatory and focused on politicians (in the main) and civil bureaucrats. As such, politicians have often questioned the legitimacy of anti-corruption mechanisms citing it as a form of victimization in a country where civil-military tensions have dominated politics. Their recriminations get further credence from the fact that these legislations consistently exclude the military and the judiciary. While big business has been intermittently targeted by anti-corruption entities, it has by and large escaped the net for the simple fact that if captains of industry and commerce are seen as 'hounded' by the state, private sector investment will suffer.

Other complaints have essentially centered on capacity and intent issues: lack of adequate training, duplication of effort across bureaus, lack of audit controls, interference from the executive, etc. While the last is a political issue, there is no reason for capacity shortcomings to persist for so long, when ostensibly there is so much focus on corruption.

The Way Forward

That corruption is pervasive and endemic in Pakistan is without doubt. As we have seen not only is it multi-faceted in character, but also unchecked by the proliferation of various laws and bureaus. There is little room for better strategizing on anti-corruption when the existing mechanisms are widely perceived as ineffective and discriminatory as well as compounded by issues of institutional capacity. The issue is thus inextricably linked to the existing socio-political

imbalances in Pakistan.

If Pakistan is to embark on an effective and sustainable anti-corruption drive, some level of agreement across different power brokers is necessary to ensure that accountability occurs across the board. Only then will there be broader societal legitimacy for the fight against corruption. Once such an agreement is reached, a prospective anti-corruption focus should have four components:

Bury the past and start anew: Bringing up corruption cases from the past will open up a Pandora's Box where, given the pervasiveness of corruption, for the process to be perceived as legitimate and impartial, demands will be made for accountability of past transgressions of all sections of the elite. Not only will this be divisive but will be forcefully resisted by those in powerful positions (including formulators of the state's security policy). If catharsis is needed, then a process of truth and reconciliation à la South Africa might be more productive.

Constitutional provision for across-the-board accountability: Create a constitutional body that oversees all aspects of corruption with no group or entity outside its reach, including those with existing constitutional protection as well as members of the judiciary, the armed forces and elements of big business. The creation of such an entity will also justify the duplication in the mandate of several extant anti-corruption agencies.

Capacity enhancement of the Auditor's Office: Enhance the capacity and oversight functions of the Auditor's Office to ensure that corruption is minimized in service delivery, which is most important for the citizen. This would entail expanding the jurisdiction of the Auditor General to military accounts, enhancing the budget of its office and providing training for its personnel.

Bureaucratic reforms: Since the civil bureaucrat is an important element in corrupt practices, incentive-compatible bureaucratic reform should be carried out, such that a balance between security of tenure and credible penalization for malpractice is created.

Last but not the least, it is important to be mindful of the fact that excessive moralizing on corruption does not generate substantial dividends. As with much else, it is advisable to create institutions that will reduce the incidence of corruption over time.

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Notes

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[1] For instance, granting state land to military officers as an entitlement for military service may be legal but is commonly considered unethical. The flipside is when small vendors encroach footpaths to trade their wares which may be illegal, yet action against them may be seen as victimizing the poor.

[2] The Acquisition of Land Act (1894) allowed the state to purchase privately owned land for public interest purposes. The law was subsequently altered to allow the purchase of land for industrial use and then for housing and commercial activities. Since housing and commercial activities could not be justified under the rubric of 'public interest,' construction was given the status of industry. Moreover, the Act itself states in Section 23 that compensation for the land will take place at the existing market value rather than any expected change in value due to change in use. But subsequent court decisions have created a situation where "land acquired for bona fide public purpose—such as road construction—tends to be over - compensated while that acquired for private purposes through dubious applications of the law tends to be under-compensated" (Gazdar, 2009, p. 37).

[3] See Sayeed (2002) for details on the process of accumulation in Pakistan's industrial sector.

[4] See Khan and Sundaram (2000) for a detailed discussion on

different forms of rents and the net effect of rents in the process of capitalist development.

[5] See Cheema and Sayeed (2006), where we have historically traced the loss of bureaucratic autonomy since the bureaucratic reforms carried out by the first PPP government in the 1970s.

[6] This proposition may be contested in the case of Pakistan, where politicians with a tainted reputation are re-elected time and again. However, the fact that electoral democracy has not had a fair run in Pakistan—in that no incumbent government has gone back to the electorate after a full completion of its term and subjected to a fair election process—has meant that this contention has not been put to a robust test.

[7] Every few years, the Government of Pakistan announces a 'whitener' scheme where black money can be declared at a minimal rate of taxation. The last time this facility was provided in December 2008 and a flat income tax rate of 2 percent was charged for whitening black money. When the state provides this facility every few years, the incentive structure for those accumulating black money is that they can get the money whitened at a rate of taxation that is lower than those who earn taxable wealth.

[8] See Siddiqua (2007, Chapter 7) for more details on the process of land grants to military personnel.

[9] Ibid., p. 185.

[10] Details of the A.Q. Khan clandestine sale of nuclear material are provided in Albright and Henderson (2004).

[11] Levy and Scott-Clark (2007, p. 126) report that the Bank for Credit and Commerce International (BCCI) was an important channel through which Pakistani agents used to make payments to suppliers, disseminating funds in over seventy countries. BCCI also allowed its extensive network to be used for the transfer of CIA money intended for the Afghan jihad into the country's nuclear program.

[12] For a small sample of this documentation, see Gregory (2008), Nawaz (2008) and Haqqani (2005).

[13] According to Levy and Scott-Clark (2007, p.125) the money was held in bank accounts in the BCCI, National Bank of Pakistan and the Bank of Oman (partly owned by the BCCI).

[14] There is another legislation which is on the anvil that is expected to replace the existing National Accountability Bureau (NAB) law.

[15] Misconduct includes bribery, corruption, robbery, favoritism, nepotism, willful mal-administration, misapplication or diversion of public money or any other abuse of official power, position or any other abetment thereof.

[16] These included the preaching of any doctrine or committing any act which contributes to political instability and abuse of power.

[17] See www.sbp.org.pk/l_frame/NAB_Ord_1999.pdf

[18] Baxter , 2004, p.62.

Falling Out of Love: Why Most Mergers and Acquisitions Don't Work Out

By Kamal A. Munir



Mergers and acquisitions (M&A) are a key driver of growth. They offer several benefits to businesses, which, among others, include the following: a) they allow companies to survive in the face of growing overcapacity in their industry, b) they allow expanding businesses to save time in rapidly changing industries by buying assets and capabilities rather than developing them, c) through M&A companies can reap the potential benefits of economies of scale in manufacturing, branding, research and development (R&D), and other areas thus becoming more competitive, d) they make it possible for companies to offer a deeper product line to a greater number of customers, and e) they allow companies (especially service-based businesses) to keep up with their globally expanding clients.

It is no wonder then that most executives think it is good to be big in a globalizing economy. However, all economies are not equally fertile when it comes to M&As —they require a certain maturity in businesses as well as in markets. In Pakistan, for instance, M&As have been conspicuously absent over the years because market discipline was lax, and essential market intermediaries as well as key institutions were absent. As a result businesses only grew organically and hence slowly.

This trend seems to be changing now, at least in the banking industry. The past five years have seen a spate of M&As (although mostly acquisitions) in this sector. Some notable deals include the purchase of Prime Commercial Bank by ABN AMRO (now Royal Bank of Scotland (RBS)) in 2007, the merger of Standard Chartered Bank with Union Bank, the takeover of Crescent Commercial Bank by Samba Bank, the merger of Al Baraka and Emirates Global banks and the acquisition by Arif Habib Bank of MyBank and Atlas Bank. Similarly, RBS operations in Pakistan are now expected to be sold to either Faysal Bank or EFG-Hermes.

In most of such cases, despite having good rationales (at least on paper) behind them, wealth was created only for those which were acquired. And the reasons are all too familiar.

Most M&As fail to create meaningful shareholder value (Deloitte Consulting research puts the proportion of failures around 70 percent) not because CEOs misread the competitive landscape and consolidate when the industry does not require it. Rather, they fail because CEOs, in their eagerness to expand empires either overpay or/and ignore crucial organizational and cultural issues. Indeed, in most cases due diligence begins after the press conference announcing the deal.

These dynamics are universal. Indeed, the reasons for which the DaimlerChrysler deal failed to deliver are very similar to those which led to the arguably disastrous ABN AMRO and Prime Bank deal (from ABN's perspective that is).

The DaimlerChrysler Deal

Back in the early 1990s, Daimler Benz's executives, fearing their cars were reaching the limit of their market potential, were looking for a way to grow. Jurgen Hubbert, head of Mercedes' passenger-car operations, was convinced that Mercedes, which in 1993 sold 508,100

cars, would never be able to grow beyond sales of one million units annually. After all, the company's traditional markets were mature, and the vaunted Mercedes brand cost too much for most customers in developing markets.

And there was the danger that if Mercedes remained a niche player, it could lose its competitive strength in new technology. Suppliers no longer wanted to grant Daimler Benz the exclusive use of breakthroughs like intelligent cruise control for more than a few months; they preferred to get their money back faster by selling the latest technology to bigger producers, like Volkswagen or General Motors.

At the same time, the global auto industry was suffering from nearly 40 percent overcapacity. Daimler Benz (DB) CEO Jurgen Schrempp had come to the conclusion that with so much overcapacity in the global auto industry, the only way to grow was to consolidate. If DB did not act, somebody else would. So DB began to look for a partner that would both broaden its appeal and give it the scale it needed to survive industry consolidation.

After studying every car manufacturer in the world, DB executives decided Chrysler topped the list because both its product line and its geographical reach were complementary. Chrysler was interested because of its smaller size and the demands of advanced technology, as R&D cost Chrysler more than it did the company's U.S. competitors. Chrysler knew that because of its size it was the most vulnerable candidate for a takeover.

On paper, DB and Chrysler made a great fit. DB's engineers could teach Chrysler about quality and technology, while Chrysler could give the Germans some lessons in efficiency and speed to market. DB's distribution network would boost Chrysler's expansion in Europe, while in the US, Chrysler could provide logistical and service support for Mercedes-Benz. Using its new muscle, the company could attack the emerging markets of Asia and South America, where the future growth of the auto industry lay.

By 1997, overcapacity in the industry had worsened, thus making consolidation inevitable. Manufacturers like Toyota and Volkswagen, both of which dwarfed Daimler Benz, were building premium auto brands such as Lexus and Audi that held a considerable cost advantage. Towards the end of the year, Daimler Benz and Chrysler announced the merger to the public. The markets responded very favorably, with the stock price of the newly formed DaimlerChrysler soaring.

However, while the merger made a lot of sense for both companies, slowly the plan began to unravel. The issues which arose ranged from symbolic to very tangible. For instance, some of the minor issues involved the question of how to refer to the company's German and American branches. Schrempp himself vetoed the notion of DaimlerChrysler East and DaimlerChrysler West because people would immediately joke about the twain never meeting! In the end, geography was the determinant: Chrysler was referred to internally as Auburn Hills, while Daimler Benz would be known as Stuttgart.

Others were more serious. For instance, Daimler Benz had been run as a conglomerate with 21 separate businesses; Chrysler on the other hand was a highly centralized car and truck manufacturer. Schrempp's first headache was to cope with an exodus of independent-minded Chrysler executives. Used to having their own way, they chafed in their new roles as subordinates. And since many of the Chrysler managers had made considerable money in the merger, they had no particular incentive to stick around.

Similarly, the Germans were frustrated by American management practices that segregated personnel, e.g. reserved parking, separate cafeterias for staff and administration, and inflated management compensation packages that were not tied to performance. On the other hand, the Americans were irked to find that in

Stuttgart, several people were doing the job of one Chrysler employee. Moreover, the American executives were paid salaries many times that of their German counterparts. This was another issue that needed to be solved. Similarly, the shape of the new Board needed to be determined. The Germans had a two-tiered governance mechanism, while the Americans had a completely different one.

Branding issues also proved to be troublesome. Schrempp wanted the Chrysler folks to take over the distribution of parts to Mercedes dealers in the US. It sounded sensible, but Mercedes dealers objected to the idea that trucks bearing Chrysler logo would be making deliveries of spare parts to their exclusive outlets.

The merger had hoped to create tremendous synergies. DaimlerChrysler hoped to cut major costs by paying less for commodities like steel, transporting parts more efficiently, and sharing components. The synergies, however, turned out to be limited because several of Chrysler's parts could not be fitted onto Mercedes' sedans, as that would have offended Mercedes customers. The synergies were consequently confined to under-the-skin components like airbags.

Additionally, consolidating manufacturing, which had the potential of yielding substantial benefits, was turning out to be more difficult than imagined. Each side laid out its factories differently and had different union work rules. For the initial few years, both agreed to adopt the others' best practices, leaving the major synergies to the time when DaimlerChrysler would build new plants in the developing markets of Asia. Five years into the merger, the outlook had become bleak. Operating profit was down and despite new models with German components and styling, Chrysler's market share was eroding. Meanwhile, Japanese car makers were expanding their share in the same market.

DaimlerChrysler's market value, which peaked at USD 108 billion in the post-merger euphoria, was now USD 38 billion. Chrysler was hemorrhaging cash. Its market share had dropped from 16 percent to 13 percent since 1998. In 2003, America's Big Three automakers were General Motors, Ford and Toyota. By 2007, Chrysler operations had been sold off by DaimlerChrysler to a private equity firm, and DaimlerChrysler was rechristened Daimler AG.

The ABN AMRO-Prime Bank Deal

Is the case of DaimlerChrysler too far off from a local scenario involving ABN AMRO bank and Prime Commercial Bank? Not really. As in the DaimlerChrysler case, the rationale was sound. Helped by an able management team and the introduction of global products customized for local needs, ABN AMRO had been able to position itself as one of the best corporate banks in the country. On the consumer front too, it introduced innovative products and services including credit cards, home loans, personal loans etc. Its success in corporate and consumer banking was capped by its sponsorship of a domestic cricket tournament which proved to be hugely popular, and helped put ABN AMRO firmly on the map as one of the leading brands in banking.

All this success meant greater interest in the Pakistani market from the ABN AMRO head office in Amsterdam. It was decided to grow the Pakistan operations. Buoyed by a vigorous reform package introduced by the Aziz-Musharraf government (during which time the Pakistani banking sector had become one of the most profitable in the world), ABN AMRO Bank (AABPL), much like other banks, decided to expand its loan and deposit base. In this the bank faced an uphill task, as organic growth of the institution would necessitate years of prudent planning and investment in infrastructure and human resources. The other option, which of course had its own risks, was to acquire a local bank that would add the required breadth in their portfolio which was currently limited to large corporate and commercial businesses.

The global financial climate as well as local industry dynamics appeared to push ABN AMRO towards acquisition. Indeed, in recent years, various global banks (e.g., Royal Bank of Scotland) had gone on major acquisition sprees. Similarly, in Pakistan, the Standard Chartered Bank had acquired Union Bank Ltd. for USD 487 million in the biggest buy yet by a foreign bank in Pakistan. Finally, the Saudi Samba Bank and NIB Bank had also bought smaller banks to expand their outreach.

The options available to AABPL were not unlimited however. Of these, Prime Commercial Bank Limited (PCBL) seemed like one of the best bets. Prime was a growing local bank (the 19th largest in Pakistan at the time) with assets of PKR 52 billion and deposits of PKR 41 billion. Its extensive network of 69 branches spanned 24 cities of Pakistan. Furthermore, the customer base had the required breadth that AABPL sought, with over 50 percent of Prime Bank's lending to small-to-medium enterprises. The acquisition could therefore provide AABPL access to a large market of private firms, small listed companies and emerging businesses, enabling diversification both in products and customer base.

In March 2007, AABPL acquired a 93.4 percent share in Prime Bank for PKR 13.8 billion (USD 227 million) equivalent to PKR 54 per share. The share price equaled a price to book ratio of 4.0x, representing a premium of almost 42 percent over the average share price of Prime Bank in the last year. In 2007, with assets of over PKR 108 billion and 79 branches spread across the country ABN AMRO Bank was listed on the Karachi Stock Exchange (thus becoming AABPL).

Unfortunately, the acquisition of Prime Bank did not pay the dividends that AABPL had expected. To begin with, PCBL had a much bigger staff roll. Where AABPL had roughly 400 full-time employees, Prime Bank boasted over 1500 full-time staff. After the acquisition, a campaign to assimilate these 1500 staff was undertaken. In this process, PCBL employees generally benefited from higher salaries, increased to match those of their AABPL colleagues. However, the senior management team was still dominated by AABPL managers, who now sought to apply their much more stringent credit and risk controls on the newly acquired, locally grown, SME/Commercial portfolio. The imposition of tighter controls on smaller businesses did not work out as well as AABPL had imagined, with the number of non-performing loans suddenly increasing. This situation was accentuated by a general demoralization of PCBL employees, who thought they had been treated differently from their AABPL counterparts. This resulted in a sudden increase in employee turnover, which in turn led to a number of organizational and control issues, including several instances of fraud.

AABPL's misery was complete when the CEO of AABPL, Naved Khan, decided to leave for Faysal Bank after just one year of the acquisition, further fuelling suspicions in the market that the acquisition had not gone well. Apart from the organizational crises that the acquisition produced, the process had not been cheap. The integration cost alone (with IT constituting the largest chunk) exceeded USD 30 million, bringing the total cost of the acquisition to almost USD 270 million. In 2007, AABPL posted a loss of PKR 1.6 billion. This was followed by further losses of PKR 518 million and PKR 1.3 billion in 2008 and 2009 respectively, along with a declining asset portfolio. By 2010, AABPL (now Royal Bank of Scotland) was ready to be sold—the price it was expected to fetch was around USD 80 million!

Concluding Comments

One cannot deny the importance of M&As as a source of wealth-creation for firms as well as economies. However, there are crucial behavioral patterns in it that must not be overlooked. In their excitement to announce the deal and talk to the media, most managers skip due diligence, conveniently brushing aside crucial organizational issues.

Perhaps even more importantly, they focus only on cost-

side synergies. These are inevitably much easier to obtain than revenue-side synergies. While the former involve only cost-sharing or consolidation of existing teams, departments or divisions, the latter often require a re-conceptualization of the business model along with an honest assessment of the actual potential for new business lines and branding, as well as chalking out a timeline and cash flow generation strategy through which the cost will be offset.

The pressure on employees is tremendous when organizational control systems are changing, and uncertainty clouds their everyday lives. Their productivity drops dramatically in that period and organizational relationships become dysfunctional. The reorganization plans, drawn up after the deal, often do not provide adequate time or resources to complete the transition.

These issues are particularly tricky if two competitors are merging. Merging PriceWaterhouse with Coopers meant putting together people who had been competing against each other for 40 years. Their lives were structured around legends surrounding their rivalry. In such cases, trust needs to be built, and that takes a lot of managerial attention and time.

Similarly, when a multinational acquires a local firm, status hierarchies can develop which can render the entire organization dysfunctional. Within ABN AMRO, Prime Bank employees were known as ex-Prime long after the acquisition, and often also treated accordingly.

M&As stand little chance of success if organizational, cultural and indeed strategic issues are not worked out prior to the merger. The new team that is put into place must have the confidence of both parties' employees. Only then can the focus be external (i.e., on new business opportunities and customers) rather than internal (on reorganization). Losing external focus is one of the biggest risks when integrating two businesses—and a key source of customer loss and employee turnover. Above everything else, key questions must be asked before the acquisition. What resources and capabilities underpin a firm's success? How far can a firm leverage these into new markets or new products? Given that a business has decided to acquire, is it gaining complementary resources and capabilities that will create synergies or incompatible and non-complementary ones that will not necessarily yield a whole that is greater than the sum of the parts? How does the company describe where it is heading and what it aims to achieve? What is the strategy and time frame for recouping the cost incurred? Is this consistent with existing strategies (e.g., a quest for market share vs. profitability, or depth vs. breadth)? Are the two prospective partners technologically compatible? Organizationally, what are the respective reporting relationships? How rigid are organizational boundaries? How will compensation be harmonized? What effect will it have on incentive systems in place? And so on.

In short, mergers and acquisitions fail not because they are misconceived to begin with, or because of errors in calculation, but because of behavioral dynamics that are absent from most 'textbook theories of mergers and acquisitions'. This is stuff investment bankers do not put in their reports or pitch books but learn over the years by seeing merger after merger unravel. This is also a challenge that every new CEO consistently underestimates. Hopefully, by thinking about some of these issues, some managers might be able to create more value, or at the very least, prevent existing value from being destroyed.

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Notes

[1]http://www.cbsnews.com/2319-100_162-2800062.html
[2]http://www.wikinvest.com/stock/Daimler_AG_(DAI)#Market_Share

Research Notes

Several faculty members at the School of Humanities, Social Sciences and Law (SHSSL) at LUMS are actively involved in research in the fields of Economics, Political Science, Sociology/Anthropology and Law. The research notes collected below thematically organize their latest work and highlight its policy relevance.

Macroeconomics, Trade and Economic Growth

Syed Zahid Ali has been working on exchange rate, taxes, and interest rate policies. Using non-stochastic models in continuous time, he checks the proposition that if the system is stable then currency devaluation cannot both contract employment and worsen the balance of payments of the country. Other models by Zahid Ali examine how the supply-side effects of the exchange rate and taxes interact to complicate the effects of currency devaluation, using first stochastic models in continuous time and later in discrete time. He has also worked (with Sajid Anwar) on testing the productivity bias hypothesis using data from the latest version of Penn World tables for the three South Asian economies of India, Pakistan and Sri Lanka. Currently, his work involves models that incorporate forward-looking variables, backed by micro foundations, using which he is attempting to analyze issues such as the correct exchange rate and interest rate policies for less developed countries.

Antonio Marasco has conducted a study (co-authored with Ehsan Choudhri and Farhan Hameed) which uses a dynamic general equilibrium model to explore the macroeconomic and the welfare effects of a large increase in FDI, such as that experienced recently by a number of emerging economies. A second project focuses on the effects of FDI on host country's welfare in terms of gains from trade when firms are characterized by heterogeneity in their productivities. He showed that firms tend to order themselves in terms of increasing productivity, such that least productive firms engage in domestic markets, medium productive firms export and most productive firms engage in FDI. Antonio has also empirically tested the link between FDI and growth. In one article, he has done so in the presence of economic integration, while in another he studies the role played by technology. Additionally, he has also been interested in researching the relationship between income inequality and growth via technological progress.

Anjum Nasim's research interests include macroeconomic policy, international trade and public finance. His recent research, co-authored with Sajal Lahiri at Southern Illinois University, specifically examines the potential for the reform of sales tax and tariffs in Pakistan. The research looks at whether tariff revenue should be substituted by consumption tax revenue and at whether tariffs on intermediate and final goods should be altered. Analyzing welfare effects, the research concludes that replacing tariffs on intermediate goods with increased consumption tax would be welfare reducing. Also, optimal tax and tariff calculations indicate that effective rates of protection in Pakistan can be lowered by decreasing tariffs on final goods and raising them on intermediate goods. Another recent paper by Anjum Nasim and Sajal Lahiri develops a trade-theoretic model to calculate the optimal level of rebate provided by the Government of Pakistan; it concludes that as the Government becomes less revenue constrained, national welfare would be boosted by increasing the rebates given to the exporting sector.

Turab Hussain's research interests range from migration theory and policy to poverty and rural development to trade and development. His research on migration employs the extended family framework instead of the standard Harris-Todaro model, whereby the family, rather than the individual, is treated as the relevant decision making unit for migration. The policy implications of his research indicate that developmental policy may lead to counter-productive results—urban employment subsidies may increase the pull factors of migration, hence leading to greater unemployment in the long run. Similarly, rural subsidies or lump-sum transfers to rural households may, counter-intuitively, make migration

more attractive by reducing its costs. In another paper, Turab explores how the rate of migration may not be positively related to the degree of networks present at the destination. Using an extended family framework, it is shown that a greater number of previous migrants may crowd out opportunities for new ones, hence reducing migration incentives.

Ijaz Nabi's latest research focuses on economic growth, income distribution and poverty reduction. Between 1990 and 2007, South Asia, led by India, saw rapid economic growth and impressive poverty reduction. His on-going research assesses the quality of that growth in view of the fact that it is driven in all countries, with varying degree, by remittances and rapid increase in consumption. The impact on the economic structure of South Asia is being examined in order to asses whether there is a shift of labor towards high-productivity, high-wage employment that would sustain growth and improved living standards over a longer period of time. The principal findings indicate that growth in South Asia is driven by the services sector, which in most countries comprises largely non-tradeables and has relatively low labor productivity. Ijaz Nabi's research further points out that the ongoing global financial crisis and sharp reductions in the price of oil have impacted the economies (the US and the oil rich Middle-East) where remittances to South Asia originate; this could have far reaching consequences for South Asia and constitutes a major vulnerability that needs to be better understood and managed. Ijaz is currently advising the government—he is a member of the Prime Minister's Economic Advisory Council as well as the Planning Commission's Panel of Economists.

Game Theory and Behavioral Finance

Hanjoon Michael Jung's previous research in this field has looked at the general role of news media as a means of information transmission. He already showed that in a conflict situation, by using news media, the sender can influence receivers' decision-making process. Currently, he expands his research by finding a general situation in which the sender can successfully manipulate its information through the news media. He extends the game introduced by Crawford and Sobel (1982) and introduces a new concept of "complete equilibrium" to deal with the situation in which the receiver has systematically wrong beliefs about the sender's signal. He situates the new concept of "complete equilibrium" in comparison to the concepts of "perfect" and "Nash" equilibria and through his research, develops a system that allows general games to be solved using Bayesian inference. He has also worked on modeling hierarchy, based on endogenous power systems. In this model, powerful players can raise their status to publicly establish their power and wealth, thus explaining how the endogenous power system affects the hierarchy structure.

Hammad Siddiqi's research is in the area of behavioral economics and finance. He has shown that a behavioral bias called the lure of choice aggregates to the market level, hence directly affecting prices and allocations. This bias can potentially explain a few puzzles in financial markets including the closed-end mutual fund paradox. His recent research involves the derivation of a new options pricing formula based on the assumption that investors are coarse thinkers. Coarse thinking is the idea that people tend to put situations into categories and then use the same model of inference while evaluating co-categorized situations. The new formula termed the behavioral Black-Scholes formula provides an explanation for the implied volatility skew puzzle in equity index options. His past research revealed that coarse thinking can explain the collusive outcome in a Bertrand competition with increasing marginal costs. Furthermore, he has shown that the two main aspects of coarse thinking, transference and framing, are present in an experimental options market. On the policy side, Hammad's work involves the issue of *Hawala*, whereby he explores how interactions between formal banking and informal *Hawala* greatly diminish the ability of the

State Bank to effectively run a monetary policy. Also, he has looked at how *badla* financing creates microstructure rents, concentrating *de facto* power in the hands of a few powerful brokers and hence stalling the process of reforms in the stock exchanges of Pakistan. According to his suggestion, all institutions in the stock exchanges of Pakistan (governing as well as financing) must be changed simultaneously through the establishment of a new stock exchange called the National Stock Exchange of Pakistan.

Political Economy, Governance and Social Protection

Ali Cheema's research work can be broadly classified into two themes: (a) Descriptive work on poverty, social and income mobility and village and district-level development outcomes; and (b) governance, institutions and political economy. His paper, "Geography of Poverty: Evidence from the Punjab," co-authored with Manasa Patnam and Lyyla Khalid is the first paper to provide robust statistical estimates of poverty and development indicators across Punjab's thirty-five districts. Another paper makes use of a unique panel data-set on development outcomes at the district level and measures the degree of convergence in development outcomes across villages between 1961 and 1998 and further attempts to explain the considerable divergence found. He has used this work to inform the design of poverty alleviation and social protection strategies that he has worked on as part of the Planning Commission's Panel of Economists and as part of the Chief Minister Punjab's Economic Advisory Council. His work on institutions and political economy analyzes the manner in which state institutions and local village-institutions impact development outcomes. Another paper (with Shandana Mohmand and Asjad Naqvi) analyzes the extent to which decentralization at the union-level results in elite capture of public service delivery. Finally, his paper (with Bilal Siddiqi) on path dependence and public good provision estimates the extent to which development outcomes at the village level are affected by initial socio-economic inequality within the social structure of villages.

Miguel Loureiro is one of the founding members of Research and Information Systems for Earthquakes in Pakistan (RISEPAK). Presently, Miguel is a doctoral candidate at the University of Sussex, looking at the impact of the 2005 earthquake on social institutions and value systems in Pakistan-administered Kashmir. In his latest papers, he assesses the resilience of informal social protection mechanisms in Pakistan, and problematises the concept of "community" in rural Pakistan. He has also started revisiting notions of social stratification within South Asian Muslims.

Muhammad Farooq Naseer has worked on various issues of economic development ranging from the economics of education and health, social capital and farm efficiency to political economy. His earlier work attempted to evaluate the impact of government policy on various outcomes of interest. For instance, he examined the impact on learning outcomes of a recent schooling reform, which established that child-friendly classrooms tended to improve student performance in language as well as mathematics. Similarly, he evaluated a community based sanitation program for its effectiveness in improving sanitation practices and lowering disease incidence. In his latest research conducted in collaboration with Ali Cheema, Farooq has explored the causes and institutional constraints underlying the continuing deprivation of historically landless households. Based on a random sample of households from Sargodha district, they establish that households belonging to the different strata of the rural society have not only had a very different profile of educational attainment over the last three generations, but that initial differences have widened over time. The above poverty analysis has been used by the Government of Punjab, Planning and Development Department and also informed public policy by providing input in the formulation of the Tenth Five-year Plan.

Taimur Rehman's research interests relate to political economy and Marxism. His ongoing research looks at the class structure and mode of production in Pakistan.

Efficiency, Agriculture and the Rural Economy

Abid Burki and **Mushtaq Khan** together conducted research on milk supply chain networks and the efficiency of smallholder dairy producers in Pakistan. Their paper examines the effect of depression on the technical efficiency of dairy farms by using data from 800 smallholder commercial dairy producers of rural Punjab. It studies the impact of the rural milk supply chain on smallholder efficiency by employing stochastic production frontier and technical inefficiency effects model. The paper also calculates the annual loss to Pakistan's dairy sector due to the depression.

Abid Burki has also carried out research regarding Pakistan's banking sector. His recent paper, coauthored with Shabbir Ahmad of the International Islamic University, examines the impact of bank governance changes on bank performance by taking unbalanced panel data of Pakistan from 1991 to 2005. The findings of this paper suggest that, in general, financial reforms improved banking sector performance. The winners from the governance change were the privatized banks and private banks selected for M&A, whose post-governance change efficiency levels have enabled them to exploit new profit making opportunities. Furthermore, in a study commissioned by South Asia Network of Economic Research Institutes (SANEI), Abid Burki has explored the links between polarization and poverty. Based on empirical evidence from Pakistan, it studies the impact of public infrastructure provision on the incidence of poverty in a district. His recent research also investigates the relationship between adult wage and child labour, and the impact of school and teaching quality on child labour.

Mushtaq Khan has conducted research which examines the effect of changes in prices of food grains on the incidence of rural poverty. Another study inspects the impact of household-level health shocks on poverty. In addition to his usual research and teaching activities, Mushtaq Khan is also a member of the "Institutions for Development" working group on the Panel of Economists.

Political Science

Mohammad Waseem is part of the team for a joint research project "Religion and Development" sponsored by DFID. As the country coordinator of this project, four research reports have been produced under him, two of which he authored himself: *Religion, Governance and Politics in Pakistan*, and *Dilemmas of Pride and Pain: Sectarian Conflict and Conflict Transformation in Pakistan*. He is also working on his new book *Political Conflict in Pakistan* that seeks to explore the genesis and pattern of development of conflict in the state and society of Pakistan and its multiple forms, including ethnic, religious, federalist and linguistic conflicts. In a recent paper on affirmative action policies and social justice in Pakistan, he concludes that these policies are potentially non-disruptive of the power structure and non-revolutionary in their content as well as direction, and affirmative action is here to stay as a progressive input in a social and political framework that remains wedded to status quo in all other fields of public policy. His latest research also includes a comparative analysis of the role of the ombudsman in Asian countries.

Ejaz Akram's area of research offers an interdisciplinary overlap in the fields of Politics, Religion and Philosophy. Most of his current research looks at the interface of religion and politics in three arenas: interfaith and civilizational dialogue to include Islam-West, Muslim-Christian, and Hindu-Muslim relations; transnationalism (regionalism) and globalization; environmentalism, the study of human ecology and philosophies of nature. The first cluster involves research which origins lie in histories of different civilizations and their theological systems that has led to certain type of philosophical and political thinking. This cluster further leads to two areas of focus: the politics of Abrahamic religions worldwide, and South Asia, the home of two great religious, traditions namely Islam and Hinduism. Ideals of all these

civilizations lend plenty of opportunity to shape the realities that can lead to mutual acceptance, co-existence or at least tolerance. The second arena of Ejaz Akram's research deals with politics of the Muslim world by judging the character of regionalist aspirations and its attendant institutions and how globalization provides opportunity to achieve closer cooperation but also discourages and disrupts such cooperation. Most importantly, the last arena of Ejaz Akram's research looks at developmental modernism and its relationship with secularism that has a causal nexus with global environmental insecurity. All three clusters of research are employed to pull together the normative and the empirical in a move towards a "green" theory of political peace, mutual co-existence, and sustainability.

Rasul Bakhsh Rais's current research focuses on the relationship between the tribe and the state in Pakistan's Western borderland. According to his research, there is a dialectical relationship between the tribe and the state. Both represent authority structures, institutions, leadership and rules to govern local populations. While the modern notion of national sovereignty and territorial control would require assimilation of the tribe into the larger national community, the tribe and its chieftain would strive to maintain their autonomy, traditions, and political arrangements. The ethos and structural needs of the two to survive, and for the state to expand, come into clash. The research therefore raises the issue of how to go about assimilation or integration of tribal regions without provoking conflict. One of the central questions of Rasul Bakhsh's research is whether the Pakistani state pursued a well-designed, elaborate and consistent policy of effecting social change through modernization process in the western borderlands, or has it relied on the colonial framework of "separation" and indirect control? The focus is how the three international systems—British colonial, Cold War, and American hegemonic have defined and redefined the dynamics and interactive process between the tribes and Pakistani state.

Magid Shihade's research interests are modernity and violence along with knowledge production as a form of resistance. His early research focused on communal violence among Arabs in Israel, and how state origins, history, and policies have shaped the identities of its Arab citizens. The research is linked to a larger question of state-society relations and group conflicts in the context of modernity. Shihade's research draws on knowledge production, especially the work of Ibn Khaldoun, which aims at challenging so many binaries that have impacted our universities, societies and cultures both in the West and the rest. The work on Ibn Khaldoun is also an attempt to democratize knowledge and its production by challenging the monopoly on knowledge of any culture or geographic region. Shihade's current research is concerned with violence within and between states as well as global conflicts. It is an attempt to study the ways in which states, modernity, and the modern global system have shaped these processes. It is also an attempt to address injustices, inequality, and the forms of domination and exclusion that are at work all over the world and to understand their effects. In part, this project aims at studying the structures of power and hegemonic forces that lead to undemocratic societies and states.

Sociology and Anthropology

Sadaf Ahmad's previous research has focused on gender- based violence and has involved an investigation of people's belief in rape myths, its sources and social consequences, an exploration of sexual harassment in Pakistan, and an assessment of the feasibility of projects instituted by development organizations to work on the issue of gender-based violence. Gender and religion has been another area of Sadaf Ahmad's research. Her last research project "Transforming Faith: The Story of *Al- Huda* and Islamic Revivalism Among Urban Pakistani Women" was an attempt to understand how its techniques of expansion and pedagogies of persuasion have allowed *Al-Huda*, an Islamic school for women established in Islamabad in the early 1990s, to turn into a social movement. This work illustrates the manner

in which *Al-Huda* aims to create subjects with a unitary consciousness by propagating a particular kind of hegemonic religious discourse among them and highlights the multiple reasons urban Pakistani women have for engaging with and internalizing such a discourse. Sadaf Ahmad's current work involves exploring multiple frameworks of gender justice in Pakistan. She is also planning on conducting research on religious minorities in Pakistan, more specifically the Buddhist community, in the future.

Ali Nobil's areas of research comprise migration, transnationalism, human smuggling, gender and working-class subjectivities, oral history and psychoanalysis, social theory, theory and practice of journalism, and media and cinema. His monograph "Gender, sexuality and illegal migration: a comparative study of human smuggling from Pakistan to Europe" focuses on the driving factors of human smuggling and its costs and consequences. Furthermore, he has looked at the history of Urdu, Punjabi and Pashto cinemas in Pakistan and the way in which these cinema cultures reflect or counter dominant narratives of social conservatism. His research also examines the state's role in neglecting and oppressing artistic and cultural discourse.

Ali Khan's research has revolved around child and forced labour in South Asia. His book with Oxford University Press *(Representing Children)* examines the representations of working children in the media and in the development discourse and how this has influenced the structure of various international projects to eradicate child labour. The book also adopts an ethnographic approach to the question of why children work and thereby reveals the importance of micro-level factors in the decision making process of families and children. Ali Khan has also undertaken considerable research on the issue of forced labour in sectors of Pakistan's economy including brick-making, carpet weaving and mining. The thrust of his work lies in trying to reveal the complexity and multi-faceted nature of bonded labour relations. His other ongoing project is as series editor for a six book project for Oxford University Press on Anthropology and Sociology in Pakistan covering the areas of migration, religion, education, bonded labour, gender and urban issues. The book on migration was released last year. The edited volumes on gender and education have been released this year and the one on religion is due in summer 2010. Ali Khan's latest project (with Ali Nobil Ahmad) involves research on cinema and society in Pakistan. The research, for which interviews and fieldwork are underway, is a social history of the film industry itself.

Livia Holden's research examines the process of social ordering through structured communication, and especially the legal discourse within extra-systemic networks. Her research focuses on state, non-state, and mixed sources of law and their implications with human rights and governance. She carries out extensive and longitudinal fieldwork in South Asia, in Southern Italy and in California with a specific stress on collaborative approaches. At present she is extending her fieldwork to Pakistan regarding forum shopping strategies and legal discourse related with property rights, diaspora and socio-legal expertise, and lawyering practices. Moreover, Livia has investigated matrimonial remedies among Hindus in South Asia and in the context of South Asian migration in the USA and the UK. Her publication included family law, criminal law, lawyers praxis, traditional jurisdiction and custom and focused on the reception of Anglo-Saxon law by the Indian legal system, on the dynamics between state and non-state law regarding dispute settlement in rural Central India, and on the effects of social engineering policies and political agendas on the practices of Hindu matrimonial remedies. She has also co-authored a variety of collaborative projects striving for accountability vis-à-vis informants. Livia is currently investigating socio-legal expertise in transnational case law within the context of South Asian diaspora, and the fee regimes within lawyering practices. She is also envisioning collaborative research on property rights among Muslim communities in India and Pakistan. All her research grounds on ethnographic fieldwork.

Anjum Alvi's main area of anthropological research is South Asia, with particular emphasis on the Muslim Punjab. Her publications deal with kinship, exploring this analytical field from different angles, like the structure and ritual of marriage, the concept of the gift, and rites of passage. This work leads her to the discussion of the concept of the person and self in Muslim Punjab as well as to the comparison of Punjabi patterns of kinship with those of other areas of South Asia. Her ongoing research is multidisciplinary, taking regard of theology as well as philosophy. A central concern is the argument for a place of ethics in anthropology. Discussing the theoretical perspective of ethics in anthropology, she deals with the concept of freedom and morality particularly with reference to the work of Pope John Paul II and other philosophical perspectives of the 20th century. This multidisciplinary approach also informs her research on the concept of brother-sister relationship in the Muslim Punjab within the context of South Asia. Her other work discusses the concept of Muslim veiling in the Punjab as a value in relation to the global debates on this topic. An article on the concept of the veil is currently under consideration. Finally, she works on transformations of the meanings of exchange relations within South Asia, and she explores the ethical nature of the gift as well as philosophical implications associated with it.

Law and Policy

Asad Farooq is carrying out research that is premised on the contextual approaches to law and law-doing. Much of this work has been tied to ongoing engagements with social movements. During his thesis work, he was engaged with peasant communities struggling for land rights in Malawi, whilst researching on the implications of dominant discourses of governance for the social majorities, and examining languages and forms of resistance to these. It represents a study in both legal imperialism and the decolonizing of law. Similarly he has worked on developing a jurisprudence of "People's Law" whilst engaged with communities of resistance on land and water rights struggles in Pakistan. The latter has also involved (dis-)engagements with inspection processes both at the World Bank and the Asian Development Bank. More recently his work is developing into the examination of "the indigenous" as a "new" political subjectivity.

Ali Qazilbash's research interests have ranged from international law and human rights to the Pakistani constitution, particularly the Eighteenth Amendment. His ongoing research investigates the history of bonded labor in Pakistan. His recent paper on “Law and Religion in the history of Pakistan”, presented at the LUMS conference, sought to explore the reasons for Pakistan's ratification of the international covenant on civil and political rights. He was also invited by Research Society of International Law (RSIL) to speak on the use of force in international law.

Sikander Shah's area of research relates to public international law and is focused on state sovereignty and territoriality, use of force, self-determination, global terrorism, human rights, WTO laws and corporate governance. His most recent work is forthcoming in the American Journal of International Law and the Vermont Law Review. He is currently a Research Scholar at the University of Michigan Law School working on public international law issues most relevant to Pakistan. In particular, his work focuses on the legality of the US drone attacks on Pakistan under the international law of armed conflict and on determining the impact of the international law of sovereignty and statehood on classical Islam as well as on Islamic revivalist movements.

Osama Siddique has been closely involved in research as well as policy work. He is currently completing his doctorate at Harvard Law School. His most recent research includes two forthcoming law journal articles titled: “Approaches to Legal and Judicial Reform in Pakistan: Post Colonial Inertia and Paucity of Imagination in Times of Turmoil and Change,” and “The Hegemony of Heritage: The Narratives of Colonial Displacement and the Absence of the Past in Pakistani Reform Narratives

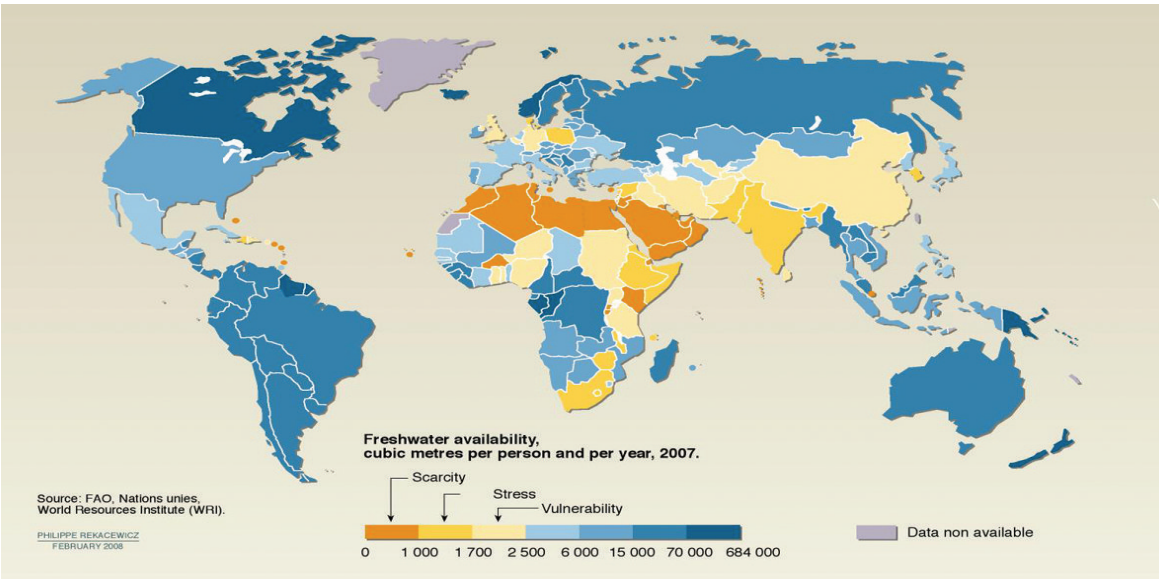
of the Present." These extensive articles conduct a historical and sociological critique of the justice sector reform discourse in Pakistan and its continuing challenges. As a policy advisor, Osama has most recently conducted the first ever "Crime Perception Survey of the Punjab" for the Government of Punjab and the Asian Development Bank (ADB). He has also led a joint UN/ADB team that advised the Government of Pakistan on the shape and structure of future laws in FATA, PATA and Khyber-Pakhtunkhwa in the wake of the on-going conflict. He has also recently co-written for the Asia Foundation a Mapping and Assessment Report on various government and international donor driven law reform projects in Pakistan from 1998 to date. He is at present engaged in a countrywide District Courts' Efficiency and Capacity Assessment exercise for USAID. His other recent research includes a book on the presidential power to dissolve assemblies under the Pakistani Constitution and its discontents. He has also published law journal articles exploring the use of Blasphemy Laws in Pakistan, discussing State liability and remedies for victims of defective construction in Pakistan, as well as analyzing the crisis of legal education in Pakistan. In addition, he has written various book chapters on the plight of juvenile prisoners along with some on legal issues surrounding corporate governance and Small and Medium Enterprises (SMEs). Osama is involved in justice sector policy consultancy work since 2004 as the *Law and Justice Reform Specialist* for ADB. He has primarily worked on legal education reform. Additional law and policy reform projects that he has been involved with include work on, inter alia, delay reduction in courts, legal bar reform initiatives, drafting of new laws and legal amendments in the areas of consumer protection laws, ombudsman laws, civil and criminal procedure codes, and institutional capacity-building projects for the provision of free legal aid and judicial training institutes.

Revealing Facts

I. Water

Growth in world technology over the last two centuries may have put paid to Malthus' pessimism on the mismatch between human needs and resources, but the question of scarcity of the planet's resources is important as ever. Estimates place 1.4 billion people as residing in river basin areas categorized as completely or partially "closed", i.e. areas where water consumption surpasses the minimum recharge levels. As increasing numbers of people in these areas are realizing, "the environment is foreclosing on unsustainable water debts on an extensive scale".

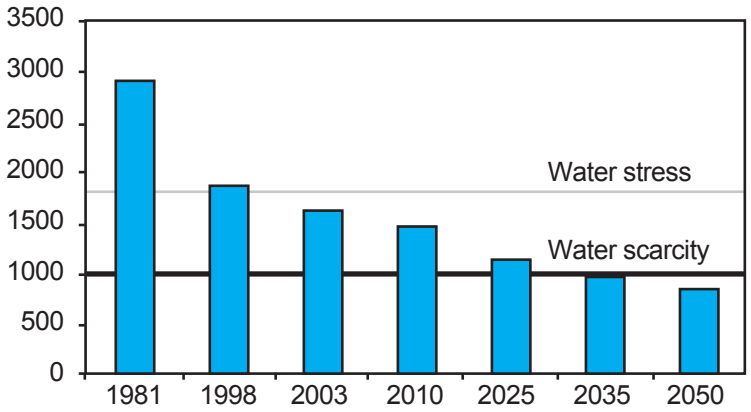
Figure 1: Global water stress and scarcity



Source: United Nations Environment Program Report. (2008). *Vital Water Graphics — An Overview of the State of the World's Fresh and Marine Waters.* 2nd Edition. UNEP: Nairobi. Available at < http://www.unep.org/dewa/vitalwater/article69.html>

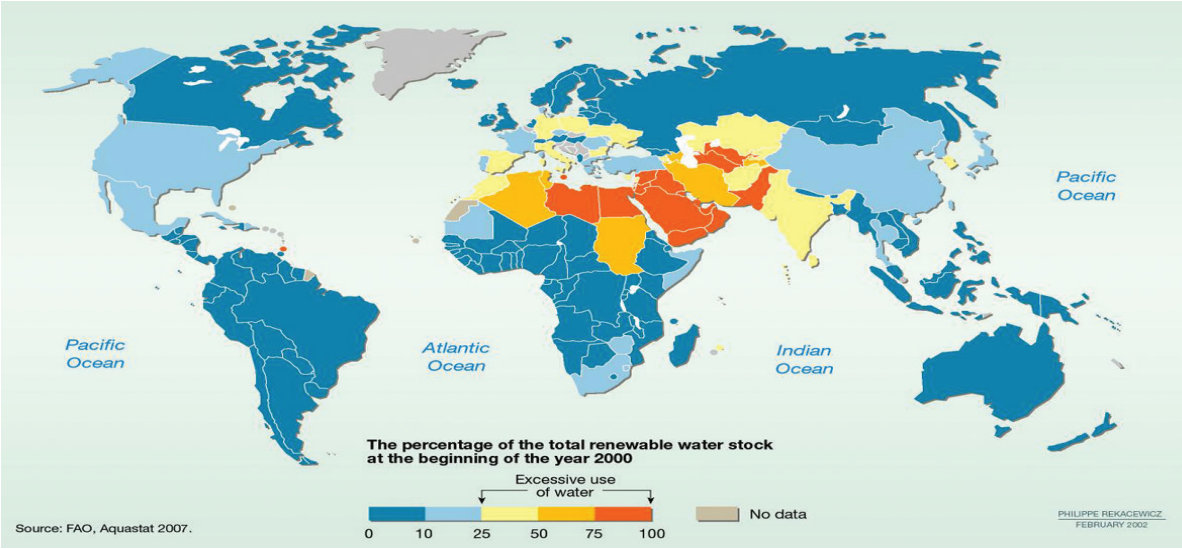
Over time, the availability of water in Pakistan has been declining as its renewable water sources have come under increasing stress. If the pattern of water usage continues unchanged, it will ultimately lead to a scarcity of water in the not-so-distant future.

Figure 2: Availability of water in Pakistan (cubic meters per capita per year)



Source: Amir, 2005.

Figure 3: Excessive withdrawal of renewable water resources

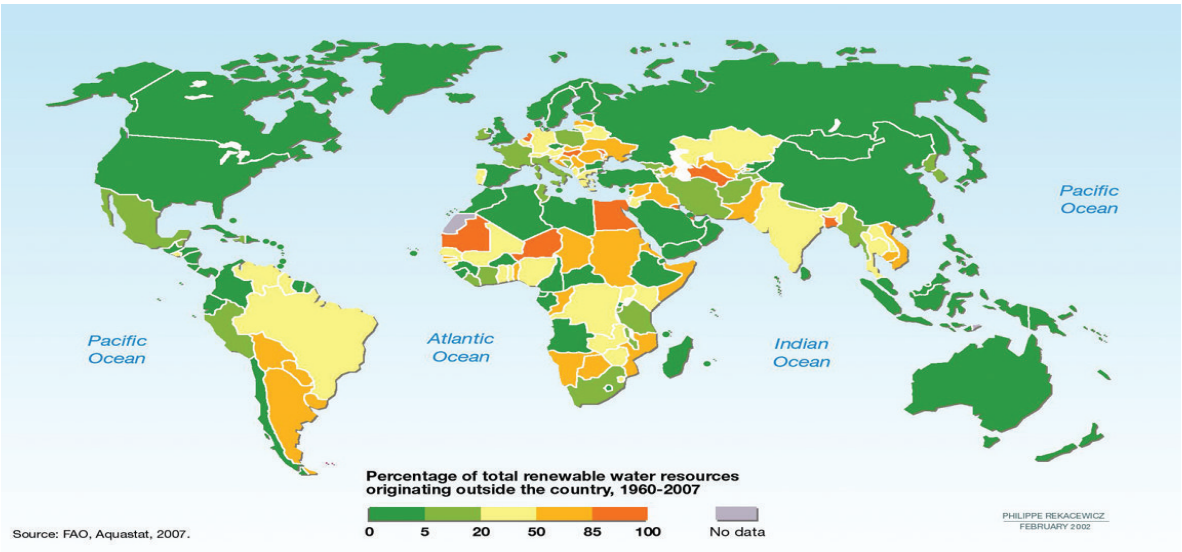


N.B. [Freshwater withdrawal as % of total renewable water resources (actual)] = 100 * [Total freshwater withdrawal (surface water + groundwater)] / [Water resources: total renewable (actual)]. This parameter is an indication of the pressure on the renewable water resources.

Source: United Nations Environment Program Report. (2008). *Vital Water Graphics — An Overview of the State of the World's Fresh and Marine Waters.* 2nd Edition. UNEP: Nairobi. Available at<http://www.unep.org/dewa/vitalwater/article81.html>

The situation is further complicated by the fact that a large proportion of our freshwater sources are located outside the country.

Figure 4: Dependency ratio on water outside borders



Source: United Nations Environment Program Report. (2008). *Vital Water Graphics—An Overview of the State of the World's Fresh and Marine Waters.* 2nd Edition. UNEP: Nairobi. Available at <http://www.unep.org/dewa/vitalwater/article79.html>

Table 1: Renewable Water Sources and Water Use —India and Pakistan

Water Resources	Pakistan	India
Total internal renewable water resources (including groundwater)	55	1260
Surface water produced internally	47.4	1222
Total external renewable water resources (actual)	170.3	620.1
Surface water entering the country (natural)	181.4	631.2
Surface water: inflow not submitted to treaties (actual)	170.3	631.2
Surface water: outflow secured by lower riparian through treaties (actual)	0	11.1
Surface water leaving the country (natural)	10.72	1307
Total renewable water resources (actual)	225.3	1880
Total renewable water resources per capita (actual) (m^3/inhabitant/yr)	1273	1591
Dependency ratio (%)	75.6	33.4

N.B. All figures except the last two are in billions of cubic meters per annum and pertain to the year 2008. *Dependancy ratio* is defined as the percentage of total renewable water resources originating outside the country.

Water Use	Pakistan	India
Percent of total actual renewable freshwater resources withdrawn, 2002	75.2	34.4
Agricultural water use as percent of total use, 2000 (P)	96.0	86.5
Municipal water use as percent of total use, 2000 (P)	1.93	8.09
Industrial water use as percent of total use, 2000 (P)	2.05	5.45
Area equipped for irrigation: total (million ha), 2001	17.8	57.3*
% of cultivated area equipped for irrigation , 2002	80.0	33.8

* This figure pertains to the year 2000

(P) Projected data based on models

Source: *AQUASTAT Database Query, Food and Agriculture Organization of the United Nations.* Available at<http://www.fao.org/nr/water/aquastat/data/query/index.html>.

Revealing Facts

II. Governance

The quality of governance in a country is an important indicator of the strength of its institutions. The smoothness of government turnover, execution of government policy, rule of law and deference for institutions by state and citizen allows one to compare the quality of governance between countries. Here, we present some key markers of governance across countries in the region.

Table 1: Governance Indicators—Regional Comparison (2008)

	Percentile Rank (0-100)					
Country	**Political Stability**	**Control of Corruption**	**Regulatory Quality**	**Voice and Accountability**	**Government Effectiveness**	**Rule of Law**
Afghanistan	1	1.4	3.9	11.1	8.5	0.5
Bangladesh	9.6	10.6	20.8	30.8	22.7	27.3
Bhutan	77.5	74.9	19.3	26	59.2	60.8
India	16.7	44.4	46.9	58.7	53.6	56.5
Maldives	39.2	32.9	37.2	36.1	44.1	49.3
Nepal	7.7	29	26.6	25	24.2	24.9
Pakistan	1.4	24.6	34.8	19.2	25.6	19.1
Sri Lanka	2.9	54.1	44.4	33.7	46.9	54.5

N.B. Percentile ranks indicate the percentage of countries worldwide that rate below the selected country. Higher values thus indicate better governance ratings.

Source: Kaufmann D., A. Kraay, and M. Mastruzzi (2009). *Governance Matters VIII: Governance Indicators for 1996-2008* Available at <http://info.worldbank.org/governance/wgi/>

According to the governance indicators developed by the Worldwide Governance Indicators (WGI) project, Pakistan does not compare well with other countries in the region on any of these dimensions. It does particularly badly in terms of political stability, rule of law and voice/accountability. It turns out that the South Asia region overall does not rank very highly when compared with other regions in the World. The fact that it does not rank absolutely lowest on any of these indicators, except the one measuring political stability, is of little consolation.

Table 2: Governance Indicators—Worldwide Comparison (2008)

	Percentile Rank (0-100)					
Region	**Political Stability**	**Control of Corruption**	**Regulatory Quality**	**Voice and Accountability**	**Government Effectiveness**	**Rule of Law**
Sub-Saharan Africa	33.5	30.8	28.9	32.6	26.3	28.6
Middle East & North Africa	37.3	48.3	46.3	23.7	46.7	49.4
South Asia	19.5	34.0	29.2	30.0	35.6	36.6
East Asia	59.4	45.1	42.1	49.9	46.5	52.9
OECD	81.9	90.2	91.2	90.6	88.7	90.2
Latin America	35.0	44.1	48.3	52.1	44.8	33.1
Eastern Europe & Baltics	56.1	59.1	69.2	63.3	61.3	58.5
Former Soviet Union	35.8	21.5	34.0	21.4	31.5	23.5
Caribbean	65.2	68.0	62.0	68.3	67.6	63.9

N.B. Percentile ranks indicate the percentage of countries worldwide that rate below the selected country. Higher values thus indicate better governance ratings.

Source: Kaufmann D., A. Kraay, and M. Mastruzzi (2009). *Governance Matters VIII: Governance Indicators for 1996-2008.* Available at <http://info.worldbank.org/governance/wgi/>

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